Condensed Consolidated Interim Financial Statements (Unaudited)

Rubicon Organics Inc.

For the Three and Nine Months Ended September 30, 2019

Expressed in Canadian dollars

RUBICON ORGANICS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
Unaudited – Expressed in Canadian Dollars

	Notes	September 30, 2019	December 31, 2018
ASSETS			
Current			
Cash		**4,532,891**	232,420
Accounts receivable	6	**181,120**	490,564
Available for sale land		**802,133**	826,301
Prepaid expenses and deposits	7	**1,259,589**	389,016
Inventory	8	**455,121**	352,145
Biological assets	9	**1,356,288**	—
		8,587,142	2,290,446
Non-Current			
Property, plant and equipment	10	**16,386,322**	24,020,048
Investment property	11	**11,778,091**	—
Intangible asset		**1,881,749**	1,881,749
Investment		**132,430**	136,420
Right-of-use asset	12	**80,004**	—
Total assets		**38,845,738**	28,328,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	16	**3,404,814**	2,904,811
Due to related parties	16	—	332,750
Current portion of lease liabilities		**17,946**	17,579
Current portion of loans and borrowings	13	**4,816,545**	100,390
		8,239,305	3,355,530
Non-Current			
Lease liabilities		**51,982**	65,488
Loans and borrowings	13	**8,298,106**	2,846,332
Total liabilities		**16,589,393**	6,267,350
Shareholders' equity			
Share capital	14	**63,594,890**	56,728,191
Reserves		**11,470,759**	7,520,299
Deficit		**(52,308,584)**	(42,119,486)
Accumulated other comprehensive loss		**(500,720)**	(67,691)
Total shareholders' equity		**22,256,345**	22,061,313
Total liabilities and shareholders' equity		**38,845,738**	28,328,663

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

	Notes	For the three months ended September 30, 2019	September 30, 2018 (restated)*	For the nine months ended September 30, 2019	September 30, 2018 (restated)*
Revenue					
Product sales		—	520,976	—	1,356,768
Cost of sales					
Production costs	8	**(465,782)**	—	**(747,482)**	—
Inventory expensed to cost of sales		—	(534,715)	—	(1,033,354)
Loss on inventory write-off		—	(56,346)	**(137,602)**	(85,921)
Gross profit (loss) before fair value adjustments		**(465,782)**	(70,085)	**(885,084)**	237,493
Gain on changes in fair value of biological assets	9	**1,454,099**	—	**1,756,860**	—
Gross profit (loss)		**988,317**	(70,085)	**871,776**	237,493
Other income	6	—	—	**1,280,284**	—
Operating expenses					
Share-based compensation	15	**812,451**	828,906	**2,713,390**	1,096,758
Consulting, salaries and wages		**1,256,798**	1,042,251	**2,822,896**	2,394,096
General and administrative		**854,877**	1,470,254	**2,680,070**	3,193,080
Provision for credit losses	6	**1,271,328**	—	**1,271,328**	—
Depreciation and amortization	10, 11	**411,276**	70,356	**1,020,013**	276,220
Sales and marketing		**214,194**	215,366	**820,857**	841,941
		4,820,924	3,627,133	**11,328,554**	7,802,095
Loss from operations		**(3,832,607)**	(3,697,218)	**(9,176,493)**	(7,564,602)
Interest on loans	13	**610,654**	35,608	**965,781**	100,305
Loss on deconsolidation of Vega	5	—	—	**135,859**	—
Net realized foreign exchange		**11,192**	(171,349)	**(14,700)**	(11,350)
Loss on revaluation of land		—	9,526	—	751,781
Reverse take-over costs		—	244,829	—	15,727,799
Loss from continuing operations before income tax		**(4,454,453)**	(3,815,832)	**(10,263,433)**	(24,133,137)
Income tax recovery		—	—	**74,335**	—
Net loss from continuing operations		**(4,454,453)**	(3,815,832)	**(10,189,098)**	(24,133,137)
Loss from discontinued operations	5	—	(171,237)	—	(590,034)
Net loss for the period		**(4,454,453)**	(3,987,069)	**(10,189,098)**	(24,723,171)
Other comprehensive income					
Exchange rate differences on translation of foreign operations		**154,753**	195,590	**(433,029)**	199,970
Total comprehensive loss		**(4,299,700)**	(3,791,479)	**(10,622,127)**	(24,523,201)
Net loss per share from continuing operations, basic and diluted		**(0.12)**	(0.12)	**(0.28)**	(0.74)
Net loss per share from discontinued operations, basic and diluted		—	(0.01)	—	(0.02)
Net loss per share from operations, basic and diluted		**(0.12)**	(0.12)	**(0.27)**	(0.76)
Weighted average number of shares		**38,122,023**	33,129,930	**37,253,092**	32,698,516

**Restated for deconsolidation of Vega (note 5).*
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

	Notes	Number of Shares	Share Capital (Net of Financing Costs)	Special Warrants (Net of Financing Costs)	Share-Based Reserves	Warrant Reserve	Reserves Total	Accumulated other comprehensive loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2018		31,000,365	26,317,209	—	2,608,579	1,225,824	3,834,403	(29,366)	(11,891,991)	**18,230,255**
Share issuance – Financing (net of financing costs)		1,852,239	4,672,680	—	—	121,597	121,597	—	—	**4,794,277**
Share issuances – KG Inc.		300,000	737,580	—	—	—	—	—	—	**737,580**
Deemed equity consideration of RTO		—	15,727,799	—	—	—	—	—	—	**15,727,799**
Special warrants		—	—	10,619,950	—	—	—	—	—	**10,619,950**
Broker warrants issued		—	—	—	—	132,005	132,005	—	—	**132,005**
Share-based compensation		—	—	—	1,096,758	—	1,096,758	—	—	**1,096,758**
Net loss		—	—	—	—	—	—	—	(24,723,171)	**(24,723,171)**
Other comprehensive income		—	—	—	—	—	—	199,970	—	**199,970**
Balance, September 30, 2018		**33,152,604**	**47,455,268**	**10,619,950**	**3,705,337**	**1,479,426**	**5,184,763**	**170,604**	**(32,615,162)**	**14,490,737**
Balance, January 1, 2019		**36,811,425**	**56,728,191**	—	**4,974,532**	**2,545,767**	**7,520,299**	**(67,691)**	**(42,119,486)**	**22,061,313**
August public offering	14	3,150,000	6,855,428	—	—	723,800	723,800	—	—	**7,579,228**
Share issuance on option exercises	14	5,000	11,271	—	(4,657)	—	(4,657)	—	—	**6,614**
Warrants issued with debt	13, 15	—	—	—	—	517,927	517,927	—	—	**517,927**
Share-based compensation	15	—	—	—	2,713,390	—	2,713,390	—	—	**2,713,390**
Net loss		—	—	—	—	—	—	—	(10,189,098)	**(10,189,098)**
Other comprehensive loss		—	—	—	—	—	—	(433,029)	—	**(433,029)**
Balance, September 30, 2019		**39,966,425**	**63,594,890**	—	**7,683,265**	**3,787,494**	**11,470,759**	**(500,720)**	**(52,308,584)**	**22,256,345**

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

	Notes	For the nine months ended September 30, 2019	September 30, 2018
OPERATING ACTIVITIES			
Net loss from continuing operations		**(10,189,098)**	(24,133,137)
Net loss from discontinued operations		**—**	(590,034)
Adjustments to reconcile net loss to net cash used in operating activities			
Share based compensation		**2,713,390**	1,096,758
Unrealized change in the fair value of biological assets		**(1,756,860)**	—
Provision for credit losses		**1,271,328**	—
Depreciation and amortization		**1,112,326**	333,134
Interest expense		**965,781**	—
Inventory write-down		**137,602**	203,110
Unrealized foreign exchange loss (gain)		**28,301**	(131,071)
Reverse takeover costs		**—**	15,727,799
Impairment of land		**—**	751,781
Cost of issuing warrants		**—**	132,005
Non-cash consulting fees		**—**	110,317
Changes in non-cash working capital items	17	**(1,900,455)**	(187,437)
Interest paid		**(389,389)**	—
Cash used in operating activities		**(8,007,074)**	(6,686,775)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10, 11	**(5,428,478)**	(8,929,392)
Investments		**—**	14,927
Share exchange to acquire RHI		**—**	2,255
Cash used in investing activities		**(5,428,478)**	(8,912,210)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	13, 16	**13,131,652**	27,742
Proceeds from equity financing	14	**7,579,228**	4,683,960
Repayment of loans and borrowings	13	**(2,946,722)**	(29,563)
Special warrants		**—**	10,619,950
Repayment of finance lease		**(13,139)**	(10,867)
Stock option exercises		**6,614**	—
Cash provided by financing activities		**17,757,633**	15,291,222
Effect of exchange rate changes on cash		**(21,610)**	(68,427)
Increase in cash during the period		**4,300,471**	(376,190)
Cash, beginning of period		**232,420**	2,921,051
Cash, end of period		**4,532,891**	2,544,861

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" or "Rubicon") 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 as well as leasing custom-built facilities and providing brand licensing to cannabis producers and processors in Washington. The Company intends to produce organic cannabis to process and sell under its wholly owned and other licensed brands. In Canada, the Company expects to grow and sell cannabis directly from its wholly owned, federally licensed 125,000 square foot facility in Delta, British Columbia (the "Delta Facility"). In the state of Washington, the Company leases its 40,000 square foot facility to a state licensed operator and provides its brands under license to various licensed operators.

The Company's common shares trade on the Canadian Securities Exchange under trading symbol "ROMJ" and on the OTCQX Best Market under the symbol "ROMJF".

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. As at September 30, 2019, the Company had not achieved profitable operations and had accumulated losses of $52,308,584 since its inception. The continuing operations of the Company are dependent upon its ability to obtain debt or equity financing and the Company may contemplate the sale of certain assets until it achieves profitable operations.

In February 2019 the Company received its Cultivation and Processing licenses from Health Canada for its Delta Facility and commencing in August 2018 its Washington facility has been leased to a state licensed tenant. The Company has not yet generated substantial revenue from either of these primary assets but crops have been harvested at the Washington Facility since Q2 2019 and the Company completed its first commercial harvest at the Delta Facility in October 2019. The Company expects to have sufficient resources to carry out the business plan to reach profitability.

The Company has not yet achieved profitable operations; this may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated 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, 2018 ("Annual Financial Statements").

3. CHANGES TO ACCOUNTING STANDARDS, POLICIES AND INTERPRETATIONS

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:

- IFRS 16 – *Leases* ("**IFRS 16**")

IFRS 16 replaces the previous guidance on leases, predominantly IAS 17, *Leases*. The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as lessee
The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Comparative information has not been restated. As a result, the Company recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the accumulated deficit as at January 1, 2019.

The Company has applied the following practical expedient:
On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

The Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases. The Company has elected not to recognize right-of-use assets and lease liabilities for lease terms of 12 months or less and leases for which the underlying asset is of low value. The Company has elected to measure the right-of-use assets at the carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. For the lease the Company previously classified as a finance lease under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is equal to the carrying amount of the leased asset and lease liability immediately before the date of initial application.

The following is the Company's policy for accounting for lease contracts in accordance with IFRS 16:

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. 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 the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the 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. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property and equipment. The lease liability is initially measured at the present value of the 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. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has elected not to recognize right-of-use assets and lease liabilities for lease terms of 12 months or less and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- IAS 40 – *Investment Property* (“**IAS 40**”)

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured using the cost model wherein the investment property is measured:

(a) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);

(b) in accordance with IFRS 16 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with IFRS 5; and

(c) in accordance with the requirements in IAS 16 for the cost model in all other cases.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Company considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

4. CHANGES TO 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 other than the below:

Biological assets
Biological assets are measured at their fair value less costs to sell up to the point of harvest. Determination of the fair value of biological assets requires management to estimate selling prices, selling costs, stage of growth of cannabis plants, harvest yields, and post-harvest costs to bring harvested cannabis to finished goods inventory.

Financial instruments
IFRS requires that financial instruments be measured at fair value on initial recognition. For financial instruments that do not have quoted market prices or observable inputs, judgements are made in determining what are appropriate inputs and assumptions to use in calculating the fair value.

Upon initial recognition of the second mortgages (note 13) which contained attached warrants, management estimated the effective interest rates of each instrument in order to determine the fair value of the debt component. Warrants were valued using the residual of net proceeds less the fair value of the debt component for each instrument.

5. DISCONTINUED OPERATIONS

Effective January 1, 2019 the Company allowed its contractual agreement with Vega Ventures LLC ("Vega"), the state licensed tenant who operated Rubicon's leased extraction laboratory in the state of Washington, to expire. As a result, from January 1, 2019, the revenues, financial performance, and assets and liabilities of Vega were no longer consolidated in the financial statements of the Company. Prior period results of Vega have been presented in the condensed consolidated interim statements of loss and comprehensive loss as loss from discontinued operations. Prior to deconsolidation, Vega formed part of the Washington segment.

The major classes of assets and liabilities of Vega were as follows:

	December 31, 2018 $
Cash	84,525
Inventory	115,033
Other assets	10,641
Assets classified as discontinued operations	**210,199**
Accounts payable and accrued liabilities	5,591
Other liabilities	68,749
Total liabilities classified as discontinued operations	**74,340**
Net assets classified as discontinued operations	**135,859**

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

	For the three months ended September 30, 2018 $	For the nine months ended September 30, 2018 $
Revenue	375,784	1,029,915
Cost of sales	(442,872)	(1,076,634)
Loss on inventory write-off	2,656	(118,191)
Gross profit (loss)	**(64,432)**	**(164,910)**
Operating expenses	106,805	425,123
Net loss from discontinued operations	**(171,237)**	**(590,033)**

The following table presents the effect of the discontinued operations on the consolidated statements of cash flows:

	December 31, 2018 $
Cash used in operating activities	14,453
Cash used in investing activities	—
Cash used in financing activities	50,755
Net cash outflow	**65,208**

6. ACCOUNTS RECEIVABLE

	September 30, 2019 $	December 31, 2018 $
Lease revenue receivable	1,271,328	—
CMX receivable	—	219,890
Sales taxes recoverable	181,120	101,062
Corporate tax recoverable	—	96,589
Other receivables	—	73,023
	1,452,448	490,564
Allowance for expected credit losses	(1,271,328)	—
Total accounts receivable	**181,120**	**490,564**

On August 14, 2018, the Company entered into an arrangement with a tenant, licensed by the State of Washington for cannabis cultivation (the "Tenant") to lease its greenhouse in Washington. Rent became payable commencing on January 1, 2019. Management is in discussion with the Tenant to abate the rent for the 2019 year and expects rent payments to commence beginning January 2020. As such, management has recognized lifetime expected credit losses equal to the receivable's carrying value.

On August 14, 2018, the Company entered into an arrangement with CMX Distribution, Inc. ("CMX") to package and distribute the Company's 1964 Supply Co.™ branded cannabis products under CMX's state license in California. As part of the arrangement, the Company provided working capital and sold branded packaging to CMX. Upon expiration of KG Inc.'s distribution license on August 15, 2018, all cannabis products were transferred to CMX and together with the working capital formed the CMX receivable balance. During the nine months ended September 30, 2019, the Company wrote off the CMX receivable.

7. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits as at September 30, 2019 contained $990,505 (December 31, 2018: $165,674) of deposits related to construction at the Delta Facility that will be capitalized to property, plant and equipment in future periods.

8. INVENTORIES

Inventory as at September 30, 2019 consisted of unused consumable inventory used in the propagation and transformation of the Company's biological assets and work-in-process ("WIP") inventory comprised of cannabis, post-harvest costs, and materials. Inventory as at December 31, 2018 consisted of packaging inventory and work in progress costs borne by the Company for inventory not yet sold but held by CMX.

	September 30, 2019	**December 31, 2018**
	$	**$**
Consumable inventory	22,455	—
WIP inventory – cannabis	400,572	—
WIP inventory – post-harvest costs and materials	32,094	—
California packaging inventory	—	352,145
Balance, end of period	**455,121**	**352,145**

During the three and nine months ended September 30, 2019, the Company recorded $465,782 and $747,482 of production costs, respectively. Included in production costs for the three and nine months ended September 30, 2019 respectively is $54,386 and $92,313 of depreciation.

9. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants and seeds. The changes in the carrying value of biological assets was as follows:

	$
Balance, December 31, 2018	**—**
Change in fair value of biological assets	121,610
Balance, March 31, 2019	**121,610**
Change in fair value of biological assets	181,151
Balance, June 30, 2019	**302,761**
Change in fair value of biological assets	1,454,099
Transferred to WIP inventory upon harvest	(400,572)
Balance, September 30, 2019	**1,356,288**

Biological assets are valued in accordance with IAS 41 – *Agriculture* and are presented at their fair value less costs to sell up to the point of harvest. The fair value 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 yield of approximately 71 grams per plant;
- selling price of $5.85 per gram;
- post-harvest production costs and costs of selling of approximately $1.53 per gram;
- percentage of costs incurred to date compared to the estimated total costs to be incurred; and
- costs incurred for each stage of plant growth.

The selling price used in the valuation is based on the historical average selling price of wholesale cannabis flower in Canada and can vary based on different strains being grown. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing.

The Company periodically reassesses the significant assumptions applied in determining the fair value of biological assets 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 biological assets is adjusted.

During the nine months ended September 30, 2019, the Company determined the fair value less costs to sell was approximately $4.32 per gram.

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 biological assets of $183,695. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of biological assets of $135,448.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at September 30, 2019, on average, the biological assets were estimated to be 46% complete.

10. PROPERTY, PLANT AND EQUIPMENT

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
Transferred to investment property	(10,459,061)	(1,269,695)	(692,162)		(12,420,918)
Transferred to right-of-use assets	—	(97,396)	—	—	(97,396)
Additions	520,747	779,213	—	4,056,832	5,356,792
Commissioned during the period	8,062,428	2,782,937	—	(10,845,365)	—
Foreign exchange	(3,645)	(20,463)	—	—	(24,108)
At September 30, 2019	**8,983,121**	**4,612,198**	**2,040,722**	**1,707,969**	**17,344,010**

Accumulated depreciation	Buildings and leasehold improvements $	Equipment and vehicles $	Land $	Construction in progress $	Total $
At December 31, 2018	158,709	350,883	—	—	509,592
Transferred to investment property	(21,685)	(58,510)	—	—	(80,195)
Depreciation	186,842	359,111	—	—	545,953
Transferred to right-of-use assets	—	(6,957)	—	—	(6,957)
Foreign exchange	(3,645)	(7,060)	—	—	(10,705)
At September 30, 2019	**320,221**	**637,467**	**—**	**—**	**957,688**

Net book value	Buildings and leasehold improvements $	Equipment and vehicles $	Land $	Construction in progress $	Total $
At December 31, 2018	10,703,943	2,086,719	2,732,884	8,496,502	24,020,048
At September 30, 2019	**8,662,900**	**3,974,731**	**2,040,722**	**1,707,969**	**16,386,322**

In April 2019, the Delta Facility was commissioned for use. Post commissioning, the assets were transferred from 'Construction in progress' into 'Buildings and leasehold improvements' and 'Equipment and vehicles'. Transfers continue at the rate that assets become constructed and available for the intended use. Contained within production costs is $92,313 of depreciation.

11. INVESTMENT PROPERTY

The Company's investment property consists of the Ferndale Greenhouse that it leases to a Washington state licensed tenant.

At January 1, 2019, gross carrying amount and accumulated depreciation were $12,420,918 and $80,195, respectively.

Investment property	$
Balance, January 1, 2019	**12,340,723**
Additions	352,197
Depreciation	(555,956)
Foreign exchange adjustment	(358,873)
Balance, September 30, 2019	**11,778,091**

12. LEASES

The Company's leases consist of property leases as well as a right-of-use tractor that has been capitalized. Information about leases for which the Company is a lessee is presented below.

a) Right-of-use assets

Cost	$
At December 31, 2018	—
Transferred to right-of-use assets	97,396
At September 30, 2019	**97,396**

Accumulated depreciation	**$**
At December 31, 2018	—
Transferred to right-of-use assets	6,957
Depreciation	10,435
At September 30, 2019	**17,392**

Net book value	**$**
At December 31, 2018	—
At September 30, 2019	**80,004**

b) Lease payments recognized in net loss

The Company's property leases consisted of short-term leases and were expensed on a straight-line basis over the lease term. The following table summarizes the amounts recognized in 'General and administrative expenses' with respect to the lease payments not included in lease liabilities:

	Nine months ended September 30, 2019 $
Expenses related to short-term leases	149,144
Lease payments recognized in net loss	**149,144**

13. LOANS AND BORROWINGS

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

	September 30, 2019 $	**December 31, 2018 $**
Opening balance	2,946,722	3,000,000
Additions	13,855,010	—
Deferred financing fee	(740,359)	—
Principal repayments	(2,946,722)	(53,278)
Ending balance	**13,114,651**	**2,946,722**

The Company had the following loans and borrowings:

	September 30, 2019 $	**December 31, 2018 $**
Farm Credit Canada mortgage	—	2,946,722
First mortgage	4,816,545	—
Second mortgage (lender group)	3,163,812	—
Second mortgage (overseas lender)	4,666,850	—
Second mortgage (US lenders)	467,444	—
Total loans and borrowings	13,114,651	2,946,722
Less: current portion	(4,816,545)	(100,390)
Long term	**8,298,106**	**2,846,332**

On March 20, 2019, the Company completed a $6,000,000 mortgage financing loan from an investment corporation ("First Mortgage"). On March 25, 2019, the Company drew $5,000,000 under the First Mortgage, of which $2,946,722 was used to settle the original Farm Credit Canada ("FCC") mortgage on the property. The mortgage bears interest at

a rate of 12.0% per annum and matures on September 30, 2020. The First Mortgage is collateralized by the Company's Delta Facility which has a net book value of $16,220,608 as at September 30, 2019.

The FCC mortgage was entered into in October 2017 with a term of 5 years, 20-year amortization period and a variable interest rate of 4.9%. Under the terms of the FCC mortgage, the balance had to be settled in full once the Company began to grow cannabis in the Delta Facility. The FCC mortgage was fully repaid on March 25, 2019.

On April 25, 2019, the Company entered into a $3,355,000 second mortgage financing loan from a group of lenders. The loan bears interest at a rate of 12.0% per annum (compounded quarterly) and matures on April 25, 2021. $1,655,000 of the loan was provided by three related parties and included the rollover of $1,371,447 outstanding under the revolving credit facilities discussed in note 16. The lenders were issued 671,000 warrants that are each exercisable for one common share with an exercise price of $4.50 per common share and expire on April 25, 2022.

On May 28, 2019, the Company entered into a $5,000,000 second mortgage financing loan from an overseas lender. The loan bears interest at a rate of 12.0% per annum (compounded quarterly) and matures on May 28, 2021 with all accrued interest and principal repayments due at that time. The lender was issued 1,000,000 warrants that are each exercisable for one common share with an exercise price of $4.50 per common share and expire on May 28, 2022.

On July 12, 2019, the Company entered into a $500,010 second mortgage financing loan from a group of US lenders. The loan bears interest at a rate of 12.0% per annum (compounded quarterly) and matures on July 12, 2021. The lenders were issued 100,002 warrants that are each exercisable for one common share with an exercise price of $4.50 per common share and expire on July 12, 2022.

The April 25, 2019, May 28, 2019 and July 12, 2019 second mortgages were identified as compound instruments with separate components, being the debt and the warrants. The debt has been classified as a financial liability and the warrants have been classified as equity. On initial recognition of each compound instrument, proceeds net of transaction costs were allocated between debt and equity, first by determining the fair value of each debt component, discounted at an effective interest rate of 17%, and then allocating the residual value to the equity component.

The following table summarizes the carrying values of the liability and equity component of each previously described compound instrument on initial recognition:

	April 25, 2019	**May 28, 2019**	**July 12, 2019**
Loan proceeds	3,355,000	5,000,000	500,010
Transaction costs	(35,990)	(71,019)	(19,996)
Net proceeds	**3,319,010**	**4,928,981**	**480,014**
Liability component	3,118,378	4,626,964	464,736
Equity component	200,632	302,017	15,278

Total interest expense for the three and nine months ended September 30, 2019 was $610,654 and $965,781 respectively (three and nine months ended September 30, 2018: $35,608 and $100,305).

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

At September 30, 2019, there were 39,966,425 (December 31, 2018: 36,811,425) issued and fully paid common shares.

Common shares	**#**	**$**
December 31, 2018	36,611,425	56,728,191
August 23, 2019 public offering	3,150,000	6,855,428
Stock options exercised	5,000	11,271
September 30, 2019	**39,966,425**	**63,594,890**

On August 23, 2019, the Company completed an overnight marketed public offering to sell 3,150,000 units at a price of $2.70 per unit for gross proceeds of $8,505,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price equal to $3.50 per share for a period of 30 months following the closing of the offering, subject to an accelerated expiry if the volume-weighted average price of the common shares on the Canadian Securities Exchange is equal to or greater than $3.80 per common share for 20 consecutive trading days. Transaction fees totalled $1,041,429 and consisted of broker warrants valued at $115,657 and agent and legal fees of $925,772.

15. RESERVES

(a) Options

Under the Company's equity incentive plan (the "Plan"), the Board of Directors may grant stock options and restricted share awards ("Equity Awards") pursuant and subject to the terms and conditions of the Plan to eligible directors, officers, employees, and consultants of the Company and any of its subsidiaries.

The Plan provides for the issuance of Equity Awards that shall not at any time exceed 20% of the total number of issued and outstanding common shares of the Company at the date of grant of the Equity Awards. 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. The options vest and become exercisable as determined by the Board of Directors at the time of the grant. Vesting terms vary from immediately to over three years, or in one case, are based on valuation. Unless determined otherwise by the Board of Directors, the options expire within five years from the date of grant.

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

	September 30, 2019		**December 31, 2018**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
	#	**$**	**#**	**$**
Balance, start of period	5,178,500	$2.79	2,384,000	$1.53
Granted	624,750	$3.25	2,949,500	$3.82
Exercised	(5,000)	$1.40	—	—
Forfeited	(273,000)	$3.19	(155,000)	$3.06
Balance, end of period	**5,525,250**	**$2.82**	**5,178,500**	**$2.79**

The following table provides information on stock options outstanding and exercisable as at September 30, 2019:

		Options outstanding		**Options exercisable**	
Grant Date	**Exercise Price**	**Number of options**	**Weighted average remaining contractual life (years)**	**Number of options**	**Weighted average remaining contractual life (years)**
December 17, 2015	US$1.00	1,370,000	1.22	1,370,000	1.22
March 21, 2016	US$1.00	24,000	1.47	24,000	1.47
June 30, 2016	US$1.00	90,000	1.75	90,000	1.75
August 17, 2016	US$1.00	500,000	1.88	125,000	1.88
January 12, 2017	US$1.50	80,000	2.29	72,500	2.29
July 31, 2017	US$2.00	270,000	2.84	270,000	2.84
November 15, 2017	US$2.00	5,000	3.13	2,500	3.13

January 21, 2018	US$2.00	30,000	3.31	15,000	3.31
July 31, 2018	$3.25	2,377,000	3.84	978,167	3.84
September 24, 2018	$3.25	15,000	3.99	—	3.99
September 24, 2018	$8.15	350,000	3.99	350,000	3.99
May 28, 2019	$3.25	203,250	4.66	—	4.66
July 12, 2019	$3.25	165,500	4.79	—	4.79
September 20, 2019	$3.25	45,500	4.98	—	4.98
		5,525,250	**2.97**	**3,297,167**	**2.50**

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 which requires management to make certain estimates, judgements, and assumptions in relation to the expected life of options, expected volatility, expected dividend yield and the risk-free interest rate. Comparative companies were used to determine the historical volatility of the Company.

The fair values of options granted during the nine months ended September 30, 2019 determined using the following assumptions:

	September 30, 2019	**December 31, 2018**
Grant date share price	$2.49 - $3.25	$2.49 - $3.25
Risk-free interest rate	1.95% - 2.96%	1.95% - 2.96%
Expected life of options	5 years	5 years
Expected annualized volatility	100% - 130%	100% - 130%

For the period ended, September 30, 2019, the fair value of each option is between $1.81 - $2.15 (December 31, 2018: $1.81 - $2.15). The fair value of the 624,750 options granted in 2019 was estimated at $1,252,754.

During the three and nine months ended September 30, 2019, the Company recognized $645,201 and $2,546,140 respectively (September 30, 2018: $828,906 and $1,096,758) in stock-based compensation expense pertaining to option awards.

On September 20, 2019, the Company granted an aggregate of 75,000 Deferred Share Units ("DSU") to three Directors of the Company which convert to an equal number of common shares upon retirement of the respective grantee. The DSUs vested immediately and were valued using the market price of shares on the date of the grant. The fair value of DSUs granted was $167,250 and was expensed to Share-based compensation.

(b) Warrants

At September 30, 2019, the Company's outstanding warrants consisted of the following:

Issue Date	**Expiry Date**	**Type**	**Exercise Price**	**Number of warrants**
July 5, 2018	July 5, 2020	Broker Warrants	$3.25	183,431
July 5, 2018	July 5, 2020	Warrants	$4.20	208,611
October 9, 2018	July 5, 2020	Warrants	$4.20	1,829,398
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	3,150,000
August 23, 2019	August 23, 2021	Broker Warrants	$2.70	189,000
				7,331,442

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

16. RELATED PARTY TRANSACTIONS

On January 21, 2019, two executive officers and one significant shareholder increased existing revolving credit facilities provided to the Company in 2018 to a total of $600,000 and on February 28, 2019 the facilities were further increased to a total of $2,100,000. The revolving credit facilities bore an annual interest rate of 11%.

On April 25, 2019, these related parties loaned the Company $1,655,000 in connection with the $3,355,000 second mortgage financing loan. The loan from related parties included the rollover of the $1,371,447 outstanding under the revolving credit facilities. In connection with the debt, the Company issued 331,000 warrants to the related parties. As at September 30, 2019, $1,655,000 of principal and $86,549 of interest is owed to these related parties.

As at September 30, 2019, included in accounts payable and accrued liabilities is $39,998 (December 31, 2018: $181,360) owed to officers and directors of the Company for expenses paid on behalf of the Company in the normal course of operations. Included in accounts payable at September 30, 2019 is $nil in accrued salaries to executives (December 31, 2018: $103,126).

17. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items:

	For the nine months ended September 30, 2019 $	**For the nine months ended September 30, 2018 $**
Accounts payable and accrued liabilities	(227,995)	1,820,008
Inventory	159,996	(249,424)
Prepaids and deposits	(870,572)	(162,210)
Due from related parties	—	211,631
Accounts receivable	(961,884)	(1,253,823)
Vega deconsolidation	—	(479,212)
Corporate tax payable	—	(74,407)
	(1,900,455)	**(187,437)**

Supplemental disclosure of non-cash activities:

(i) As at September 30, 2019, accounts payable includes $961,705 related to capital asset additions (December 31, 2018: $641,926).

(ii) As at September 30, 2019, accounts payable includes $408,218 related to interest payable on loans and borrowings (December 31, 2018: $nil).

18. SEGMENT INFORMATION

The Company's business activities are conducted through four reportable segments. The segments are as follows: (a) Canada: cultivation, production and sale of cannabis and cannabis related consulting services; (b) Washington: lease of facility; (c) California: sale of branded cannabis packaging and brand development, operating results of KGI and land held for sale (now discontinued); and (d) corporate costs.

Financial performance and balances by operating segment are displayed below:

As at and for the nine months ended September 30, 2019

	Canada	**Washington**	**California**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue and other income	—	1,280,284	—	—	**1,280,284**
Change in fair value of biological assets	1,756,860	—	—	—	**1,756,860**
Expenses	(2,655,692)	(2,639,308)	(424,775)	(7,506,467)	**(13,226,242)**
Net income (loss)	(862,106)	(1,359,024)	(424,775)	(7,506,467)	**(10,189,098)**
Assets	22,747,998	12,125,976	802,135	4,169,629	**38,845,738**
Liabilities	6,193,172	248,979	7,408	10,139,834	**16,589,393**

As at and for the nine months ended September 30, 2018

	Canada	**Washington**	**California**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue and other income	174,313	442,683	739,366	406	**1,356,768**
Expenses	(495,178)	(2,071,847)	(1,980,479)	(21,532,435)	**(26,079,939)**
Net loss	(320,865)	(1,629,164)	(1,241,113)	(21,532,029)	**(24,723,171)**
Assets	13,359,937	13,439,602	1,521,070	2,831,542	**31,152,151**
Liabilities	3,616,292	810,685	12,851	1,918,055	**6,357,883**