



# Rubicon Organics Inc.

## **Condensed Consolidated Interim Financial Statements (Unaudited)**

For the three and nine months ended September 30, 2020

*Expressed in Canadian dollars*

**RUBICON ORGANICS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**  
*Expressed in Canadian Dollars*



	Notes	September 30, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		8,061,527	2,083,588
Accounts receivable	6	2,422,521	204,910
Prepaid expenses and deposits		1,149,365	491,479
Inventory	7	6,553,157	2,100,883
Cannabis plants	8	1,963,723	2,021,323
Assets held for sale	5	424,403	11,455,294
		<b>20,574,696</b>	<b>18,357,477</b>
<b>Non-Current</b>			
Security deposits		470,486	—
Property, plant and equipment	9	21,368,272	19,536,795
Right-of-use assets	10	309,065	—
Intangible asset		1,881,749	1,881,749
<b>Total assets</b>		<b>44,604,268</b>	<b>39,776,021</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	11	4,098,172	4,536,362
Deferred revenue	12	465,497	—
Deposit received on assets held for sale	5	—	2,597,600
Interest payable	13	1,478,632	695,917
Current portion of lease liabilities		122,159	18,071
Current portion of loans and borrowings	13	13,492,278	4,858,272
Liabilities associated with assets held for sale	5	—	147,641
		<b>19,656,738</b>	<b>12,853,863</b>
<b>Non-Current</b>			
Lease liabilities		255,271	47,417
Loans and borrowings	13	—	8,359,345
<b>Total liabilities</b>		<b>19,912,009</b>	<b>21,260,625</b>
<b>Shareholders' equity</b>			
Share capital	14	76,592,806	63,594,890
Reserves	15	14,356,114	11,919,470
Deficit		(66,280,283)	(56,339,813)
Accumulated other comprehensive income (loss)		23,622	(659,151)
<b>Total shareholders' equity</b>		<b>24,692,259</b>	<b>18,515,396</b>
<b>Total liabilities and shareholders' equity</b>		<b>44,604,268</b>	<b>39,776,021</b>

Approved on behalf of the Board:

(Signed) "Bryan Disher"  
Director

(Signed) "Margaret Brodie"  
Director and CFO

The accompanying notes form an integral part of these condensed consolidated interim financial statements (unaudited).

**RUBICON ORGANICS INC.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
(UNAUDITED)**
*Expressed in Canadian Dollars, except for share information*


	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2020	2019 (As restated – note 5)	2020	2019 (As restated – note 5)
<b>Revenue</b>					
Product sales		3,725,367	—	5,447,144	—
Excise taxes		(558,581)	—	(834,312)	—
<b>Net revenue</b>		<b>3,166,786</b>	<b>—</b>	<b>4,612,832</b>	<b>—</b>
<b>Cost of sales</b>					
Production costs	9	2,053,801	465,782	5,492,933	747,482
Inventory expensed to cost of sales		1,293,663	—	1,938,413	—
Inventory written off		459,897	—	489,141	—
<b>Gross loss before fair value adjustments</b>		<b>(640,575)</b>	<b>(465,782)</b>	<b>(3,307,655)</b>	<b>(747,482)</b>
Unrealized gain on changes in fair value of cannabis plants	8	3,591,441	1,454,099	7,647,975	1,756,860
Realized fair value of inventory sold		(1,361,395)	—	(1,993,981)	—
Fair value of inventory written off		(2,264,159)	—	(2,647,344)	—
<b>Gross profit (loss)</b>		<b>(674,688)</b>	<b>988,317</b>	<b>(301,005)</b>	<b>1,009,378</b>
Other Income	3(b)	491,405	—	929,867	—
<b>Operating expenses</b>					
Consulting, salaries and wages		1,809,693	1,225,189	4,632,491	2,783,558
General and administrative		776,123	733,126	1,690,921	2,396,418
Share-based compensation	15	476,258	787,995	1,329,531	2,454,883
Sales and marketing		324,879	196,875	578,185	473,386
Depreciation and amortization	9	42,304	199,514	74,886	394,039
		<b>3,429,257</b>	<b>3,142,699</b>	<b>8,306,014</b>	<b>8,502,284</b>
<b>Loss from operations</b>		<b>(3,612,540)</b>	<b>(2,154,382)</b>	<b>(7,677,152)</b>	<b>(7,492,906)</b>
Interest on loans	13	559,119	610,654	1,658,278	965,781
Foreign exchange loss		107,671	11,569	208,505	20,949
<b>Loss from continuing operations before income tax</b>		<b>(4,279,330)</b>	<b>(2,776,605)</b>	<b>(9,543,935)</b>	<b>(8,479,636)</b>
Income tax recovery		—	—	—	74,335
<b>Net loss from continuing operations</b>		<b>(4,279,330)</b>	<b>(2,776,605)</b>	<b>(9,543,935)</b>	<b>(8,405,301)</b>
Net loss from discontinued operations, net of tax	5	(37,918)	(1,677,848)	(396,535)	(1,837,264)
<b>Net loss for the period</b>		<b>(4,317,248)</b>	<b>(4,454,453)</b>	<b>(9,940,470)</b>	<b>(10,242,565)</b>
<b>Other comprehensive income (loss)</b>					
Exchange rate differences on translation of foreign operations		130,101	154,753	682,773	(379,562)
<b>Total comprehensive loss</b>		<b>(4,187,147)</b>	<b>(4,299,700)</b>	<b>(9,257,697)</b>	<b>(10,622,127)</b>
<b>Net loss per share from continuing operations, basic and diluted</b>		<b>(0.09)</b>	<b>(0.07)</b>	<b>(0.22)</b>	<b>(0.23)</b>
<b>Net loss per share from discontinued operations, basic and diluted</b>		<b>(0.00)</b>	<b>(0.04)</b>	<b>(0.01)</b>	<b>(0.05)</b>
<b>Net loss per share, basic and diluted</b>		<b>(0.09)</b>	<b>(0.12)</b>	<b>(0.23)</b>	<b>(0.27)</b>
<b>Weighted average number of shares</b>		<b>46,148,373</b>	<b>38,122,023</b>	<b>42,765,504</b>	<b>37,253,092</b>

*The accompanying notes form an integral part of these condensed consolidated interim financial statements (unaudited).*

**RUBICON ORGANICS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**  
*Expressed in Canadian Dollars, except for share information*



	Notes	Number of Shares	Share Capital (Net of Financing Costs)	Share-Based Reserves	Warrant Reserve	Reserves Total	Accumulated other comprehensive income (loss)	Deficit	Total Shareholders' Equity
<b>Balance, December 31, 2018</b>		<b>36,811,425</b>	<b>56,728,191</b>	<b>4,974,532</b>	<b>2,545,767</b>	<b>7,520,299</b>	<b>(121,158)</b>	<b>(42,066,019)</b>	<b>22,061,313</b>
Share issuance – public offering	14	3,150,000	6,855,428	—	723,800	723,800	—	—	7,579,228
Share issuance on stock option exercises	14	5,000	11,271	(4,657)	—	(4,657)	—	—	6,614
Warrants issued with debt		—	—	—	517,927	517,927	—	—	517,927
Share-based compensation – employees	15	—	—	2,454,883	—	2,454,883	—	—	2,454,883
Share-based compensation – non-employees	15	—	—	258,507	—	258,507	—	—	258,507
Net loss		—	—	—	—	—	—	(10,242,565)	(10,242,565)
Other comprehensive loss		—	—	—	—	—	(379,562)	—	(379,562)
<b>Balance, September 30, 2019</b>		<b>39,966,425</b>	<b>63,594,890</b>	<b>7,683,265</b>	<b>3,787,494</b>	<b>11,470,759</b>	<b>(500,720)</b>	<b>(52,308,584)</b>	<b>22,256,345</b>
<b>Balance, December 31, 2019</b>		<b>39,966,425</b>	<b>63,594,890</b>	<b>8,131,976</b>	<b>3,787,494</b>	<b>11,919,470</b>	<b>(659,151)</b>	<b>(56,339,813)</b>	<b>18,515,396</b>
Share issuance – private placement	14	5,767,447	11,499,276	—	1,812,694	1,812,694	—	—	13,311,970
Share issuance on stock option exercises	14	685,684	1,496,780	(705,471)	—	(705,471)	—	—	791,309
Share issuance on warrant exercises	14	500	1,860	—	(110)	(110)	—	—	1,750
Share-based compensation - employees	15	—	—	1,329,531	—	1,329,531	—	—	1,329,531
Net loss		—	—	—	—	—	—	(9,940,470)	(9,940,470)
Other comprehensive income		—	—	—	—	—	682,773	—	682,773
<b>Balance, September 30, 2020</b>		<b>46,420,056</b>	<b>76,592,806</b>	<b>8,756,036</b>	<b>5,600,078</b>	<b>14,356,114</b>	<b>23,622</b>	<b>(66,280,283)</b>	<b>24,692,259</b>

*The accompanying notes form an integral part of these condensed consolidated interim financial statements (unaudited).*

**RUBICON ORGANICS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)**  
*Expressed in Canadian Dollars*



		<b>For the nine months ended</b>	
		<b>September 30,</b>	September 30,
		<b>2020</b>	2019
		(As restated – note 5)	
<b>Notes</b>			
<b>OPERATING ACTIVITIES</b>			
	Net loss from continuing operations	<b>(9,543,935)</b>	(8,405,301)
	Net loss income from discontinued operations	<b>(396,535)</b>	(1,837,264)
	Adjustments to reconcile net loss to net cash used in Operating activities		
	Unrealized change in the fair value of cannabis plants	<b>(7,647,975)</b>	(1,756,860)
	Inventory written off	<b>2,647,344</b>	137,602
	Realized fair value of inventory sold	<b>1,993,981</b>	—
	Interest on loans	<b>1,720,821</b>	965,781
	Depreciation and amortization	<b>1,355,500</b>	1,112,326
	Share based compensation	<b>1,329,531</b>	2,713,390
	Impairment of assets held for sale	<b>237,637</b>	—
	Unrealized foreign exchange loss	<b>208,504</b>	81,768
	Provision for expected credit losses	—	1,271,328
	Changes in non-cash working capital items	<b>(3,611,298)</b>	(1,900,455)
	Interest paid	<b>(556,743)</b>	(389,389)
	<b>Cash used in operating activities</b>	<b>(12,263,168)</b>	(8,007,074)
<b>INVESTING ACTIVITIES</b>			
	Purchase of property, plant and equipment	<b>(4,399,764)</b>	(5,428,478)
	<b>Cash used in investing activities</b>	<b>(4,399,764)</b>	(5,428,478)
<b>FINANCING ACTIVITIES</b>			
	Net proceeds from equity financing – private placement	<b>13,311,970</b>	7,579,228
	Proceeds from sale of disposal group	<b>8,638,845</b>	—
	Proceeds from related parties under revolving credit line	<b>1,100,000</b>	—
	Repayment to related parties under revolving credit line	<b>(1,100,000)</b>	—
	Proceeds from stock options exercised	<b>791,309</b>	6,614
	Proceeds from warrants exercised	<b>1,750</b>	—
	Proceeds from loans and borrowings	—	13,131,652
	Repayment of loans and borrowings	—	(2,946,722)
	Repayment of finance lease	<b>(84,897)</b>	(13,139)
	<b>Cash provided by financing activities</b>	<b>22,658,977</b>	17,757,633
	Effect of exchange rate changes on cash	<b>(18,106)</b>	(21,610)
	<b>Increase in cash during the period</b>	<b>5,977,939</b>	4,300,471
	Cash, beginning of period	<b>2,083,588</b>	232,420
	<b>Cash, end of period</b>	<b>8,061,527</b>	4,532,891

*The accompanying notes form an integral part of these condensed consolidated interim financial statements (unaudited).*



## **1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS**

Rubicon Organics Inc. (the "Company", "Rubicon", or "ROI") is a British Columbia registered company incorporated on May 15, 2015.

The Company's principal business is the production and sale of cannabis in Canada. The Company produces and processes organic cannabis at its wholly owned, federally licensed 125,000 square foot facility in Delta, British Columbia (the "Delta Facility") which it sells under its wholly owned and other licensed brands.

The Company's common shares trade on the TSX Venture Exchange (the "TSXV") under the trading symbol "ROMJ" and on the OTCQX Best Market under the symbol "ROMJF". The common shares of the Company were voluntarily delisted from the Canadian Securities Exchange at the close of trading on September 21, 2020 and commenced trading on the TSXV at the opening of trading on September 22, 2020.

The address of the Company's registered office and records is 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600 Vancouver, British Columbia V7X 1T2. The Company's head office is unit 505, 744 West Hastings Street, Vancouver, British Columbia V6C 1A5.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

For the three and nine months ended September 30, 2020, the Company had net revenue of \$3,166,786 and \$4,612,832, respectively. On May 8, 2020, the Company received the sale amendment to its cultivation license from Health Canada and has since been able to sell directly to the provincial distributors, resulting in steadily increasing product sales. The Company continues to focus on building a reputation for premium organic quality in the Canadian market under its flagship Simply Bare™ Organic cannabis brand. The Company is also focused on launching additional brands into the market along with a diverse portfolio of cannabis 2.0 products.

As at September 30, 2020, the Company had not achieved profitable operations and had accumulated losses of \$66,280,283 since its inception. Although the Company expects to achieve positive operating cashflows within the next twelve months, until such time that this is achieved, the continuing operations of the Company are dependent upon its ability to obtain debt or equity financing. There can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

In addition, the COVID-19 pandemic has created a dramatic slowdown in the global economy. The duration of the COVID-19 outbreak and the resultant travel restrictions, social distancing, government response actions, business closures and business disruptions, can all have an impact on the Company's operations and access to capital. The Company has taken extensive measures to protect and sustain its operations during the pandemic but there can be no assurance that the Company will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic on access to markets and supplies and global financial markets which may see reduced share prices and financial liquidity and thereby severely limit the financing capital available.

The above conditions present material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## **2. BASIS OF PREPARATION**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Certain information and note disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Standards Interpretation Committee ("IFRIC") have been omitted or condensed. As a result, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019 ("Annual Financial Statements").



### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these condensed consolidated interim financial statements is the same as those disclosed in the Company's Annual Financial Statements, except as set out below:

#### a. Revenue from contracts with customers

Revenue is recognized at the amount of consideration that the Company expects to be entitled to in exchange for transferring promised goods to a customer. Revenue from the sale of goods is recognized when control of the goods has transferred, as determined by respective shipping terms and subject to certain additional considerations, as this is when the Company has satisfied its performance obligation under the contract. The Company does not have performance obligations after the delivery on sale of goods to customers. Net revenue is presented net of a variable sales allowance to account for the potential return of goods, as well as applicable excise taxes.

#### b. Government grants and government assistance

Government grants and assistance that compensate the Company for expenses incurred are recognized in profit or loss as other income on a systematic basis in the periods in which the expenses are recognized, unless the conditions for receiving the grant or assistance are met after the related expenses have been recognized. In that case, the grant is recognized when it becomes receivable.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical estimates and judgements made in the preparation of these condensed consolidated interim financial statements are the same as those used in preparing the Company's Annual Financial Statements.

### 5. DISCONTINUED OPERATIONS – UNITED STATES

On April 3, 2020, Rubicon completed the sale of the majority of its US assets for gross proceeds of \$12,020,700 (US\$8,500,000), excluding transaction costs.

The remaining assets of the discontinued US operations were as follows:

	September 30, 2020
	\$
Land	424,403

The comparative results of the discontinued operations included in net loss for the period are set out below.

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
	\$	\$	\$	\$
Greenhouse lease revenue	—	—	—	1,280,284
Inventory write-off	—	—	—	(137,602)
<b>Gross profit</b>	—	—	—	1,142,682
Consulting, salaries and wages	—	31,610	44,119	39,338
General and administrative	47,117	146,205	61,435	678,016
Provision for credit losses	—	1,271,328	—	1,271,328
Interest on loan	—	—	62,543	—
Depreciation and amortization	—	211,763	—	625,975
Sales and marketing	—	17,319	—	347,471
Foreign exchange (gain) or loss	(9,199)	(377)	(9,199)	17,818
Impairment <sup>1</sup>	—	—	237,637	—
Expenses and impairment	(37,918)	(1,677,848)	(396,535)	(1,837,264)
<b>Net loss from discontinued operations</b>	<b>(37,918)</b>	<b>(1,677,848)</b>	<b>(396,535)</b>	<b>(1,837,264)</b>

<sup>1</sup> Impairment reflects adjustments of asset carrying values to their estimated fair value less costs to sell.



**6. ACCOUNTS RECEIVABLE**

	September 30, 2020	December 31, 2019
	\$	\$
Trade receivables	1,792,077	—
Sales taxes recoverable	131,927	204,910
Canada Emergency Wage Subsidy receivable	498,517	—
<b>Total accounts receivable</b>	<b>2,422,521</b>	<b>204,910</b>

Trade receivables arise from sales of cannabis to distributors and retailers in Canada. As at the reporting date, the Company assessed the collectability of the balances and concluded that none were uncollectable.

For the three months ended September 30, 2020, three customers represented 47%, 27%, and 21% of revenue, respectively. For the nine months ended September 30, 2020, four customers represented 33%, 26%, 22% and 19% of revenue, respectively.

As at September 30, 2020, three customers accounted for 66%, 16% and 15% of accounts receivable (December 31, 2019: \$nil).

**7. INVENTORIES**

Inventory as at September 30, 2020 and December 31, 2019 consisted of consumable inventory used in the propagation and transformation of the Company's cannabis plants, work-in-process ("WIP") inventory comprised of harvested cannabis, post-harvest costs, and materials, and finished goods.

	September 30, 2020	December 31, 2019
	\$	\$
Consumable inventory	391,688	104,713
Cannabis WIP	5,302,181	1,789,885
Finished goods	859,288	206,285
<b>Total inventory</b>	<b>6,553,157</b>	<b>2,100,883</b>

Included in inventory is \$161,550 of depreciation (September 30, 2019 – \$nil). Included in cannabis WIP and finished goods is \$4,575,643 of cost transferred from cannabis plants (September 30, 2019 – \$nil).

**8. CANNABIS PLANTS**

The changes in the carrying value of cannabis plants was as follows:

	\$
<b>Balance, December 31, 2019</b>	<b>2,021,323</b>
Change in fair value of cannabis plants	7,647,975
Transferred to WIP inventory upon harvest	(7,705,575)
<b>Balance, September 30, 2020</b>	<b>1,963,723</b>

The fair value of cannabis plants was determined using a valuation model that estimates the expected harvest yield per plant and applies this to the estimated fair value less costs to sell per gram of dried cannabis flower. These fair value measurements have been categorized as Level 3 of the fair value hierarchy because there is currently no actively traded commodity market in Canada for cannabis plants.

The significant assumptions applied in determining the fair value are as follows:

- expected average yield of approximately 55.6 grams per plant (December 31, 2019: 71 grams per plant);
- comparable selling price of wholesale dried cannabis flower ranging from \$1.55 to \$3.11 per gram (December 31, 2019: \$4.36 per gram);
- post-harvest processing costs of \$0.40 per gram (December 31, 2019: \$0.66 per gram); and
- stage of plant growth.

The selling price used in the valuation is based on recent quoted selling prices of wholesale dried cannabis flower from comparable plants in Canada and varies based on strain and THC content. Expected yields for cannabis plants are





subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Estimates of future yields are based on historical weighted average of actual yields.

The Company periodically reassesses the significant assumptions applied in determining the fair value of cannabis plants based on historical information as well as the Company's planned production schedules. When there is a material change in any of the significant assumptions, the fair value of cannabis plants is adjusted.

For the period ended September 30, 2020, the Company determined the fair value less costs to sell was approximately \$2.02 per gram for plants in cultivation.

The Company has quantified the sensitivity of the significant unobservable inputs used to calculate the fair value recorded. A decrease in the average selling price per gram of 10% would result in a decrease in the value of cannabis plants of \$196,847. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of \$195,227.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at September 30, 2020, on average, the cannabis plants were estimated to be 46% complete (December 31, 2019 – 30% complete).

## 9. PROPERTY, PLANT AND EQUIPMENT

Cost	Buildings and leasehold improvements \$	Equipment and vehicles \$	Land \$	Construction in progress \$	Total \$
At December 31, 2019	12,079,060	6,248,695	2,040,722	37,429	20,405,906
Additions	838,554	2,270,841	—	27,305	3,136,700
Commissioned during the period	—	37,429	—	(37,429)	—
Foreign exchange	—	903	—	—	903
<b>At September 30, 2020</b>	<b>12,917,614</b>	<b>8,557,868</b>	<b>2,040,722</b>	<b>27,305</b>	<b>23,543,509</b>
<b>Accumulated depreciation</b>					
At December 31, 2019	309,912	559,199	—	—	869,111
Depreciation	465,043	840,608	—	—	1,305,651
Foreign exchange	—	475	—	—	475
<b>At September 30, 2020</b>	<b>774,955</b>	<b>1,400,282</b>	<b>—</b>	<b>—</b>	<b>2,175,237</b>
<b>Net book value</b>					
<b>At September 30, 2020</b>	<b>12,142,659</b>	<b>7,157,586</b>	<b>2,040,722</b>	<b>27,305</b>	<b>21,368,272</b>

Cost	Buildings and leasehold improvements \$	Equipment and vehicles \$	Land \$	Construction in progress \$	Total \$
At December 31, 2018	10,862,652	2,437,602	2,732,884	8,496,502	24,529,640
Additions	1,379,999	2,828,349	—	5,297,248	9,505,596
Commissioned during the period	10,790,111	2,966,210	—	(13,756,321)	—
Impairment related to discontinued operations	(571,185)	(304,767)	(36,437)	—	(912,389)
Impairment	—	(17,669)	—	—	(17,669)
Foreign exchange	(507,384)	(97,076)	(33,182)	—	(637,642)
Transferred to assets held for sale	(9,875,133)	(1,563,954)	(622,543)	—	(12,061,630)
<b>At December 31, 2019</b>	<b>12,079,060</b>	<b>6,248,695</b>	<b>2,040,722</b>	<b>37,429</b>	<b>20,405,906</b>



<b>Accumulated depreciation</b>					
At December 31, 2018	158,709	350,883	—	—	509,592
Depreciation	813,494	811,449	—	—	1,624,943
Foreign exchange	(17,946)	(20,972)	—	—	(38,918)
Transferred to assets held for sale	(644,345)	(582,161)	—	—	(1,226,506)
<b>At December 31, 2019</b>	<b>309,912</b>	<b>559,199</b>	<b>—</b>	<b>—</b>	<b>869,111</b>
<b>Net book value</b>					
<b>At December 31, 2019</b>	<b>11,769,148</b>	<b>5,689,496</b>	<b>2,040,722</b>	<b>37,429</b>	<b>19,536,795</b>

For the three months ended September 30, 2020, depreciation of \$345,904 was included in production costs (September 30, 2019 - \$54,386), \$29,758 was capitalized to inventory (September 30, 2019 - \$nil) and \$86,215 was expensed in cost of sales (September 30, 2019 - \$nil).

For the nine months ended September 30, 2020, depreciation of \$974,992 was included in production costs (September 30, 2019 - \$92,313), \$161,550 was capitalized to inventory (September 30, 2019 - \$nil) and \$129,549 was expensed in cost of sales (September 30, 2019 - \$nil).

## 10. LEASES

The Company's leases primarily consist of property and building leases. Information about leases for which the Company is a lessee is presented below.

### a) *Right-of-use assets*

Buildings and leasehold improvement additions contains a right-of-use office lease that was capitalized in the amount of \$358,914 on May 1, 2020 and has accumulated depreciation of \$49,849.

### b) *Lease payments recognized in net loss*

The Company's property and building leases that consisted of short-term leases were expensed on a straight-line basis over the lease term. For the three and nine months ended September 30, 2020, \$90,555 and \$177,422 respectively was expensed in 'General and administrative' expenses with respect to the lease payments not included in lease liabilities.

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	December 31, 2019
	\$	\$
Trade payables	1,469,566	2,562,849
Accrued liabilities	2,435,745	1,973,513
Excise taxes payable	192,861	—
	<b>4,098,172</b>	<b>4,536,362</b>

## 12. DEFERRED REVENUE

The Company received \$465,497 in advanced payment for product from Canacur GmbH as part of its product sale agreement. This advanced payment is secured by the Delta Facility behind the second mortgage debt and used to assist the Company to prepare for EU-GMP certification.



### 13. LOANS AND BORROWINGS

The changes in the carrying value of current and non-current loans and borrowings are as follows:

	September 30, 2020 \$	December 31, 2019 \$
Opening balance	13,217,617	2,946,722
Additions	—	13,855,010
Deferred financing fee	—	(637,393)
Accretion	274,661	—
Principal repayments	—	(2,946,722)
<b>Ending balance</b>	<b>13,492,278</b>	<b>13,217,617</b>

The Company had the following loans and borrowings:

	September 30, 2020 \$	December 31, 2019 \$
First mortgage	4,904,968	4,858,272
Second mortgage (group)	3,272,073	3,191,073
Second mortgage (overseas lenders)	4,831,081	4,696,764
Second mortgage (US lenders)	484,156	471,508
<b>Total loans and borrowings</b>	<b>13,492,278</b>	<b>13,217,617</b>
Less: current portion	(13,492,278)	(4,858,272)
<b>Non-current loans and borrowings</b>	<b>—</b>	<b>8,359,345</b>

On August 10, 2020, the Company executed an extension option on its First Mortgage debt extending the maturity date six months from September 30, 2020 to March 31, 2021.

Total interest expense for the three and nine months ended September 30, 2020 was \$559,119 and \$1,658,278, respectively (September 30, 2019 – \$610,654 and \$965,781, respectively).

### 14. SHARE CAPITAL

#### (a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

#### (b) Issued and fully paid

Common shares	#	\$
<b>December 31, 2018</b>	<b>36,811,425</b>	<b>56,728,191</b>
Public offering	3,150,000	6,855,428
Stock option exercises	5,000	11,271
<b>December 31, 2019</b>	<b>39,966,425</b>	<b>63,594,890</b>
Non-brokered private placement, net of financing costs	5,767,447	11,499,276
Stock option exercises	685,684	1,496,780
Warrant exercises	500	1,860
<b>September 30, 2020</b>	<b>46,420,056</b>	<b>76,592,806</b>

On May 29, 2020, the Company completed a non-brokered private placement of 5,744,681 units at \$2.35 per unit for gross proceeds of \$13,500,000 and issued 22,766 units as finder units. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$3.25 per common share until May 29, 2021. Share issuance costs were \$188,030, net of \$7,474 of tax. The share purchase warrants were valued at \$1,812,694 using the relative fair value method. The Company used the Black-Scholes option pricing model to calculate the fair value of the share purchase warrants issued, using the following estimates, judgements, and assumptions:



Expected stock price volatility	79.5%
Expected life of warrants	1 year
Risk free interest rate	0.28%
Expected dividend yield	0%
Exercise price	3.25
Fair value per warrant	\$0.39

In the three months ended September 30, 2020, two executives exercised an aggregate of 600,000 options at US\$1.00 per common share and exercised 157,500 options via cashless exercise for a total issuance of 685,684 common shares. The Company received total proceeds of \$791,309 from the exercise of these options.

On July 21, 2020, the Company issued 500 shares on the exercise of warrants for proceeds of \$1,750.

## 15. RESERVES

### (a) Options

Under the Company's Equity Incentive Plan, the Board of Directors may grant stock options and restricted share awards ("Equity Awards") to eligible directors, officers, employees, and consultants of the Company and its subsidiaries. On August 19, 2020, the Equity Incentive Plan and Deferred Share Unit Plan (the "Plans") were amended to comply with TSXV listing requirements. The Plans provide for the issuance of Equity Awards that shall not exceed in aggregate 9,146,774 common shares of the Company. The exercise price of each option is determined by the Board of Directors but cannot be lower than the fair market value of the common shares subject to option on the date of grant. The options vest and become exercisable as determined by the Board of Directors at the time of the grant. Unless determined otherwise by the Board of Directors, the options expire within five years from the date of grant.

The Company has granted options to purchase common shares under the Plan as follows:

	Number of options #	Weighted average exercise price \$
<b>Outstanding December 31, 2018</b>	<b>5,178,500</b>	<b>\$2.79</b>
Granted	624,750	\$3.25
Exercised	(5,000)	\$1.40
Forfeited	(285,500)	\$3.19
<b>Outstanding, December 31, 2019</b>	<b>5,512,750</b>	<b>\$2.80</b>
Granted	92,500	\$3.33
Exercised	(757,500)	\$1.40
Forfeited	(46,000)	\$3.58
<b>Outstanding, September 30, 2020</b>	<b>4,801,750</b>	<b>\$3.05</b>

The following table provides information on stock options outstanding and exercisable as at September 30, 2020:

Grant Date	Exercise Price	Options outstanding		Options exercisable	
		Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
December 17, 2015	US\$1.00	612,500	0.21	612,500	0.21
March 21, 2016	US\$1.00	24,000	0.47	24,000	0.47
June 30, 2016	US\$1.00	90,000	0.75	90,000	0.75
August 17, 2016	US\$1.00	500,000	0.88	500,000	0.88
January 12, 2017	US\$1.50	80,000	1.28	80,000	1.28
July 31, 2017	US\$2.00	270,000	1.83	270,000	1.83
November 15, 2017	US\$2.00	5,000	2.13	5,000	2.13
January 21, 2018	US\$2.00	50,000	2.31	50,000	2.31
July 31, 2018	\$3.25	2,392,000	2.83	1,792,583	2.83

**RUBICON ORGANICS INC.**  
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*Expressed in Canadian dollars*



September 24, 2018	\$3.25	15,000	2.98	7,500	2.98
September 24, 2018	\$8.15	350,000	2.98	350,000	2.98
May 28, 2019	\$3.25	113,250	3.66	51,083	3.66
July 12, 2019	\$3.25	163,000	3.78	54,333	3.78
September 24, 2019	\$3.25	44,500	3.98	14,833	3.98
August 18, 2020	\$3.33	92,500	4.88	-	4.88
		<b>4,801,750</b>	<b>2.27</b>	<b>3,901,833</b>	<b>2.04</b>

On August 18, 2020, the Company granted an aggregate of 92,500 stock options to employees of the Company, pursuant to the equity incentive plan. The options are exercisable at \$3.33 per share for a period of five years from the date of grant. The options vest over three years.

The fair value of stock options is determined on the grant date. In order to compute this fair value, the Company uses the Black-Scholes option pricing model using the following estimates, judgements, and assumptions to determine the fair value of the stock options granted for the nine months ended September 30, 2020:

Expected stock price volatility	67.7%
Expected life of options	5 years
Risk free interest rate	0.41%
Expected dividend yield	0%
Exercise price	3.33
Fair value per option granted	\$1.59

During the three and nine months ended September 30, 2020, the Company recognized \$476,258 and \$1,329,531, respectively, in share-based compensation expense pertaining to option awards (September 30, 2019 - \$645,201 and 2,546,140, respectively).

**(b) Warrants**

At September 30, 2020, the Company's outstanding warrants consisted of the following:

Issue Date	Expiry Date	Type	Exercise Price	Number of warrants
April 25, 2019	April 25, 2022	Warrants	\$4.50	671,000
May 28, 2019	May 28, 2022	Warrants	\$4.50	1,000,000
July 12, 2019	July 12, 2022	Warrants	\$4.50	100,002
August 23, 2019	February 23, 2022	Warrants	\$3.50	3,149,500
August 23, 2019	August 23, 2021	Broker Warrants	\$2.70	189,000
May 29, 2020	May 29, 2021	Warrants	\$3.25	5,767,447
				<b>10,876,949</b>

Each warrant is exercisable into one common share of the Company upon payment of the exercise price.

**16. RELATED PARTY TRANSACTIONS**

**(a) Related party transactions**

Accounts payable and accrued liabilities at September 30, 2020 included \$4,604 (December 31, 2019: \$75,459) owed to executives and directors of the Company for expenses paid on behalf of the Company.

In January and February 2020, the Board approved revolving credit lines with the CEO, CFO, CSO, President, and a shareholder of the Company for aggregate proceeds of up to \$1,350,000 at an annual interest rate of 12% requiring repayment no later than December 31, 2020. On April 21, 2020, the amount was increased to \$1,850,000.

On April 22, 2020, the Company repaid \$335,377 of accrued salaries and expenses to the CEO, CFO, CSO, and President as well as \$100,000 in principal and \$2,926 in interest to the CFO amounts drawn on the revolving credit line. On May 19, 2020, the Company repaid \$1,000,000 in principal and \$32,795 in interest to the CEO and shareholder for amounts drawn on the revolving credit line.



**(b) Compensation of key management personnel**

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Key management compensation was comprised of:

	<b>For the nine months ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<b>\$</b>	<b>\$</b>
Salaries	1,187,437	812,553
Bonuses in accrued liabilities	758,906	—
Share based compensation	834,148	1,615,558
<b>Total compensation of key management personnel</b>	<b>2,780,491</b>	<b>2,428,111</b>

On August 17, 2020, \$448,750 in bonuses was paid in connection with amounts previously accrued for the year ended December 31, 2019.

**17. SUPPLEMENTAL CASH FLOW INFORMATION**

Change in non-cash working capital items:

	<b>For the nine months ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	(2,217,611)	(961,884)
Prepays and deposits	(657,887)	(870,572)
Security deposits	(470,486)	—
Inventory	(1,388,023)	159,996
Accounts payable and accrued liabilities	(149,017)	(227,995)
Deferred revenue	465,497	—
Interest payable	782,715	—
Interest on capital leases	23,514	—
	<b>(3,611,298)</b>	<b>(1,900,455)</b>

Supplemental disclosure of non-cash activities:

- (i) As at September 30, 2020, accounts payable and accrued liabilities include \$994,399 related to capital asset additions (December 31, 2019: \$2,271,875).

**18. SEGMENT INFORMATION**

Prior to June 30, 2020, the Company identified three reportable segments: (a) Canadian development of facilities for production and sale of cannabis; (b) corporate costs; and (c) discontinued operations related to the United States. Following the sale of the Washington greenhouse, the Company's chief operating decision maker ("CODM") determined that, from the date of the sale, the Company's corporate activities are directly linked to maintaining the success of the Canadian operation and that the performance of the Canadian operation and corporate expenditures are reviewed together in making decisions about use of the Company's resources and therefore the Company now operates in a single reportable segment, the production and sale of cannabis in Canada.

**19. COMPARATIVE FIGURES**

Prior year share-based compensation expense of \$24,457 and 258,507 for the three and nine months ended 2019 relating to consultant fees has been reclassified from share-based compensation expense to general and administrative expenses in order to conform to the presentation of the current year financial statements. This reclassification had no effect on the restated net loss.



## 20. SUBSEQUENT EVENTS

### (a) Grant of Options and Deferred Share Units (“DSUs”)

On October 15, 2020, the Company granted an aggregate of 80,000 stock options to employees of the Company pursuant to the Plan. The options are exercisable at \$4.10 per share for a period of five years from the date of grant and vest over three years.

On October 15, 2020, the Company granted an aggregate of 75,000 DSUs pursuant to the DSU Plan to independent directors of the Company as compensation for their services. The DSUs vest immediately and may only be redeemed upon a holder ceasing to be a director of the Company.

### (b) Changes to Corporate structure:

#### i. Amalgamation of three Canadian subsidiaries

Effective October 1, 2020 the Company amalgamated Rubicon Holdings Corp, Bridge View Greenhouses Ltd and Vintages Organic Cannabis Co. (“Vintages”) to continue as one entity being Rubicon Holdings Corp. At the same time, Health Canada acknowledged and transitioned the Company’s cannabis license previously held by Vintages into Rubicon Holdings Corp.

#### ii. Dissolution of four US subsidiaries

On October 26, 2020, the Company completed the dissolution of Rubicon Property 2, LLC, Great Pacific Brands, LLC, Red Dog Operations, Inc., and Seymour Soils, Inc. The remaining US subsidiaries are expected to be dissolved by the end of 2020.

### (c) Sale of three-acre land parcel in Greenfield, California

On November 18, 2020, the Company sold the three-acre parcel of land in Greenfield, California for gross proceeds of US\$390,000.

### (d) Acceleration of Warrant Expiry Date

On November 16, 2020, the Company elected to accelerate the expiry date of 3,117,000 outstanding common share purchase warrants with an exercise price of \$3.50 per common share and an original expiry date of February 23, 2022. The Company was able to accelerate these warrants on the basis that it met the metric pursuant to the warrant indenture for its common shares volume weighted average trading price exceeded \$3.80 for 20 consecutive trading days. Warrant holders will have until December 16, 2020 to exercise their warrants.