Management's Discussion and Analysis

For The Quarter Ended September 30, 2019

Dated: November 28, 2019

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of CubicFarm Systems Corp., (the "Company" or "CubicFarms") constitutes management's review of the factors affecting the Company's financial and operating performance as at and for the three months ended September 30, 2019. This MD&A is prepared by management and should be read in conjunction with the interim condensed consolidated financial statements for three months ended September 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

The effective date of this MD&A is on November 28, 2019.

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

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

Forward-Looking Statements

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

About the Company and Nature of Business

The Company was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 9449-202 Street, Unit 117, Langley, BC, V1M 4A6.

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

The Company is an agriculture technology and vertical farming company and through its wholly owned subsidiaries, develops, employs and sells modular growing systems with patented technology (the "System") to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by creating joint ventures with partner farms and by operating its own facility in Pitt Meadows, British Columbia.

CubicFarms' System addresses the two most difficult challenges in the vertical farming industry - high electricity and labor costs - using unique undulating path technology.

The System is a low-cost solution that enables farmers to grow high value crops, year-round, in close proximity to consumers, even in areas with limited access to water and arable land. The System uses less water, labour and land than traditional farming. The Company believes that the System grows better crops with higher yields at lower cost, delivering better profit margins and profits for farmers. Through this proprietary technology and its time-tested industry expertise, the Company helps its partner farms develop a sustainable local competitive advantage while providing consumers with fresh locally grown vegetables and other products.

Corporate and Operational Highlights in fiscal 2020

On July 9, 2019 the Company's common shares commenced trading on the TSX Venture Exchange as a Tier One issue under the symbol "CUB"

On July 11, 2019 the Company announced that the Company signed an agreement for a large scale commercial CubicFarm system in the Calgary, AB area and received $412,764 in June 2019 from the customer as a deposit. The agreement and deposit cover the Calgary region where this customer will be the exclusive CubicFarm licensee. The system's plan includes 20 CubicFarms patented growing machines, 2 patented germination machines, along with Cubic's proprietary supporting irrigation system. The total sales agreement is valued at approximately USD$3.2 million and the Company expects to complete the installation of the system by the end of March 2020.

On September 24, 2019, the Company appointed Rodrigo Santana as its interim CFO. Supported by the rest of the CubicFarms finance team, Rodrigo will continue his role as Chief Operating Officer. Rodrigo is very experienced in the dual role of COO and CFO where he held both positions in his previous employment at Sacré-Davey Engineering.

On October 8, 2019, the Company announced that it finalized an agreement for the sale of a large-scale CubicFarm system in Montana, USA and received the initial deposit of $332,356 in October 2019 from the customer. This was the Company's second large-scale farm in the US, in the State of Montana. The system's plan includes 18 CubicFarms patented growing machines, 2 patented germination machines, along with Cubic's proprietary supporting irrigation system. The total sales agreement is approximately USD$3 million, this represents the second-largest sale agreement to date and the Company expects to complete the installation of the system by the end of March 2020.

On October 28, 2019, the Company announced that ZenCube, its vertical-farming machine for growing hemp and cannabis, is fully operational at a showcase and R&D facility in Langley, Canada.

On November 6, 2019, the Company announced that it has entered into a global Reseller Agreement (the "Reseller Agreement") with Groviv, a leader in the science and technology of controlled-environment agriculture ("CEA"). Groviv, a division of Nu Skin Enterprises - a minority investor in CubicFarms - will lead global sales for CubicFarms and has appointed Joe Huston, its Vice President of Business Development to direct the effort. Mr. Huston has extensive retail sales and distribution experience, working with brands such as Walmart, Kroger and Costco.

Financial Results

Three months ended September 30, 2019 and 2018

Revenue for the three months ended September 30, 2019 was $240,701. The Company did not record any revenues during the three months ended September 30, 2018. The company had a 50% gross margin during the three months ended September 30, 2019.

Total operating and general administrative expenses significantly increased during the three months ended September 30, 2019 – $1,693,489 compared to $286,213 for the same period in the previous year. This is in line with the Company's continued expansion of its business and building up its team. Of the total for 2019, salaries and consulting fees were $629,071 and $370,278 respectively.

Selling expenses, which include commissions and freight, were $23,050 compared to $27,229 for the three months ended September 30, 2018.

During the three months ended September 30, 2019, the Company incurred research expenses in the amount of $356,746 in connection with the further automation of its Systems, growth of new crops in the Systems and further transformation of these crops through juicing. These costs include salaries, materials, parts and consumables related to research activities. Research costs for the three months in the previous year were $171,212.

Net loss and comprehensive loss for the three months ended September 30, 2019 were $2,276,147, compared to $468,777 for the three months ended September 30, 2018.

Selected Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company and is derived from unaudited interim consolidated financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with IFRS applicable to interim financial statements and are expressed in Canadian dollars.

Period	Revenues	Income (loss) for the period $	Basic and fully diluted income (loss) per share $
1st Quarter 2020	240,701	(2,276,147)	(0.03)
4th Quarter 2019	24,110	(3,153,030)	(0.04)
3rd Quarter 2019	1,461,226	(1,669,517)	(0.02)
2nd Quarter 2019	3,870,694	(2,339,301)	(0.04)
1st Quarter 2019	Nil	(468,777)	(0.01)
4th Quarter 2018	Nil	(433,864)	(0.01)
3rd Quarter 2018	Nil	(358,109)	(0.01)
2nd Quarter 2018	Nil	(308,542)	(0.01)

The Company is still in its early stage of operations and expects its financial results to fluctuate from period to period in the near term. The Company has two main sources of Revenue: Revenue from sales of machines and other revenue coming from sale of seeds, nutrients/fertilizers, substrate and subscription. Revenue from machines depends on the completion of the sales and delivery process which consists of signing agreement, prepayment, manufacture of machines, customer's site preparation, shipping and installation which usually takes three to four months. Higher Revenue reported in Q2 and Q3 2019 due to completion of the installation for the customers, whereas Q4 2019 and Q1 2020 no machines were installed, and the revenue is from other sources mentioned above.

<u>Liquidity and Capital Resources</u>

The Company's source of financing to date has been equity financings and sales of Systems and produce.

As at September 30, 2019, the Company had cash and cash equivalents of $5,593,968 (June 30, 2019 - $9,900,987) and working capital of $7,319,446 (June 30, 2019 - $9,176,875). Current liabilities that are to be settled in cash as at September 30, 2019 include trade and other payables, customer deposits and warranty provision.

During the period ended September 30, 2019, the Company used $4,362,668 in cash for operating activities and $95,486 in cash for investing activities. The Company received an aggregate net cash of $151,135 from its financing activities.

As at September 30, 2019, the Company has commitments in the amount of $82,769 for purchase orders in respect to Systems inventory.

Management expects that the Company's existing cash and cash equivalents balance will be adequate to meet the Company's expansion of facilities and operational activities for the next twelve months. However, the Company may seek additional financings through issuance of equity to support further expansion, joint-venture partnerships and research and development activities.

Forward-Looking Guidance

Systems

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

Sales and deposits

The Company does not book revenue until it has delivered and fully installed Systems at customer sites, and subsequently completing all invoicing. There are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, as well as weather and transportation delays. As such, the Company expects it would need to complete an additional year of sales and installation activities to result in smoother sales cycles.

The Company provides the following guidance with respect to deposits, and an estimate on timing of project completion:

- Number of machines under deposit: 69;
- Estimated quarter when the installation will be completed: Q4 2020 (fiscal year) for 69 machines.

The Company has set sales targets corresponding to:

- Approximate number of machines under deposit by the end of June 2020 (fiscal year end) – 220;
- Approximate number of machines under deposit by the end of December 2020 – additional 240.

In summary, the Company has a target to sell approximately 460 machines under the sales contracts by the end of December 2020 with a total value of approximately CDN$86 million. This is an increase from the 150-200 machines stated in the Company's Forward-Looking Guidance section of its year-end financial statements filed on November 14, 2019, to account for the growing customer demand that the Company has been experiencing as well as sales leads generated this quarter, and the 200 machines it expects to sell by December 2020 through its Reseller Agreement with Groviv.

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

Crops

CubicFarms growing machines can grow a wide variety of crops. Each new crop that is optimized presents an opportunity for a new sales vertical. To facilitate research and development on new verticals, the Company is ramping up cultivation at the Pitt Meadows facility. This will allow the Company to actively pursue new vertical business lines in the nutraceutical and cosmeceutical space, as well as testing for the animal feed space.

Additionally, growing styles that accommodate different methods of automation and harvesting are also being tested.

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

The Company is also exploring opportunities in the animal feed space to utilize the by-product of growing high gross margin crops.

Lastly the Company has entered the food sector markets for which is expected to increase the sales of leafy green from our vertical farming systems.

Transactions with Related Parties

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, noninterest bearing and have no specific terms of settlement, unless otherwise noted.

Transactions with entities with significant influence over the Company

During the period ended September 30, 2019, the Company paid rent to Bevo Farms (Note 5), in the amount of $21,278 (2018 - $11,500). Accounts receivable from Bevo is $967 & Accounts Payable is $8,269 (2018 - $160,036 and $145,413, respectively).

The Company has made 50% investment in Swiss Leaf Farms Ltd. Details of the investment is provided in Note 11 of the Company's condensed interim consolidated financial statements. As at September 30, 2019, the accounts receivable with Swiss Leaf was $11,925 and $0 is payable to Swiss Leaf (June 30, 2019 - $3,001 and $6,994 respectively).

Key management compensation

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

	Three Months Ended September 30, 2019	**Three Months Ended September 30, 2018**
	$	**$**
Wages and consulting fees	393,750	88,000
Share-based compensation	94,819	-
Total	**488,569**	**88,000**

On January 28, 2019 the Company completed a private placement with a strategic investor, Pursuant to the Investment Agreement, Nu Skin has the pre-emptive right to participate in future equity financings of the Company to maintain its pro rata ownership of the Company up to a maximum 12.9% ownership interest. This right is available to Nu Skin for as long as it owns not less than 8% of the Company's shares. As at September 30, 2019, common shares transactions with Nu Skin have been as follows, for its total ownership interest in the Company on non-diluted basis of 12.88%:

Date	# of common shares	Share price	Gross proceeds
January 28, 2019	9,953,913	1.00463	10,000,000
May 8, 2019	767,503	1.00463	771,056
August 16, 2019	158,171	0.9471	149,804
	10,879,587		**10,920,860**

As at September 30, 2019, accounts and other receivable from Nu Skin was $8,336 (June 30, 2019 - $487,254).

Outstanding Share Data

As at November 28, 2019, the Company had 84,456,885 outstanding common shares. The Company also had 29,536,766 share purchase options outstanding at weighted average exercise price of $0.45.

Off Balance Sheet Arrangements

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

Adoption of New Accounting Standards

IFRS 16 Leases

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company leases its office space, the farming facility in Pitt Meadows, British Columbia, and one vehicle. The office space and vehicle leases both have a term of one year. The farming facility is leased for five years, with an option to renew for a further five years. Until June 30, 2019, all leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

From July 1, 2019, leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

The Company adopted IFRS 16 retrospectively from July 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. Therefore, the adjustments arising from the new leasing rules were recognized in the opening balance sheet on July 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of July 1, 2019 as short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to its farming facility. The Company applied the practical expedient to the office space and vehicle lease, as they are for a period less than 12-months. The term of the lease of the farming facility is five years with an option to renew. The management of the Company expects that the facility will be used until 2028.

The liability pertaining to the lease of the farming facility was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 6.99%. The associated right-of-use asset was measured at the value of the lease liability. As a result, on July 1, 2019, the Company recognized total lease liabilities and right-of-use assets of $805,360.

Here is the reconciliation of lease commitments as reported at June 30, 2019 to the lease liabilities recorded at July 1, 2019

Particulars	**$**
Operating lease commitment as at June 30, 2019	123,727
Discounted using company's incremental borrowing rate at initial recognition	112,136
Less: Short term leases recognized on a straight-line basis as expense	(78,256)
Add: Additional estimated variable payments under IFRS 16	715,240
Add: Change in estimate for additional period (5 years)	56,240
Balance as at June 1, 2019	**805,360**
Of Which	
Current Lease payment	81,841
Non-current Lease payment	723,872
	805,360

A continuity of the Company's lease liability and the right-of-use asset for the farming facility is as follows:

Lease liability	September 30, 2019
	$
Balance as at July 1, 2019	-
Adoption of IFRS 16	805,360
Payments	(21,278)
Accretion expense	368
	784,450
Less: Current portion	**(81,841)**
Long-term	**702,609**

Right-of-Use Asset	September 30, 2019
	$
Balance as at July 1, 2019	-
Adoption of IFRS 16	805,360
Depreciation	(22,296)
	783,064

The lessor of the farming facility is a related party to the Company.

IFRS 28 Interest in Associates and Joint Ventures

Amendments were made to IAS 28, clarifying that IFRS 9, Financial Instruments requirements, including its impairment requirements, apply to long-term interests. The expected credit loss impairment requirements in IFRS 9 are applied first to long-term interests, followed by the adjustments to their carrying amount required by IAS 28, i.e. the adjustments resulting from the allocation of losses of the investees. This is followed by the determination of whether there are indicators of impairment which require an impairment test to be applied to the entire remaining carrying amount of the investment in the associate or joint venture.

The Company adopted these amendments on July 1, 2019. The Company has 50% investment in Swiss Leaf Farms Ltd. ("Swiss Farm") (Note 11), which is accounted for under the equity method. The Company has also provided loans to Swiss Farm. The promissory note receivable from Swiss Farm is measured at fair value and for additional loans to Swiss Farm, the Company has applied the impairment requirements of IFRS 9 and written off the related balances (Note 16). As at July 1, 2019 and September 30, 2019, the management of the Company determined that the balance remaining for the investment in associates was not impaired. As a result, the adoption of the amendments to IAS 28 did not have any impact on the consolidated financial statements of the Company.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, trade payables, customers deposits, demand loan and amounts due from an associate. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The following summarizes fair value hierarchy under which the Company's financial instruments are valued:

Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

As at September 30, 2019, the Company did not have any financial instruments measured at fair value, except for long-term note receivable from an associate (note 11), categorized within Level 2 of the fair value hierarchy.

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at September 30, 2019 the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. As at September 30, 2019, one customer accounted for 45% of the trade accounts receivable (94% of which is current as at September 30, 2019). The Company believes there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments on its customers and provides allowances for potentially uncollectible accounts receivable.

Interest rate risk

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

Liquidity risk

At this stage the Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. 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.

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at September 30, 2019, the following items are denominated in US dollars:

	September 30, 2019	**June 30, 2019**
	$	$
Cash	334,418	455,646
Accounts receivable	49,482	492,431
Accounts payable	(101,604)	(43,205)
Customer deposits	(585,600)	(585,600)
Net exposure	**(303,304)**	**319,151**

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. As the only foreign currency the company transacts in is USD and it is not subject to significant variance; the company has not made any special arrangements to reduce the related currency risk. Net exposure is negative as on September 30, 2019 as compared to June 30, 2019.

A 10% increase or decrease in the US dollar exchange rate would not have a material impact on the Company's net loss.
Management is continuing efforts to increase sales and attract additional equity and capital investors to continue R&D activities, and, from the other side, implement effective cost control measures to maintain adequate levels of working capital.

Additional Information & Approval

Additional information relating to the Company is on SEDAR at www.sedar.com.
The Board has approved the disclosure contained in this MD&A as of November 28, 2019.