Condensed Consolidated Interim Financial Statements (Unaudited)

Rubicon Organics Inc.

For the Three and Six Months Ended June 30, 2019

Expressed in Canadian dollars

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

	Notes	June 30, 2019	December 31, 2018
ASSETS			
Current			
Cash		**2,483,070**	232,420
Accounts receivable	6	**1,514,563**	490,564
Available for sale land		**792,684**	826,301
Other assets		**629,741**	389,016
Inventory	7	**43,547**	352,145
Biological assets	8	**302,761**	—
		5,766,366	2,290,446
Non-Current			
Property, plant and equipment	9	**25,665,515**	24,020,048
Intangible asset		**1,881,749**	1,881,749
Investment		**130,870**	136,420
Right-of-use asset	10	**83,482**	—
Total assets		**33,527,982**	28,328,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	13	**2,761,185**	2,904,811
Due to related parties	13	—	332,750
Current portion of lease liabilities	10	**17,823**	17,579
Current portion of loans and borrowings		—	100,390
		2,779,008	3,355,530
Non-Current			
Loans and borrowings	11	**12,549,982**	2,846,332
Lease liabilities	10	**56,515**	65,488
Total liabilities		**15,385,505**	6,267,350
Shareholders' equity			
Share capital		**56,728,191**	56,728,191
Reserves	12	**9,923,888**	7,520,299
Deficit		**(47,854,129)**	(42,119,486)
Accumulated other comprehensive loss		**(655,473)**	(67,691)
Total shareholders' equity		**18,142,477**	22,061,313
Total liabilities and shareholders' equity		**33,527,982**	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 June 30, 2019	For the three months ended June 30, 2018 (restated)*	For the six months ended June 30, 2019	For the six months ended June 30, 2018 (restated)*
Revenue					
Product sales		—	461,352	—	835,792
Cost of sales					
Production costs		**(281,700)**	—	**(281,700)**	—
Inventory expensed to cost of sales		—	(234,125)	—	(498,639)
Loss on inventory write-off		**(137,602)**	(28,073)	**(137,602)**	(29,575)
Gross profit (loss) before fair value adjustments		**(419,302)**	199,154	**(419,302)**	307,578
Gain on changes in fair value of biological assets	8	181,151	—	**302,761**	—
Gross profit (loss)		**(238,151)**	199,154	**(116,541)**	307,578
Other income	6	**642,148**	—	**1,280,284**	—
Operating expenses					
Share-based compensation	12	**928,212**	104,434	**1,900,939**	267,852
Consulting, salaries and wages		**717,928**	556,336	**1,566,098**	1,351,845
General and administrative expenses		**1,043,809**	975,502	**1,825,190**	1,722,826
Depreciation and amortization	9	**385,787**	(82,778)	**608,737**	205,864
Sales and marketing expense		**580,366**	186,902	**606,663**	626,575
		3,656,102	1,740,396	**6,507,627**	4,174,962
Loss from operations		**(3,252,105)**	(1,541,242)	**(5,343,884)**	(3,867,384)
Loss on deconsolidation of Vega	5	—	—	**135,859**	—
Interest on loans		**308,902**	32,753	**355,127**	64,697
Net realized foreign exchange		**(28,495)**	147,597	**(25,892)**	159,999
Loss on revaluation of land		—	742,255	—	742,255
Reverse take-over costs		—	15,482,970	—	15,482,970
Loss from continuing operations before income tax		**(3,532,512)**	(17,946,817)	**(5,808,978)**	(20,317,305)
Income tax recovery		**74,582**	—	**74,335**	—
Net loss from continuing operations		**(3,457,930)**	(17,946,817)	**(5,734,643)**	(20,317,305)
Loss from discontinued operations	5	—	(228,688)	—	(418,797)
Net loss for the period		**(3,457,930)**	(18,175,505)	**(5,734,643)**	(20,736,102)
Other comprehensive income					
Exchange rate differences on translation of foreign operations		**(312,668)**	56,662	**(587,782)**	4,380
Total comprehensive loss		**(3,770,598)**	(18,118,843)	**(6,322,425)**	(20,731,722)
Net loss per share from continuing operations, basic and diluted		**(0.09)**	(0.55)	**(0.16)**	(0.63)
Net loss per share from discontinued operations, basic and diluted		**—**	(0.01)	**—**	(0.01)
Net loss per share from operations, basic and diluted		**(0.09)**	(0.56)	**(0.16)**	(0.64)
Weighted average number of shares		**36,811,425**	32,735,383	**36,811,425**	32,479,234

**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)	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)		1,435,017	3,438,305	—	—	—	—	—	**3,438,305**
Share issuances – KG Inc.		300,000	737,580	—	—	—	—	—	**737,580**
Deemed equity consideration of RTO		—	15,379,035	—	—	—	—	—	**15,379,035**
Share-based compensation		—	—	267,852	—	267,852	—	—	**267,852**
Net loss		—	—	—	—	—	—	(20,736,102)	**(20,736,102)**
Other comprehensive income		—	—	—	—	—	4,380	—	**4,380**
Balance, June 30, 2018		**32,735,382**	**45,872,129**	**2,876,431**	**1,225,824**	**4,102,255**	**(24,986)**	**(32,628,093)**	**17,321,305**
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**
Share-based compensation	12	—	—	1,900,939	—	1,900,939	—	—	**1,900,939**
Warrants issued with debt		—	—	—	502,560	502,560	—	—	**502,650**
Net loss		—	—	—	—	—	—	(5,734,643)	**(5,734,643)**
Other comprehensive income		—	—	—	—	—	(587,782)	—	**(587,782)**
Balance, June 30, 2019		**36,811,425**	**56,728,191**	**6,875,471**	**3,048,417**	**9,923,888**	**(655,473)**	**(47,854,129)**	**18,142,477**

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 six months ended June 30, 2019	June 30, 2018
OPERATING ACTIVITIES			
Net loss from continuing operations		**(5,734,643)**	(20,317,307)
Net loss from discontinued operations		**—**	(418,797)
Adjustments to reconcile net loss to net cash used in operating activities			
Share based compensation	12	**1,900,939**	267,852
Depreciation and amortization	9	**621,069**	205,864
Accrued interest and accretion, net of payment		**(68,240)**	—
Unrealized change in the fair value of biological assets	8	**(302,761)**	—
Unrealized foreign exchange loss		**33,614**	4,140
Unrealized loss on changes in fair value of capital assets		**—**	742,255
Inventory write-down		**137,602**	29,575
Reverse takeover costs		**—**	15,265,539
Changes in non-cash working capital items	14	**(1,367,657)**	764,750
Cash used in operating activities		**(4,780,077)**	(3,456,127)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	**(2,792,185)**	(3,956,809)
Investments		**—**	15,475
Share exchange to acquire RHI		**—**	2,220
Cash used in investing activities		**(2,792,185)**	(3,939,114)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	11	**12,788,119**	—
Proceeds from shareholder loans	13	**—**	1,110,421
Repayment of finance lease		**(8,729)**	—
Repayment of loans and borrowings	11	**(2,946,722)**	
Proceeds from financing		**—**	3,456,229
Subscription receipts from financing (not yet closed)		**—**	3,997,059
Cash provided by financing activities		**9,832,668**	8,563,709
Effect of exchange rate changes on cash		**(9,756)**	22,939
Increase in cash during the period		**2,250,650**	1,191,407
Cash, beginning of period		**232,420**	2,975,997
Cash, end of period		**2,483,070**	4,167,404

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 and California. 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 June 30, 2019, the Company had not achieved profitable operations and had accumulated losses of $47,854,129 since its inception. The continuing operations of the Company are dependent upon its ability to obtain debt or equity financing until it achieves profitable operations. On August 23, 2019, the Company closed an equity financing for gross proceeds of $8,505,000, as disclosed in note 16.

In February 2019 the Company received its Cultivation and Processing licenses from Health Canada for its Delta Facility and 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 beginning in Q2 2019 and the Company expects that crops will be harvested from the Delta Facility in 2019. As operations ramp up and together with the above noted equity financing, the Company expects to have sufficient resources to carry out the business plan to reach profitability.

As 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 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.

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.

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 June 30, 2018	**For the six months ended June 30, 2018**
	$	**$**
Revenue	346,142	654,131
Cost of sales	(349,951)	(633,762)
Loss on inventory write-off	9,975	(120,848)
Gross profit (loss)	**6,166**	**(100,479)**
Operating expenses	234,854	318,318
Net loss from discontinued operations	**(228,688)**	**(418,797)**

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

	June 30, 2019 $	December 31, 2018 $
Lease revenue receivable	1,256,352	—
CMX receivable	—	219,890
Sales taxes recoverable	157,204	101,062
Corporate tax recoverable	—	96,589
Other receivables	101,007	73,023
Total accounts receivable	**1,514,563**	**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, however, the Company has agreed to defer the payment of rent until late 2019 or early 2020.

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 quarter ended June 30, 2019, the Company wrote off the CMX receivable.

7. INVENTORIES

Inventory as at June 30, 2019 consisted of unused consumable inventory used in the propagation and transformation of the Company's biological assets. 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.

8. BIOLOGICAL ASSETS

	June 30, 2019 $	December 31, 2018 $
Balance, beginning of period	121,610	—
Change in fair value of biological assets	181,151	—
Balance, end of period	**302,761**	—

In February 2019, the Company received its Cultivation and Processing licenses from Health Canada for its Delta Facility. 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 measurements for biological assets have been categorized as Level 3 of the fair value hierarchy based on the inputs to the valuation technique used, as there is currently no actively traded commodity market for plants. The fair value was determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated fair value less costs to sell per gram of dried flower.

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

- wastage of plants based on their various stages;
- expected yield of approximately 40 grams per plant;
- selling price of $9.30 per gram
- post-harvest production costs and costs of selling of approximately $2.50 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 of biological assets is based on the historical average selling price of cannabis products sold 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 assesses the significant assumptions applied in determining the fair value of biological assets based on historical information obtained as well as 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 six months ended June 30, 2019, the Company determined the fair value less costs to sell was approximately $5.54 per gram.

The Company has quantified the sensitivity of the significant unobservable inputs used to calculate the fair value of biological assets recorded. A decrease in the average selling price per gram of 10% would result in a decrease in the value of biological assets of $25,362. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of biological assets of $30,211.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at June 30, 2019, on average, the biological assets were estimated to be 22% complete.

9. 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**
Additions	80,130	290,663	—	2,518,081	**2,888,874**
Commissioned during the period	7,521,259	2,763,107	—	(10,284,366)	—
Transferred to right-of-use assets	—	(97,396)	—	—	**(97,396)**
Foreign exchange	(430,579)	(80,119)	(28,159)	—	**(538,857)**
At June 30, 2019	**18,033,462**	**5,313,857**	**2,704,725**	**730,217**	**26,782,261**

Accumulated depreciation	Buildings and leasehold improvements	Equipment and vehicles	Land	Construction in progress	Total
	$	$	$	$	$
At December 31, 2018	158,709	350,883	—	—	509,592
Depreciation	327,427	268,930	—	—	596,357
Transferred to right-of-use assets	—	(6,957)	—	—	(6,957)
Foreign exchange	5,952	11,802	—	—	17,754
At June 30, 2019	**492,088**	**624,658**	**—**	**—**	**1,116,746**

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 June 30, 2019	**17,541,374**	**4,689,199**	**2,704,725**	**730,217**	**25,665,515**

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’.

10. LEASES

The Company's leases primarily consist of property leases as well as a right-of-use asset. Information about leases for which the Company is a lessee is presented below.

a) Right-of-use assets

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

Accumulated depreciation	**Equipment and vehicles $**
At December 31, 2018	—
Transferred to right-of-use assets	6,957
Depreciation	6,957
At June 30, 2019	**13,914**

Net book value	**Equipment and vehicles $**
At December 31, 2018	—
At June 30, 2019	**83,482**

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:

	Six months ended June 30, 2019 $
Expenses related to short-term leases	86,380
Lease payments recognized in net loss	**86,380**

11. LOANS AND BORROWINGS

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

	June 30, 2019 $	**December 31, 2018 $**
Opening balance	2,946,722	3,000,000
Additions	13,355,000	—
Deferred financing fee	(805,018)	—
Principal repayments	(2,946,722)	(53,278)
Ending balance	**12,549,982**	**2,946,722**

The Company had the following loans and borrowings:

	June 30, 2019 $	December 31, 2018 $
Farm Credit Canada mortgage	—	2,946,722
First mortgage	4,776,495	—
Second mortgage (group)	3,136,552	—
Second mortgage (overseas lenders)	4,636,935	—
Total loans and borrowings	12,549,982	2,946,722
Less: current portion	—	(100,390)
Long term	**12,549,982**	**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 $13,748,560 as at June 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 completed 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 13. The lenders were also issued 671,000 warrants with an exercise price of $4.50 per common share that 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 also issued 1,000,000 warrants with an exercise price of $4.50 per common share that expire on May 28, 2022.

Total interest expense for the three and six months ended June 30, 2019 was $308,902 and $355,127 respectively (three and six months ended June 30, 2018: $31,627 and $64,969).

12. 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:

	June 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	413,250	$3.25	2,949,500	$3.82
Forfeited	(71,500)	$3.03	(155,000)	$3.06
Balance, end of period	**5,520,250**	**$2.82**	**5,178,500**	**$2.79**

The following table provides information on stock options outstanding and exercisable as at June 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	1,375,000	1.47	1,375,000	1.47
March 21, 2016	US$1.00	24,000	1.73	24,000	1.73
June 30, 2016	US$1.00	90,000	2.00	90,000	2.00
August 17, 2016	US$1.00	500,000	2.13	125,000	2.13
January 12, 2017	US$1.50	80,000	2.54	72,500	2.54
July 31, 2017	US$2.00	270,000	3.09	235,000	3.09
November 15, 2017	US$2.00	5,000	3.38	2,500	3.38
January 21, 2018	US$2.00	31,000	3.56	16,000	3.56
July 31, 2018	$3.25	2,377,000	4.09	155,000	4.09
September 24, 2018	$3.25	15,000	4.24	—	4.24
September 24, 2018	$8.15	350,000	4.24	175,000	4.24
May 28, 2019	$3.25	403,250	4.92	—	4.92
		5,520,250	**3.21**	**2,270,000**	**2.14**

The fair value of the options containing service vesting conditions were determined using the Black-Scholes options pricing model, using the following assumptions:

	June 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%

The Black-Scholes value of each option is between $1.81 - $2.15 (December 31, 2018: $1.81 - $2.15).

During the three and six months ended June 30, 2019, the Company recognized $928,213 and $1,900,939 respectively (June 30, 2018: $36,141 and $119,797) in stock-based compensation expense pertaining to option awards.

On May 28, 2019, the Company issued an aggregate of 213,250 stock options to new employees of the Company and 200,000 stock options to a service provider of the firm. The options are exercisable at C$3.25 per share for a period of five years expiring on May 28, 2024, pursuant to the terms of the equity incentive plan.

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, as well as the number of options expected to be exercised. Comparative companies were used to determine the historical volatility of the Company. The fair value of the 413,250 options granted was estimated at $836,906. The assumptions used in the pricing model were: an expected life of 5 years; annualized volatility of 100.1%; a risk-free interest rate of 2.12%; and zero expected dividend yield.

(b) Warrants

At June 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
				3,892,440

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

13. RELATED PARTY TRANSACTIONS

(a) Related party transactions

On January 21, 2019, two executive officers and one significant shareholder increased the 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, two executive officers and one significant shareholder loaned the Company $1,655,000 in connection with the $3,355,000 second mortgage financing loan (note 11). The loan from related parties included the rollover of $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 June 30, 2019, included in accounts payable and accrued liabilities is $72,155 (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 June 30, 2019 is $nil in accrued salaries to executives (December 31, 2018: $103,126).

(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:

	For the six months ended June 30, 2019 $	For the six months ended June 30, 2018 $
Salaries	490,807	274,791
Share based compensation	598,368	97,638
Total compensation of key management personnel	**1,089,175**	**372,429**

14. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items:

	For the six months ended June 30, 2019 $	For the six months ended June 30, 2018 $
Accounts payable and accrued liabilities	(273,929)	1,007,005
Inventory	170,996	66,178
Other assets	(240,725)	(282,207)
Due from related parties	—	215,118
Accounts receivable	(1,023,999)	(449,658)
Current portion of mortgage payable	—	99,676
Shares issued for consulting services	—	108,638
	(1,367,657)	**764,750**

Supplemental disclosure of non-cash activities:
(i) As at June 30, 2019, accounts payable includes $772,231 related to capital asset additions (December 31, 2018: $641,926).

15. SEGMENT INFORMATION

The Company's business activities are conducted through four reportable segments corresponding with its business model. The segments are as follows: (a) Canadian development of facilities for production and sale of cannabis and revenue derived from related consulting services; (b) lease of the Washington facility; (c) California sale of branded cannabis packaging and brand development, operating results of KGI and land held for sale; and (d) corporate costs.

Financial performance and balances by operating segment are displayed below:

As at and for the six months ended June 30, 2019

	Canada $	Washington $	California $	Corporate $	Total $
Revenue and other income	302,761	1,280,284	—	—	**1,583,045**
Expenses	(1,275,857)	(960,653)	(425,580)	(4,655,598)	**(7,317,688)**
Net income (loss)	(973,096)	319,631	(425,580)	(4,655,598)	**(5,734,643)**
Assets	17,310,958	13,234,635	792,686	2,189,703	**33,527,982**
Liabilities	5,787,401	304,935	7,316	9,285,853	**15,385,505**

As at and for the six months ended June 30, 2018

	Canada $	Washington $	California $	Corporate $	Total $
Revenue and other income	9,227	300,357	356,653	169,555	**835,792**
Expenses	(391,547)	(847,821)	(1,307,407)	(18,606,324)	**(21,153,099)**
Net loss	(382,320)	(547,464)	(950,754)	(18,436,769)	**(20,317,307)**
Assets	10,091,518	12,457,887	1,794,976	4,408,276	**28,752,657**
Liabilities	4,494,429	1,161,802	124,080	2,556,027	**8,366,338**

Other income in Washington in 2019 relates to the rental of the Company's Washington facility.

16. SUBSEQUENT EVENTS

a. On July 12, 2019, the Company entered into a $500,010 second mortgage financing loan. The loan bears interest at a rate of 12.0% per annum (compounded quarterly) and matures on July 12, 2021 with all accrued interest and

principal repayments due at that time. The lender was also issued 100,002 warrants with an exercise price of $4.50 per common share that expire on July 12, 2022.

b. On July 12, 2019, the Company issued an aggregate of 166,000 stock options to employees of the Company. The options are exercisable at C$3.25 per share for a period of five years expiring on July 12, 2024, pursuant to the terms of the equity incentive plan.

c. On August 23, 2019, the Company closed an overnight marketed short form prospectus offering of 3,150,000 units at a price of $2.70 per unit for gross proceeds of $8,505,000. Each unit consists of one common share of the Company 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. The Company has also granted the agents an over-allotment option to purchase up to an additional 472,500 units, exercisable in whole or in part at any time up to 30 days after the closing date.