CubicFarm Systems Corp.

Consolidated Financial Statements

For The Transition Year Ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of CubicFarm Systems Corp.,

Opinion

We have audited the accompanying consolidated financial statements of CubicFarm Systems Corp. (the Company), which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of loss and comprehensive loss for the six month period then ended;
- the consolidated statement of changes in equity for the six month period then ended;
- the consolidated statement of cash flows for the six month period then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and its consolidated financial performance and its consolidated cash flows for the six month period then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"**Auditors' Responsibilities for the Audit of the Financial Statements**"* section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that for the six months period ended December 31, 2020 the Company has generated a net loss and as at December 31, 2020 had an accumulated deficit.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter

Other Matter – Comparative Information

The financial statements for the year ended June 30, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 28, 2020.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- The information, other than the financial statements and the auditors' report thereon, included in the Annual Information Form filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the Annual Information Form filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Rehan Wallani.

Vancouver, Canada
April 30, 2021

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CubicFarm Systems Corp.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	**December 31, 2020**	June 30, 2020
		$	$
Assets			
Current			
Cash and cash equivalents		**16,206,535**	3,604,412
Trade and other receivables	7	**1,338,265**	2,186,568
Inventory	8	**4,866,641**	2,702,344
Prepaid expenses and deposits	9	**1,356,376**	1,622,799
		23,767,817	10,116,123
Non-current			
Goodwill	6	**1,920,826**	1,834,755
Property, plant and equipment	10	**2,256,814**	2,596,770
Investment in associates	11	**20**	21
Intangible assets	12	**5,032,905**	5,090,972
Right-of-use assets	13	**1,758,473**	1,501,966
		10,969,038	11,024,484
Total assets		**34,736,855**	21,140,607
Liabilities			
Current			
Trade and other payables	14	**1,465,666**	1,298,599
Earn-out payable	6	**1,165,953**	290,915
Customer deposits	15	**4,955,509**	1,709,666
Lease liability	13	**409,122**	170,558
Loans payable	16	**335,615**	60,531
Warranty provision	17	**191,342**	251,100
		8,523,207	3,781,369
Non-current			
Lease liability	13	**1,164,197**	1,219,084
Restoration provision	13	**131,446**	132,267
Loans payable	16	**1,699,220**	204,590
Derivative liability	16	**1,002,128**	-
Deferred tax liability	6	**-**	345,035
Earn-out payable	6	**477,080**	1,073,841
Total liabilities		**12,997,278**	6,756,186
Equity			
Share capital	21	**49,040,308**	31,825,583
Shares issuable		**-**	270,778
Equity reserves		**2,959,756**	2,376,484
Accumulated other comprehensive income		**(65,151)**	(18,651)
(Deficit)		**(30,195,336)**	(20,069,773)
Total equity		**21,739,577**	14,384,421
Total liabilities and equity		**34,736,855**	21,140,607

Approved on behalf of the Board

Director **Director**

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

CubicFarm Systems Corp.
Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Notes	For the Six months ended December 31, 2020	For the Twelve months ended June 30, 2020
		$	$
Revenue			
Systems		477,084	4,658,839
Services		26,766	56,469
Consumables		120,924	452,180
		624,774	5,167,488
Cost of sales	18	**1,564,021**	3,493,631
Gross margin		**(939,247)**	1,673,857
General and administrative expenses	18	**5,630,856**	7,210,810
Selling expenses	18	**745,390**	1,055,419
Research & development	18	**2,355,931**	2,247,362
Impairment of investment in associate	11,18	**-**	614,364
		8,732,177	11,127,955
Loss before other income (expense)		**(9,671,424)**	(9,454,098)
Finance income		**18,169**	110,708
Finance expense		**(137,972)**	(3,072)
Accretion charge	13,16	**(61,848)**	(22,797)
Net Finance Costs		**(181,651)**	84,839
Other income (expense)			
Other income	19	**595,964**	310,595
Fair value change for earn-out payable	6	**(367,977)**	101,544
Foreign exchange gain (loss)		**(74,906)**	(140,223)
Change in fair value of derivative liability	16	**(406,416)**	-
Gain (loss) on disposal of property, plant, and equipment		**(1,213)**	-
Gain (loss) on investment in associate	11	**-**	(311,908)
Public listing		**-**	(36,676)
Provision for expected credit loss		**(340,232)**	(881,977)
		(776,431)	(873,806)
Loss before income taxes		**(10,447,855)**	(10,327,904)
Income taxes	26	**322,292**	235,803
Net Loss for the period		**(10,125,563)**	(10,092,101)
Other comprehensive loss			
Items that may be reclassified to profit or loss:			
Foreign currency translation loss		**(46,500)**	(18,651)
Total comprehensive loss		(10,172,063)	(10,110,752)
Basic & Diluted loss per share	27	**$ (0.08)**	$ (0.11)
Weighted average number of shares outstanding		**119,842,276**	92,326,900

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

(Expressed in Canadian dollars)

	Notes	*No of Shares*	*Common Share capital*	*Preferred Share capital*	*Equity Reserves*	*Accumulated other Comprehensive Income*	*Shares Issuable*	*Deficit*	*Total equity*
		#	$	$	$	$	$	**$**	$
Balance, June 30, 2019		**84,179,714**	**22,740,341**	**-**	**1,411,110**	**-**	**-**	**(9,977,672)**	**14,173,779**
Net loss for the period		-	-	-	-			(10,092,101)	(10,092,101)
Exercise of stock options	21	238,000	84,266	-	(39,046)		-	-	45,220
Issuance of shares, net of share issuance costs	21	21,897,301	5,149,790	-	-		-	-	5,149,790
Issuance of share for acquisition of Hydrogreen	21	10,000,000	3,851,186				270,778		4,121,964
Foreign currency translation						(18,651)			(18,651)
Share-based payments	22	-	-	-	1,004,420		-	-	1,004,420
Balance, June 30, 2020		**116,315,015**	**31,825,583**	**-**	**2,376,484**	**(18,651)**	**270,778**	**(20,069,773)**	**14,384,421**
Net loss for the period		-	-	-	-	-	-	(10,125,563)	(10,125,563) -
Exercise of stock options	21	577,999	220,831	-	(98,944)	-	-	-	121,887
Issuance of shares, net of share issuance costs	21	19,884,677	16,637,045	-	-	-	-	-	16,637,045
Issuance of share for acquisition of Hydrogreen	21	926,845	356,849	-	-	-	(270,778)	-	86,071
Foreign currency translation		-	-	-	-	(46,500)	-	-	(46,500)
Share-based payments	22	-	-	-	682,216	-	-	-	682,216
Balance, December 31, 2020		**137,704,536**	**49,040,308**	**-**	**2,959,756**	**(65,151)**	**-**	**(30,195,336)**	**21,739,577**

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

CubicFarm Systems Corp.
Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Notes	For the Six months ended December 31, 2020	For the Twelve months ended June 30, 2020
		$	$
Cash provided by (used for) the following activities			
Operating activities			
Net loss for the period		**(10,125,563)**	(10,092,101)
Depreciation - property, plant and equipment	10	**275,338**	468,674
Depreciation - right-of-use asset		**245,246**	88,557
Impairment of investment in associate		**-**	614,364
Amortization	12	**58,352**	101,006
Loss on disposal of property, plant and equipment		**183,865**	-
Provision for expected credit loss		**340,232**	881,977
Foreign exchange		**74,906**	(43,287)
Interest expense		**137,972**	3,072
Accretion charges		**61,848**	22,797
Interest income		**(18,169)**	(110,708)
Deferred tax recovery		**(322,292)**	-
Change in fair value of earnout payable		**367,977**	-
Share-based payments	22	**682,216**	1,004,420
Release of restricted cash		**-**	310,000
Loss on investment in associate		**-**	311,908
Change in fair value of derivative liability		**406,416**	-
Warranty provision		**-**	89,189
Funds used in operations		**(7,631,656)**	(6,350,132)
Changes in non-cash working capital:			
Trade and other receivables		**1,397,092**	(1,686,462)
Contract assets		**(605,279)**	-
Inventories		**(2,164,297)**	(1,951,736)
Prepaid expenses and deposits		**266,423**	76,249
Trade and other payables		**177,218**	38,838
Customer deposits		**3,101,804**	(570,639)
Warranty provision		**(59,758)**	(226,738)
Cash used for operating activities		**(5,518,453)**	**(10,670,621)**
Interest paid		(127,356)	(3,072)
Interest received		5,817	86,003
Net cash used for operating activities		**(5,639,993)**	**(10,587,689)**
Investing activities			
Purchases of property, plant, and equipment	10	**(130,898)**	(457,481)
Loans to associates		**(351,615)**	(534,142)
Loss on investment in associate		**-**	(110,620)
Net cash used for investing activities		**(482,513)**	**(1,102,243)**
Financing activities			
Issuance of shares	21	**16,637,045**	5,149,790
Exercise of stock options	21	**121,887**	45,220
Lease payments	13	**(365,452)**	(91,410)
Proceeds from loans payable		**2,339,517**	265,121
Net cash from financing activities		**18,732,997**	**5,368,721**
Increase (decrease) in cash and cash equivalents		**12,610,491**	(6,321,211)
Effect of movements in exchange rates on cash held		(8,368)	24,636
Cash and cash equivalents, beginning of period		**3,604,412**	9,900,987
Cash and cash equivalents, end of period		**16,206,535**	3,604,412

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

1. Reporting entity

CubicFarm Systems Corp. (the "Company") was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 19951 80A Avenue, Unit 353, Langley, BC, V2Y 0E2.

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

The Company is an agriculture technology and vertical farming company that develops, employs, and sells modular growing systems with patented and patent-pending technologies (the "System") to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by operating its own facility in Pitt Meadows, British Columbia. 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.), see Note 6, a manufacturer of fully automated hydroponic growing systems that produce live, green animal feed prioritizing animal health and performance.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of December 31, 2020, 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 affect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

2. Going concern

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

The Company incurred a total comprehensive loss of $10,172,063 for the year ended December 31, 2020 (Year ended June 30, 2020 - $10,110,752) and has accumulated a deficit of $30,195,336 at December 31, 2020. As at December 31, 2020, the company has working capital of $15,244,610 compared with $6,334,754 as at June 30, 2020.

The losses and deficits indicate a material uncertainty that may cast significant doubt about the Company's ability 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 and realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements do not include any adjustments or disclosures that may result. If the going concern assumptions were not found to be appropriate for these consolidated financial instruments, adjustments might be necessary in the carrying values of assets and liabilities, the statement of consolidated financial position classifications and the reported expenses. Such adjustment could be material.

(Expressed in Canadian dollars, unless otherwise stated.)

3. Basis of presentation

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

The Board of Directors approved these consolidated financial statements on April 30, 2021.

Prior period reclassification

Certain prior period amounts on the Consolidated Statements of Loss and Comprehensive Loss have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Basis of measurement

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

Change in year-end

During the six months ended December 31, 2020, the Company changed its financial year-end to December 31, from June 30 in order to align the financial year-ends of the Company and all its subsidiaries, as well as with its peers. The Company's transition period is the six months ended December 31, 2020 with the comparative period being the twelve months ended June 30, 2020.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party were as follows at December 31, 2020.

Subsidiary name	Location	Interest	Classification and accounting method	Principal activity
CubicFarm Manufacturing Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Manufacture of cubic farming systems
CubicFarm Innovation Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Research on new technologies for cubic farming systems
CubicFarm Produce Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Growth and sale of lettuce, microgreens, and other products
CubicFarm Services Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Purchase of materials for growth and sale of seeds, substrates and other nutrients used in agricultural companies
CubicFarm Capital Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Holding company
Swiss Leaf Farms Ltd.	AB, Canada	50%	Associate, Equity 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

Cash and cash equivalents

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

Contract assets

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

Inventory

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

Business combinations

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

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

Property, plant, and equipment

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

4. Significant accounting policies (continued)

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

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

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangible assets is calculated on a straight-line or per unit basis, as per the following:

Patents – 13 to 16 years

Development costs – 500 units

Intellectual property – 1,000 units

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

Impairment of long-lived assets

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

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

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

4. Significant accounting policies (continued)

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

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

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

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill are not reversible.

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

Leases

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

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

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

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

4. Significant accounting policies (continued)

Revenue from contracts with customers

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

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

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

(iii) Determine the transaction price

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

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

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

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

Customer deposits

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

Income tax & deferred tax

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

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

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

4. Significant accounting policies (continued)

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

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

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

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

Foreign currency translation

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

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian Dollars at the foreign exchange rate applicable at each reporting period. Realized and unrealized exchange gains and losses are recognized in the Consolidated Statements of Loss and Comprehensive Loss.

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

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve. Also, conversion of the foreign subsidiary into Canadian dollars is recognized in other comprehensive income in the translation reserve.

Share based compensation

The Company operates an employee stock option plan. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The fair value of options is determined using a Black Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

4. Significant accounting policies (continued)

Financial instruments

Financial assets

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

(i) Amortized cost:

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

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

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

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

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

Financial liabilities

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

Financial liabilities also include derivative financial instruments that are entered into by the Company that are not designated as hedging instruments as defined by IFRS 9. Embedded derivatives are classified as held for trading and any gains and losses are recognized through the Consolidated Statements of Loss and Comprehensive Loss.

4. Significant accounting policies (continued)

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

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

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

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

The Business Development Bank ("BDC") loan contains a prepayment option and variable loan bonus that is based on consolidated enterprise value. The Company determined the embedded derivative should be accounted separate from the host contract and is measured at fair value through profit and loss. The fair value of the embedded derivative as at December 31, 2020 was $1,002,129. The residual amount is recognized as a financial liability and subsequently measured at amortized cost.

Impairment of financial assets

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

The Company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the company. A financial asset is fully impaired when there is no reasonable expectation of recovering the contractual cash flows.

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

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be impaired.

Finance and investment income (expense) and interest expense

Finance income comprises of interest and other income on funds invested. Interest income is recognized as it accrues in the Consolidated Statements of Loss and Comprehensive Loss, using the effective interest method.

Interest Expense includes interest payments (cash) on borrowings and the accretion expenses (non-cash) on debt and leases. Borrowing costs are recognized in Consolidated Statements of Loss and Comprehensive Loss using the effective interest method.

4. Significant accounting policies (continued)

Loss per share

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

Related party transactions

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

Government grants

Effective January 1, 2020, the Company adopted the IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. The Company accounts for government grants when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Non-monetary grants, such as land or other resources, are usually accounted for at fair value. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, is recognized as income in the period in which it is receivable. A grant relating to assets is reported by deducting grant from the asset's carrying amount. A grant relating to income is separately reported as 'other income' or deducted from the related expense. If a grant becomes repayable, it will be treated as a change in estimate. Where the original grant relates to income, its repayment will be applied first against any related unamortized deferred credit, and any excess is dealt with as an expense. Where the original grant relates to an asset, its repayment will be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received is charged as an expense.

5. Significant estimates, assumptions, and judgments

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

Going concern

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

Business combinations

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

Useful lives of intangible assets

Amortization of finite life intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment. The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Impairment of goodwill and intangible assets

Determining whether an impairment has occurred requires the valuation of the respective CGUs, which management estimates using a discounted cash flow method. When available and as appropriate, management uses comparative market multiples to corroborate discounted cash flow results. In applying this methodology, management relies on a number of factors, including actual operating results, future business plans, discount rates, economic projections and market data.

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.

Adoption of new accounting standards

Conceptual framework

In March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting which assists entities in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to more fully understand the standards. The revised conceptual framework includes the following clarifications and updates: (i) a new chapter on measurement; (ii) guidance on reporting financial performance; (iii) improved definitions and guidance, particularly for the definition of a liability; and (iv) clarifications on important items such as the role of stewardship, prudence and measurement uncertainty in financial reporting. The revised conceptual framework is effective for annual reporting periods beginning on or after January 1, 2020 and is applicable to the Company starting January 1, 2020. The adoption of this new standard did not have any impact on the amounts recognized in the Company's Consolidated Financial Statements.

Definition of material

In October 2018, the IASB issued Definition of Material (Amendments to IAS 1 and 8) to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and are applicable to the Company starting January 1, 2020. The adoption of this new standard did not have any impact on the amounts recognized in the Company's Consolidated Financial Statements.

Definition of a business

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3) which: (i) clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (ii) narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and (iii) removes certain assessments and adds guidance and illustrative examples. The amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on

(Expressed in Canadian dollars, unless otherwise stated.)

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

or after the beginning of that period. The adoption of this standard has not had a material impact on the Company's Consolidated Financial Statements.

6. Business combination

On January 1, 2020, the Company completed the acquisition of 100% of the issued and outstanding shares of Hydrogreen Inc., ("HydroGreen") a private US based company and a manufacturer of fully automated hydroponic growing systems that produces live, green animal feed, prioritizing animal health and performance.

The acquisition of HydroGreen, enables the Company to expand in the automated controlled-environment-agriculture space. The combination of both CubicFarms and HydroGreen technologies allows the Company to address both fresh produce and animal feed markets and leverage the learning and assets of both companies.

The Company completed the acquisition of HydroGreen on January 1, 2020. The Acquisition was completed by way of a reverse triangular merger of CubicFeed Systems U.S. Corp., a wholly owned subsidiary of the Company, and HydroGreen, resulting in HydroGreen being renamed to "CubicFeed Systems U.S. Corp" and becoming an indirect and wholly owned subsidiary of the Company. The new CubicFarms subsidiary was subsequently re-named Hydrogreen Inc.

Under the terms of the merger agreement, holders of HydroGreen shares ("HydroGreen Shareholders") received 10,000,000 common shares of CubicFarms on the closing date, with a maximum of another 1,000,000 shares to be issued on the six-month anniversary of closing, subject to any set-off relating to indemnification (the "Consideration Shares").

The Company has determined that this transaction represented a business combination with CubicFarm Systems Corp. identified as the acquirer. The total consideration as of January 1, 2020 was estimated to be USD$4,248,661 (CAD$5,519,437).

The Company began consolidating the operating results, cash flows and net assets of Hydrogreen Inc. from January 1, 2020 onwards. Acquisition-related costs of $222,187 were expensed during the year ended June 30, 2020 and were presented as transaction costs.

The following table summarizes the consideration paid as part of the purchase price:

Consideration	Shares Issued / Issuable	Consideration USD	Consideration CAD
Fair value estimate of CubicFarm Systems Corp. share consideration	10,000,000	$2,964,275	$3,851,186
Holdback shares	1,000,000	$208,472	$270,778
Earn-out payments [(a)]		$1,075,914	$1,397,473
Total Consideration		**$4,248,661**	**$5,519,437**

a) The acquisition provided for contingent consideration made up of earn-out payments which the Company recognized at the acquisition date at its fair value of USD$1,075,914. The contingent consideration is based on conditional earn-out payments based on aggregate gross revenue of HydroGreen in the 5 years subsequent to closing date. The main assumption used in the determination of fair value is the assumed revenue growth rate of HydroGreen. The earn out payment is based on revenue exceeding certain limits with a period of five years:

(Expressed in Canadian dollars, unless otherwise stated.)

6. Business combination (continued)

Aggregate gross revenue, Greater than (USD)	Payment (USD)
$1,000,000	$250,000
$2,000,000	$300,000
$5,000,000	$500,000
$10,000,000	$450,000

The following table summarizes the allocation of the purchase price of the identifiable assets and liabilities based on their estimated fair values as at the date of the acquisition:

	USD	CAD
Total purchase consideration paid for HydroGreen	$4,248,661	$5,519,437
Property and Equipment	$124,250	$161,383
Right of use assets	$174,135	$226,179
Intangibles – intellectual property	$3,190,220	$4,143,681
Goodwill	$1,411,824	$1,834,755
Deferred Tax Liability	$(426,078)	$(553,419)
Lease liability	$(164,455)	$(213,606)
Restoration Provision	$(9,680)	$(12,573)
Loan payable	$(51,555)	$(66,963)
Fair value of net assets acquired	$4,248,661	$5,519,437

Holdback shares

The Company has concluded that the holdback shares are classified as a component of equity, recognized initially at fair value with no remeasurement, and subsequent settlement to be accounted for within equity. The fair value of the holdback shares was determined by discounting the share price of the Company as at the acquisition date.

Earn-out payments

The earn-out liability represents future payments by the Company of up to US$1.5 million over five years, that are contingent on the achievement of certain revenue targets. The fair value of contingent consideration liabilities is based on the estimated future financial performance of the acquired business. The estimated earnout consideration was fair valued by assessing the probabilities of achieving these milestones and discounting the revenue cash flow over the life of the payment period of five years and recognized as at the acquisition date of Hydrogreen Inc. The fair value of the contingent consideration liabilities is measured each reporting period at the estimated fair value, with the change in fair value recognized in the statement of loss and comprehensive loss. The Earn-out payments are based on unobservable inputs and considered a level 3 measurement.

(Expressed in Canadian dollars, unless otherwise stated.)

6. Business combination (continued)

The continuity for Earn-out payments is as follows:

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

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

The continuity for Goodwill is as follows:

	December 31 2020	June 30 2020
	$	$
Opening balance	1,834,755	-
Goodwill on acquisition of Hydrogreen Inc.	-	1,834,755
Foreign exchange adjustment	86,071	-
	1,920,826	1,834,755

The addition of goodwill for the year ended June 30, 2020 is from the acquisition of Hydrogreen on January 1, 2020.

The recoverable amount of the Company's cash generating units (CGU) was based on a value in use calculation which uses cash flow projections based on financial budgets covering a five- year period with average compounded growth rate of 58.9% and terminal multiplier of 4.0 at after tax discount rate of 17%. If cash flow projections decreased 50%, the carrying amount would exceed the recoverable amount by $3,710,801. If cash flow projections decreased 25% and the terminal multiplier was 2.0, the carrying amount would exceed the recoverable amount by $1,309,333.

The continuity for Deferred Tax Liability is as follows:

	December 31, 2020	June 30, 2020
	$	$
Opening balance	345,035	-
On Acquisition of Hydrogreen	-	553,419
Deferred Tax Recovery	(322,292)	(235,803)
Foreign exchange	(22,743)	27,418
Closing balance	-	345,035

(Expressed in Canadian dollars, unless otherwise stated.)

7. Trade and other receivables

Current:	December 31, 2020	June 30, 2020
	$	$
Trade accounts receivable[1]	**880,185**	2,461,080
Less: Provision for expected credit loss	**(538,212)**	(457,927)
Note receivable[2]	**437,190**	434,142
Less: Provision for loss on short term receivable (Note receivable & Interest receivable)	**(437,190)**	(434,142)
Sales tax receivable	**193,013**	80,896
Other receivable[3]	**803,279**	102,519
	1,338,265	2,186,568

Non-Current:	December 31, 2020	June 30, 2020
	$	$
Note receivable[2]	**418,016**	205,874
Interest receivable[2]	**49,409**	37,057
Less: Provision for loss on long term receivable (Note receivable & Interest receivable)	**(467,425)**	(242,931)
	-	-

Aging

The aging of trade receivable at December 31, 2020 & provision for expected credit loss is summarized as follows:

	December 31, 2020	June 30, 2020
Current or under 60 days	262,696	1,820,310
Past due 61 to 90 days	3,923	127,261
Past due more than 90 days	613,566	513,508
	880,185	2,461,080

Continuity for provision for expected credit loss on trade account receivable

	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
Opening	457,927	50,845
Addition during the year	80,285	407,082
Amount Collected	-	-
Closing balance	**538,212**	457,927

[1] Related party Trade accounts receivable is disclosed in Note 20
[2] All Notes receivable and Interest receivable is due from related party Swiss Leaf Farms Ltd., which is an associate of the Company.
[3]Other Receivable consists of a government grant receivable amounting to $198,000 and contract assets amounting to $605,279. Contract assets occur when recognized revenue for the customer is higher than the amount the customer has been invoiced.

For the six months ended December 31, 2020, bad debt of $340,232 was recognized as expected credit losses and recorded under Other income (expense) (June 30,2020 - $881,977). The amount of $99,391 was provided for allowance for bad debt related to Swiss Leaf Farms Ltd and Artex Feed Solutions Ltd. for the year ended December 31, 2020 apart from $227,542 for promissory notes for Swiss Leaf Farms Ltd.

(Expressed in Canadian dollars, unless otherwise stated.)

8. Inventory

	December 31, 2020	June 30, 2020
	$	$
Systems	3,720,794	1,712,972
Work in progress	1,115,836	948,812
Seeds and other supplies	19,536	31,565
Packaging and other	10,475	8,994
	4,866,641	2,702,344

Systems are containers on hand and available for sale by the Company. The net realizable value of inventory as of December 31, 2020 and June 30, 2020 are higher than the cost. Accordingly, the Company has reported the inventory at cost in the Consolidated Statement of Financial Position. Inventory in the value of $486,796 has been recognized as Cost of Sales in the Consolidated Statement of Loss and Comprehensive Loss (June 30 2020 $2,913,937).

9. Prepaid expenses and deposits

	December 31, 2020	June 30, 2020
	$	$
Deposits for Systems inventory (i)	1,087,092	1,498,086
Prepaid expenses and deposits, other	269,284	124,713
	1,356,376	1,622,799

(i) In general, the Company is required to pay 100% of deposit for containers. Such containers are shipped upon the purchase being paid in full.

(Expressed in Canadian dollars, unless otherwise stated.)

10. Property, plant, and equipment

December 31, 2020

	Production equipment	Other Production Equipment	Leasehold Improvements	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2020	1,534,779	599,483	308,300	30,279	363,985	320,278	183,901	3,341,005
Additions	-	-	15,188	41,864	39,130	-	34,716	130,898
Transfer	-	-	-	-	137,626	(137,626)	-	-
Disposal	-	-	-	-	-	(182,652)	(4,559)	(187,211)
Foreign exchange adjustment	-	-	(9,354)	(62)	(2,024)	-	(1580)	(13,020)
Balance December 31, 2020	**1,534,779**	**599,483**	**314,134**	**72,081**	**538,717**	**-**	**212,478**	**3,271,672**
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2020	197,944	309,218	73,533	7,531	101,408	-	54,601	744,235
Depreciation	76,739	99,914	40,802	9,713	25,815	-	22,356	275,338
Disposal	-	-	-	-	-	-	(1,846)	(1,846)
Foreign exchange adjustment		-	(2,426)	(219)	(224)	-	-	(2,869)
Balance December 31, 2020	**274,683**	**409,132**	**111,909**	**17,025**	**126,999**	**-**	**75,111**	**1,014,858**
Net book value, December 31, 2020	**1,260,096**	**190,351**	**202,225**	**55,056**	**411,718**	**-**	**137,367**	**2,256,814**

(Expressed in Canadian dollars, unless otherwise stated.)

10. Property, plant, and equipment (Continued)

June 30, 2020

	Production equipment	Other Production Equipment	Leasehold Improvements	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2019	1,534,779	599,483	165,980	23,529	302,595	677,780	104,351	3,408,497
Additions	-	-	142,320	6,750	61,390	167,471	79,550	457,481
Transfer	-	-	-	-	-	(524,973)	-	(524,973)
Balance June 30, 2020	**1,534,779**	**599,483**	**308,300**	**30,279**	**363,985**	**320,278**	**183,901**	**3,341,005**
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2019	71,096	109,390	16,598	2,353	60,486	-	15,638	275,561
Depreciation	126,848	199,828	56,935	5,178	40,922	-	38,963	468,674
Transfer	-	-	-	-	-	-	-	-
June 30, 2020	**197,944**	**309,218**	**73,533**	**7,531**	**101,408**	**-**	**54,601**	**744,235**
Net book value, June 30, 2020	**1,336,835**	**290,265**	**234,767**	**22,748**	**262,577**	**320,278**	**129,300**	**2,596,770**

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

11. Investment in associates

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

Total Swiss Leaf investment is as following:

Period	Amount of Investment
Before year ended June 30, 2020	1,054,197
Twelve months June 30, 2020	434,142
Six month ended December 31, 2020	215,190
Total	1,703,529

The Company started with a contribution of $1,054,197 in total, which consisted of $120 in share capital and the balance of $1,054,077 in a shareholder loan before year ended June 30, 2020. The Company provided an additional $434,142 in shareholder loans to Swiss Leaf during twelve months ended June 30, 2020 and $215,190 in six months ended December 31, 2020. The carrying amount of the investment at December 31, 2020 was determined to be $Nil (June 30, 2020 - $Nil)

(Expressed in Canadian dollars, unless otherwise stated.)

11. Investment in associates (Continued)

due to 100% expected credit loss applied. The Swiss Leaf equipment is currently being upgraded and the Company continues to work with Swiss Leaf on produce research and development.

Summarized Financial Info for Swiss Leaf is as follows:

	December 31, 2020	June 30, 2020
Cash & cash equivalent	16,529	(2,982)
Current assets	167,115	136,659
Non- current assets	1,934,646	1,934,646
Current liabilities	44,654	50,695
Non- current liabilities	2,707,232	2,540,154
Revenue	207,258	203,663
Loss during the period	(126,635)	(339,213)

The Company has significant influence over Swiss Leaf but not control based on an assessment made by management as per IFRS 10, and therefore the investment has been accounted for by the equity method and was initially recorded at cost. The carrying amount was then adjusted to recognize the Company's share of the net income or loss in Swiss Leaf after the acquisition. The carrying amount of the investment has been reduced to zero. The Company has not incurred legal or constructive obligations or made payments on behalf of the associate; therefore, the Company has not recognized any additional losses.

The Company owned 50% of Artex Feed Solutions Ltd. (Artex). The Company had significant influence over Artex but not control based on an assessment made by management as per IFRS 10, and therefore the investment was accounted for by the equity method and was initially recorded at cost. During the six months ended December 31, 2020, the Company provided an additional shareholder loan amounting to $136,425. On November 16, 2020 Artex was dissolved and the carrying amount of the investment and loan at December 31, 2020 was determined to be $Nil (June 30, 2020 - $Nil) due to 100% expected credit loss applied.

Total Artex investment is as following:

Period	Amount of Investment
Twelve Months June 30, 2020	100,000
Six month ended December 31, 2020	136,425
Total	236,425

The Company owns 20% of 1241876 B.C. Ltd which is a joint venture ("JV") with Pacific Maple Enterprise Group Ltd "PME" and Canada High-Tech Investment Group Co. Ltd "CHTI". The Company contributed $20 in share capital. 1241876 B.C. Ltd. was incorporated on February 24, 2020. The joint venture has been accounted for by the equity method and as such was initially recognized at cost. The carrying amount is adjusted to recognize the Company's share of the net income or loss 1241876 B.C. Ltd after the acquisition. There is a commitment to provide a $342,857 shareholder loan as per the shareholder agreement; however, the condition of this loan which is the timing to advance has not been met. On December 31, 2020, the investment in 1241876 B.C. Ltd has a carrying amount of $20 (June 30, 2019 - $Nil). There have been no transactions since incorporation.

For the year ended June 30, 2020, there was a loss on investment in associates amounting to $311,908 and impairment amounting to $614,364.

(Expressed in Canadian dollars, unless otherwise stated.)

12. Intangible assets

December 31, 2020

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

June 30, 2020

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

13. Leases

December 31, 2020

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

(Expressed in Canadian dollars, unless otherwise stated.)

13. Leases (Continued)

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

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

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

			June 30, 2020
Right of Use Asset	**Canada**	**United States**	**Total**
Balance as at July 1, 2019	-	-	-
Adoption of IFRS 16	184,268	-	184,268
Additions during the year	-	1,415,996	1,415996
Depreciation	(20,462)	(68,095)	(88,557)
Foreign exchange adjustment	-	(9,741)	(9,741)
Ending	**163,806**	**1,338,160**	**1,501,966**

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

(Expressed in Canadian dollars, unless otherwise stated.)

13. Leases (Continued)

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

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

The lessor of the research and development facility in Canada is a related party to the Company as it is affiliated with key management personnel of the Company. The amounts related to Bevo Farms Ltd. are a Lease Liability of $65,859 and Right of use asset of $153,492 as at December 31, 2020 (June 30, 2020 Lease liability $70,400 and Right of use asset $158,649).

14. Trade and other payables

Trade and other payables consist of:

	December 31, 2020	June 30, 2020
	$	$
Trade payables [1]	860,730	978,860
WCB payable	8,446	8,726
Sales and payroll tax payable	83,118	27,322
Accrued expenses	513,372	283,691
Ending balance	**1,465,666**	1,298,599

[1] Related party Trade payables is disclosed in Note 20.

15. Customer deposits

Customer deposits consist of funds paid by customers for systems based on the sales agreement. The customer may cancel the order prior to shipping of the equipment, subject to the following restocking fees. If the customer cancels the order before the manufacturing of the equipment has commenced, the customer shall pay a restocking fee of 10% of the purchase price. If the customer cancels the order thereafter but prior to shipping of the equipment, the customer shall pay a restocking fee of 20% of the purchase price. The order shall not be cancellable after shipping of the equipment. During the year ended June 30, 2020, a deposit from one of the customers was forfeited which was included in revenue amounting to $350,936.

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

(Expressed in Canadian dollars, unless otherwise stated.)

15. Customer deposits (continued)

	December 31, 2020	**June 30, 2020**
	$	**$**
Opening balance	1,709,666	2,280,305
Additions	3,577,870	2,182,070
Recognized into revenue	(332,027)	(2,399,097)
Deposit forfeited, recognized as revenue	-	(350,936)
Foreign exchange adjustment	-	(2,674)
Ending balance	**4,955,509**	1,709,666

Out of the balance of customer deposits $1,709,666 is the amount of customer deposits that was received more than twelve months ago.

16. Loans payable

The Company received an interest free loan of $40,000 for COVID-19 relief from the Bank of Montreal. $10,000 of the loan is forgiven if repaid by December 31, 2022 and was recognized in other income as of December 31, 2020. If not repaid, the loan may be extended from January 1, 2023 to December 31, 2025. The Hydrogreen subsidiary also received a COVID19 relief loan of US$112,731 from First Premier Bank, which bears interest of 1% and is payable in 18 installments starting December 6, 2020 through May 6, 2022. The conditions for loan forgiveness were met by the Company as of December 31, 2020, and $150,383 was recognized in other income. Hydrogreen also has an Agriculture Loan obtained from South Dakota Value Added Finance Authority ("VAFA") for 45% of HydroGreen's Patent cost, which is due five years from the date of the final disbursement of loan proceeds. The loan is interest free if paid before the due date and 12% per annum if not paid when due or if the Company is in default of the terms and conditions of the loan. Currently the Company is in compliance with the loan agreement. The Company granted VAFA a first priority security interest in the feasibility study for the project proposed in the loan application and any accompanying reports, documents or other information.

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

(Expressed in Canadian dollars, unless otherwise stated.)

16. Loans payable (continued)

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

Business loan

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

The loan may be prepaid at any time for all or part of the outstanding principal plus all interest and any other fees that are applicable plus the prepayment bonus which consists of an interest differential charge and prepayment indemnity. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at December 31, 2020. In addition to the scheduled payments, principal of the Financing shall be reimbursed by way of annual payments representing 30% of Excess Available Funds as determined at the end of the last fiscal year to the maximum of $700K for each annual payment (Annual ECFS limit" payable on Sept 15 each year commencing in September 2021 (ECFS date). For greater certainty, any such annual payment is payable only if Excess Available funds as determined at the end of the last fiscal year, is a positive figure. The loan is secured by general security agreement granting a general and continuing security interest in all present and after acquired personal property without limiting the foregoing, on all present and future assets related to intellectual property including, without limitation, patents, trademarks, domain names, source codes, licenses, and any other forms of intellectual property of the Company. This security interest shall rank in first position with respect to the Intellectual Property but subordinated in rank to any other security granted i) on receivable and inventory ii) previously to financial institutions except intellectual property and iii) on specific assets in connection with the financing of equipment needed by the Company.

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

(Expressed in Canadian dollars, unless otherwise stated.)

16. Loan payable (continued)

The consolidated enterprise value of the Company is determined as highest of the following:

- i) 5 x Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") for the last financial year prior to the bonus event;
- ii) 5 x average EBITDA for the last two most recent financial years prior to the bonus event;
- iii) Market valuation on the stock exchange the Company is listed at the time of payout;
- iv) 0.5 x consolidated audited annual gross sales of the Company for the last financial year prior to the bonus event; or;
- v) 0.5 x average consolidated audited annual gross sales of the Company for the last two most recent financial year prior to the bonus event.

The initial fair value of the embedded derivative liability related to the variable bonus was estimated to be $595,712 and the residual amount of proceeds of $1,904,288 was allocated to the loan. As at December 31, 2020 the variable loan bonus had a fair value of $1,002,128 and the Company recognized a $406,416 loss on the change in fair value of derivative liability.

Business loan continuity

	December 31, 2020	June 30, 2020
	$	$
Loan payable – Initial recognition (July 20, 2020)	1,904,288	-
Accretion	15,293	-
Accrued interest	10,616	-
Loan payable - end of period	1,930,197	-
Less: current	(335,615)	-
Non-current portion	**1,594,582**	-

Continuity for all the loans

	December 31, 2020	June 30, 2020
	$	$
Opening Balance	265,121	73,141
Addition	1,904,288	194,863
Loan forgiven transferred to other income – Note 18	(160,383)	-
Accretion	15,293	-
Accrued interest	10,616	-
Foreign exchange adjustment	(100)	(2,883)
Ending balance	2,034,835	265,121
Less: current portion	(335,615)	(60,531)
Non-current portion	**1,699,220**	204,590

(Expressed in Canadian dollars, unless otherwise stated.)

16. Loan payable (continued)

Derivative liability

	December 31, 2020	June 30, 2020
	$	$
Opening Balance	-	-
Derivative liability – Initial recognition (July 20, 2020)	595,712	-
Change in fair value of derivative liability	406,416	- -
Ending Balance	**1,002,128**	-

17. Warranty provision

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

18. Total expenses by nature

The table shows expenses of the company by nature.

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

19. Other income

Other income of the Company consists of government grants received by the Company, loan forgiveness of $10,000 for COVID-19 relief from the Bank of Montreal, and loan forgiveness of $150,383 for the COVID-19 relief from First Premier Bank.

Government grants relate to the Canada Emergency Wage Subsidy amounts from the Canadian government related to the decrease in revenue as a result of COVID-19. The subsidy is to cover part of the employee wages, retroactive to March 15, 2020. This subsidy also enables the Company to re-hire workers, help prevent further job losses, and return to normal operations. There are no unfulfilled conditions and contingencies attached to the grants.

(Expressed in Canadian dollars, unless otherwise stated.)

19. Other income (continued)

	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$
Loan forgiveness income	160,383	-
Government Grants	435,581	310,595
Total	**595,964**	310,595

20. Related party transactions

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

Transactions with related party Bevo Farms Ltd., that is affiliated with an officer and director of the Company.

	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$
Short term leases	31,561	-
Lease payments	5,000	10,000
Office expenses	37,570	-
Lease liability	65,859	70,400

Key management compensation

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

	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$
Wages and Salaries	472,500	953,287
Consulting fees	508,694	401,977
Share-based compensation	445,154	851,982
Total	**1,426,348**	2,207,246

(Expressed in Canadian dollars, unless otherwise stated.)

20. Related party transactions (Continued)

All the related party balances as at year end:

Zenabis Global Inc. and Bevo Farms Ltd. are related parties of the Company as they are affiliated with certain officers and directors that have significant influence over the Company. Swiss Leaf Farms Ltd. is a related party as it is an associate of the Company.

	As at December 31, 2020	As at June 30, 2020
	$	$
Accounts Receivable:		
Zenabis	8,001	-
Total Accounts Receivable	8,001	-
Accounts Payable:		
Bevo farms	12,034	4,716
Swiss leaf farms	11,360	6,759
Total Accounts Payable	23,394	11,475

21. Share Capital

The Company has an authorized share capital consisting of: (i) an unlimited number of Common Shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of December 31, 2020, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (June 30, 2020 – Nil).

	Number of common shares	Impact on share capital
	#	$
Balance June 30, 2019	**84,179,714**	**22,740,341**
Issuance of shares (i), (ii), (iii)	31,897,301	9,000,976
Options exercised (iv)	238,000	45,220
Transfer from equity reserves	-	39,046
Balance June 30, 2020	**116,315,015**	**31,825,583**
Issuance of shares (v)	19,884,677	16,637,045
Holdback shares adjustment(vi)	926,845	356,849
Options exercised (iv)	577,999	121,886
Transfer from equity reserves	-	98,944
Balance December 31, 2020	**137,704,536**	**49,040,308**

i) Financing arrangement with Nu Skin 158,171 common shares @ $0.9471 per share.
ii) Issue of 10,000,000 shares to Hydrogreen Inc. acquisition @ $0.3851 per share.

(Expressed in Canadian dollars, unless otherwise stated.)

21. Share Capital (Continued)

iii) Financing arrangement with Ospraie 21,739,130 common shares @ $0.23 per share.
iv) Options exercised by option holders at average price of $0.21 per share.
v) Financing arrangement with Harry DeWit, institutional investors, and some key management employees of the Company at average price of $0.8367 per share. Share issuance costs of $899,853 were accounted for as a deduction from equity.
vi) Issue of 926,845 holdback shares to Hydrogreen Inc. acquisition @0.3851 per share.

On January 28, 2019 the Company completed a private placement with Nu Skin, pursuant to the investment agreement, Nu Skin has the pre-emptive right to participate in future equity financings of the Company to maintain its pro rata ownership of the Company up to a maximum 12.9% ownership interest. This right is available to Nu Skin for as long as it owns not less than 8% of the Company's shares.

22. Stock options

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

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

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

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

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

Share purchase options continuity schedule:

	Number of share purchase options	Weighted average exercise price
		$
Balance June 30, 2019	29,655,766	0.45
Granted	3,790,000	0.63
Exercised	(238,000)	0.19
Cancelled	(2,572,000)	0.86
Balance June 30, 2020	**30,635,766**	**0.44**
Granted	50,000	0.78
Exercised	(577,999)	0.21
Cancelled	(940,000)	0.83
Forfeited	(411,667)	0.24
Expired	(300,000)	1.00
Balance December 31, 2020	**28,456,100**	**0.43**

(Expressed in Canadian dollars, unless otherwise stated.)

22. Stock options (continued)

During the period ended December 31, 2020, the weighted average price of share when options were exercised was $0.85 (June 30, 2020 - $0.75).

Share purchase options outstanding at December 31, 2020:

Grant date - Expiry date	Options Outstanding (#)	Contractual life of options - years	Exercise price $	Options Exercisable (#)
May 3, 2017 – April 1, 2027	14,130,096	10	0.19	5,434,624
November 1, 2017 - January 30, 2023	2,474,670	5	0.19	1,359,400
March 20, 2018 - March 30, 2023	268,334	5	0.19	199,334
July 15, 2018 – July 15, 2023	7,238,000	5	0.83	1,805,400
June 18, 2019 – December 15, 2023	605,000	5	1	385,000
September 03, 2019 - September 02, 2024	10,000	5	0.68	2,000
November 30, 2019 - December 30, 2024	50,000	5	1	50,000
December 02, 2019 - December 01, 2024	10,000	5	0.39	3,333
June 17, 2020 - June 18, 2025	3,620,000	5	0.63	1,206,667
November 18, 2020 - February 16, 2023	50,000	2	0.78	-
Total share purchase options	**28,456,100**			**10,445,758**

The fair value of the share purchase options granted during the year ended December 31, 2020 was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions.

	Year Ended June 30, 2020	Year Ended December 31, 2020
Share price volatility	113%	171%
Expected dividend yield	$nil	$nil
Employee forfeiture rate	20%	20%
Board of Directors forfeiture rate	25%	25%
Risk free interest rate	1.47% & 1.49%	0.26%

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

	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	**$**
SBC for vendors	200,937	25,882
SBC for employees & directors	481,279	978,538
Total SBC	**682,216**	1,004,420

(Expressed in Canadian dollars, unless otherwise stated.)

23. Operating segments

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

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

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

(c)for which discrete financial information is available.

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

Six months ended December 31, 2020.

	Fresh	Feed	Total
	$	**$**	**$**
Revenue	486,678	138,096	624,774
Gross Margin	(966,051)	26,804	(939,247)
Net Loss	(8,165,584)	(1,959,979)	(10,125,563)
Total Assets	27,975,387	6,761,468	34,736,855

Year ended June 30, 2020.

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

24. 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.

(Expressed in Canadian dollars, unless otherwise stated.)

24. Capital management (continued)

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

	December 31, 2020	**June 30, 2020**
	$	**$**
Total Assets	**34,736,855**	21,140,607
Total Liabilities	**(12,997,278)**	(6,756,186)
Net Equity	**21,739,577**	14,384,421

25. 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 earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at December 31, 2020, the discount rate was estimated to be 17% (June 30, 2020 – 24%). If the discount rate decreased by 5%, the estimated fair value of the earnout payable would increase by approximately $70,018 (June 30, 2020 - $120,710). If the discount rate increased by 5%, the estimated fair value of the earnout payable would decrease by approximately $64,502 (June 30, 2020 - $101,902).

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

The derivative liability is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. As at December 31, 2020, the discount rate was estimated to be 47% (June 30, 2020 - Nil). If 2024 EBITDA changed by 25%, the estimated fair value of the derivative liability would increase or decrease by approximately $191,219 (June 30, 2020 - $Nil). If discount rates decreased by 5%, the estimated fair value of the derivative liability would increase by approximately $167,232. If discount rates increased by 5%, the estimated fair value of the derivative liability would decrease by approximately $138,870 (June 30, 2020 - $Nil).

There has been no change between levels during the year.

(Expressed in Canadian dollars, unless otherwise stated.)

25. Financial instruments (continued)

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

As at December 31, 2020

	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			**Level 2**	**Level 3**
Cash and cash equivalents	-	16,206,535	-	-
Trade and other Receivables	-	1,338,265	-	-
Trade and other payables	-	(1,465,666)	-	-
Earn out payable	(1,643,033)	-	-	(1,643,033)
Loans payable	-	(2,034,835)	(1,990,278)	-
Derivative liability	(1,002,128)	-	-	(1,002,128)

As at June 30, 2020

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

The continuity for the Earn out payable is presented in Note 6.

The continuity for the Derivative liability is presented in Note 16.

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 31, 2020 the primary risks relating to the use of financial instruments were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at December 31, 2020, one customer accounted for 29% of the trade accounts receivable and the Company has no issues for collection for it. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable and associates.

(Expressed in Canadian dollars, unless otherwise stated.)

25. Financial instruments (continued)

Liquidity risk

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

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

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

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

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

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

25. 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 analysed further below:

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at December 31, 2020, the following items are denominated in US dollars:

	December 31, 2020	June 30, 2020
	$	**$**
Cash	3,616,464	93,424
Trade and other receivables	1,251,269	1,446,332
Trade and other payables	(432,742)	(313,060)
Customer deposits	(524,941)	(243,883)
Earn-out payable	(1,290,475)	(1,001,457)
Loans payable	(58,622)	(165,194)
Net exposure	**2,560,954**	**(183,838)**

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

A 10% increase in the US dollar exchange rate would decrease the Company’s net loss by approximately $256,000. A 10% decrease in the exchange rate would increase net loss by the same amount.

(Expressed in Canadian dollars, unless otherwise stated.)

26. Deferred tax assets and liability

Tax note for the year ended December 31, 2020

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

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

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

	December 31, 2020	June 30, 2020
	$	**$**
Non-capital losses carryforward	1,172,625	1,098,779
Property, plant, and equipment	(95,161)	(170,231)
Intangible assets	(672,154)	(948,342)
Right of use asset net of lease liability	(405,310)	(325,241)
Net deferred tax asset (liability)	-	(345,035)

(Expressed in Canadian dollars, unless otherwise stated.)

26. Deferred tax assets and liability (continued)

The unrecognized deductible temporary difference at December 31, 2020 and June 30, 2020 are comprised of the following:

	December 31, 2020	June 30, 2020
	$	$
Non-capital losses	22,391,658	16,932,035
Promissory note and investment in associate	1,469,231	2,193,664
Share issuance and financing costs	1,029,241	735,658
Trade and other receivables	383,527	50,845
Fixed assets and Intangibles	244,917	-
Warranty provision	191,342	255,394
Lease liabilities and restoration provision	1,704,765	1,495,381
Other	10,000	19,960
Total unrecognized deductible temporary differences	$ 27,424,681	$ 21,682,937

The Company has non-capital loss carry forwards of approximately $22,356,510 (2019 - $14,219,005) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	Canadian EXPIRY	December 31, 2020	June 30, 2020
	2034	73,753	-
	2035	838,250	-
	2036	1,491,182	837,745
	2037	6,474,453	1,343,598
	2038	9,606	5,237,830
	2039	6,697,770	6,799,832
	2040	6,771,496	-
TOTAL		22,356,510	14,219,005

The Company has net operating loss carry forwards of approximately CAD $5,346,802 in the United States which can be applied to reduce future US taxable income which have an unlimited expiry period.

27. Earnings per share

Basic earnings per share

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

(Expressed in Canadian dollars, unless otherwise stated.)

27. Earnings per share (continued)

Diluted earnings per share

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

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

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

28. Subsequent events

On April 5, 2021, the Company announced that pursuant to a non-brokered private placement, Burnett Land & Livestock Ltd., (Burnett) has agreed to purchase 1,464,622 common shares of the Company at a purchase price of CA$1.29 per common share for gross proceeds of US$1,500,000 (approximately CA$1,886,427).

On April 29, 2021, the Company amended its loan with BDC Capital Inc. The amendment includes cancelling the second $2,500,000 tranche and adjusting the principal instalments to 47 monthly instalments of $25,000 commencing July 15, 2021, with a balloon payment of $1,325,000 payable on June 15, 2025. The variable loan bonus was also replaced with a fixed bonus of $425,000, consisting of $225,000 in cash and $200,000 in common shares. The payment of the fixed bonus will take place as early as possible, and no later than 10 days after the filing of the Company's December 31, 2020 financial statements.

Management's Discussion and Analysis

For the transition year (three and six months) ended December 31, 2020

Dated: April 30, 2021

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

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

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

Forward-Looking Statements

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

About the Company and Nature of Business

The Company was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 19951-80A Avenue, Unit 353, Langley, BC, V2Y 0E2.

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

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

CubicFarms has two distinct technologies that address two distinct markets. The first technology is its patented CubicFarm™ System, which contains CubicFarms' patented technology for growing leafy greens and other crops. It is a unique modular growing system, using undulating path technology, addresses two of the most difficult challenges in the vertical farming industry, being high electricity and labour costs. CubicFarms leverages its patented technology by operating its own Research & Development ("R&D") facility in Pitt Meadows, British Columbia, selling the System to farmers, licensing its technology and providing industry-leading vertical farming expertise to its customers.

The second technology is CubicFarms' HydroGreen System, the Company's technology for growing nutritious livestock feed. The HydroGreen System was invented by Dihl Grohs, a rancher with operations in South Dakota, Utah and Missouri. This system utilizes a unique process to sprout grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water. The HydroGreen System 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 fertilizer, chemicals, fuel, field equipment and transportation. The HydroGreen System not only provides superior nutritious feed to benefit the animal, but also enables significant environmental benefits to the farm. The Company's HydroGreen operations and R&D facilities are located in Renner, South Dakota.

The Company operates two segments, which are the Fresh Division, for leafy greens and other crops, and the Feed Division, for livestock feed.

Highlights Subsequent to the transition Year Ended December 31, 2020

On January 19, 2021, the Company announced a change of financial year-end. The Company has changed its fiscal year-end from June 30 to December 31 in order to align the financial year-ends of the Company and all its subsidiaries, as well as with its peers. For details regarding the length and ending dates of the financial periods, including the comparative periods of the interim and annual financial statements to be filed for the Company's transition year and its new financial year, reference is made to the Notice of Change in Financial Year-End filed by the Company on SEDAR pursuant to Section 4.8 of National Instrument 51-102, a copy of which is available electronically at www.sedar.com.

In addition, the Company has changed its auditor from MNP LLP (the "Former Auditor") to KPMG LLP (the "Successor Auditor"). At the request of the Company, the Former Auditor resigned as the auditor of the Company effective January 7, 2021 and the Company appointed the Successor Auditor as the Company's auditor effective January 7, 2021, until the next Annual General Meeting of the Company.

On March 2, 2021, the Company announced the appointment of Edoardo De Martin as Chief Technology Officer. As a proven technology leader with more than 20 years of experience in the technology industry, Mr. De Martin will bring significant experience to advancing artificial intelligence (AI), robotics, and mixed reality technologies supporting the Company's innovative growing technologies. Mr. De Martin will be creating the Tech team, which will be working on the projects in AI/Automation/Machine learning initiatives and creating the next generation of indoor growing technologies.

Prior to joining CubicFarms, Mr. De Martin spent 10 years at Microsoft working in various roles including General Manager of the Microsoft Vancouver Development Centre, as well as driving innovation as GM of Dynamics Mixed Reality Applications on HoloLens. Mr. De Martin's broad software experience across video games, holographic, and enterprise solutions, coupled with his leadership ability in leading technical innovation teams, will bring a unique perspective to Ag-Tech.

On March 18, 2021, the Company announced the appointment of a Scientific Advisory Board ("SAB") to guide and advise CubicFarms. The SAB is comprised of top experts in the fields of agriculture and technology and is primarily responsible for making recommendations to the Company's senior leadership team regarding R&D priorities.

Inaugural members of the SAB include:

Dr. Lenore Newman (SAB Chair) — Director of the Food and Agriculture Institute at the University of the Fraser Valley (UVF) where she holds a Canada Research Chair in Food Security and Environment. She's an associate professor in the department of geography and the environment at UFV and is a member of the Royal Society of Canada's New College. She holds a PhD in Environmental Studies from Toronto's York University and has published over 50 academic journal articles and book chapters.

Dr. Tammara Soma — Dr. Soma MCIP RPP is an Assistant Professor at the School of Resource and Environmental Management (Planning program) at Simon Fraser University and Research Director of the Food Systems Lab. Dr. Soma was selected as a committee member of the U.S. National Academies of Science and co-authored the consensus study *A National Strategy to Reduce Consumer Food Waste.* She is registered professional planner (RPP) and holds a Member of the Canadian Institute of Planners (MCIP) designation.

Dr. Laila Benkrima — Director of LB Plant Biosciences Research and Consulting Inc. at Simon Fraser University. Dr. Benkrima has extensive experience in research, training, and teaching horticulture techniques and as a crop consultant to greenhouse and farming operators. She holds a Ph.D. in Plant Biology and Master of Science Degree in Plant Physiology from the University of Paris, France.

Dr. Evan Fraser — Professor Evan Fraser, PhD, is a full professor at the University of Guelph, the Director of the Arrell Food Institute, a Fellow of the Trudeau Foundation, and a Fellow of the Royal Canadian Geographic Society. Dr. Fraser helps lead the *Food from Thought* initiative, which is a $76.6 million research program based at the University of Guelph exploring how to use big data to reduce agriculture's environmental footprint. He works with large multi-disciplinary teams on developing solutions to help feed the world's growing population. He co-chairs the Arrell Food Summit and manages the Arrell Food Scholarship program, as well as the Arrell Food Innovation Awards that deliver hundreds of thousands of dollars annually to groups that have made tremendous impacts on global food systems.

In addition to these members, the SAB will also include current leadership from CubicFarms including Leo Benne, Founder of CubicFarms; Tim Fernback, Chief Financial Officer, CubicFarms; and Edoardo De Martin, Chief Technology Officer, CubicFarms.

On March 19, 2021, the Company announced that a scientific journal has published a case study involving HydroGreen, that has pioneered innovative technologies to produce live green animal feed. The article, published by Canadian Science Publishing in FACETS, the official journal of the Royal Society of Canada's Academy of Science, finds that HydroGreen's technology has great potential for reducing greenhouse gas emissions in the animal agriculture industry. It 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. This scientific research was developed through a collaboration of academic researchers and industry experts, including: Dr. Newman (Director and Canada Research Chair in Food Security), Dr. Robert Newell (Associate Director), and Charmaine White (Research Associate), who are all members of the prestigious Food and Agriculture Institute at the University of the Fraser Valley; as well as Mathew Dickson, Managing Director of Hallbar Consulting, a sustainability and waste consulting firm; Bill Vanderkooi, President and CEO of Nutriva Group, a strategic consulting firm to the dairy, egg, and beef industry; and Tim Fernback, Chief Financial Officer of CubicFarms.

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

On April 6, 2021, the Company announced an agreement with Burnett, for 12 HydroGreen Grow System beta modules, daily feed production supply, and includes collaboration on a research program and feed analysis with HydroGreen. As part of the agreement, HydroGreen and Burnett will collaborate on the collection of data and research to quantify the livestock feed nutrition benefits, dry matter yield gain, performance of the herd, with special interest in fertility, milk production, and overall wellbeing of the animals. This beta project, called HydroGreen Vertical Pastures™, will include the first installation of the commercial scale HydroGreen GLS808 modules on a large-scale farm. The 12 HydroGreen GLS808 modules, once installed, can produce 80% more fresh livestock feed than HydroGreen's legacy systems, 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's full operational needs.

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

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

On April 23, 2021, the Company announced the sale of 18 modules of the CubicFarm System onsite indoor growing technology at a sale price of US$2,700,000 to BoomA Food Group. BoomA Food Group will use these modules to grow commercial scale amounts of produce in New South Wales, Australia, specializing in herbs and microgreens. This purchase of equipment represents the first commercial sale in Australia.

On April 29, 2021, the Company amended its loan with BDC Capital Inc. The amendment includes cancelling the second $2,500,000 tranche and adjusting the principal instalments to 47 monthly instalments of $25,000 commencing July 15, 2021, with a balloon payment of $1,325,000 payable on June 15, 2025. The variable loan bonus was also replaced with a fixed bonus of $425,000, consisting of $225,000 in cash and $200,000 in common shares. The payment of the fixed bonus will take place as early as possible, and no later than 10 days after the filing of the Company's December 31, 2020 financial statements.

Forward-Looking Guidance

Systems Sales

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

Sales and deposits

The Company currently has a total of 157 modules under contract and deposit. The amount of System sales orders that are pending manufacturing and installation is approximately USD $21 million. The table below shows the projects under contract and deposit:

Project Name	Number of Modules	Value, USD
Surrey	100	$ 12,561,538
Montana	21	$ 2,930,816
Abbotsford	16	$ 2,129,815
Indiana	20	$ 2,969,500
Total	**157**	**$ 20,591,669**

Revenue from System sales is dependent on the transfer of legal title upon the completion of the sales and delivery process – consisting of signing the purchase agreement, customer deposit, manufacture of modules, customer's site preparation, shipping, and installation of the System. Unforeseen delays attributable to the COVID-19 pandemic and the global recovery efforts employed by both individual companies and countries may delay the Company's completion of the module sales and delivery process. Based on the Company's operating plan identified within the MD&A dated November 30, 2020, the Company's results in the October – December 2020 period are in alignment with management's expectations. The Company does not expect to start delivering modules for the Surrey project until 2023. This is due to the expected time for the chosen site to be prepared.

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

During the three months ended December 31, 2020, the Company signed contracts and received deposits for the projects below:

Project Name	Number of Modules	Value, USD
Abbotsford	16	$ 2,129,815
Indiana	20	$ 2,969,500
Total	**36**	**$ 5,099,315**

Ongoing projects progress:

Project Name	Number of Modules	Value, USD	Stage	Completion
Calgary	22	$ 3,154,000	Start-up and training	Feb-21
Armstrong	14	$ 2,381,400	Start-up and training	Mar-21
San Diego	1	$ 143,500	Installation	Feb-21
Total	**37**	**$ 5,678,900**		

Corporate and Operational Highlights for the six months ended December 31, 2020

On July 10, 2020, the Company announced that its automated, controlled-environment system had been selected by a new customer to grow commercial quantities of leafy greens for retail markets in the Okanagan region in British Columbia, Canada. The Company has finalized an agreement for the sale of 16 CubicFarms modules and received a deposit of C$323,000.

On July 15, 2020, the Company announced a non-brokered private placement with Harry DeWit and several company insiders, involving the issuance of 1,659,600 common shares of CubicFarms at a price of C$0.70 per share for gross proceeds of up to C$1,161,720 (the "Offering"). Insiders participating in the Offering include Jeff Booth, Chairman of the Board of Directors; Rodrigo Santana, Chief Operating Officer; and Tim Fernback, Chief Financial Officer. Harry DeWit is CEO and President of Blue Sky Farms, LLC, a Texas and Ohio-based dairy and farming business producing 1.2 million pounds of quality milk per day. He has been lauded as a forward-thinking dairy entrepreneur, having been awarded the International Dairy Foods Association's "Innovative Dairy Farmer of the Year", which recognizes the valuable contributions of progressive dairy producers. His soil conservation efforts were recognized by the USDA's National Resources Conservation Service.

On July 23, 2020, the Company announced that it entered into a Letter of Offer of financing with BDC Capital Inc. ("BDC"), a wholly owned subsidiary of Business Development Bank of Canada. BDC's Cleantech Practice has agreed to provide CubicFarms with growth capital in the amount of C$5,000,000 through a commercial debt financing (the "Loan"). The Loan will bear interest at an annual fixed rate of 10%, which will be decreased as the Company meets performance targets set by BDC. There is a provision for payment of a variable loan bonus based on the Company's consolidated enterprise value at maturity or payment of loan or occurrence of any other events stipulated in the loan agreement. The initial fair value of the embedded derivative liability related to the variable loan bonus was estimated to be $595,712, and as at December 31, 2020, the variable loan bonus had a fair value of $1,002,129. On August 28, 2020, the Company received the first tranche payment of $2,500,000. The loan is to be repaid by June 2025.

On August 4, 2020, the Company announced the appointment of Sandy Gerber as Head of Marketing. As Head of Marketing for CubicFarms, Ms. Gerber is responsible for creating and launching a global marketing strategy that successfully positions CubicFarms in the market and drives lead generation and sales.

On August 7, 2020, the Company announced that Ospraie Ag Science, LLC ("Ospraie") purchased 7,500,000 common shares of the Company pursuant to private share purchase agreements at a purchase price of C$0.70 per common share for total consideration of C$5,250,000 (the "Transaction") from several existing Company shareholders. Before the Transaction, Ospraie held 22,000,630 common shares of CubicFarms, representing approximately 18.9% of the current issued and outstanding common shares on a non-diluted basis. Following the Transaction, Ospraie owns and exercises control and direction over an aggregate of 29,500,630 common shares of CubicFarms, representing approximately 25.4% of the issued and outstanding common shares of CubicFarms on a non-diluted basis.

On August 31, 2020, the Company announced the sale of three control rooms to Terramera Inc., a global ag-tech leader transforming how food is grown and the economics of agriculture. Terramera Inc. is a British Columbia-based company on a mission to reduce global synthetic pesticide use by 80 percent by 2030 with its revolutionary Actigate™ technology platform and was named a 2020 World-Changing Idea by Fast Company.

On September 2, 2020, the Company announced that a six-section HydroGreen automated system for growing nutritious livestock feed, left its manufacturing facility in South Dakota, USA, and was shipped to GrassGo Co., Ltd. ("GrassGo") in Tokyo, Japan. In May, GrassGo purchased the system and became an authorized HydroGreen dealer/distributor for the Japan market. GrassGo will use this system to demonstrate its unique, patent-pending technology to potential customers eager to have reliable, consistent, and high-quality supply of feed for their herds.

On September 9, 2020, the Company announced that it signed a global reseller agreement with Hydrogreen Global, LLC ("HGG"). HGG has the non-exclusive right to globally market and sell CubicFarms' HydroGreen fully automated hydroponic growing systems that produce live, green, nutritious feed for livestock. Kevin Fiske has been appointed the Chief Executive Officer of HGG. Mr. Fiske currently serves as President of Fiske Electric, an established electrical contractor specializing in large commercial and agricultural projects for over 35 years. Fiske Electric has completed the design and build of multiple dairies ranging in size from 700 to 6,000 cows. This global reseller agreement replaced CubicFarms' relationship with Artex Feed Solutions, first announced in the Company's press release dated December 11, 2019. Artex Feed Solutions was dissolved on November 16, 2020.

On September 17, 2020, the Company announced that it appointed Mr. Chris Papouras to the Board of Directors. Mr. Papouras currently serves as strategic advisor at leading ag-tech investor Ospraie. He has a special focus on manufacturing best practices in the controlled-environment agriculture (CEA) space.

On October 5, 2020, the Company announced the sale of its automated, controlled-environment system to Agragene Inc. ("Agragene"), a San Diego, US-based ag-tech company developing novel biological pest protection for crops, utilizing live sterile male insects as a form of insect pest control. This sale marks a new vertical for CubicFarms' fresh produce system, which will now be used by Agragene to grow insects predictably in an indoor, controlled environment. The Company finalized an agreement for the sale of one CubicFarms growing modules and received a deposit from Agragene of US$72K. Agragene plans to trial the breeding of its proprietary insect lines to produce only sterile male crop pests inside the module. The sterile males are then released into the field where they effectively and safely control the wild pest population. Upon satisfactory completion of the trial, Agragene plans to scale up its insect factory with multiple CubicFarms modules.

On October 8, 2020, the Company announced the appointment of Dan Schmidt as Senior Vice President of Global Sales. In Mr. Schmidt's new role, he is responsible for growing and leading the Company's global sales strategy as it enters its next phase of rapid growth.

On November 23, 2020, the Company announced sale of commercial scale system to Aright Greentech Canada Ltd. ("Aright"), a British Columbia based agriculture investor-operator, to grow commercial quantities of fresh produce for retail markets in the Abbotsford and Chilliwack regions in British Columbia, Canada. Aright is an international company with interests in environmentally focused companies in India and other countries, and this B.C. launch is a soft pilot project for potential future international roll-out. The Company's commercial agreement with Aright for the sale of 16 CubicFarms modules includes 14 growing modules, two propagation modules and an irrigation system, representing a total of approximately C$2.8 million (including installation and shipping) in sales revenue to the Company. The system is expected to be installed in Abbotsford by August 2021.

On November 25, 2020, the Company announced sale of commercial scale system to Vertical Acres Farm LLC ("Vertical Acres"), an Indiana based produce company, to grow commercial quantities of fresh produce for the region. The Company's commercial agreement with Vertical Acres is for the sale of 21 CubicFarms modules, including 17 cultivators, three propagators, and one fertigator, for a complete CubicFarm installation. The agreement, which includes a deposit received from Vertical Acres, represents approximately C$3.8 million in anticipated revenue to the Company. The technology is expected to be installed in Indiana in the first half of 2021.

On December 14, 2020, the Company announced the sale of commercial scale systems in Metropolitan Vancouver to 1241876 B.C. Ltd., doing business as FutureLife Produce ("FutureLife"). The sale of 10 CubicFarms modules represents approximately C$1.7 million in sales revenue to the Company. FutureLife is constructing CubicFarms' largest vertical farming system installation to date with a 100-module project currently planned to operate in Surrey, B.C., and wishes to install an additional 10 modules at a strategic location in in order to service the local food services market directly and seamlessly.

On December 15, 2020, the Company announced that it entered into an agreement with Raymond James Ltd. as lead underwriter and sole bookrunner, on behalf of a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a "bought deal" basis, 11,111,111 common shares (the "Common Shares") in the capital of the Company at a price of C$0.90 per Common Share (the "Issue Price") for aggregate gross proceeds to the Company of approximately C$10,000,000 (the "Offering"). The Company agreed to grant the Underwriters an over-allotment option to purchase up to an additional 15% of the Common Shares issued under the Offering at the Issue Price, exercisable in whole or in part at any time for a period ending 30 days from the closing of the Offering. In addition, CubicFarms entered into a subscription agreement with existing shareholder Harry DeWit, CEO and President of BlueSky Farms, LLC ("BlueSky Farms"), a Texas and Ohio-based dairy and farming business, pursuant to which BlueSky Farms will purchase common shares on a private placement basis at the Issue Price for gross proceeds to CubicFarms of up to C$5,000,000 (the "Concurrent Private Placement"). The net proceeds from the Offering and Concurrent Private Placement will be used to support CubicFarms' continued global growth, R&D efforts to optimize module yields, automation, and functionality, expand addressable crop varieties and for working capital and other general corporate purposes.

On December 16, 2020, the Company announced that the Company held its Annual General Meeting of shareholders virtually on December 16, 2020. Voting results can be seen on the Company website or press-release.

On December 21, 2020, the Company announced the closing of its equity financing consisting of the Offering, and Concurrent Private Placement. Pursuant to the Offering, the Company issued a total of 12,777,777 Common Shares at a price of C$0.90 per Common Share for gross proceeds to the Company of C$11,499,999, which includes the exercise, in full, by the Underwriters of the over-allotment option granted by the Company to purchase an additional 1,666,666 Common Shares at a price of C$0.90 per Common Share. In addition, CubicFarms closed the previously announced Concurrent Private Placement with existing shareholder Harry DeWit, CEO and President of BlueSky Farms, pursuant to which Blue Sky Farms purchased 5,222,300 Common Shares at a price of C$0.90 per Common Share for gross proceeds to CubicFarms of C$4,700,070.

Acquisition of HydroGreen

In January 2020, CubicFarms completed the acquisition of HydroGreen, Inc., a private company headquartered in South Dakota. The Acquisition was completed by way of a reverse triangular merger of CubicFeed Systems U.S. Corp., a wholly owned subsidiary of the Company, and HydroGreen, resulting in HydroGreen being renamed "CubicFeed Systems U.S. Corp" and becoming an indirect and wholly owned subsidiary of the Company. The new CubicFarms subsidiary will operate the existing business of HydroGreen moving forward. Subsequently, the Company renamed this subsidiary HydroGreen, Inc. on June 4, 2020 to align both the company name and product name more closely.

Under the terms of the merger agreement, holders of HydroGreen shares ("HydroGreen Shareholders") received 10,000,000 common shares of CubicFarms on the closing date, with up to 1,000,000 shares to be issued on the six-month anniversary of closing, subject to any set-off relating to indemnification (the "Consideration Shares"). The acquisition did not result in any of the shareholders of HydroGreen holding more than 5% of the common shares of the Company. On September 1, 2020, the Company issued 926,845 common shares in satisfaction of its remaining obligation to the HydroGreen Shareholders for Consideration Shares.

In connection with the closing, principals of HydroGreen holding in excess of 80% of the Consideration Shares entered into a pooling agreement with respect to their Consideration Shares. Under the terms of the pooling agreement, 25% of their Consideration Shares were released on the closing of the acquisition and an additional 25% will be released on each of the dates which are 6 months, 12 months and 18 months following closing of the acquisition. Details of the purchase price allocation are disclosed in Note 6 of the Company's audited financial statements ending December 31, 2020.

Joint Venture with Artex Feed Solutions

CubicFarms acquired a 25% investment in Artex Feed Solutions Ltd., a company incorporated on November 8, 2019. On January 17, 2020, the Company increased its ownership in Artex Feed to 50%. On September 9, 2020, the Company announced that a new non-exclusive global reseller, Hydrogreen Global LLC, a Colorado-based company owned by Total Dairy Solutions Inc., will replace Artex Feed Solutions Ltd. On November 16, 2020 Artex Feed Solutions Ltd. was dissolved.

Joint Venture with Pacific Maple Enterprise Group Ltd. and Canada High-Tech Investment Group Co. Ltd.

The Company, Pacific Maple Enterprise Group Ltd. ("PME") and Canada High-Tech Investment Group Co. Ltd. ("CHTI") have set up a "joint venture" company, 1241876 B.C. Ltd. ("1241"), for the purpose of carrying out a number of transactions, including the purchase by 1241 of 100 modules from the Company for a proposed real estate development site located in Surrey, British Columbia.

CubicFarms subscribed for 200,000 common shares in the capital of the 1241 company, representing 20% of the total issued and outstanding common shares, at the subscription price of $0.0001 per share, for the aggregated purchase price of $20.00. For context, PME and CHTI have subscribed for and are the legal and beneficial holders of 700,000 and 100,000 common shares in the capital of the 1241, respectively, representing 70% and 10% of the total issued and outstanding common shares of 1241.

Incorporation of CubicFarm Systems (Shanghai) Corp.

The Company incorporated a wholly owned subsidiary in China's Shanghai Free Trade zone, "CubicFarm Systems (Shanghai) Corp." on December 10, 2020, to represent the Company's interests in the Asia-Pacific region. The main role of this subsidiary will be to have a direct relationship with the Company's vendors in China, to conduct quality control of the manufacture of the Company's product; and negotiate vendor pricing by selecting reliable vendors with supreme parts quality and prices, as well as facilitate the China supply chain and improve logistics capability to further improve product profitability. The other major role of the established entity is to explore new business opportunities for the CubicFarm equipment and technology in China. Jerry Li has joined the Company to lead CubicFarm Systems (Shanghai) Corp. as the subsidiary President. Jerry Li is a long-time partner to CubicFarm Systems with well-established business connections in China.

FRESH DIVISION

CubicFarms growing modules can grow a wide variety of fresh produce. Each new crop that is optimized presents an opportunity for a new sales market. To facilitate research and development for new markets, the Company is ramping up cultivation and research and development activities at the Pitt Meadows facility. This will allow the Company to actively pursue new markets and business lines in the nutraceutical and cosmeceutical space, in addition to its current markets for vegetables, herbs, microgreen and germinating plants. Additionally, growing styles that accommodate different methods of automation and harvesting are also being tested.

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

FEED DIVISION

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

Over the last six months, HydroGreen has been focused on designing and developing the larger, commercial-scale, eight-section by eight-row module, as well as growing its team to execute its growth plans. The HydroGreen team has grown from seven employees when it was acquired by the Company, to 22 employees and full-time contractors as of December 31, 2020. HydroGreen also developed a 12,000 square foot Innovation Center that contains three grow systems and will be used for R&D, product testing, customer visits, partner training, and feed trials.

The original HydroGreen system consists of a six-section by six-row module that can produce approximately 3,200 lbs of feed per day. This is the smallest system available for sale and is best suited for herds of up to 100. According to the most recent census from the U.S. Department of Agriculture, there are 11,018 farms with over 1,000 cattle in the U.S., with 35,828,074 total cattle. The Company recognized the opportunity to sell into the large-scale commercial market and developed a system consisting of 6 eight-section by eight-row modules that can produce approximately 35,000 lbs of feed per day and is best suited for herds of over 1,000. The system was designed in 2020 and assembled and tested at the Innovation Center in 2021. The modular design of both HydroGreen Systems allows farmers to combine multiple systems to feed hundreds or thousands of livestock.

As discussed earlier, FACETS, the official journal of the Royal Society of Canada's Academy of Science, published a case study involving HydroGreen, that found the technology has great potential for reducing greenhouse gas emissions in the animal agriculture industry. The journal article explores the potential for hydroponic fodder production for contributing to climate mitigation in fodder agriculture. Results of the case study indicate that incorporating hydroponic systems into barley production has the potential to reduce greenhouse gas emissions.

Selected Annual Information

The following table sets out selected annual financial information of the Company and is derived from the Company's audited consolidated financial statements for the six months ended December 31, 2020, representing the transition year, and twelve months ended June 30, 2020, 2019 and 2018, prepared in accordance with IFRS.

	Six months ended December 31, 2020 $	Twelve months ended June 30, 2020 $	Twelve months ended June 30, 2019 $	Twelve months ended June 30, 2018 $
Sales	**624,774**	**5,167,488**	**5,356,031**	**-**
Cost of sales	1,564,021	2,928,981	4,076,833	-
Gross profit	**(939,247)**	**2,238,507**	**1,279,198**	**-**
Operating expenses	8,732,177	11,692,605	7,654,233	1,367,761
Loss before other income (expense)	**(9,671,424)**	**(9,454,098)**	**(6,375,035)**	**(1,367,761)**
Total comprehensive loss for the period	(10,172,063)	(10,110,752)	(7,630,624)	(1,394,896)
Earnings (loss) per share:				
Basic and diluted	(0.08)	(0.11)	(0.11)	(0.02)

	As at December 31, 2020 $	June 30, 2020 $	June 30, 2019 $	June 30, 2018 $
Total assets	34,736,855	21,140,607	18,102,494	4,627,868
Total non-current liabilities	4,474,071	2,974,817	Nil	Nil
Dividends declared	Nil	Nil	Nil	Nil

During 2018 the Company did not record any sales due to being in the early stage of the business, where the focus was on R&D of the first generation of the CubicFarms System. 2018 expenses were mainly salaries and wages, due to an increase in employees, as well as consulting and professional fees as a result of continued expansion of the business.

During 2019 sales increased to $5,356,031 primarily due to the Company recording its first Systems sales totaling $5,201,198, as well as revenue from fresh produce sales from the Pitt Meadows facility totaling $154,833. Gross Margin was 24% due to the first generation of the CubicFarm Systems with higher cost. Operating and SG&A expenses increased by $6,286,472 to $7,654,233, which were predominantly R&D expenses totaling $2,458,234 due to further Systems development and moving to the manufacturing stage; as well as salaries and wages, and consulting and professional fees totaling $2,883,090 due to the company's rapid expansion.

During the twelve months ended June 30, 2020, sales decreased slightly to $5,167,488 compared to 2019. The Company recorded initial revenue from a project in Calgary of 22 grow systems, plus sales of six control rooms. The Company also recorded the first HydroGreen 6'x6' system sale to a customer in Japan. Gross margin was 43%, due to improvements in the manufacturing process, as well as higher volume of high margin consumable sales. Operating and SG&A expense growth was driven mainly by continued efforts by the Company to expand the Operations team and by creating a dedicated Customer Experience team to support the continually growing customer base. Thus, salaries and benefits, and consulting and professional fees increased during 2020 to $7,002,284.

During the six months ended December 31, 2020, the Company recorded $624,774 in revenue, influenced by shipping income and one irrigation system for the Calgary project, as well as one HydroGreen system sale. The Company made the decision to upgrade existing customer equipment to the newest version, which resulted in cost of sales exceeding revenue. Operating expenses increased due to continued expansion of the Company. Salaries and benefits, and consulting and professional fees totaled $5,477,251 due to the expansion of the Sales and Marketing team to support revenue growth, and the Installation team to support upcoming installations of several projects, such as: Calgary, Alberta, Armstrong, British Columbia, and Rensselaer, Indiana. They HydroGreen team more than doubled in size since the acquisition date, in order to support the anticipated demand for livestock feed systems around the globe.

Discussion of Operations

Three months ended December 31, 2020 and 2019, and six months ended December 31, 2020 and 2019.

Revenue

Fresh Division	2020	2019	Change	%
Three months ended	$ 93,396	$ 320,140	$ (226,744)	-71%
Six months ended	$ 486,678	$ 560,841	$ (74,163)	-13%

Feed Division	2020	2019	Change	%
Three months ended	$ 130,853	$ -	$ 130,853	n.a.
Six months ended	$ 138,096	$ -	$ 138,096	n.a.

Total	2020	2019	Change	%
Three months ended	$ 224,249	$ 320,140	$ (95,891)	-30%
Six months ended	$ 624,774	$ 560,841	$ 63,933	11%

The Company is still in its early stages of operations which has resulted in fluctuating sales on a quarter-by-quarter basis. In addition, the Company has recently acquired HydroGreen, Inc. and is in the process of expanding its product portfolio and integrating its systems, operations and sales staff into the Company which has had an impact on revenues from this subsidiary. As such, the Company expects financial results to fluctuate from period to period in the near term. The Company has three main sources of revenue - revenue from sales of Systems, revenue from services, and revenue from consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates, and services include customer support subscriptions and consulting. As the Company matures, management expects to receive a larger percentage of overall sales as recurring revenue. Sales in the six months ended December 31, 2020 included Systems and accessories of $477,084, services of $26,766, and consumables of $120,924.

Gross margin

	2020	2019	Change	%
Three months ended	$ (1,247,369)	$ 113,198	$ (1,360,567)	-1202%
Six months ended	$ (939,247)	$ 233,198	$ (1,172,445)	-503%

Overall Gross profit for the six months ended December 31, 2020 was negative due to the increased cost to upgrade existing customer systems to the newest version of the equipment available. The Company made this decision to ensure its customers achieve the highest possible productivity and efficiency from its systems. In the prior year, a non-refundable customer deposit was written off, resulting in revenue with no associated cost of sales, thereby increasing gross profit.

General administrative expenses

	2020	2019	Change	%
Three months ended	$ 2,716,669	$ 1,604,165	$ 1,112,504	69%
Six months ended	$ 5,630,856	$ 3,216,366	$ 2,414,490	75%

Selling expenses

	2020	2019	Change	%
Three months ended	$ 628,824	$ 126,884	$ 501,940	396%
Six months ended	$ 745,390	$ 218,731	$ 526,659	241%

Research and development

	2020	2019	Change	%
Three months ended	$ 1,688,536	$ 421,192	$ 1,267,344	301%
Six months ended	$ 2,355,931	$ 792,012	$ 1,563,919	197%

The Company changed its presentation of expenses in the six months ended December 31, 2020. Expenses are now classified by function, whereas the comparative expenses are classified by a combination of nature and function. Total operating expenses increased during both the three months and the six months ended December 31, 2020, compared to the same periods in the prior year. This is in line with the Company's continued expansion of its business and staffing additions. Research and development expenses were for the continued automation of the Fresh and Feed growing systems, as well as research and development associated with growing new crops and animal feed in the equipment.

Total comprehensive loss

	2020	2019	Change	%
Three months ended	$ (6,384,518)	$ (1,989,433)	$ (4,395,085)	221%
Six months ended	$ (10,172,063)	$ (4,267,196)	$ (5,904,867)	138%

The Company's net comprehensive loss in the six months ended December 31, 2020, reflect the Company's continued expansion of its business and staffing additions that management believes are necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. Net comprehensive loss also includes $595,964 in other income consisting of government grants and loan forgiveness. The Company also had $367,977 in unrealized loss on the change in fair value of the earnout payable, and $406,416 in unrealized loss on the change in fair value of the derivative liability.

Use of Proceeds

The following table outlines the use of proceeds from the Company's financing activities as of December 31, 2020:

Month	Amount	Use of Proceeds	Expected	%	Actual	%
July 2020	$1,161,450	R&D and working capital	$1,161,450	100%	$1,161,450	100%
August 2020	$2,458,204	R&D and working capital	$2,458,204	100%	$2,458,204	100%
December 2020	$15,475,595	Sales and marketing	$5,700,000	37.7%	Funds not yet used	0%
		R&D	$5,225,000	34.6%	Funds not yet used	0%
		Working capital and general corporate purposes	$4,194,068	27.7%	Funds not yet used	0%

Summary of Quarterly Results

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

		July – December 2020	
Period	Revenues	Total comprehensive income (loss) for the period	Basic and fully diluted income (loss) per share
		$	$
Jul-Sep	400,525	(3,787,545)	(0.03)
Oct-Dec	224,249	(6,384,518)	(0.05)
YTD	**624,774**	**(10,172,063)**	**(0.08)**

		July 2019 – June 2020	
Period	Revenues	Total comprehensive income (loss) for the period	Basic and fully diluted income (loss) per share
		$	$
Jul-Sep	240,701	(2,277,762)	(0.03)
Oct-Dec	671,076	(1,989,441)	(0.02)
Jan-Mar	192,689	(3,459,496)	(0.04)
Apr-Jun	4,063,022	(2,384,053)	(0.02)
YTD	**5,167,488**	**(10,110,752)**	**(0.11)**

		January – June 2019	
Period	Revenues	Total comprehensive income (loss) for the period	Basic and fully diluted income (loss) per share
		$	$
Jan-Mar	1,461,226	(1,669,591)	(0.02)
Apr-Jun	24,110	(3,153,026)	(0.04)
YTD	**1,485,336**	**(4,822,617)**	**(0.06)**

There is no established seasonality trend at this stage of the Company's development. Revenue is recorded based on the achieved revenue recognition milestones, which are transfer of title, shipping to a client site, installation, and training. There are two quarters with significantly higher revenue, where the Company recorded revenue from transfer of title for the Calgary project (June 2020) and the Swiss Leaf Farm project (March 2019).

The Company does not recognize revenue until customers have either accepted ownership or the Company has delivered and fully installed CubicFarms modules at customer sites. There are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, as well as weather and transportation delays. As such, the Company expects it would need to complete an additional year of sales and installation activities in order to achieve smoother and more predictable sales cycles.

During the three months ended June 30, 2020 the Company recorded sales of 22 systems to the Calgary project, which resulted in the highest quarterly revenue recorded of $4,063,022 and Gross Margin of 40%. The total comprehensive loss of $2,384,053 in the three months ended June 30, 2020 was due to continued efforts to expand of operations both in Canada and U.S.A. by increasing staff on the Customer Experience, Production, and Installation teams to support growing customers' base and installations.

During the three months ended September 30, 2020 the Company recorded revenue of shipping income and an irrigation system sold to a Calgary client, plus the first revenue from consulting services of approximately $27,000 under Cubic Gardens, created to provide support for existing and potential clients. The total comprehensive loss of $4,253,303 during the three months period was mainly due to continued expansion of the Sales and Marketing team; as well as the Operations team and HydroGreen, which has more than doubled in size since the date of acquisition in order to support the Feed system redesign, which will enable the Company to target large farms with more than 1000 cattle.

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

Liquidity and Capital Resources

Working capital increased from $6,334,754 as at June 30, 2020 to $15,244,610 as at December 31, 2020. The increase in working capital is primarily due to an increase in cash through the recent equity financing. The Company's objective when managing its working capital and capital resources is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company manages its working capital by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Operating Activities

Cash outflows from operating activities for the six months ended December 31, 2020 were $5,639,993 compared to $10,587,689 for the twelve months ended June 30, 2020. During the six months ended December 31, 2020 the Company collected $3,101,804 in customer deposits. This is offset by an increase in inventory of $2,164,297.

Investing Activities

Cash from investing activities decreased from an outflow of $1,102,243 during the twelve months ended June 30, 2020 to an outflow of $482,513 for the six months ended December 31, 2020. The increase in cash inflows from investing activities is primarily due to a reduction in capital expenditures and loans to associates.

Financing Activities

Cash inflows from financing activities increased to $18,732,997 during the six months ended December 31, 2020 as compared to $5,368,721 during the twelve months ended June 30, 2020. The increase in cash flows from financing is primarily due to the equity financing of $16,637,045 and debt financing of $2,339,517.

Capital Management

The Company's source of funding to date has been from equity and debt financing, as well as the sales of modules, consumables, and produce. Management expects that the Company's existing cash and cash equivalents balance will be adequate to meet the Company's expansion of facilities and operational activities for the next six months. However, the Company may seek additional financing through issuance of equity or debt to support further expansion and research and development activities.

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

Rent is paid to Bevo Farms Ltd. for the Pitt Meadows farm, where the Company's Research and Development facility is located, and for storage of inventory containers at Bevo Farms in Langley, BC, as well as associated offices expenses (Refer to Note 20 in the Company's Financial Statements dated December 31, 2020):

	Six months Ended December 31, 2020 $	Twelve months Ended June 30, 2020 $
Rent	36,561	10,000
Office expenses	37,570	-
Total	**74,132**	**10,000**

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:

	Six months Ended December 31, 2020 $	Twelve months Ended June 30, 2020 $
Wages and salaries	472,500	953,287
Consulting fees	508,694	401,977
Share-based compensation	445,154	851,982
Total	**1,426,348**	**2,207,246**

Following balances are related to Related Parties:

	As at December 31, 2020	As at June 30, 2020
Accounts Receivable	**8,001**	**-**
Accounts Payable	**23,394**	**11,475**

Outstanding Share Data

As at the date of this MD&A, the Company had 139,479,491 outstanding common shares. The Company also had 29,645,767 share purchase options outstanding at weighted average exercise price of $0.46.

Shares outstanding as of December 31, 2020:

Class	Par Value	Number Authorized	December 31, 2020 Number Issued	June 30, 2020 Number Issued	June 30, 2019 Number Issued	June 30, 2018 Number Issued
Common Shares	No par value	Unlimited	137,704,536	116,315,015	84,179,714	60,130,186
Preferred Shares (1)	No par value	Unlimited	-	-	-	4,266,868
			137,704,536	**116,315,015**	**84,179,714**	**64,370,054**

(1) Converted to common shares upon listing of the Company's shares on the TSXV.

Summary of options outstanding as of December 31, 2020:

Grant date - Expiry date	Options Outstanding (#)	Contractual life of options years	Exercise price $	Options Exercisable (#)
May 3, 2017-April 1, 2027	14,130,096	10	0.19	5,434,624
November 1, 2017 - January 30, 2023	2,474,670	5	0.19	1,359,400
March 20, 2018 - March 30, 2023	268,334	5	0.19	199,334
July 15, 2018 – July 15, 2023	7,238,000	5	0.83	1,805,400
June 18, 2019 – December 15, 2023	605,000	5	1	385,000
September 03, 2019- September 02, 2024	10,000	5	0.68	2,000
November 30, 2019-December 30, 2024	50,000	5	1	50,000
December 02, 2019-Decembe 01, 2024	10,000	5	0.39	3,333
June 17, 2020 -June 18, 2025	3,620,000	5	0.63	1,206,667
November 18, 2020 – February 16, 2023	50,000	2	0.78	-
Total share purchase options	**28,456,100**			**10,445,758**

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed. The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

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 earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at December 31, 2020, the discount rate was estimated to be 17% (June 30, 2020 – 24%). If the discount rate decreased by 5%, the estimated fair value of the earnout payable would increase by approximately $70,018 (June 30, 2020 - $120,710). If the discount rate increased by 5%, the estimated fair value of the earnout payable would decrease by approximately $64,502 (June 30, 2020 - $101,902).

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

The derivative liability is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. As at December 31, 2020, the discount rate was estimated to be 47% (June 30, 2020 - Nil). If 2024 EBITDA changed by 25%, the estimated fair value of the derivative liability would increase or decrease by approximately $191,219 (June 30, 2020 - $Nil). If discount rates decreased by 5%, the estimated fair value of the derivative liability would increase by approximately $167,232. If discount rates increased by 5%, the estimated fair value of the derivative liability would decrease by approximately $138,870 (June 30, 2020 - $Nil).

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

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

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

The continuity for Earn out payable is as follows:

	December 31 2020	June 30 2020
	$	**$**
Opening balance	1,364,756	-
Fair Value on acquisition of Hydrogreen Inc.	-	1,397,473
Foreign exchange	(89,700)	68,827
Fair Value change during the year	367,977	(101,544)
Ending balance	**1,643,033**	**1,364,756**

The continuity for Derivative liability is as follows:

	December 31, 2020	June 30, 2020
	$	**$**
Opening Balance	-	-
Derivative liability – Initial recognition (July 20, 2020)	595,712	-
Change in fair value of derivative liability	406,416	- -
Ending Balance	1,002,128	-

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 31, 2020, the primary risks were as follows:

Credit risk

Credit risk is the potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its Cash and cash equivalents, and Trade and other receivables. The risk exposure is limited to their carrying amounts reflected on the statement of financial position. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated financial institutions.

Trade and other receivables primarily consist of trade accounts receivable and sales tax receivable. To mitigate credit risk, the Company requires deposits from customers, normally consisting of 10% upon signing of the contract, 40% 90 days prior to shipping, another 40% 30 days prior to shipping, and 10% upon successful set up on site, within 30 days of completion. Credit risk is generally limited for receivables from government bodies, which generally have a low default risk. As at December 31, 2020, one customer accounted for 29% of the trade accounts receivable, which the Company believes to be collectible. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible Trade and other receivables.

Interest rate risk

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

Liquidity risk

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

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

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

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As of December 31, 2020, the following items are denominated in US dollars:

	December 31, 2020	June 30, 2020
	$	$
Cash	3,616,464	93,424
Trade and other receivables	1,251,269	1,446,332
Trade and other payables	(432,742)	(313,060)
Customer deposits	(524,941)	(243,883)
Earn out payable	(1,290,475)	(1,001,457)
Loans payable	(58,622)	(165,194
Net exposure	**2,560,954**	**(183,838)**

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

A 10% increase in the US dollar exchange rate would decrease the Company's net loss by approximately $256,000. A 10% decrease in the exchange rate would increase net loss by the same amount.

COVID-19 Disclosure

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of December 31, 2020, the Company has not observed any material impairments of our 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 affect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

Additional Information & Approval

Additional information relating to the Company is on SEDAR at www.sedar.com.
The Board has approved the disclosure contained in this MD&A as of April 30, 2021.