CubicFarm Systems Corp.

Consolidated Financial Statements

For the years ended December 31, 2023, and 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of CubicFarm Systems Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated statements of CubicFarm Systems Corp. and its subsidiaries (the "Company") which comprise the consolidated statement of financial position as at December 31, 2023, the consolidated statement of loss and comprehensive loss, the consolidated statement of changes in shareholders' deficiency, and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International accounting Standards Board (IASB).

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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 the Company continues to experience net losses and negative cash flows from operations.

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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Valuation of the inventory

Description of the matter

The valuation of inventory is a significant area of our audit due to the material nature of the inventory balance to the financial statements and the judgment required by management in estimating the net realizable value of inventory. The Company's inventory is subject to price volatility, obsolescence risk, and changes in customer demand, which could affect its valuation. Management applies significant judgment in determining the appropriate provisions for slow-moving and obsolete inventory, which could have a material impact on the financial statements.

Why the matter is a key audit matter

Inventory is a significant balance on the Company's balance sheet, and its valuation directly impacts the cost of goods sold and overall profitability. Any misstatement in inventory valuation could result in material misstatements in the financial statements.

How the matter was addressed in the audit

Our audit procedures in relation to the valuation of inventory included, but were not limited to, the following:

- Evaluated the appropriateness of the accounting policies applied by management in valuing inventory, including the methods used to assess net realizable value.
- Attended physical inventory counts to observe the condition of inventory and any potential slowing moving or obsolete inventories identified during the inventory count were further investigated.
- Performed price testing on a sample of inventory items to verify the accuracy of the cost recorded in the financial statements. This included comparing the recorded cost to supplier invoices close to or subsequent to year end.
- To assessed whether there were any slow-moving inventories, we have:
    - compared future sales forecasts to sales contracts signed, and
    - compared expected inventory absorption forecast to historical absorption patterns and inventory turnover ratio.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the consolidated 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 consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant

Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

In preparing the consolidated 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.

Auditor's Responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the consolidated 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 auditor's report to the related disclosures in the consolidated 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 auditor's 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ying Xu, CPA, CA.

MSLL CPA LLP

Chartered Professional Accountants

Vancouver, Canada

September 26, 2024

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CubicFarm Systems Corp.
Consolidated Statements of Financial Position

(Amounts expressed in Canadian dollars)

	Notes	December 31, 2023	December 31, 2022
		$	$
Assets			
Current			
Cash		176,756	2,944,924
Trade and other receivables	8,18	930,064	1,986,579
Inventory	9	8,881,127	13,310,727
Prepaid expenses and deposits	10	1,104,900	2,575,580
		11,092,847	**20,817,810**
Non-current			
Prepaid expenses and deposits	10	1,289	9,367
Property, plant and equipment	11	15,631	1,006,044
Investment in associates		20	20
Right-of-use assets	12	2,447,776	1,944,643
		2,464,716	**2,960,074**
Total assets		**13,557,563**	**23,777,884**
Liabilities			
Current			
Trade and other payables	13,18	7,719,591	7,514,621
Earn-out payable	24	397,494	1,386,396
Customer deposits	14	10,943,162	10,931,330
Lease liability	12	771,029	709,228
Loans and borrowings	15	14,604,995	2,081,125
Warranty provision	16	141,078	123,784
		34,577,349	**22,746,484**
Non-current			
Lease liability	12	2,785,962	2,249,940
Restoration provision	12	110,009	123,032
Loans and borrowings	15	62,976	8,626,506
		2,958,947	**10,999,478**
Total liabilities		**37,536,296**	**33,745,962**
Shareholders' equity (deficit)			
Share capital	19	101,353,686	99,045,198
Equity reserves	19	10,582,594	10,269,041
Accumulated other comprehensive income/(loss)		459,714	640,691
Deficit		(136,374,727)	(119,923,008)
Total equity (deficit)		**(23,978,733)**	**(9,968,078)**
Total liabilities and shareholders' equity		**13,557,563**	**23,777,884**

Approved on behalf of the Board

(s) Daniel Burns
Director

(s) Michael McCarthy
Director

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

CubicFarm Systems Corp.
Consolidated Statements of Loss and Comprehensive Loss

(Amounts expressed in Canadian dollars)

	Notes	December 31, 2023	December 31, 2022
		For the years ended	
		$	$
Revenue	22		
Systems		4,144,415	2,951,070
Consumables		50,460	583,268
Services		112,305	101,467
		4,307,180	**3,635,805**
Cost of sales	9	(4,152,371)	(10,097,776)
Gross margin		**154,809**	**(6,461,971)**
General and administrative expenses		(7,868,853)	(15,203,156)
Selling expenses		(1,142,864)	(6,022,487)
Research and development		(2,213,222)	(10,420,196)
Loss on impairment	9,11	(3,416,310)	(20,447,236)
		(14,641,249)	**(52,093,075)**
Loss before other income (expense)		**(14,486,440)**	**(58,555,046)**
Loss on debt modification	15	(395,000)	(242,842)
Finance income		9,099	13,201
Finance expense	15	(1,671,799)	(713,844)
Accretion expense	12,15	(1,202,025)	(649,106)
Net finance (expense) income		**(3,259,725)**	**(1,592,591)**
Other income (expense)			
Other income (expense)	21	306,720	7,452
Fair value change for earn-out payments	24	971,293	144,402
Fair value change for share appreciation rights	20	383,785	-
Foreign exchange gain/(loss)		354,015	(544,070)
Loss on disposal of property, plant and equipment		(344,594)	(49,230)
Provision for expected credit loss	8	(376,773)	(574,558)
		1,294,446	**(1,016,004)**
Loss before income taxes		**(16,451,719)**	**(61,163,641)**
Income taxes recovery (expense)		-	793,352
Net loss for the period		**(16,451,719)**	**(60,370,289)**
Other comprehensive income (loss)			
Items that may be reclassified to profit or loss:			
Foreign currency translation income (loss)		(180,977)	824,668
Total comprehensive loss		**(16,632,696)**	**(59,545,621)**
Basic and diluted loss per share		**(0.65)**	**(3.29)**
Weighted average number of shares outstanding*	26	**25,149,788**	**18,354,023**

*Share consolidation 10:1 (Note 26)

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

(Amounts expressed in Canadian dollars)

	Notes	*Number of shares**	*Share capital*	*Equity reserves*	*Accumulated other comprehensive income (loss)*	*Deficit*	*Total equity (deficiency)*
		#	$	$	$	$	$
Balance, December 31, 2021		**178,093,404**	**94,701,922**	**6,125,986**	**(183,977)**	**(59,552,719)**	**41,091,212**
Net loss for the period		-	-	-	-	(60,370,289)	(60,370,289)
Exercise of stock options		253,800	89,596	(41,373)	-	-	48,223
Issuance of shares, net of share issuance costs		28,789,570	4,253,680	-	-	-	4,253,680
Equity component of convertible debenture, net of taxes		-	-	1,029,071	-	-	1,029,071
Warrants issued		-	-	1,617,663	-	-	1,617,663
Foreign currency translation		-	-	-	824,668	-	824,668
Share-based payments		-	-	1,537,694	-	-	1,537,694
Balance, December 31, 2022		**207,136,774**	**99,045,198**	**10,269,041**	**640,691**	**(119,923,008)**	**(9,968,078)**
Net loss for the period		-	-	-	-	(16,451,719)	(16,451,719)
Issuance of shares, net of share issuance costs	19	56,027,000	2,308,488	-	-	-	2,308,488
Equity component of convertible debenture		-	-	-	-	-	-
Warrants issued	19	-	-	94,234	-	-	94,234
Foreign currency translation		-	-	-	(180,977)	-	(180,977)
Share-based payments	20	-	-	219,319	-	-	219,319
Balance, December 31, 2023		**263,163,774**	**101,353,686**	**10,582,594**	**459,714**	**(136,374,727)**	**(23,978,733)**

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

CubicFarm Systems Corp.
Consolidated Statements of Cash Flows

(Amounts expressed in Canadian dollars)

	December 31, 2023	For the years ended December 31, 2022
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(16,451,719)	(60,370,289)
Adjustments for:		
Depreciation and amortization	906,982	1,914,605
Transfer and loss on disposal of property, plant and equipment	344,594	167,829
(Gain) Loss on lease extinguishment	(13,519)	74,678
Loss on debt modification	395,000	242,842
Provision for expected credit loss	376,773	574,558
Foreign exchange (gain) loss	(315,399)	486,667
Finance expense	1,671,799	713,844
Accretion expense	1,202,025	649,106
Other income	310,326	-
Finance income	(9,099)	(13,201)
Loss on impairment	3,416,310	20,447,236
Income tax recovery	-	(793,352)
Change in fair value of earnout payable	(971,293)	(144,402)
Earnout payment	-	(325,104)
Refund of customer deposit through shares	(513,050)	-
Share-based compensation expense	417,653	1,537,694
Change in fair value for share appreciation rights	(383,785)	-
Cash used in operations before changes in non-cash working capital	(9,616,402)	(34,837,289)
Changes in non-cash working capital:		
Trade and other receivables	688,340	(457,029)
Inventories	843,711	(2,096,588)
Prepaid expenses and deposits	1,478,758	844,086
Trade and other payables	67,175	639,343
Customer deposits	805,108	9,058,774
Warranty provision	17,294	(264,544)
Cash used in operating activities	(5,716,016)	(27,113,247)
Interest paid	(797,685)	(906,388)
Interest received	9,099	13,201
Net cash used in operating activities	**(6,504,602)**	**(28,006,434)**
Investing activities		
Additions to property, plant, and equipment	(17,133)	(4,845,242)
Proceeds from sales of property, plant, and equipment	460,587	37,020
Additions to intangible assets	-	(399,753)
Net cash used in investing activities	**443,454**	**(5,207,975)**
Financing activities		
Issuance of shares, net of issuance cost	2,308,488	5,021,140
Exercise of stock options	94,234	48,223
Principal and interest payments on lease	(808,130)	(797,674)
Proceeds from loans and borrowings, net of financing fees	2,430,213	11,794,562
Principal payments on loans	(755,164)	(1,276,548)
Net cash from financing activities	**3,269,641**	**14,789,703**
Decrease in cash and cash equivalents	**(2,791,507)**	**(18,424,706)**
Effect of movements in exchange rates on cash held	23,339	(11,736)
Cash and cash equivalents, beginning of period	2,944,924	21,381,366
Cash and cash equivalents, end of period	**176,756**	**2,944,924**

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

1. Reporting entity

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

The Company listed its common shares on the TSX Venture Exchange ("TSX-V") as a Tier 1 issuer in July 2019. On September 1, 2021, the Company uplisted to the Toronto Stock Exchange ("TSX") and commenced trading under the symbol "CUB". On December 18, 2023, the Company delisted its common shares on the TSX to TSXV and commenced trading on December 19, 2023, under the same symbol.

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

2. Going concern

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

The Company incurred a total comprehensive loss of $16,632,696 for the year ended December 31, 2023 (December 31, 2022 - $59,545,621). Net cash used in operating activities was $6,504,602 for the year ended December 31, 2023 (December 31, 2022 - $28,006,434). As at December 31, 2023, the Company has accumulated deficit of $136,374,727. The Company's current liabilities exceed current assets by $23,484,502 as of December 31, 2023, compared with $1,928,674 as of December 31, 2022.

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

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

3. Basis of presentation

These consolidated financial statements for the years ended December 31, 2023, and 2022, have been prepared in accordance with International Financial Reporting Standard (IFRS). The financial statements are presented in Canadian dollars. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

The Board of Directors approved these consolidated financial statements on September 26, 2024.

Basis of measurement

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

(Expressed in Canadian dollars, unless otherwise stated)

3. Basis of presentation (continued)

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 are as follows:

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

4. Material accounting policy information

Cash

Cash held at financial institutions with maturity of three months or less.

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.

Property, plant, and equipment

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

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

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

Development Costs

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

4. Material accounting policy information (continued)

Impairment of long-lived assets

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

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are considered. 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 an indication exists, the Company estimates the assets or CGUs recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

When a CGU is considered impaired, the Company allocates amounts first to goodwill and then to other assets in the CGU, based on the carrying amount of each asset. If the recoverable amount of an individual asset is determinable, the Company limits the impairment to the recoverable amount of the individual asset.

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

Leases

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

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

4. Material accounting policy information (continued)

Leases *(continued)*

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., 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.

Restoration provision

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

Revenue from contracts with customers

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

- Identify the contract(s) with the customer
- Identify the performance obligations in the contract(s)
- Determine the transaction price
- Allocate the transaction price to the identified performance obligations
- Recognize revenue when the identified performance obligations are satisfied.

The Company has three main sources of revenue:
- Sales of indoor growing system
- Sales of consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates
- Provide services include customer support subscriptions, consulting, and feed as a service.

Revenue generated from indoor growing system consists of the sales of equipment and installation services, which are considered as two separate performance obligations. The Company recognizes revenue from the sale of equipment when it transfers the risks and control to the customer, which generally occurs upon delivery or transfer of title. Revenue generated from installation services is recognized when the related service is provided, and proper completion sign off is obtained from the customer.

The Company recognizes revenue from sales of consumables 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 acknowledged by the customer.

Warranty provision

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

4. Material accounting policy information (continued)

Customer deposits

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

Income tax and deferred tax

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

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

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

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

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

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

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

Foreign exchange

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

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

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

4. Material accounting policy information (continued)

Foreign exchange *(continued)*

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

Share-based compensation ("SBC")

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

SBC expense relating to cash-settled awards, including deferred share units and share appreciation rights ("SARs") which are described in Note 21, is recognized over the vesting period of the units based on the fair market value of the units. SARs are units that grant the holder the right to receive a cash payment upon exercise for the difference between the market price of the Company's common shares and the exercise price that is determined at the date of grant. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the fair value (Note 18 and 20).

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.

4. Material accounting policy information (continued)

***Financial instruments** (continued)*

Financial assets (continued)

(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 in profit or loss.

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

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 contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

Finance and investment income (expense) and interest expense

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

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

4. Material accounting policy information (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

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

Significant estimates, assumptions, and judgments

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

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.

Useful lives and impairment of property, plant and equipment

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

4. **Material accounting policy information** (continued)

Significant estimates, assumptions, and judgments *(continued)*

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) and the Black Scholes 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.

CGU

A CGU is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. The identification of the CGUs requires judgement. The identified CGUs may also change due to changes in an entity's operations and the way it conducts them.

Impairment assessment

At the end of each reporting period or when there is an indicator of impairment, the Company performs an impairment assessment by comparing the carrying amount to the recoverable amount. The recoverable amount is the higher of the value in use and the fair value less cost to sell. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other group of assets. The determination of the value in use and the fair value less cost to sell requires management to apply some judgement and estimates. These include the pre-tax discount rate, the terminal growth rate, the duration of cash flows to be used, the cost to sell and the market value.

Inventory provision

The Company measures inventory at the lower of cost and net realizable value, and in the event cost exceeds net realizable value, an impairment charge is recorded. Reserves for potentially obsolete or slow-moving inventory are estimated periodically based on an analysis of inventory levels and projected demand.

If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions being required.

Warranty provision

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

Provision for expected credit losses

The allowance for expected credit losses 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 historically 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.

4. Material accounting policy information (continued)

Significant estimates, assumptions, and judgments *(continued)*

Share-based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, dividend yield and forfeiture rates and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation transactions are disclosed in Note 20.

5. New accounting standards issued and not yet effective

Below are new standards, amendments to existing standards and interpretations that have been issued and are not yet effective. The Company plans to apply the new standards or interpretations in the annual period for which they are effective.

Non-current liabilities with covenants

In October 2022, the IASB published a narrow scope amendment to IAS 1 Presentation of financial statements. After reconsidering certain aspects of the 2020 amendments, noted above in 'Classification of liabilities as current or non-current', the IASB reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability’s classification at that date. The amendment is effective for annual periods beginning on or after January 1, 2024, and applied retrospectively. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

Leases on sale and leaseback

In September 2022, the IASB published this amendment including requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. The amendment is effective for annual periods beginning on or after January 1, 2024. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

Lack of exchangeability

In August 2023, the IASB published the amendments to IAS 21, whereas an entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations. The amendment is effective for annual periods beginning on or after January 1, 2025. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

6. New accounting standards issued and effective

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

Classification of liabilities as current or non-current

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

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

Deferred tax related to assets and liabilities arising from a single transaction

In May 2021, the IASB published a narrow scope amendment to IAS 12 Income taxes. In September 2021, IAS 12 was revised to reflect this amendment. The amendment narrowed the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences such as deferred taxes on leases and decommissioning obligations. The amendment is effective for annual periods beginning on or after January 1, 2023, and applied retrospectively. There was no material impact on the Company's consolidated financial statements.

Disclosure of accounting policies

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

7. Cyclicality of operations

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

(Expressed in Canadian dollars, unless otherwise stated)

8. Trade and other receivables

	December 31, 2023	December 31, 2022
	$	$
Trade accounts receivable	1,193,384	2,274,591
Less: Provision for expected credit loss	(1,143,842)	(1,144,106)
Goods and services tax receivable	107,800	722,515
Share appreciation rights receivable[1]	249,339	-
Other receivable	523,383	133,579
	930,064	**1,986,579**

[1] Share based compensation (Note 18 & 20)

Aging

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

	December 31, 2023	December 31, 2022
	$	$
Current or under 30 days	16,966	193,269
Past due 31 to 90 days	4,806	41,081
Past due 91 to 360 days	151,432	537,234
Past due more than 360 days	1,020,180	1,503,007
	1,193,384	**2,274,591**

Continuity for provision for expected credit loss on trade accounts receivables

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	1,144,106	568,063
Additions	376,509	1,150,601
Provision for expected credit loss	(376,773)	(574,558)
	1,143,842	**1,144,106**

9. Inventories

	December 31, 2023	December 31, 2022
	$	$
Hydroponic growing systems	3,187,491	8,979,946
Work in progress	5,693,636	4,253,166
Seeds and other supplies	-	56,845
Packaging and other	-	20,770
	8,881,127	**13,310,727**

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. The net realizable value of inventory as of December 31, 2023, and 2022, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the consolidated statements of financial position. For the year ended December 31, 2023, inventory in the value of $4,152,371 has been recognized as cost of sales in the consolidated statement of loss and comprehensive loss (December 31, 2022 - $10,097,776).

(Expressed in Canadian dollars, unless otherwise stated)

9. Inventories (continued)

During the year ended December 31, 2023, the Company recorded a write down in inventory of $3,416,310 (December 31, 2022 - $3,427,517). The write down pertains to the inventory not being returned to the Company as at year end from a stalled project from the previous year that has subsequently been resolved in court (Note 28). Although the inventory has now been returned subsequently, management has determined that it is not in a resaleable condition as at the reporting date.

10. Prepaid expenses and deposits

	December 31, 2023	December 31, 2022
	$	$
Deposits for inventories[2]	912,974	2,169,141
Prepaid expenses and other	193,215	415,806
	1,106,189	**2,584,947**
Current portion	1,104,900	2,575,580
Non-current portion	1,289	9,367

[2] In most instances, the Company is required to pay a deposit for inventories relating to systems and shipped once they are paid in full.

11. Property, plant and equipment

	Production equipment	Vehicle	Leasehold improvements	Furniture and fixtures	Other equipment	Construction In progress	Computer equipment	Total
Cost	$	$	$	$	$	$	$	$
Balance December 31, 2021	2,134,262	78,432	679,448	134,107	2,716,898	4,873,580	656,019	11,272,746
Additions	226,716	-	307,149	138,790	348,168	5,760,055	166,855	6,947,733
Transfer	-	-	-	-	(14,434)	-	-	(14,434)
Transfer to inventory	-	-	-	-	-	(2,780,678)	-	(2,780,678)
Disposal	-	-	(54,765)	-	(92,688)	-	(102,029)	(249,482)
Foreign exchange adjustment	-	2,524	33,719	7,248	37,604	342,318	9,463	432,876
Balance December 31, 2022	2,360,978	80,956	965,551	280,145	2,995,548	8,195,275	730,308	15,608,761
Additions	-	-	-	-	17,133	-	-	17,133
Disposals	(1,761,495)	-	-	(165,522)	(593,092)	-	(334,712)	(2,854,821)
Foreign exchange adjustment	-	(2,721)	-	(2,652)	(16,370)	-	(4,425)	(26,168)
Balance December 31, 2023	599,483	78,235	965,551	111,971	2,403,219	8,195,275	391,171	12,744,905
Accumulated Depreciation	$	$	$	$	$	$	$	$
Balance December 31, 2021	1,027,644	13,421	234,655	42,479	333,797	-	189,189	1,841,185
Depreciation	152,949	14,970	207,122	61,536	276,368	-	181,802	894,747
Disposal	-	-	(34,980)	-	(15,971)	-	(8,116)	(59,067)
Impairment	725,753	43,686	544,006	124,811	1,953,570	8,195,275	308,523	11,895,624
Foreign exchange adjustment	-	847	14,748	3,000	7,759	-	3,874	30,228
Balance December 31, 2022	1,906,346	72,924	965,551	231,826	2,555,523	8,195,275	675,272	14,602,717
Depreciation	150,305	(637)	-	16,183	21,481	-	29,144	216,476
Disposal	(1,457,168)	-	-	(133,385)	(157,416)	-	(315,656)	(2,063,625)
Foreign exchange adjustment	-	(2,879)	-	(2,653)	(16,369)	-	(4,393)	(26,294)
Balance December 31, 2023	599,483	69,408	965,551	111,971	2,403,219	8,195,275	384,367	12,729,274
Net book value	$	$	$	$	$	$	$	$
December 31, 2022	**454,632**	**8,032**	**-**	**48,319**	**440,025**	**-**	**55,036**	**1,006,044**
December 31, 2023	**-**	**8,827**	**-**	**-**	**-**	**-**	**6,804**	**15,631**

As at December 31, 2023, an amount of $nil related to purchase of property, plant and equipment is included under trade and other payables (December 31, 2022 - $2,102,491).

(Expressed in Canadian dollars, unless otherwise stated)

12. Leases

Right-of-use assets

	December 31, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	1,944,643	2,628,770
Amendments	6,153	330,954
Additions	2,070,123	2,015,828
Termination of lease	(863,680)	(1,209,727)
Impairment	-	(1,025,453)
Depreciation	(690,506)	(894,345)
Foreign exchange adjustment	(18,957)	98,616
	2,447,776	**1,944,643**

Lease liabilities

	December 31, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	2,959,168	2,381,690
Amendments	7,862	333,086
Additions	2,070,123	2,015,828
Termination of lease	(886,408)	(1,124,506)
Accretion expense	253,828	191,360
Payments	(808,130)	(989,034)
Foreign exchange adjustment	(39,452)	150,744
	3,556,991	**2,959,168**
Current portion	771,029	709,228
Non-current portion	2,785,962	2,249,940

The Company entered into a lease for a building with an effective interest rate of 10.5% and expires in 2033.

Restoration provision

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

(Expressed in Canadian dollars, unless otherwise stated)

13. Trade and other payables

	December 31, 2023	December 31, 2022
	$	$
Trade payable	6,508,232	5,583,411
Payroll payable	492,882	394,341
Sales and payroll tax payable	47,246	59,808
Accrued expenses	607,344	1,477,061
Share appreciation rights payable[3]	63,887	-
	7,719,591	**7,514,621**

[3] Related party trade payables (Note 19 & 20)

14. Customer deposits

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	10,931,330	2,233,946
Additions	4,484,208	11,350,418
Recognized into revenue	(3,679,099)	(2,809,612)
Refund of deposit	(513,050)	-
Foreign exchange adjustment	(280,227)	156,578
	10,943,162	**10,931,330**

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. A customer may cancel the order prior to shipping of the equipment, subject to certain restocking fees as set in the sales agreement. An order is not cancellable after shipping of the Systems. There are no external restrictions on the use of these deposits. As at December 31, 2023, customer deposits of $7,097,709 were received more than twelve months ago (December 31, 2022 - $2,237,188).

15. Loans and borrowings

Continuity for all loans and borrowings

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	10,707,631	2,156,711
Additions	1,065,251	9,121,936
Accretion expense	947,377	443,014
Interest expense	1,671,415	736,902
Interest paid	(797,685)	(724,996)
Net of principal redraw (payment)	661,251	(1,276,548)
Reversal of loan forgiveness	20,000	-
Loss on debt modification	395,000	242,842
Foreign exchange adjustment	(2,269)	7,770
	14,667,971	**10,707,631**
Current portion	14,604,995	2,081,125
Non-current portion	62,976	8,626,506

(Expressed in Canadian dollars, unless otherwise stated)

15. Loans and borrowings (continued)

Agriculture interest-free loan

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	79,541	74,321
Foreign exchange adjustment	(1,868)	5,220
	77,673	**79,541**
Current portion	77,673	79,541
Non-current portion	-	-

In 2016, the Company received an interest free Value-Added Agriculture Sub Fund Loan in South Dakota, U.S.A. Extension for the loan has been applied and currently awaiting reply. The status of the loan is not under default.

Government relief loan

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	40,000	40,000
Reversal of loan forgiveness	20,000	-
	60,000	**40,000**
Current portion	-	40,000
Non-current portion	60,000	-

The Company received a $60,000 interest-free loan for COVID-19 relief from the Canada Emergency Business Account program. This loan is interest-free until December 31, 2023. After that date, it will accrue interest at a rate of 5% per annum until the loan is fully repaid, starting January 1, 2024. The Company initially intended to repay the $40,000 portion of the loan by the due date but could not meet this deadline due to cash flow issues, resulting in the reversal of the $20,000 loan forgiveness. As a result, interest payments on the full loan will commence on January 1, 2024, with the remaining balance due by December 31, 2025.

Business loan

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	2,128,215	2,009,283
Accretion expense	(16,864)	114,670
Interest expense	249,008	253,524
Interest paid	(125,765)	(242,104)
Principal payment	(744,423)	(250,000)
Loss on debt modification	395,000	242,842
	1,885,171	**2,128,215**
Current portion	1,885,171	1,951,598
Non-current portion	-	176,617

On August 28, 2020, the Company obtained a business loan of $2,500,000. The interest is payable monthly and is currently at a fixed rate of 10%, which is set at a base rate of 4.9% plus a variance of 5.1% per year.

(Expressed in Canadian dollars, unless otherwise stated)

15. Loans and borrowings (continued)

Business loan *(continued)*

In September 2022, the Company modified the loan agreement where the principal payment for October 2022 to January 2024 was modified to $12,500 and the remaining balance is to be paid over 12 equal payments until the revised maturity date of January 15, 2024, and the loan shall bear interest at the rate of 18% per annum.

In June 2023, the Company modified the loan agreement where the principal payments from October 2023 is a lump sum of $1,217,708 and remaining months will be equal payments of $45,956 until the maturity date of January 15, 2024.

In November 2023, the Company re-signed a new loan agreement, deferring the principal payments from January to July 2024. The increase in interest rates has also been deferred and will be paid in full along with the principal at the end of the agreement. In addition, due to the loan extension, the Company agreed to add an Additional Return in the approximate amount of $395,000, being 5% of the market capitalization outstanding under the financing as of the effective date, which was recorded as loss on debt modification in the consolidated statement of loss and comprehensive loss and additionally $35,000 in amendment fees was recorded under finance expense. The Lender may elect, at any time, to convert the amount of the Additional Return into common shares of the Company or request full payment in cash.

As at the reporting date, the loan is in default and new terms of repayment are to be determined.

Vehicle Loan

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	25,482	33,107
Interest expense	1,541	2,265
Interest paid	(1,541)	(2,307)
Principal payment	(10,741)	(10,133)
Foreign exchange adjustment	(401)	2,550
	14,340	**25,482**
Current portion	11,364	9,986
Non-current portion	2,976	15,496

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

(Expressed in Canadian dollars, unless otherwise stated)

15. Loans and borrowings (continued)

Convertible debenture

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	4,226,932	-
Initial recognition, net of transaction costs	-	4,048,157
Accretion expense	363,087	178,247
Interest expense	523,200	302,264
Interest paid	-	(301,736)
	5,113,219	**4,226,932**
Current portion	5,113,219	-
Non-current portion	-	4,226,932

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

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

The fair value of the liability component of the convertible debentures on the date of issuance was assessed to be $4,464,329 based on an estimated market discount rate of 18.7% less the pro-rata portion of transaction costs of $416,172 and will be accreted to the full-face value over the term of the convertible debentures. The liability component will be measured at amortized cost using the effective interest rate method.

The residual value of $2,075,670 was allocated to the equity component less the pro-rata portion of transaction costs of $193,497. Income tax recovery of $560,431 associated with the conversion feature and warrants included in the convertible debenture was recognized, resulting in a net increase of $1,321,742 in equity.

As at December 31, 2023, the Company has accrued interest payable of $523,200 on these convertible debentures (December 31, 2022 - $nil). The convertible loan is in default for the interest accrued and terms of repayment are to be determined.

(Expressed in Canadian dollars, unless otherwise stated)

15. Loans and borrowings (continued)

Senior secured term loan

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	4,207,461	-
Initial recognition, net of transaction costs	-	5,073,779
Accretion expense	601,154	150,097
Interest expense	897,666	178,849
Interest paid	(670,379)	(178,849)
Principal redraw (payment)	1,416,415	(1,016,415)
	6,452,317	**4,207,461**
Current portion	6,452,317	-
Non-current portion	-	4,207,461

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

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

The fair value of the liability component of the loan on the date of issuance was assessed to be $5,537,329 based on an estimated market discount rate of 19.7% less the pro-rata portion of transaction costs of $463,550. The liability component will be measured at amortized cost using the effective interest rate method. The residual value of $862,671 was allocated to the equity component less the pro-rata portion of transaction costs of $72,217. Income tax recovery of $232,921 associated with the warrants included in the loan was recognized, resulting in a net increase of $557,532 in equity. As at December 31, 2023, the senior secured term loan is in default and terms of repayment are to be determined.

Other

In the year ended December 31, 2023, an Officer of the Company loaned the Company $1,065,251. The loan balance represents an unsecured and interest-free borrowings that are due on demand (Note 18).

16. Warranty provision

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	123,784	388,093
Additions	29,558	69,096
Fulfillment	(12,264)	(333,405)
	141,078	**123,784**

(Expressed in Canadian dollars, unless otherwise stated)

17. Total expenses by nature

		For the years ended
	December 31, 2023	**December 31, 2022**
		$
Consulting and professional fees	1,348,648	3,491,045
Depreciation and amortization	906,982	1,914,605
Other expenses	6,166,481	10,118,286
Salary, wages, and benefits	6,082,546	18,593,985
Share based compensation	872,653	1,537,694
Impairment (gain)/loss	-	20,447,236
Impairment on inventory, prepaid expense and deposit	3,416,310	6,088,000
	18,793,620	**62,190,851**

18. Related party transactions

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

Key management compensation

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

		For the years ended
	December 31, 2023	**December 31, 2022**
	$	**$**
Wages and salaries	390,959	1,340,911
Consulting fees	-	840,061
Share-based compensation	737,089	680,573
	1,128,048	**2,861,545**

(Expressed in Canadian dollars, unless otherwise stated)

18. Related party transactions (continued)

Bevo Farms Ltd.

Bevo Farms Ltd. was a related party through the Chief Innovation Officer of the Company, and director of the Company who resigned in November 2022 and hence Bevo Farms is no longer a related party as at December 31, 2022. The following summary of transactions occurred in the year ended:

	For the year ended December 31, 2022
Operating leases	55,062
Lease payments	386,985
Office expenses	44,102

Other related parties

For the year ending December 31, 2023, Mr. John de Jonge and a company wholly owned by him provided a loan of $1,065,251 to the Company, which is listed in Note 15 under Loans and borrowings (December 31, 2022 - $nil). As the Chief Executive Officer and President of Hydrogreen, Mr. Jonge is considered a related party. This balance represents unsecured, interest-free borrowings that are due on demand. The funds are used to support the Company's working capital and operational needs.

SARs were issued to the Board members of the Company and as of December 31, 2023, a net receivable balance of $185,452 (December 31, 2022 - $nil) was recorded in trades and other receivable and payable (Note 8, 14 and 20) due from the cash payments settled was greater than fair value of the vested SARs. The following summary of transactions occurred in the years ended:

	December 31, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	-	-
Initial recognition of share appreciation rights	653,333	-
Payments	(455,000)	-
Fair value change for share appreciation rights	(383,785)	-
	(185,452)	**-**
Trades and other receivable	249,339	-
Trades and other payable	(63,887)	-

(Expressed in Canadian dollars, unless otherwise stated)

19. Share capital

The Company has authorized share capital consisting of:

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

	Common Shares	**Share Capital**
	#	**$**
Balance December 31, 2021	178,093,404	94,701,922
Issuance of shares	28,789,570	4,631,091
Share issuance costs	-	(377,411)
Options and warrants exercised	253,800	48,223
Transfer from equity reserves	-	41,373
Balance December 31, 2022	**207,136,774**	**99,045,198**
Issuance of shares[4]	56,027,000	2,801,349
Share issuance costs[4]	-	(398,627)
Transfer from equity reserves	-	(94,234)
Balance December 31, 2023	**263,163,774**	**101,353,686**

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

20. Share based compensation

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

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

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

(Expressed in Canadian dollars, unless otherwise stated)

20. Share based compensation (continue)

Share purchase options and warrants continuity schedule:

	Options and warrants	Weighted average exercise price
	#	$
Balance December 31, 2021	24,977,042	0.66
Granted	25,546,570	0.78
Exercised	(299,800)	0.19
Forfeited	(11,534,537)	1.01
Balance December 31, 2022	38,689,275	0.70
Granted	10,817,202	0.08
Exercised	-	-
Forfeited	(4,459,069)	0.39
Expired	(6,602,296)	0.51
Balance December 31, 2023	**38,445,112**	**0.19**

Share purchase options outstanding as of December 31, 2023:

Range of Exercise Price	Outstanding	Exercisable	Average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 0.50	5,792,171	1,245,082	5.06	0.09
0.51 - 1.00	1,449,000	1,383,000	3.04	0.76
1.01 - 1.50	760,000	414,998	4.30	1.37
	8,001,171	**3,043,080**		

Share purchase warrants outstanding as of December 31, 2023:

Range of Exercise Price	Outstanding	Exercisable	Weighted average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 0.50	27,827,941	27,827,941	1.47	0.10
0.51 - 1.00	2,616,000	2,616,000	1.42	0.71
	30,443,941	**30,443,941**		

In January 2023, the Company issued SARs to its board members. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at each vesting period date in the year. The SARs were initially recognized as SBC expense of $653,334, and subsequently a gain in change of fair value of $383,785 was recorded for the year ended December 31, 2023, in the consolidated statement of loss and comprehensive loss (December 31, 2022 - $nil).

On January 27, 2023, the Company granted 8,750,278 stock options to employees at exercise price of $0.08 per share. The options vested over 24 months, with one-third immediately, one-third on January 27, 2024, and one-third on January 27, 2025. On February 8, 2023, the Company granted 2,066,924 stock options to an employee at exercise price of $0.65 per share. The options vested over 36 months, with one-third on February 8, 2024, one-third on February 8, 2025, and one-third on February 8, 2026. The fair value of these options has been measured using the Black-Scholes valuation model resulting in fair value of $612,901 and $120,819 respectively.

(Expressed in Canadian dollars, unless otherwise stated)

20. Share based compensation (continue)

On March 17, 2023, the Company closed an overnight marketed public offering consisting of the sale and issuance of 56,027,000 units at a price of $0.05 per units for gross proceeds of $2,801,349, including 10,261,000 units issued to reduce working capital obligations of the Company for $513,050 in payables. In connection with the offering, the Company issued 1,530,810 non-transferable compensation warrants to Canaccord Genuity Corp. and 1,530,810 non-transferable compensation warrants to Raymond James Ltd. Each compensation warrant will be exercisable to acquire one common share of the Company at the price of $0.05 per share. The warrants were valued using the Black-Scholes model resulting in fair value of $94,234. The warrants expires on March 17, 2026.

SARs outstanding and continuity schedule as of December 31, 2023:

	Units	Weighted average exercise price
	#	$
Balance December 31, 2022	-	-
Granted	48,936,170	0.01
Balance December 31, 2023	**48,936,170**	**0.01**

Range of Exercise Price	Outstanding	Exercisable	Weighted average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01	48,936,170	14,330,557	4.67	0.01

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

		For the years ended
	December 31, 2023	December 31, 2022
Share price volatility	112 - 143%	58 - 116%
Expected dividend yield	$nil	$nil
Employees forfeiture rate	78%	27%
Board of Directors forfeiture rate	0%	13%
Risk free interest rate	2.95 - 4.83%	1.41 - 3.14%

The details of SBC expense are as follows:

		For the years ended
	December 31, 2023	December 31, 2022
	$	$
Vendors	-	281,814
Employees and directors	872,653	1,255,880
	872,653	**1,537,694**
General and administrative expenses	872,653	1,142,951
Selling expenses	-	200,775
Research and development	-	193,968
	872,653	**1,537,694**
SARs	653,334	-
Vested options	219,319	1,537,694
	872,653	**1,537,694**

(Expressed in Canadian dollars, unless otherwise stated)

20. Share based compensation (continue)

As at December 31, 2023, there was $112,608 of total unrecognized compensation cost relating to unvested options (December 31, 2022 - $454,437).

21. Other income (expense)

		For the years ended
	December 31, 2023	**December 31, 2022**
	$	**$**
Other income (expense)	5,383	7,452
Rental income from sublease	225,716	-
Recognition of income from government subsidy	95,621	
Reversal loan forgiveness	(20,000)	-
	306,720	**7,452**

22. Operating segments

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

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

For the year ended December 31, 2023	**Fresh**	**Feed**	**Total**
	$	**$**	**$**
Revenue	4,059,856	247,324	4,307,180
Gross margin	220,207	(65,398)	154,809
Impairment loss	-	(3,416,310)	(3,416,310)
Net loss	(8,893,399)	(7,558,320)	(16,451,719)
Total assets	9,870,637	3,686,926	13,557,563
Total liabilities	(27,223,813)	(10,312,483)	(37,536,296)

For the year ended December 31, 2022	**Fresh**	**Feed**	**Total**
	$	**$**	**$**
Revenue	3,331,886	303,939	3,635,825
Gross margin	(6,386,738)	(75,233)	(6,461,971)
Impairment loss	(4,053,527)	(16,393,709)	(20,447,236)
Net loss	(35,592,150)	(24,778,139)	(60,370,289)
Total assets	11,489,839	12,288,045	23,777,884
Total liabilities	(28,011,904)	(5,734,058)	(33,745,962)

23. 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.

(Expressed in Canadian dollars, unless otherwise stated)

23. Capital management (continued)

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

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

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

	December 31, 2023	December 31, 2022
	$	$
Total Assets	13,557,563	23,777,884
Total Liabilities	(37,536,296)	(33,745,962)
Net Equity	**(23,978,733)**	**(9,968,078)**

24. Financial instruments and risk management

Fair value measurement

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

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

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

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

The carrying value of the Company's cash & cash equivalents, trade and other receivables (excluding SARs amount of $249,339) and trade and other payables (excluding SARs amount of $63,887) approximate fair value due to their immediate and short-term nature.

The carrying amounts of loan payable, lease liabilities and long-term debt approximate their fair value as they are discounted at the current market rate of interest.

The earnout payable is measured at fair value based on observable inputs and is considered a Level 2 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, 2023, the discount rate was estimated to be 30% (December 31, 2022 – 31%).

The SARs is measured at fair value based on observable inputs and is considered a Level 2 financial instrument. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at each vesting period date in the year (Note 20).

(Expressed in Canadian dollars, unless otherwise stated)

24. Financial instruments and risk management (continued)

Earn-out payable continuity

	December 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	1,386,396	1,762,812
Payments	-	(325,104)
Foreign exchange	(32,565)	93,090
Fair value change during the period	(956,337)	(144,402)
	397,494	**1,386,396**
Current portion	397,494	1,386,396
Non-current portion	-	-

Financial risk management objectives and policies

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 31, 2023, the primary risks relating to the use of financial instruments were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at December 31, 2023, three customers accounted for 30%, 26% and 23% of gross trade accounts receivable, respectively (December 31, 2022 - 40%, 27% and 11%).

Liquidity risk

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

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

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

Market risk

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

(Expressed in Canadian dollars, unless otherwise stated)

24. Financial instruments and risk management (continued)

Financial risk management objectives and policies *(continued)*

Market risk (continued)

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

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

	December 31, 2023		**December 31, 2022**	
	US dollar	**Chinese renminbi**	**US dollar**	**Chinese renminbi**
	$	**¥**	**$**	**¥**
Cash and cash equivalents	77,923	45,359	500,276	8,627,405
Trade and other receivables	225,714	1,908,563	825,032	-
Trade and other payables	(3,854,053)	(157,860)	(2,866,745)	(11,739)
Customer deposits	(4,948,656)	(15,762,083)	(4,346,496)	(15,759,855)
Earn out payable	(300,000)	-	(1,021,775)	-
Loans payable	(69,444)	-	(77,402)	-
	(8,868,516)	**(13,966,021)**	**(6,987,110)**	**(7,144,189)**

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

Based on the balances as at December 31, 2023, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all other currencies on this date would result in an increase or decrease of approximately $144,165 (December 31, 2022 – $108,846) in earnings or losses before taxes.

(Expressed in Canadian dollars, unless otherwise stated)

25. Income taxes

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

	December 31, 2023	December 31, 2022
	$	$
Loss before income tax	(16,451,719)	(61,163,641)
Statutory tax rate	27%	27%
Expected income tax (recovery)	(4,441,964)	(16,514,183)
Increase (decrease) in income tax recovery resulting from:		
Non-deductible items	452,690	5,255
Share based compensation	235,616	415,177
Change in deferred tax assets not recognized	1,461,874	14,468,860
Financing fees capitalized to equity	(101,901)	(173,644)
Changes in estimates	2,497,393	(162,791)
Difference in tax rates in foreign jurisdictions	498,341	1,509,546
Tax effect of foreign exchange and other	(602,049)	(341,572)
Total income tax expense (recovery)	**-**	**(793,352)**
Current income taxes	-	-
Deferred income taxes (recovery)	-	(793,352)
Total income tax expense (recovery)	-	(793,352)

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) are comprised of the following as at years end:

	December 31, 2023	December 31, 2022
	$	$
Non-capital losses carry forward	1,061,071	1,324,324
Promissory note and investment in associate	(572,022)	(937,662)
Property, plant and equipment	(42,754)	67,193
Right-of-use assets	(560,663)	(655,766)
Lease liabilities and restoration provision	114,368	201,911
	-	-

(Expressed in Canadian dollars, unless otherwise stated)

25. Income taxes (continued)

The unrecognized deductible temporary differences as at years end are comprised of the following:

	December 31, 2023	December 31, 2022
	$	$
Non-capital losses	100,296,711	87,599,530
Share issuance and financing costs	2,800,106	3,756,465
Fixed assets	4,984,594	13,013,098
Intangibles	1,985,939	3,134,805
Inventory obsolescence	3,479,012	3,422,165
Warranty provision	141,644	123,784
Lease liabilities and restoration provision	4,477,566	2,347,944
Scientific research and experimental development and other	1,038,054	1,040,529
	119,203,626	**114,438,320**

As at December 31, 2023, the Company has non-capital loss carry forwards of approximately $79,615,469 (December 31, 2022 - $70,847,703) 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:

Expiry	December 31, 2023	December 31, 2022
	$	$
2034	46,950	46,950
2035	838,250	838,250
2036	3,224,346	3,224,346
2037	4,623,640	4,623,640
2038	386,838	386,838
2039	6,049,681	6,049,681
2040	8,105,724	8,105,724
2041	19,923,189	19,923,189
2042 - on	36,416,851	27,649,085
	79,615,469	**70,847,703**

As of December 31, 2023, the Company has net operating loss carry forwards of approximately $25,612,777 (December 31, 2022 - $20,325,062) in the United States which can be applied to reduce future US taxable income which have an unlimited expiry period.

As of December 31, 2023, the Company has tax loss carry forwards of approximately $1,658,322 (December 31, 2022 - $1,396,326) in China which can be applied to reduce future Chinese taxable income which expires in 2027.

26. 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 as at the reporting issue date.

(Expressed in Canadian dollars, unless otherwise stated)

26. 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 share measures, as outlined below. As at December 31, 2023, and 2022, the 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.

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:

		For the years ended
	December 31, 2023	**December 31, 2022**
	$	**$**
Numerator		
Net loss for the period	(16,451,719)	(60,370,289)
Denominator		
Weighted-average basic shares outstanding[5]	25,149,788	18,354,023
Effect of dilutive securities (nil due to anti-dilutive nature)	-	-
Weighted-average diluted shares[5]	25,149,788	18,354,023
Basic loss per share	(0.65)	(3.29)
Diluted loss per share	(0.65)	(3.29)

[5] Subsequent to the year ended December 31, 2023, the Company's issued and outstanding common shares were consolidated on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidated common shares (Note 28). The calculation of basic and diluted loss per share is based on the number of shares retrospectively after the share consolidation.

27. Contingent liability

The Company is party to a claim that arose in the ordinary course of business on November 21, 2021, asserting that the Company was in breach of a consulting agreement by failing to make required payments and by purporting to terminate the services of the plaintiff, contrary to the terms that were agreed. Pleadings have closed and the Company's legal counsel is awaiting the date for discovery. As at December 31, 2023, the potential exposure the Company faces cannot be measured reliably, and the claim is not expected to have a material effect on the Consolidated Financial Statements.

The Company is also party to a claim that arose in the ordinary course of business in May 2022, asserting that the Company was in breach of certain obligations pursuant to a manufacturing agreement. In June 2022, the Company's legal counsel submitted a response to the notice of civil claim and a counterclaim against the firm and its directors in their personal capacity. As of the period end, the potential exposure the Company faces cannot be measured reliably.

The Company is party to a claim that arose in the ordinary course of business in August 2022, asserting that the Company was in breach of certain obligations pursuant to a purchase agreement. The Company's legal counsel has submitted a response to the notice of civil claim and awaits a response from the plaintiff. As of the period end, the potential exposure the Company faces cannot be measured reliably.

28. Subsequent events

On January 17, 2024, the Company announced the consolidation of the Company's issued and outstanding common shares on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidated common shares. The Consolidation is being implemented to ensure that the Company continues to comply with the listing requirements of the TSX-V and expected to become effective on January 19, 2024, with the post-Consolidation Common Shares commencing trading on the TSX and the Nasdaq at market open on December 20, 2023, subject to final confirmation from the TSX and the Nasdaq. No fractional Common Shares has been issued in connection with the Consolidation. Any fractional Common Shares arising from the Consolidation will be deemed to have been tendered by its registered owner to the Company for cancellation for no consideration. The exercise or conversion price and/or the number of Common Shares issuable under any of the Company's outstanding convertible securities has been proportionately adjusted in connection with the Consolidation. At this date, the Company has 263,163,774 common shares issued and outstanding, and upon consolidation, there has been 26,316,381 common shares issued and outstanding.

On February 9, 2024, the Company closed the first tranche of its non-brokered private placement and issued 4,505,502 units at a price of $0.20 per unit for gross proceeds of approximately $900,000. Each unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance.

On March 15, 2024, the Company reached a settlement with Burnett Land & Livestock, Ltd., LLLP. in the State of Wyoming filed in 2023. The resolution allowed HydroGreen to recover 12 commercial GLS 808 (Note 9) production units along with grain sizers, conveyor systems, grain bins, and additional ancillary equipment directly involved in the installation of a HydroGreen feed center. HydroGreen agreed to settle with Burnett Land & Livestock, Ltd., LLLP for the investment made in the physical facility construction. The inventory has subsequently been returned to HydroGreen.

On March 15, 2024, the Company closed the final tranche of its non-brokered private placement and issued 5,792,688 units at a price of $0.20 per unit for gross proceeds of approximately $1,160,000. Each unit consist of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance.

On April 15, 2024, the Company engaged a successor auditor, MSLL CPA LLP, to assist with the year end December 31, 2023, and related management discussion and analysis and certifications, and the CEO and CFO certificates delating to the Financial Statements beyond the prescribed filing deadlines.

On May 23, 2024, the Company closed a subsequent tranche of its non-brokered private placement and issued 2,875,000 units at a price of $0.20 per unit for gross proceeds of approximately $515,000. Each unit will consist of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant will entitle the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance.

On July 15, 2024, the British Columbia Securities Commission (the "BCSC") as the principal regulator of the Company issued a failure-to-file case trade order (the "FFCTO") to the Company under Multilateral Instrument 11-103 - Failure-To-File Cease Trade Orders In Multiple Jurisdictions, prohibiting the trading in or the purchasing of any securities of the Company by any person or company in Canada, including trades in the Company's common shares made through the TSX-V. The FFCTO was issued as a result of the delay in the filing of the Company's annual audited financial statements for the fiscal year ended December 31, 2023, the related management's discussion and analysis and annual information form for the fiscal year ended December 31, 2023 and related filings, as well as the Company's interim financial statements for the three-month period ended March 31, 2024, the related management's discussion and analysis for the three-month period ended March 31, 2024, and related filings.

cubicfarms

TECHNOLOGY TO FEED A CHANGING WORLD

Management's Discussion and Analysis

For the years ended December 31, 2023, and 2022

Dated: September 26, 2024

The following Management's Discussion and Analysis ("MD&A") is prepared as of September 26, 2024, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the year ended December 31, 2023. This MD&A is prepared by management and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2023, as well as the consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

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

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

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to the Company's ability to: raise sufficient capital to meet its obligations as and when they come due, meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business, enter into sales agreements with new customers, secure incremental cashflow, and secure debt and equity financing and achieve profitable 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 the Company's annual information form available at www.sedar.com.

About the Company and Nature of Business

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

The Company listed its common shares on the Toronto Stock Exchange Venture Exchange ("TSXV") as a Tier 1 issuer in July 2019. On September 1, 2021, the Company graduated to Toronto Stock Exchange ("TSX") and commenced trading under the symbol "CUB." On December 18, 2023, the Company delisted its common shares on the TSX to TSXV and commenced trading on December 19, 2023, under the same symbol.

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

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

Feed Division

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

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

Hydrogreen has added a new stream of revenue in the year ended December 31, 2023, with the addition of Feed as a Service ("FaaS"). FaaS is an innovative agricultural model where HydroGreen builds a regional feed hub facility equipped with Automated Vertical Pastures™ and sells the sprouted-grain nutrition to livestock feeding operations in the area. Having HydroGreen run operations at the feed hub facilities guarantees optimal feed production, quality control, and enhanced animal performance outcomes for producers. The Company has subsequently announced Memorandum of Terms ("MOT") with four companies. These announcements continue to confirm the Company's belief that the FaaS model of establishing localized regional feed hubs to produce and sell feed to local dairy and beef farms is a viable opportunity for the Company.

As of December 31, 2023, the Feed Division has 20 employees and full-time contractors, a decrease of 35% from 31 as of December 31, 2022.

Manufacturing

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

Research and Development

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

Fresh Division

The Company's Fresh Division operates using the patented CubicFarm™ System, which contains CubicFarms' patented technology for growing leafy greens and other crops. The CubicFarm System modules address two of the most difficult challenges in the vertical farming industry, being high electricity and labour costs, using unique undulating path technology. CubicFarms' patented Crop Motion Technology™ moves plants to one layer of LED grow lights, unlike typical rack and stack layouts of other vertical farms that use multiple layers of energy-intensive LEDs.

The Company's Fresh Division previously sold small-scale, containerized systems directly to farmers, but the lack of scale and the level of selling and general and administrative expenses required made the business model for the Fresh Division unprofitable. Subsequently, CubicFarms scaled down its Fresh Division to focus on large system ("FreshHub") sales to compete with field-grown lettuce.

The Company's high-density FreshHub system occupies one acre of land, and the Company believes the system can replace up to 100 acres of outdoor field growing. FreshHub systems can be located near major population centres for closer access to more reliable, year-round growing indoors with the added flexibility of less land required, less water required, localized transportation, and significant energy savings.

As of December 31, 2023, the Fresh division has 12 employees and full-time contractors, a decrease of 68% from 38 as of December 31, 2022.

Corporate and operational highlights for the year ended December 31, 2023

On January 17, 2023, the Company announced the lease of FreshHub machinery and equipment to Langley Indoor Produce, of which CubicFarms will have the option to retain up to 97.6% of the equity interest of this entity at the point of closing. As part of this transaction, CubicFarms will grant a license for the underlying FreshHub intellectual property to Langley Indoor Produce. The use of the license grant will be limited to the indoor, non-containerized implementation of the CubicFarms patented equipment. Ongoing funding of Langley Indoor Produce will come from third-party investors. As of reporting date, both parties have not signed a final agreement.

On March 7, 2023, the Company announced that its livestock feed subsidiary company, HydroGreen Inc. has finalized the installation of two previously sold machines to Jim Cheney Inc. in Utah.

On March 17, 2023, the Company announced that it has closed its previously announced overnight marketed public offering (the "Offering") of units (the "Units") of the Company. Each Unit consists of one common share of the Company (a "Common Share") and one common share purchase warrant (the "Warrant"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.10 (the "Exercise Price") per Common Share for a period of 36 months from March 17, 2023 (the "Closing Date").

Pursuant to the Offering, the Company issued a total of 56,027,000 Units at a price of $0.05 per Unit (the "Offering Price") for gross proceeds of $2,801,350, including 10,261,000 Units issued to reduce working capital obligations of the Company for $513,050 in payables ("Debt-for-Equity Swap"). In addition, the Company has agreed to pay a cash commission equal up to 6% of the aggregate gross proceeds of the Offering, including the amounts raised in the Debt-for-Equity Swap. As an additional compensation, the Company issued 3,061,620 of non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant will be exercisable to acquire one Common Share of the Company at the Offering Price for a period of 36 months from the Closing Date, subject to adjustment in certain events.

On May 5, 2023, the Company announced the resignation of Carlos Yam, Chief Financial Officer effective immediately. Michael Brendan Kyne, CFA, joins the Company as Interim CFO to ensure a smooth transition of responsibilities during the interim period. With over 20 years of experience in investment management and business leadership, Mr. Kyne brings a wealth of expertise to the role.

On June 12, 2023, the Company announced the commissioning of its automated, controlled-environment growing technology at Vertical Acres Farm LLC. Vertical Acres Farm purchased 20 CubicFarm machines and 1 fertigator which will enable the Vertical Acres to grow and distribute commercial quantities of fresh produce for their region.

On June 27, 2023, the Company announced FaaS MOT with J&D Wilson Farms, a dairy and beef farming operation based in Riverdale, California. Under the terms of the MOT, HydroGreen will deliver approximately 730 tons of HydroGreen "As Fed" Feed ("Feed") per month.

Only July 6, 2023, the Company announced FaaS MOT with Crosswind Jerseys, a dairy in Elkton, South Dakota. Under the terms of the agreement, HydroGreen will supply Crosswind Jerseys with a contracted monthly delivery of 45 tons of HydroGreen Feed.

On July 21, 2023, the Company announced FaaS MOT with Johann Diary, a large dairy farm based in Fresno, California. Under the MOT with Johann Dairy, HydroGreen will deliver about 30 tons of HydroGreen Feed per month.

On August 3, 2023, the Company announced FaaS MOT with Van Kooi Diary, a large dairy farm based in Riverdale, California. Van Der Kooi has signed on to purchase approximately 830 tons of sprouted-grain feed per month from HydroGreen's future feed facility in Riverdale, California.

On August 18, 2023, the Company announced FaaS MOT with Bar None Dairy, a dairy farm based in Helm, California. Under the terms of the MOT, HydroGreen will deliver approximately 180 tons of HydroGreen Feed per month.

On August 24, 2023, the Company announced the sale of six HydroGreen GLS 808 systems, largest order to date to Cirio Societa Agricola SRL of Fagianeria, Italy. Cirio Agricola is one of the most advanced Dairies in Italy and marks the entrance of the Company into the European market that further validates HydroGreen's technology in the production of animal feed.

On October 4, 2023, the Company announced the voting results from the Annual General and Special Meeting of shareholders, which was held on September 28, 2023.

On October 31, 2023, HydroGreen Inc. announced the sale of one HydroGreen GLS 808 machine to Redmond Heritage Farms, Utah. Redmond Heritage Farms is an existing customer of Hydrogreen and presently operates a DGS 66 machine. The purchase and installation of the larger GLS 808 system marks a significant investment on behalf of Redmond to expand their feed production.

On November 2, 2023, Hydrogreen Inc announced its second location for HydroGreen's California Regional Feed Hub in Visalia, California. The Visalia region hub will initially have two buildings each with twenty HydroGreen GLS 808 machines producing 64 tons a day of feed or 128 tons total daily. In addition, it was announced that 75% of this capacity has already been sold out at $150 per ton. HydroGreen's FaaS model represents a significant development by Hydrogreen to develop its own direct feed business with a view to creating a long-term recurring revenue model for the Company. This model of direct feed sales will initially focus on the central valley in California in the heartland of Dairy production in California.

On November 6, 2023, HydroGreen announced the sale of two HydroGreen DGS 66 machines to Golden Rule Dairy of Elfrida, Arizona. This represents the second order from Golden Rule in Arizona for Hydrogreen. This sale is also very notable in that Golden Rule is not only buying the two DGS 66 units to expand their existing dairy herd, but to also begin production of feed to be used in part for their expanding chicken operation which marks a first for HydroGreen.

On December 15, 2023, the Company announced the delisting review process from the TSX, which was completed at the close of markets on December 18, 2023. The Company commenced trading on the TSXV on December 19, 2023, under the same ticker symbol.

As of December 31, 2023, the Company defaulted on the $523,200 of accrued interest on the convertible loans; terms of repayment are in discussion.

Environmental, Social, and Governance (ESG)

Beyond selling products that directly and positively impact climate change and improving the use of land and water resources, by localizing food and livestock feed production, the Company and its products promote food security and equality globally.

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

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

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

- Less fresh water used by 95% than traditional farming.
- Seed to feed in 6 days that are grown on-site, reducing long supply chains and feed transport.
- Feed is highly nutritional, full of vitamins, antioxidants, and digestive enzymes.
- Zero pesticides or fertilizer used in the process.
- Significantly less land required to grow the same amount of animal feed.
- Fewer greenhouse gas emissions by about 7% using hydroponic technology.

CubicFarms ESG Disclosure

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

The Company's technologies help significantly reduce the amount of fresh water, land, and energy used by farmers. It is not just using fewer natural resources, it also eliminates the need for pesticides, herbicides, and/or fertilizer.

Environmental Commitments

Sustainability

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

Social Commitments

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

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

Animal Welfare

At CubicFarms, the Company is concerned about animal welfare and uses both animal and plant science knowledge to create technologies that support animal health and wellbeing. The Company research and development team is conducting research and data collection on dairy cattle consuming HydroGreen fresh livestock feed as part of the herd's ration. Preliminary results on a sample of dairy cattle are showing impressive health improvements for close up cows and calves, that showed much better health during the weaning and feeding periods, compared to a sample of non-HydroGreen calves. The nutritious fresh livestock feed grown in HydroGreen Automated Vertical Pastures™ contains high quality protein in the form of amino acids and simple peptides. This results in high quality energy in the form of simple sugars and starches within the feed ration, with readily available nutrients that appear critical for health, growth, production, and reproduction.

The feed palatability, as well as the higher moisture of the HydroGreen fresh feed, improves ration conditioning with less sorting of ingredients by the animals, resulting in a lower incidence of upper respiratory issues due to dust inhalation. Fresh livestock feed is both nutritious and devoid of anti-nutritional factors, such as haemagglutinins, trypsin inhibitors, tannins and pentosans, and phytic acid.

Governance Commitments

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

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

The Company is advised with governance and oversight by the Corporate Governance Committee on the CubicFarms Board of Directors which is composed solely of experienced and independent member Directors. Furthermore, the Corporate Governance Committee has a general mandate to assess all issues that may affect the Company in the areas of corporate governance and to recommend appropriate governance policies to the Board.

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

Subsequent to year end, the Company has signed several exclusive agreements that marks several milestones in its efforts to extend its market reach internationally in collaboration with strong qualified partners, with an immediate emphasis on the European Union, Australia and New Zealand. The EU has established a framework aimed at enhancing agricultural practices supported by strategic investment initiatives and government subsidies. These initiatives are geared towards the adoption of new technologies and equipment in agriculture. This approach is facilitating a shift towards more efficient and sustainable methods in the EU's dairy and agriculture sectors.

These agreements also pave the way for future development and potential market growth such as Ireland, the United Kingdom, and Middle East. Research and development trials in conjunction with local state agencies and universities will be conducted to further enhance and tailor HydroGreen's technology to meet the agricultural needs of these regions. HydroGreen's approach goes beyond merely fulfilling immediate feed demands; it's about fostering a sustainable, resilient agricultural landscape, characterized by reduced greenhouse gas emissions and improved animal health.

Highlights subsequent to the year ended December 31, 2023

On January 3, 2024, the Company announced the sale of one HydroGreen GLS 808 machine to a leading agricultural company based in Dublin, Ireland. In this transaction, HydroGreen to supply an additional four GLS 808 machines for a future sale to facilitate a feed center in Dublin that was signed on March 25, 2024.

On January 17, 2024, the Company announced the Company's common shares began trading on the TSXV on a consolidated basis on January 19, 2024. The Board of Directors of the Company has authorized the implementation of a consolidation of the Company's issued and outstanding common shares on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidation common shares. Currently, the Company has 0263,163,774 common shares issued and outstanding, and upon consolidation, there are approximately 26,316,381 common shares issued and outstanding.

On January 23, 2024, the Company announced a partnership agreement with Hansen Industries to construct two Feed Centers in Visalia, California, each equipped with 20 GLS 808 machines. This agreement is designed to fulfill the previously announced, pre-existing demand for 120 tons of fodder per day of fresh sprouted grains as part of a FaaS offering.

On February 9, 2024, the Company closed the first tranche of its non-brokered private placement and issued 4,505,502 units at a price of $0.20 per unit for gross proceeds of approximately $900,000. Each unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance.

On March 15, 2024, the Company reached a settlement with Burnett Land & Livestock Ltd., LLLP. in the State of Wyoming filed in 2023. The resolution allows HydroGreen to recover 12 commercial GLS 808 production units along with grain sizers, conveyor systems, grain bins, and additional ancillary equipment directly involved in the installation of a HydroGreen feed center. HydroGreen agreed to settle with Burnett Land & Livestock, Ltd., LLLP for the investment made in the physical facility construction. The inventory has subsequently been returned to HydroGreen. Management has determined that the returned inventory is not in a resaleable condition as at the reporting date.

On March 15, 2024, the Company closed the final tranche of its non-brokered private placement and issued 5,792,688 units at a price of $0.20 per unit for gross proceeds of approximately $1,160,000. Each unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance.

On March 20, 2024, the Company announced the sale of ten HydroGreen GLS 808 and two DGS machines to a leading agricultural company based in New South Wales, Australia, and New Zealand. In this transaction, HydroGreen has also signed an exclusive partnership with BoomA Food Group, a prestigious, technologically advanced food producer.

On March 25, 2024, the Company announced an exclusive sales agreement with Agrotopia for its Middle East operations. Agrotopia has committed to purchasing a minimum of two GLS 808 units in 2024 for those additional markets, followed by a minimum of five units annually from 2025 through 2027. This exclusive partnership emerges from Agrotopia's years of dedicated research and development in the cultivation of wheat and barley sprouts, setting a new standard for highly nutritional livestock feed. Agrotopia and HydroGreen are at the forefront of agricultural innovation, leveraging HydroGreen's patented hydroponic technology. By providing eco-friendly, nutrient-dense feed solutions derived from wheat and barley sprouts, this collaboration aims to transform farming practices, enhance livestock welfare, and significantly reduce environmental impact.

On April 2, 2024, the Company announced FaaS partnership with Plainview Beef Company, a leading beef farm industry based in Jenks, Oklahoma. Within this exclusive agreement, the Company will install two DGS 66 production systems in Wray, Colorado to facilitate an initial feed trial.

On April 15, 2024, the Company engaged a successor auditor, MSLL CPA LLP, to assist with the year end December 31, 2023, and related management discussion and analysis and certifications, and the CEO and CFO certificates delating to the Financial Statements beyond the prescribed filing deadlines.

On May 14, 2024, the Company announced the sale of two DGS machines to an agricultural company based in Utah, USA.

On May 23, 2024, the Company closed a subsequent tranche of its non-brokered private placement and issued 2,875,000 units at a price of $0.20 per unit for gross proceeds of approximately $575,000. Each unit consist of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance.

On June 13, 2024, the Company announced MOT with a group of local dairy operations based in Chowchilla region in California. The feed center, to be equipped with forty GLS 808 machines and would have the capacity to produce 128 tons of fresh feed per day.

On July 15, 2024, the British Columbia Securities Commission (the "BCSC") as the principal regulator of the Company issued a failure-to-file case trade order (the "FFCTO") to the Company under Multilateral Instrument 11-103 - Failure-To-File Cease Trade Orders In Multiple Jurisdictions, prohibiting the trading in or the purchasing of any securities of the Company by any person or company in Canada, including trades in the Company's common shares made through the TSX-V. The FFCTO was issued as a result of the delay in the filing of the Company's annual audited financial statements for the fiscal year ended December 31, 2023, the related management's discussion and analysis and annual information form for the fiscal year ended December 31, 2023 and related filings, as well as the Company's interim financial statements for the three-month period ended March 31, 2024, the related management's discussion and analysis for the three-month period ended March 31, 2024, and related filings.

Discussion of Operations

Revenue

Fresh division	December 31, 2023	December 31, 2022	Change	%
Three months ended	$ 415,362	$ 118,572	$ 296,790	250%
Twelve months ended	$ 4,059,856	$ 3,331,866	$ 727,990	22%

Feed division	December 31, 2023	December 31, 2022	Change	%
Three months ended	$ 54,581	$ 57,348	$ (2,767)	-5%
Twelve months ended	$ 247,324	$ 303,939	$ (56,615)	-19%

Total	December 31, 2023	December 31, 2022	Change	%
Three months ended	$ 469,943	$ 175,920	$ 294,023	167%
Twelve months ended	$ 4,307,180	$ 3,635,805	$ 671,375	18%

The Company's sales fluctuate on a quarter-by-quarter basis, leading to financial results fluctuating from period to period. The Company has three main sources of revenue: sales of indoor growing technologies, services, and consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates. Services include customer support subscriptions, consulting, and feed as a service.

Sales within the Fresh Division for the three months ended December 31, 2023, were mainly systems revenue from the sale of parts. In comparison, sales within the Fresh Division for the three months ended December 31, 2022, included System sales revenue of parts for $67,576 and consumable revenue of $50,996. The Company continues to strive to fulfil its performance obligations and expects to complete current projects in the coming fiscal year. Sales within the Feed division for the three months ended December 31, 2023, included systems revenue of $25,291 from sale of parts, revenue of $15,793 from the sale of feed as a service and revenue of $13,497 from services. Feed as a service is a new revenue stream added in the current year that has supplemented the systems revenue in the Feed division. In comparison, sales within the Feed division for the three months ended December 31, 2022, included parts revenue of $57,378.

Sales within the Fresh Division for the year ended December 31, 2023, included systems revenue of $4.0 million from the installation and commissioning of 20 CubicFarms systems. In addition to the 20 systems, there was the installation of the previously delivered Abbotsford project and consumables revenue of $50,460. In comparison, sales within the Fresh Division for the year ended December 31, 2022, included System Sales of $2.6 million, consumable revenue of $583,268, and services revenue of $101,467. Sales within the Feed Division for the year ended December 31, 2023, included systems revenue of $135,019, revenue of $98,808 from the sale of feed as a service and revenue from services of $13,457. In comparison, sales within the Feed Division for the year ended December 31, 2022, included System sales of $303,939.

Gross margin

Fresh division		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	366,003	$	(6,547,221)	$	6,913,224	n.a.
Twelve months ended	$	220,207	$	(6,386,738)	$	6,606,945	n.a.

Feed division		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	(80,724)	$	(145,724)	$	65,000	45%
Twelve months ended	$	(65,398)	$	(75,233)	$	9,835	13%

Total		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	285,279	$	(6,692,945)	$	6,978,224	n.a.
Twelve months ended	$	154,809	$	(6,461,971)	$	6,616,780	n.a.

Gross margin for the three months ended December 31, 2023, was $285,279. The low profit margin realized was primarily as a result of additional discounts provided to facilitate expedited payments from customers. Gross margin for the three months ended December 31, 2022, was $(6,692,945) mainly from write downs as a result of management's assessment of inventory deemed as excess inventory based on current and projected market demands.

Gross margin for the year ended December 31, 2023, was a gain of $154,809 compared to the prior year loss of approximately $6.5 million.

General and administrative expenses

		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	1,845,173	$	3,078,954	$	(1,233,781)	-40%
Twelve months ended	$	7,868,853	$	15,203,156	$	(7,334,303)	-48%

The decrease in general and administrative expenses is in line with the Company's cost reduction plan to optimize operating efficiency. General and administrative staffing expenses and consulting fees for the three months ended December 31, 2023, was $703,008, a decrease of 75% compared to the prior year's fourth quarter, which reflects the Company's reduced headcount. This was offset by the share-based compensation expenses recognized for the share appreciation rights ("SARs") granted to the Company's board members. General and administrative expenses also consist of professional fees, office and operational supplies, facility rental, and logistic costs, which also reduced significantly compared to the prior period.

For the year ended December 31, 2023, general and administrative expenses saw a reduction of $7.3 million, representing a 48% decrease compared to the previous year. This decline was primarily attributed to reduced staffing, office expenses, supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies that were implemented towards the end of the third quarter in the preceding year.

Selling expenses

		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	14,103	$	808,077	$	(793,974)	-98%
Twelve months ended	$	1,142,864	$	6,022,487	$	(4,879,623)	-81%

For the three months ended December 31, 2023, selling expenses decreased by $0.8 million or 98%. The decrease in selling expenses is in line with the Company's continued cost reduction plan to optimize operating efficiency that was put in place as of the third quarter of 2022.

For the year ended December 31, 2023, selling expenses decreased by approximately $4.9 million or 81%. This was due to the cost reduction measures which included a significant reduction in headcount that were implemented in the last half of the prior year and to continue into the subsequent periods.

Research and development

		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	460,305	$	1,831,170	$	(1,370,865)	-75%
Twelve months ended	$	2,213,222	$	10,410,196	$	(8,196,974)	-79%

For the three months ended December 31, 2023, research and development expenses decreased by $1.4 million, representing a 75% reduction. Staffing expenses and consulting fees for the same period totaled $329,613, compared to about $2.0 million for the corresponding period in 2022, reflecting the decreased headcount. This reduction in research and development expenses is consistent with the Company's strategic shift towards focusing on the Feed division, which necessitates a lower level of research and development activity in this quarter.

For the year ended December 31, 2023, research and development expenses decreased by $8.2 million or 79%. This was due to a decrease in research and development consistent with corporate initiatives of lowering operational cost to achieve profitability.

Loss on impairment

		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	3,547,817	$	16,991,153	$	(13,443,336)	-79%
Twelve months ended	$	3,416,310	$	20,447,236	$	(17,030,926)	-83%

During the three months and twelve months ended December 31, 2023, the Company recorded a loss on impairment of $3,547,817 and $3,416,310 respectively. The impairment loss recorded relates to a write down of inventory for a halted project, for which the Company had limited access to the assets on site. The matter was taken to arbitration and has subsequently been decided in favor of the Company. The inventory items have also been returned to the Company in the 2024 financial year.

In the twelve months ended December 31, 2022, the Fresh division was impaired by $4,053,527 and the Feed division was impaired by $16,393,709. The impairment loss was allocated to property, plant and equipment, intangible assets, right of use assets, and goodwill.

Net finance expense

		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	(1,140,639)	$	(665,697)	$	(474,942)	71%
Twelve months ended	$	(3,259,725)	$	(1,592,591)	$	(1,667,134)	105%

The net finance expense relates to finance and accretion expenses incurred in the period. The net finance expense in the three and twelve months ended December 31, 2023, also included the interest on the convertible debentures issued in the second quarter of 2022, and the interest on the senior term loan issued in the third quarter of 2022.

Net loss

		December 31, 2023		December 31, 2022		Change	%
Three months ended	$	(5,549,798)	$	(29,842,639)	$	24,292,841	-81%
Twelve months ended	$	(16,451,719)	$	(60,370,289)	$	43,918,570	-73%

The Company's net loss in the three and twelve months ended December 31, 2023, reflects the Company's prior cost reduction measures which were put in place since the third quarter of 2022. The net loss also reflects the impairment loss recognized in the periods.

Use of Proceeds

The following table provides a comparison between the expected and actual use of proceeds from the Company's financing activities as of this report:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Sep-22	$ 6,400,000	$ 6,400,000	Working capital and general corporate purposes	$ 6,400,000	100.0%	$ 6,400,000	100.0%
Dec-22	$ 1,350,000	$ 1,350,000	Working capital and general corporate purposes	$ 1,350,000	100.0%	$ 1,350,000	100.0%
Mar-23	$ 2,551,350	$ 2,551,350	Working capital and general corporate purposes	$ 2,551,350	100.0%	$ 2,551,350	100.0%
Jun-23	$ 400,000	$ 400,000	Working capital and general corporate purposes	$ 400,000	100.0%	$ 400,000	100.0%
Mar-24	$ 2,060,000	$ 2,060,000	Working capital and general corporate purposes	$ 2,060,000	100.0%	$ 2,060,000	100.0%
May-24	$ 575,000	$ 575,000	Working capital and general corporate purposes	$ 575,000	100.0%	$ 575,000	100.0%

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

Selected Annual Information

The following table sets out selected annual financial information of the Company and is derived from the Company's audited consolidated financial statements for the three most recently completed financial years, prepared in accordance with IFRS.

	Twelve months ended December 31, 2023 $	Twelve months ended December 31, 2022 $	Twelve months ended December 31, 2021 $
Sales	4,307,180	3,635,805	5,273,166
Cost of sales	(4,152,371)	(10,097,776)	(5,263,872)
Gross margin	154,809	(6,461,971)	9,294
Operating expenses	(14,641,249)	(52,093,075)	(30,471,458)
Loss before other income (expense)	(14,486,440)	(58,555,046)	(30,462,164)
Other income (expense)	1,294,446	(1,016,004)	1,100,539
Net loss	(16,451,719)	(60,370,289)	(29,357,383)
Loss per share: Basic and diluted	(0.65)	(0.33)	(0.19)

	December 31, 2023 $	December 31, 2022 $	Balance as at December 31, 2021 $
Total assets	13,557,563	23,777,884	54,677,149
Total non-current liabilities	2,958,947	10,999,478	3,805,818
Dividends declared	Nil	Nil	Nil

Summary of Quarterly Results

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

Period	Revenue	Net loss for the period	Basic and fully diluted loss per share
	$	$	$
January 1, 2022 - March 31, 2022	243,912	(8,760,249)	(0.49)
April 1, 2022 - June 30, 2022	2,890,493	(9,091,846)	(0.50)
July 1, 2022 - September 30, 2022	325,480	(12,675,555)	(0.57)
October 01, 2022 - December 31, 2022	175,920	(29,842,639)	(1.35)
January 1, 2023 - March 31, 2023	455,392	(4,671,889)	(0.22)
April 1, 2023 - June 30, 2023	3,322,745	(4,018,471)	(0.21)
July 1, 2023 - September 30, 2023	59,100	(2,211,561)	(0.10)
October 01, 2023 - December 31, 2023	469,943	(5,549,798)	(0.26)

There is no established seasonality trend at this stage of the Company's development. Revenue from product sales is recognized when the risk and control of the goods are transferred to the customer, typically at delivery or when title is transferred. Revenue from services is recognized upon the completion of the service and receipt of the customer's sign-off. Revenue from licenses and subscriptions is recognized over the duration of the license or subscription period.

Additionally, factors beyond the Company's control, such as the customer's ability to obtain permits, complete site preparations, and manage ocean freight and shipping delays, as well as weather and other transportation issues, may impact the timing of module deliveries.

During the three months ended December 31, 2023, the Company's revenues were primarily derived from sale of parts and provision of services.

Subsequent to the year ended December 31, 2023, the Company's issued and outstanding common shares were consolidated on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidated common shares. The calculation of basic and diluted loss per share is based on the number of shares retrospectively after the share consolidation.

Liquidity and Capital Resources

As at December 31, 2023, current liabilities less current assets were $23,484,502 compared to $1,928,674 as at December 31, 2022. The decrease is primarily due to a reduction of cash from operations, a decrease in inventory from realizing revenue for completed projects, a reclassification of non-current loans to current due to default on loans, and an increase in finance expenses and payments relating to loans and borrowings to support operational needs.

Operating Activities

Cash outflow from operating activities for the year ended December 31, 2023, was $6,504,602, a decrease in cash outflow of 77% compared to $28,006,434 in the prior year. The cost reduction measures implemented commenced in the third quarter of 2022. This was offset by increased finance expenses from loans and foreign exchange gains.

Investing Activities

Cash inflow from investing activities for the year ended December 31, 2023, was $443,454 compared to a cash outflow of $5,207,975 in the prior period. The rise in cash inflow mainly stemmed from the sale of impaired property, plant, and equipment. Additionally, the Company cut back on investments in property, plant, and equipment as well as intangible assets compared to the prior period.

Financing Activities

For the year ended December 31, 2023, the cash inflow from financing activities was $3,269,641 compared to $14,789,703 in the prior period. The decrease was due to lower equity finance raised in the period in addition to repayments of loans and share appreciation right payments.

Contractual Amounts Payable

As at December 31, 2023, and 2022, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at December 31, 2023	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	7,655,704	7,655,704	-	-	7,655,704
Earn out payable	397,494	397,494	-	-	397,494
Lease liabilities	3,556,991	1,156,772	2,313,935	1,749,646	5,220,353
Loans liabilities	14,667,971	17,927,768	66,014	-	17,993,782
Total	**26,278,160**	**27,137,738**	**2,379,949**	**1,749,646**	**31,267,333**

As at December 31, 2022	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	7,530,919	7,530,919	-	-	7,514,621
Earn out payable	1,696,063	1,696,063	-	-	1,696,063
Lease liabilities	2,959,168	933,498	1,869,722	1,000,320	3,803,540
Loans liabilities	10,707,631	3,121,127	15,484,775	-	18,605,902
Total	**22,893,781**	**13,281,607**	**17,354,497**	**1,000,320**	**31,620,126**

Capital Management

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

The losses and deficits incurred by the Company indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As of December 31, 2023, the Company had cash and cash equivalents of $176,756. A slight improvement in recent months as a result of the Company's implementation of cost reduction measures and maintaining a certain level of non-discretionary monthly expenditures. Combined with slower-than-expected product sales, this results in a reduction in the Company's cash position and short-term liquidity.

As of the date of this MD&A, the Company had cash on hand totaling approximately $109,000. The Company expects incremental cash inflow and thus will improve its cash position upon signing of sale agreements with new customers through receipt of progress payments as they arise. The Company is also seeking other strategic options in order to extend its cash runway. There is no guarantee that the Company will be able to raise sufficient capital to extend its cash runway or on terms that will not be detrimental to its current shareholders. These conditions cast significant doubt on the Company's ability to continue as a going concern.

The Company's consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than normal course of business and at amounts different from those in the accompanying consolidated financial statements. These adjustments could be material.

Transactions with Related Parties

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

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:

	Twelve months ended December 31, 2023 $	Twelve months ended December 31, 2022 $
Wages and salaries	390,959	1,340,911
Consulting fees	-	840,061
Share-based compensation	737,089	680,573
Total	**1,128,048**	**2,861,545**

The increase of key management compensation for the year ended December 31, 2023, of $1,128,048, compared to $2,861,545 in the prior year was due to a decrease in head count and the issuance of SARs to the board members of the Company.

Other related parties

For the year ending December 31, 2023, Mr. John de Jonge and a company wholly owned by him provided a loan of $1,065,251 to the Company, which is listed under Trade and other payables (December 31, 2022 - $nil). As the Chief Executive Officer and President of Hydrogreen, Mr. Jonge is considered a related party. This balance represents unsecured, interest-free borrowings that are due on demand. The funds are used to support the Company's working capital and operational needs.

SARs were issued to the Board members of the Company and as of December 31, 2023, a net receivable balance of $185,452 (December 31, 2022 - $nil) was recorded in trades and other receivable and payable due from the cash payments settled was greater than fair value of the vested SARs

Outstanding Share Data

The Company has authorized share capital consisting of: (i) an unlimited number of common shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A preferred shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B preferred shares without par value and with certain rights and restrictions attached. As of September 26, 2024, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at December 31, 2023, January 19 and September 26, 2024, the Company had the following number of common shares, options, and warrants outstanding:

	December 31, 2023	January 19, 2024	September 26, 2024
Common shares issued and outstanding	263,163,774	26,316,377	39,489,571
Options	8,001,171	800,118	701,915
Warrants	30,443,941	3,044,394	9,630,989
Total fully diluted shares	**301,608,886**	**30,160,889**	**49,822,475**

On January 19, 2024, the Company completed a 10:1 share consolidation.

Off-Balance Sheet Arrangements

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

Contingent Liability

The Company is party to a claim that arose in the ordinary course of business on November 21, 2021, asserting that the Company was in breach of a consulting agreement by failing to make required payments and by purporting to terminate the services of the plaintiff, contrary to the terms that were agreed. Pleadings have closed and the Company's legal counsel is awaiting the date for discovery. As of September 2023, the potential exposure the Company faces cannot be measured reliably, and the claim is not, expected to have a material effect on the Consolidated Financial Statements.

The Company is also party to a claim that arose in the ordinary course of business in May 2022, asserting that the Company was in breach of certain obligations pursuant to a manufacturing agreement. In June 2022, the Company's legal counsel submitted a response to the notice of civil claim and a counterclaim against the firm and its directors in their personal capacity. As of the period end, the potential exposure the Company faces cannot be measured reliably.

The Company is party to a claim that arose in the ordinary course of business in August 2022, asserting that the Company was in breach of certain obligations pursuant to a purchase agreement. The Company's legal counsel has submitted a response to the notice of civil claim and awaits a response from the plaintiff. As of the period end, the potential exposure the Company faces cannot be measured reliably.

Financial Instruments

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

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

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

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

The carrying value of the Company's cash & cash equivalents, trade and other receivables (excluding SARs amount of $249,339) and trade and other payables (excluding SARs amount of $63,887) approximate fair value due to their immediate and short-term nature.

The carrying amounts of loan payable, lease liabilities and long-term debt approximate their fair value as they are discounted at the current market rate of interest.

The earnout payable is measured at fair value based on observable inputs and is considered a Level 2 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, 2023, the discount rate was estimated to be 30% (December 31, 2022 – 31%).

The continuity for earn out payable is as follows:

	December 31, 2023 $	December 31, 2022 $
Balance – beginning of period	1,386,396	1,762,812
Less: payment	-	(325,104)
Foreign exchange	(32,565)	93,090
Fair value change during the year	(956,337)	(144,402)
Balance – end of period	**397,494**	**1,386,396**
Current portion	397,494	1,386,396
Non-current portion	-	-

The SARs is measured at fair value based on observable inputs and is considered a Level 2 financial instrument. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at each vesting period date in the year

Credit risk

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

The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at December 31, 2023, three customers accounted for 30%, 26% and 23% of gross trade accounts receivable, respectively (December 31, 2022 - 40%, 27% and 11%).

Liquidity risk

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

Market risk

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

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

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

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

	December 31, 2023		December 31, 2022	
	US dollar	Chinese renminbi	US dollar	Chinese renminbi
	$	¥	$	¥
Cash	77,923	45,359	500,276	8,627,405
Trade and other receivables	225,714	1,908,563	825,032	-
Trade and other payables	(3,854,053)	(157,860)	(2,866,745)	(11,739)
Customer deposits	(4,948,656)	(15,762,083)	(4,346,496)	(15,759,855)
Earn-out payable	(300,000)	-	(1,021,775)	-
Loans payable	(69,444)	-	(77,402)	-
Net exposure	**(8,868,516)**	**(13,966,021)**	**(6,987,110)**	**(7,144,189)**

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

Based on the balances as at December 31, 2023, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all the other currencies on that date would result in an increase or decrease of approximately $144,165 (December 31, 2022 - $108,846) in earnings or losses before taxes.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects current and future periods.

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

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

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

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

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

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

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

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

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

Disclosure Controls and Internal Controls over Financial Reporting

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

Management Review Controls: Due to the significant downsizing in the Company's headcount as a result of its cost reduction measures implemented in 2022, the Company did not consistently have documented evidence of management review controls and did not always maintain segregation of duties between preparing and reviewing analyses and reconciliations with respect to certain processes.

With oversight from the Company's Audit Committee and assistance from a third-party service provider as necessary, management will continue to implement remediation measures related to the identified material weaknesses, including but not limited to the following:

- Review key business processes and controls to determine where further system reliance can improve segregation of duties, and reduce on manual management review controls;
- Improve control tools and templates to assist in the sufficient and consistent documentation of review controls and procedures; and
- Provide training to management and control owners on key control attributes and documentation requirements.

For the year ended December 31, 2023, there were no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect, or would be reasonably likely to affect, the Company's internal control systems.

Additional Information and Approval

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

The Board of Directors has approved the disclosures contained in this MD&A as of September 26, 2024.