Rubicon Organics Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

Expressed in Canadian dollars

Independent Auditor's Report

To the Shareholders and the Board of Directors of
Rubicon Organics Inc.

OPINION
We have audited the consolidated financial statements of Rubicon Organics Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 1 in the consolidated financial statements which indicates that the Company has accumulated losses of $56,339,813 since its inception. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

OTHER INFORMATION
Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Jayana Darras.

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 21, 2020

RUBICON ORGANICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current			
Cash		2,083,588	232,420
Accounts receivable	6	204,910	490,564
Prepaid expenses and deposits	7	491,479	389,016
Inventory	8	2,100,883	352,145
Cannabis plants	9	2,021,323	—
Assets held for sale	5	11,455,294	826,301
		18,357,477	2,290,446
Non-Current			
Property, plant and equipment	10	19,460,269	24,020,048
Intangible asset	11	1,881,749	1,881,749
Investment		—	136,420
Right-of-use asset	12	76,526	—
Total assets		39,776,021	28,328,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	13	4,536,362	2,904,811
Deposit received on assets held for sale	5	2,597,600	—
Interest payable	14	695,917	—
Due to related parties	17	—	332,750
Current portion of lease liabilities	12	18,071	17,579
Current portion of loans and borrowings	14	4,858,272	100,390
Liabilities associated with assets held for sale	5	147,641	—
		12,853,863	3,355,530
Non-Current			
Lease liabilities	12	47,417	65,488
Loans and borrowings	14	8,359,345	2,846,332
Total liabilities		21,260,625	6,267,350
Shareholders' equity			
Share capital	15	63,594,890	56,728,191
Reserves	16	11,919,470	7,520,299
Deficit		(56,339,813)	(42,066,019)
Accumulated other comprehensive loss		(659,151)	(121,158)
Total shareholders' equity		18,515,396	22,061,313
Total liabilities and shareholders' equity		39,776,021	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 consolidated financial statements.

RUBICON ORGANICS INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian Dollars, except for share information

	Notes	For the year ended December 31, 2019	December 31, 2018 (As restated – note 5)
Revenue			
Product sales		—	—
Cost of sales			
Production costs		2,467,020	—
Gross profit (loss) before fair value adjustments		(2,467,020)	—
Unrealized gain or (loss) on changes in fair value of cannabis plants	9	3,520,959	—
Gross profit (loss)		1,053,939	—
Other income		—	176,364
Operating expenses			
Consulting, salaries and wages		4,331,209	3,030,573
General and administrative		2,773,810	4,124,913
Share-based compensation	16	2,903,594	1,927,619
Depreciation and amortization	10	72,883	68,318
Sales and marketing		603,066	293,874
		10,684,562	9,445,297
Loss from operations		(9,630,623)	(9,268,933)
Interest on loans	14	1,507,685	135,067
Net realized foreign exchange loss (gain)		41,020	25,880
Reverse take-over costs		—	15,598,083
Loss from continuing operations before income tax		(11,179,328)	(25,027,963)
Income tax recovery		74,335	—
Net loss from continuing operations		(11,104,993)	(25,027,963)
Loss from discontinued operations, net of tax	5	(3,168,801)	(4,847,124)
Net loss for the year		(14,273,794)	(29,875,087)
Other comprehensive income			
Exchange rate differences on translation of foreign operations		(537,993)	1,151,212
Total comprehensive loss		(14,811,787)	(28,723,875)
Net loss per share from continuing operations, basic and diluted		(0.29)	(0.74)
Net loss per share from discontinued operations, basic and diluted		(0.08)	(0.15)
Net loss per share, basic and diluted		(0.37)	(0.89)
Weighted average number of shares		37,955,904	33,644,977

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

RUBICON ORGANICS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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 loss	Deficit	Total Shareholders' Equity
Balance, December 31, 2017		31,000,366	26,317,209	2,608,580	1,225,824	3,834,404	(1,272,370)	(12,190,932)	16,688,311
Share issuance – financing	15	5,511,059	14,294,367	—	1,187,938	1,187,938	—	—	15,482,305
Share issuance for agreement with KG Inc.	15	300,000	737,580	—	—	—	—	—	737,580
Deemed equity consideration of RTO	15	—	15,379,035	—	—	—	—	—	15,379,035
Broker warrants issued	16	—	—	—	132,005	132,005	—	—	132,005
Share-based compensation - employees	16	—	—	1,927,619	—	1,927,619	—	—	1,927,619
Share-based compensation – non-employees	16	—	—	438,333	—	438,333	—	—	438,333
Net loss		—	—	—	—	—	—	(29,875,087)	(29,875,087)
Other comprehensive income		—	—	—	—	—	1,151,212	—	1,151,212
Balance, December 31, 2018		36,811,425	56,728,191	4,974,532	2,545,767	7,520,299	(121,158)	(42,066,019)	22,061,313
Balance, December 31, 2018		36,811,425	56,728,191	4,974,532	2,545,767	7,520,299	(121,158)	(42,066,019)	22,061,313
Share issuance - public offering	15	3,150,000	6,855,428	—	723,800	723,800	—	—	7,579,228
Share issuance on stock option exercises	15	5,000	11,271	(4,657)	—	(4,657)	—	—	6,614
Warrants issued with debt	14, 16	—	—	—	517,927	517,927	—	—	517,927
Share-based compensation - employees	16	—	—	2,903,594	—	2,903,594	—	—	2,903,594
Share-based compensation – non-employees	16	—	—	258,507	—	258,507	—	—	258,507
Net loss		—	—	—	—	—	—	(14,273,794)	(14,273,794)
Other comprehensive loss		—	—	—	—	—	(537,993)	—	(537,993)
Balance, December 31, 2019		39,966,425	63,594,890	8,131,976	3,787,494	11,919,470	(659,151)	(56,339,813)	18,515,396

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

RUBICON ORGANICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in Canadian Dollars

	Notes	For the year ended December 31, 2019	December 31, 2018 (As re-stated - note 5)
OPERATING ACTIVITIES			
Net loss from continuing operations		(11,104,993)	(25,027,963)
Net loss from discontinued operations		(3,168,801)	(4,847,124)
Adjustments to reconcile net loss to net cash used in operating activities			
Share based compensation	16	3,162,101	2,365,952
Unrealized change in the fair value of cannabis plants	9	(3,520,959)	—
Depreciation and amortization	10	1,624,963	258,361
Interest on loans	16	1,507,685	—
Impairment of assets held for sale		1,245,893	751,781
Inventory write-down		—	219,075
Unrealized foreign exchange loss (gain)		172,053	(126,187)
Reverse takeover costs		—	15,379,035
License acquisition costs		—	732,808
Broker warrant costs		—	132,005
Non-cash consulting fees		—	104,749
Changes in non-cash working capital items	20	16,959	760,767
Interest paid		(540,638)	—
Income tax recovery		(74,335)	—
Cash used in operating activities		(10,680,072)	(9,296,741)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(7,935,412)	(9,097,977)
Deposit received on assets held for sale	5	2,597,600	—
Investments		—	14,927
Share exchange to acquire RHI		—	2,237
Cash used in investing activities		(5,337,812)	(9,080,813)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	14	13,131,652	—
Proceeds from equity financing (net of costs)	15	7,579,228	15,377,559
Proceeds from shareholder loans	17	—	197,619
Repayment of loans and borrowings	14	(2,946,722)	(53,278)
Repayment of finance lease		(17,579)	(15,186)
Stock option exercises	15	6,614	—
Cash provided by financing activities		17,753,193	15,506,714
Effect of exchange rate changes on cash		115,859	182,209
Increase in cash during the year		1,851,168	(2,688,631)
Cash, beginning of year		232,420	2,921,051
Cash, end of year		2,083,588	232,420

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

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.

ROI was incorporated as an investor vehicle into Rubicon Holdings, Inc. ("RHI") for certain Canadian shareholders and, in its first year of incorporation, performed certain management services for RHI. In May 2018, ROI and RHI undertook a re-organization (the "Re-Organization") whereby pursuant to a share exchange, RHI undertook a reverse takeover of ROI. As part of the Re-Organization, on May 15, 2018, ROI entered into a share exchange transaction with RHI whereby each shareholder of RHI, other than ROI, exchanged its common shares in RHI on a 1:1 basis for common shares of ROI. Furthermore, on May 30, 2018, in connection with the share exchange, all former option holders of RHI exchanged their options on a 1:1 basis for new options in ROI on substantially similar terms. ROI and its consolidated subsidiaries, identified in note 2, are collectively known as "the Company".

The Company's principal business is the production and sale of cannabis in Canada. The Company produces organic cannabis which it intends to process and sell under its wholly owned and other licensed brands. The Company grows, and in 2020 will sell, cannabis directly from its wholly owned, federally licensed 125,000 square foot facility in Delta, British Columbia (the "Delta Facility").

The Company's common shares trade on the Canadian Securities Exchange ("CSE") under the 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 consolidated 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.

In February 2019, the Company received its Cultivation & Processing licenses from Health Canada for its Delta Facility. The Company completed its first commercial harvest at the Delta Facility in October 2019. On December 17, 2019, the Company entered into an agreement with Agro-Greens Natural Products Ltd. ("Agro-Greens") to distribute the Company's products to Canadian provincial distributors and retailers in the Canadian recreational market. The Company has applied for and is awaiting approval from Health Canada of its own sales license to sell directly to the Canadian market. Sales of the Company's products began in February 2020.

In the second half of 2019 the Company decided to focus its resources on the more profitable Canadian market and therefore dispose of its US operations. On April 3, 2020, the Company sold its principal US asset, the Washington greenhouse, for gross proceeds of $12,020,700 (USD $8,500,000), netting the Company $7,685,194 after discharging a loan on against the property, and excluding transaction costs.

However, as at December 31, 2019, the Company had not achieved profitable operations and had accumulated losses of $56,339,813 since its inception. Until such time that the Company achieves positive operating cashflows, 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 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

Statement of compliance

These consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") in effect for the year ended December 31, 2019.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 21, 2020.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost convention, except for certain financial instruments and cannabis plants which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

These consolidated financial statements include the financial statements of ROI and its controlled subsidiaries. Control exists when ROI has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of each subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-company transactions, balances, income and expenses are eliminated through the consolidation process.

Entities in Rubicon's consolidated financial statements are as follows:

Name	Place of Incorporation	Ownership Percentage
Rubicon Organics Canada Corp. (formerly 1113603 B.C. Ltd., "ROCC")	BC, Canada	100%
Bridge View Greenhouses Ltd. ("Bridge View")	BC, Canada	100%
Vintages Organic Cannabis Company Inc. ("Vintages") (licensed producer under the Cannabis Act)	BC, Canada	100%
West Coast Marketing Corporation	BC, Canada	100%

Rubicon Holdings, Inc. ("RHI")	WA, United States	100%
West Coast Property Holdings, Inc.	WA, United States	100%
Rubicon Property 1, LLC	WA, United States	100%
Rubicon Property 2, LLC	WA, United States	100%
Rubicon California, LLC	CA, United States	100%
Great Pacific Brands, LLC	WA, United States	100%
Red Dog Operations, Inc.	WA, United States	100%
Seymour Soils, Inc.	WA, United States	100%
Kool Gildea, Inc. [1]	CA, United States	0%

[1] *On January 30, 2018, an agreement was executed between the Company and Kool Gildea, Inc. ("KG Inc."), a California non-profit mutual benefit corporation granting the Company the power to direct relevant activities of KG Inc., in particular the appointment and removal of governing members. As a result of this control, KG Inc. is consolidated in the Financial Statements in accordance with IFRS 10. KG Inc. has been inactive since its California state cannabis license expiry in 2018.*

3. SIGNIFICANT ACCOUNTING POLICIES

a. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("$"). The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which it operates. The functional currency of all the Company's operations is Canadian dollars with the exception of RHI, West Coast Property Holdings, Inc., Rubicon Property 1 LLC, Rubicon Property 2 LLC, Rubicon California LLC, Great Pacific Brands, LLC, Red Dog Operations, Inc., Seymour Soils, Inc. and Kool Gildea Inc., where the functional currency is United States dollars ("US$"). Once the Company determines the functional currency of an entity it is not changed unless there is a change in the relevant underlying transactions, events and circumstances. Any change in an entity's functional currency is accounted for prospectively from the date of the change, and the consolidated statements of financial performance are translated using the exchange rate at that date.

b. Foreign currency translation

Transactions in foreign currencies are initially recorded by the Company's subsidiaries at their respective functional currency spot rates at the date the transaction is recognized. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at reporting period ends. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income ("OCI") or profit or loss are also recognised in OCI or profit or loss, respectively).

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at the average exchange rate prevailing during each reporting period. Equity balances are translated at historical exchange rates prevailing at the date of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On

disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

c. Assets held for sale and discontinued operations

The Company classifies assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the asset or disposal group, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or, is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

d. Cash

Cash consists of deposits held in banks.

e. Cannabis plants

The Company's cannabis plants consist of cannabis plants and seeds. Cannabis plants are measured at their fair value less costs to sell up to the point of harvest in accordance with IAS 41 – Agriculture. Fair value at the point of harvest becomes the base cost of inventories. Fair value is 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. The Company then measures and adjusts the cannabis plants to the fair value less cost to sell. Unrealized gains or losses arising from changes in the fair value of cannabis plants are included in the consolidated statements of loss and comprehensive loss of the related year. Seeds are measured at cost which approximates fair value.

f. Production costs

The Company expenses the direct and indirect costs related to the biological transformation of cannabis plants prior to harvest as incurred. Production costs include labour related costs, cultivation materials and consumables, utilities, facility costs and production related depreciation.

g. Inventories

Inventories consist of finished goods, work in progress, packaging materials and unused consumable inventory used in propagation and transformation of the Company's cannabis plants. Inventories are measured at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from cannabis plants at their fair value less costs to sell at harvest which becomes the base cost of work in process inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Post-harvest costs include any direct labour related costs, packaging supplies and consumables, utilities, facilities costs, quality and testing costs, and related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value.

h. Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over its useful life as outlined below:

Asset type	Reporting Category	Useful Life
Computer equipment and Software	Equipment and vehicles	3 years
Propagation equipment	Equipment and vehicles	3 years
Greenhouse equipment	Equipment and vehicles	5-7 years
Extraction lab equipment	Equipment and vehicles	7 years
Security equipment	Equipment and vehicles	7 years
Vehicles	Equipment and vehicles	5-15 years
Greenhouse and improvements	Buildings and leasehold improvements	20 years
Residential building and improvements	Buildings and leasehold improvements	30 years

An asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate. Land and construction in progress are stated at cost. Once available for service, depreciation will be provided over the estimated useful life of each class of depreciable asset. Improvements which increase the useful life of property and equipment and replacements of major components of property and equipment will be capitalized, while maintenance, repairs, and minor replacements will be expensed as incurred.

An asset is classified as under construction if the Company is currently constructing it and it is not yet ready to be used for its final intended purpose. Assets under construction are measured at cost with no depreciation. Once an item is ready for its intended use, it will be reclassified to its appropriate asset category and it will be depreciated accordingly.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Long-lived assets, including property, plant and equipment are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

i. Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. The Health Canada license was measured at fair value at the time of acquisition. The Health Canada license has an indefinite life and is tested for impairment on an annual basis or when there is an indicator of impairment.

j. Leases

At the inception of a contract, the Company assesses whether the contract conveys the right for the Company to control the use of an identified asset for a period of time in exchange for consideration. If it does, 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, plant, 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.

k. Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new common shares are shown as a deduction, net of tax, from the proceeds. When equity offerings consist of common shares issued with attached share purchase warrants, if both instruments are classified as equity, the net proceeds are allocated based on the relative fair value of each component of equity. In determining the fair value of warrants that are not publicly traded, the Company uses the Black-Scholes option pricing model.

l. Share-based compensation

The Company has an employee equity award plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest.

Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For stock options granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

m. Income taxes

Income tax expense includes current and deferred taxes.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount to be expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax related to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax filings with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

n. Related party transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties subject to common control are also considered to be related. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

o. Financial instruments

All financial instruments are initially recorded at fair value at the time of acquisition. The Company aggregates financial instruments in accordance with IFRS 9, *Financial Instruments*, into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of transaction.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following categories: amortized cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI").

Financial assets classified as amortized cost are initially recognized at fair value plus directly attributed transaction costs. After initial recognition, these financial assets are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. Regular purchases and sales of FVTPL financial assets are accounted for at the trade date, as opposed to the settlement date.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recorded at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial instrument classification

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash	FVTPL
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to related party	Amortized cost
Lease liabilities	Amortized cost
Loans and borrowings	Amortized cost
Investment	FVTPL

The fair values of accounts receivable, due from related parties, accounts payable and accrued liabilities, and due to related party, approximate their carrying amounts due to the short-term maturity of those instruments.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without deduction for transaction costs. For financial instruments that are not traded in active markets, the fair value is determined using appropriate valuation techniques, such as using a recent arm's length market transaction, discounted cash flow analysis or other valuation models. Investments in equity instruments with no reliable fair value measurement are measured at cost.

p. Impairment of financial assets

The Company makes an assessment at each reporting date whether a financial asset is impaired. The Company applies the simplified approach under IFRS 9 to its account receivables and calculates expected credit losses based on lifetime expected losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

q. Segment information

Operating segments are components of the Company that engages in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Company), the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker ("CODM") for the purposes of resource allocation and assessing its performance. The Company's CODMs are the Chief Executive Officer, the Chief Financial Officer and the President, North America.

The Company's operating results are divided into three operating segments; Canada, Corporate, and Discontinued operations. Upon execution of the letter of intent to sell the Washington greenhouse, the Washington and California segments were combined to form the Company's Discontinued operations segment as this was consistent with how the CODM reviewed and analyzed the Company's results. Prior year segment information has been restated to conform to the new segment presentation.

r. Changes to accounting standards and interpretations

The Company has adopted the following new or amended IFRS standards for the interim and annual periods beginning on January 1, 2019.

- 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, there was no adjustment required 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.

Refer to note 3 (j) for the Company's policy for accounting for lease contracts.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Certain estimates by their nature are uncertain. The impacts of such estimates could be pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
The following accounting policies are subject to such judgements and because of the uncertainty associated with the estimation process they could have the most significant impact on the reported results and financial position:

a. Estimated useful lives and depreciation of property and equipment and intangible assets
Amortization of property and equipment and intangible assets are dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment.

b. Valuation of share-based transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 16.

c. Valuation of cannabis plants

Cannabis plants are measured at their fair value less costs to sell up to the point of harvest. Determination of the fair value of cannabis plants 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.

d. Valuation and bifurcation of compound financial instruments

Compound financial instruments are bifurcated and recorded as separate liability and equity components. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is assigned the residual amount after deducting from the fair value of the whole instrument the amount separately determined for the liability component. Valuation of the liability component requires management to exercise judgment in the determination of the interest rate of debt with substantially the same credit status, cash flows and terms.

5. DISCONTINUED OPERATIONS – UNITED STATES

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. The 2018 results of Vega have been included in the loss from discontinued operations as prior to deconsolidation, Vega formed part of the US segment.

In the second half of 2019 the Company decided to dispose of its US operations in order to focus its resources on the Canadian market.

On December 20, 2019, the Company executed a letter of intent to sell its Washington greenhouse to a buyer group that includes Rubicon's CEO as a minority shareholder (note 17). Upon execution of the letter, Rubicon received a deposit of $2,597,600 (US$2,000,000) from the buyer group. On April 3, 2020, Rubicon completed the sale for gross proceeds of $12,020,700 (US$8,500,000), excluding transaction costs and settled the outstanding loan on the property of $4,006,800 (US$3,000,000) (note 25 (a)).

The major classes of assets and liabilities of the discontinued US operations were as follows:

	December 31, 2019 $
Cash	122
Inventory	–
Other assets	3,118

Land	616,930
Property, plant and equipment	10,835,124
Assets classified as held for sale	11,455,294
Accounts payable and accrued liabilities	147,641
Liabilities associated with assets held for sale	147,641
Net assets classified as held for sale	11,307,653

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

	December 31, 2019 $	December 31, 2018 $
Revenue	1,284,397	1,852,581
Cost of sales	(2,944)	(1,862,278)
Loss on inventory write-off	(137,602)	(219,075)
Gross profit (loss)	1,143,851	(228,772)
Consulting, salaries and wages	92,758	1,055,823
General and administrative	647,853	1,263,891
Provision for credit losses	1,246,848	–
Depreciation and amortization	839,042	116,433
Sales and marketing	359,980	1,434,605
Foreign exchange (gain) or loss	17,880	(4,181)
Impairment	1,108,291	751,781
Income before taxes	(3,168,801)	(4,847,124)
Income taxes	–	–
Net loss from discontinued operations	(3,168,801)	(4,847,124)

Impairment reflects adjustments of asset carrying values to their estimated fair value less costs to sell.

On August 14, 2018, the Company entered into an arrangement with a tenant, licensed by the State of Washington for cannabis cultivation to lease its Washington greenhouse. Rent became payable commencing on January 1, 2019. During 2019 the Company abated rent related to the Washington greenhouse from the inception of the lease to its sale and recorded the amount as a provision for credit losses.

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

	December 31, 2019 $	December 31, 2018 $
Cash (used in) provided by operating activities	(12,825)	212,036
Cash used in investing activities	(386,199)	(1,315,126)
Cash used in financing activities	–	(180,000)
Net cash outflow	399,024	1,283,090

6. ACCOUNTS RECEIVABLE

	December 31, 2019 $	December 31, 2018 $
CMX receivable	—	219,890
Sales taxes recoverable	204,910	101,062
Corporate tax recoverable	—	96,589
Other receivables	—	73,023
Total accounts receivable	204,910	490,564

7. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits as at December 31, 2019 contained $115,116 (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 December 31, 2019 consisted of unused consumable inventory used in the propagation and transformation of the Company's cannabis plants and work-in-process ("WIP") inventory comprised of harvested 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 held by CMX.

	December 31, 2019 $	December 31, 2018 $
Consumable inventory	104,713	—
Cannabis WIP	1,789,885	—
Finished goods	206,285	—
California packaging inventory	—	352,145
Balance, end of year	2,100,883	352,145

During the year ended December 31, 2019, the Company recorded $2,467,020 of production costs. Included in production costs for the year ended December 31, 2019 is $665,224 of depreciation. Included in Cannabis WIP and Finished goods is $1,499,636 of cost transferred from cannabis plants.

9. CANNABIS PLANTS

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

	$
Balance, December 31, 2018	—
Change in fair value of cannabis plants	3,520,959
Transferred to WIP inventory upon harvest	(1,499,636)
Balance, December 31, 2019	2,021,323

Cannabis plants 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 $4.36 per gram;
- post-harvest processing costs of $0.66 per gram; and
- 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. 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.

During the year ended December 31, 2019, the Company determined the fair value less costs to sell was approximately $3.70 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 cannabis plants of $201,225. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of $200,945.
The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at December 31, 2019, on average, the cannabis plants were estimated to be 30% 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
Additions	1,382,682	2,825,684	—	5,297,248	9,505,614
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 right-of-use assets	—	(97,396)	—	—	(97,396)

Transferred to assets held for sale	(9,875,133)	(1,563,954)	(622,543)	—	(12,061,630)
At December 31, 2019	12,081,743	6,148,634	2,040,722	37,429	20,308,528
Accumulated depreciation					
At December 31, 2018	158,709	350,883	—	—	509,592
Depreciation	813,513	797,535	—	—	1,611,048
Foreign exchange	(17,946)	(20,972)	—	—	(38,918)
Transferred to right-of-use assets	0	(6,957)	—	—	(6,957)
Transferred to assets held for sale	(644,345)	(582,161)	—	—	(1,226,506)
At December 31, 2019	309,931	538,328	—	—	848,259
Net book value					
At December 31, 2018	10,703,943	2,086,719	2,732,884	8,496,502	24,020,048
At December 31, 2019	11,771,812	5,610,306	2,040,722	37,429	19,460,269

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'.

For the year ended December 31, 2019, depreciation of $665,224 was included in production costs and $57,814 was capitalized to inventory.

11. INTANGIBLE ASSETS

Cost	Health Canada License Application $
Balance, December 31, 2018	1,881,749
Balance, December 31, 2019	1,881,749

In 2017, ROCC, acquired all the outstanding common shares of Vintages from related parties in exchange for $3.00 and 999,999 common shares of the Company. Management determined that it was appropriate to value the consideration at US$1,499,999 ($1,881,749), representing 999,999 common shares of the Company at US$1.50. As the only identifiable asset held by Vintages at the date of acquisition was the Health Canada license application, the application was valued at the amount of the consideration and is considered an indefinite life asset.

12. LEASES

The Company's leases primarily consist of property leases as well as the right to use a tractor that has been capitalized. 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 December 31, 2019	97,396

Accumulated depreciation	Equipment and vehicles $
At December 31, 2018	—
Transferred to right-of-use assets	6,957
Depreciation	13,913
At December 31, 2019	20,870

Net book value	Equipment and vehicles $
At December 31, 2018	—
At December 31, 2019	76,526

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:

	Year ended December 31, 2019 $
Expenses related to short-term leases	209,598
Lease payments recognized in net loss	209,598

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019 $	December 31, 2018 $
Trade payables	2,562,849	2,020,734
Accrued liabilities	1,973,513	625,997
Other payables	—	258,080
	4,536,362	2,904,811

14. LOANS AND BORROWINGS

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

	December 31, 2019 $	December 31, 2018 $
Opening balance	2,946,722	3,000,000
Additions	13,855,010	—
Deferred financing fee	(637,393)	—
Principal repayments	(2,946,722)	(53,278)
Ending balance	13,217,617	2,946,722

The Company had the following loans and borrowings:

	December 31, 2019 $	December 31, 2018 $
Farm Credit Canada mortgage	—	2,946,722
First mortgage	4,858,272	—
Second mortgage (group)	3,191,073	—
Second mortgage (overseas lenders)	4,696,764	—
Second mortgage (US lenders)	471,508	—
Total loans and borrowings	13,217,617	2,946,722
Less: current portion	(4,858,272)	(100,390)
Long term	8,359,345	2,846,332

On March 20, 2019, the Company completed a $6,000,000 mortgage financing loan from an investment corporation ("First Mortgage"). The First Mortgage is collateralized by the Company's Delta Facility. 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 Company has the right to extend the First Mortgage by six months from the maturity date of September 30, 2020. On March 19, 2020, the Company agreed to cap the First Mortgage and will not draw the additional $1,000,000.

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%. In accordance with the terms of the FCC mortgage, the balance was settled in full once the Company began to grow cannabis in the Delta Facility and was 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 17. 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 second mortgages are compound instruments with separate components, being the debt and the warrants. The debt component 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 of the second mortgages 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 year ended December 31, 2019 was $1,507,685 (December 31, 2018: $135,067).

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

Common shares	#	$
December 31, 2017	31,000,366	26,317,209
Share issuance – financing	5,511,059	14,294,367
Shares issuance for agreement with KG Inc.	300,000	737,580
Deemed equity consideration of RTO	—	15,379,035
December 31, 2018	36,811,425	56,728,191
Share issuance – public offering	3,150,000	6,855,428
Share issuance on stock option exercises	5,000	11,271
December 31, 2019	39,966,425	63,594,890

On January 25, 2018, 1,372,517 common shares were issued as part of a 2017 financing for total proceeds of US$2,745,034. Financing costs associated with this issuance totaled US$55,836.

On January 30, 2018, the Company issued 300,000 common shares with respect to the purchase of KG Inc.

On February 13, 2018, 62,500 common shares were issued at US$1.60 per common share to existing shareholders under the Company's investor rights agreement. These shares were settled against accounts payable owed to a related party for total proceeds of US$100,000.

On May 15, 2018, the Company completed a share exchange transaction with RHI whereby each shareholder of RHI, other than the Company, exchanged its common shares in RHI on a 1:1 basis for common shares of the Company and all former option holders of RHI exchanged their options on a 1:1 basis for new options in the Company on substantially similar terms (note 1). This transaction has been recorded as RHI undertaking a reverse takeover of the Company, and therefore the $15,379,035 fair value of the 4,732,011 outstanding ROI common shares exchanged has been accounted for the deemed equity consideration in the transaction.

On July 5, 2018, the Company completed a non-brokered private placement of 417,222 units at $3.25 per unit for gross proceeds of $1,355,972. Each unit consists of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share at an exercise price of $4.20 per common share until July 5, 2020, subject to adjustment in certain events.

On July 5, 2018, the Company completed a brokered private placement of 3,658,820 special warrants for aggregate gross proceeds of $11,891,165. Each special warrant was exercisable, for no additional consideration and with no further action on the part of the holder, into units of the Company. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share at an exercise price of $4.20 per common share until July 5, 2020, subject to adjustment in certain events. The Company paid the agents 23,076 special warrants, 183,431 broker warrants and cash agent fees of $835,459 and legal fees of $229,419.

On October 9, 2018, with the filing of the Final Prospectus with the British Columbia Securities Commission, the 3,658,820 special warrants were automatically converted into 3,658,820 common shares and 1,829,398 warrants. The Company's common shares commenced trading on the Canadian Securities Exchange on October 10, 2018.

On August 23, 2019, the Company completed a public offering of 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 of $3.50 per share until February 23, 2022, 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, consisting of broker warrants valued at $115,657 and agent and legal fees of $925,772.

16. 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 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. 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 the following options to purchase common shares under the Plan as follows:

	Number of options # $	Weighted average exercise price $
Outstanding, January 1, 2018	2,384,000	$1.53
Granted	2,949,500	3.82
Forfeited	(155,000)	3.06
Outstanding December 31, 2018	5,178,500	$2.79
Granted	624,750	$3.25
Exercised	(5,000)	$1.40
Forfeited	(285,500)	$3.19
Outstanding, December 31, 2019	5,512,750	$2.82

The following table provides information on stock options outstanding and exercisable as at December 31, 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	0.96	1,370,000	0.96
March 21, 2016	US$1.00	24,000	1.22	24,000	1.22
June 30, 2016	US$1.00	90,000	1.50	90,000	1.50
August 17, 2016	US$1.00	500,000	1.63	125,000	1.63
January 12, 2017	US$1.50	80,000	2.04	72,500	2.04
July 31, 2017	US$2.00	270,000	2.58	270,000	2.58
November 15, 2017	US$2.00	5,000	2.88	5,000	2.88
January 21, 2018	US$2.00	30,000	3.06	15,000	3.06
July 31, 2018	$3.25	2,374,500	3.58	963,167	3.58
September 24, 2018	$3.25	15,000	3.73	—	3.73
September 24, 2018	$8.15	350,000	3.73	350,000	3.73
May 28, 2019	$3.25	193,250	4.41	—	4.41
July 12, 2019	$3.25	165,500	4.53	—	4.53
September 24, 2019	$3.25	45,500	4.73	—	4.73
		5,512,750	2.71	3,284,667	2.24

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 value of options granted during the year were determined using the Black-Scholes options pricing model, using the following assumptions:

	December 31, 2019	December 31, 2018
Grant date share price	$2.23 - $3.25	$2.49 - $3.25
Risk-free interest rate	1.42% - 2.96%	1.95% - 2.96%
Expected life of options	5 years	5 years
Expected annualized volatility	100% - 130%	100% - 130%

For the year ended December 31, 2019, the weighted average fair value of each option was $2.01 (December 31, 2018: $2.06). The fair value of the 624,750 options granted in 2019 was estimated at $1,252,754.

During the year ended December 31, 2019, the Company recognized $2,994,851 (December 31, 2018: $2,241,853) in share-based compensation expense pertaining to option awards.

On September 20, 2019, the Company granted an aggregate of 75,000 Deferred Share Units ("DSU") to the three independent 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 as share-based compensation.

(b) Warrants

At December 31, 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.

17. 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, 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 December 31, 2019, $1,655,000 of principal and $138,478 of interest is owed to these related parties.

In December 2019, the Company executed a letter of intent to sell its Washington greenhouse for US$8,500,000 to a buyer group that includes the Company's CEO as a minority shareholder, owning 41.5% of the buyer (note 5). The Washington greenhouse sale was completed on April 3, 2020. A Special Committee of the Company's Board of Directors comprised solely of independent directors supervised the negotiation of the sale and recommended it for approval to the full Board.

As at December 31, 2019, included in accounts payable and accrued liabilities is $75,459 (December 31, 2018: $181,360) owed to officers and directors of the Company for expenses paid on behalf of the Company and $151,250 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 year ended December 31, 2019 $	For the year ended December 31, 2018 $
Salaries	1,086,688	681,614
Bonuses accrued	500,000	—
Share based compensation	1,896,071	937,224
Total compensation of key management personnel	3,482,759	1,618,838

18. CURRENT AND DEFERRED INCOME TAX

(a) Temporary differences

As at December 31, 2019, the deferred tax assets are not recognized on the following temporary differences as it is not probable that sufficient taxable profits will be available to utilize such assets:

	December 31, 2019 $	December 31, 2018 $
Property plant and equipment	—	—
Tax loss carry forwards	35,440,994	23,432,375
Deductible finance cost	419,844	419,844
	35,860,838	23,852,219

There are deferred tax liabilities totaling $633,712 (December 31, 2018: $559,264) which are eligible to be offset against the existing deferred tax assets and therefore offset.

(b) Income tax expense

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the combined federal and state statutory income tax rates as follows:

	December 31, 2019 $	December 31, 2018 $
Net loss from continuing operations before tax	11,104,993	25,027,963
Net loss from discontinued operations before tax	3,168,801	4,847,124
Current statutory income tax rate	27%	27%
Expected income tax recovery based on statutory rate	3,853,924	8,066,273
Differences between statutory and foreign tax rate	(128,777)	(408,430)
Differences between statutory and future tax rates	—	—

Tax losses not recognized in the period that the benefit arose	(2,863,029)	(2,909,134)
Non-deductible expenses	(862,118)	(4,748,432)
Other	—	(277)
	—	—

(c) Income tax loss carryforwards

As of December 31, 2019, the Company has loss carry forwards of $35,860,838 (2018 – $23,852,219) available to reduce future years' income tax for tax purposes. The tax loss carry forwards expire at various times between 2036 and 2039.

19. COMMITMENTS

At December 31, 2019, the Company had the following commitments:

	Less than one year $	One to three years $	Over three years $	Total $
Office lease	40,873	—	—	40,873
Total commitments	40,873	—	—	40,873

20. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items:

	For the year ended December 31, 2019 $	For the year ended December 31, 2018 $
Accounts payable and accrued liabilities	(558,827)	1,553,019
Interest payable	695,917	—
Inventory	(374,540)	(158,061)
Prepaids and deposits	(105,580)	(325,432)
Due from related parties	—	211,514
Accounts receivable	359,989	(445,866)
Corporate tax payable	—	(74,407)
	16,959	760,767

Supplemental disclosure of non-cash activities:

(i) As at December 31, 2019, accounts payable and accrued liabilities includes $2,271,875 related to capital asset additions (December 31, 2018: $641,926).

21. SEGMENT INFORMATION

The Company's business activities in 2019 were conducted through three reportable segments corresponding with its business model. The segments are as follows: (a) Canadian development of facilities for production and sale of cannabis; (b) corporate costs; and (c) discontinued operations related to the United States.

Financial performance and balances by operating segment are displayed below:

As at and for the year ended December 31, 2019

	Canada	Corporate	Discontinued operations	Total
	$	$	$	$
Revenue and other income	—	—	—	—
Change in fair value of cannabis plants	3,520,959	—	—	3,520,959
Expenses	(7,393,671)	(7,232,281)	—	(14,625,952)
Net income (loss), continuing operations	(3,872,712)	(7,232,281)	—	(11,104,993)
Net income (loss), discontinued operations	—	—	(3,168,801)	(3,168,801)
Net income (loss)	(3,872,712)	(7,232,281)	(3,168,801)	(14,273,794)
Assets	25,994,868	2,325,859	11,455,294	39,776,021
Liabilities	7,593,489	13,519,495	147,641	21,260,625

*As at and for the year ended December 31, 2018**

	Canada	Corporate	Discontinued operations	Total
	$	$		$
Revenue and other income	176,364	—	—	176,364
Expenses	(697,523)	(24,506,804)	—	(25,204,327)
Net income (loss), continuing operations	(521,159)	(24,506,804)	—	(25,027,963)
Net income (loss), discontinued operations	—	—	(4,847,124)	(4,847,124)
Net loss	(521,159)	(24,506,804)	(4,847,124)	(29,875,087)
Assets	13,322,123	655,686	14,350,854	28,328,663
Liabilities	3,215,522	2,490,771	561,017	6,267,350

** re-stated for presentation of discontinued operations*

22. CAPITAL MANAGEMENT

It is management's objective to safeguard its capital in order that it will be able to continue as a going concern in the best interests of all stakeholders.

The Company currently has limited sources of revenues and operating cash flows. As such, the Company is dependent upon external financings to fund activities. In order to finance future projects and to pay for administrative activities, the Company will spend its existing working capital and raise additional funds through debt, equity, or a combination thereof as needed. Management reviews its capital management practices on an ongoing basis and believes that their approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management program during the year ended December 31, 2019.

23. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The main types of risk are credit risk, liquidity risk and market risk. These risks arise throughout the normal course of operations and all transactions are

undertaken as a going concern. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk on its cash and accounts receivable. The carrying amount of these assets represent the maximum credit exposure.

The Company limits exposure to credit risk by maintaining its cash with institutions of high credit worthiness.

Institution	$
National banks	2,083,537
Cash	51

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses credit quality of the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into arrangements with reputable and stable counterparties and frequent reviews of exposure to individual entities.

An impairment analysis of receivables is performed at each reporting date and the balances are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan and a change in the commercial terms associated with the balance held.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash. The Company manages its capital in order to meet short term business requirements, after taking into account cash flows, capital expenditures and cash holdings. The Company believes that these sources should be sufficient to cover the likely short-term requirements. In the long term, the Company may have to issue debt or additional common shares to ensure that there is cash available for its programs.

All current liabilities, being accounts payable, accrued liabilities, the current portion of the loans and borrowings and amounts payable to related parties, are payable within one year and are to be funded from cash. Please refer to note 1 for discussion on management's ability to cover its current liabilities. Long term liabilities consist of the loans and borrowings.

Interest rate risk

Interest rate risk is the risk the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's debts are all held at fixed interest rates and no significant interest rate risk applies.

Foreign exchange risk

The Company and its subsidiaries conduct business in foreign countries, with certain transactions denominated in currencies other than the functional currency of the Company (Euros and United States dollars) or one of its subsidiaries conducting the business. Foreign currency transactions are exposed to currency risk due to fluctuations in foreign exchange rates.

For the year ended December 31, 2019 the Company was exposed to currency risk through the following assets and liabilities denominated in US$:

		December 31, 2019		December 31, 2018
Cash		1,433,813		35,903
Accounts payable and accrued liabilities		(345,811)		(610,936)
	US$	1,088,002	US$	(575,033)

A 10% change of the US$ against the $ at December 31, 2019 would have decreased net loss by $137,413 (December 31, 2018: $78,466) or increased net loss by $137,413 (December 31, 2018: $78,466).

Fair value

The Company classifies its fair value measurements with a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 13 – *Financial Instruments; Fair Value Measurement* ("IFRS 13").

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3 – Unobservable inputs which are supported by little or no market activity. As required by IFRS 13, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Cash is classified as a Level 2 financial instrument.

There were no transfers within the fair value hierarchy during the year ended December 31, 2019.

The Company does not hold any Level 1 financial assets or liabilities that are based on unadjusted quoted prices trading in active markets.

24. COMPARATIVE FIGURES

Prior year share-based compensation expense in the amount of $438,333 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.

25. SUBSEQUENT EVENTS

(a) Secured debt financing

On March 2, 2020, the Company closed a $4,006,800 (US$3,000,000) loan from a US real estate group. The loan is for a term of 24 months, bears interest at 12.9% per annum, and is secured by a first ranking mortgage on the Company's Washington greenhouse. The loan was repaid on April 3, 2020, concurrent with the sale of the Washington greenhouse, discussed in (b) below.

(b) Sale of Washington Greenhouse

On April 3, 2020, the Company completed the sale of the Washington greenhouse for gross proceeds of $12,020,700 (US$8,500,000). US$3,065,695 of the proceeds were used to repay the secured debt in (a) above.

(c) Revolving related party loans

Beginning from November 1, 2019, certain executives of the Company agreed to defer portions of their salaries. In January 2020, the Board approved revolving credit lines with the CEO, CFO, President and CSO of the Company for $500,000, $300,000, $150,000, and $150,000 at an annual interest rate of 12% with repayment no later than December 31, 2020. These revolving credit lines were effective for amounts loaned effective November 1, 2019. On April 21, 2020 the Board approved an increase in the revolving credit line with the CEO to $1,000,000.

On February 11, 2020, a shareholder of the Company entered into a revolving credit line with the Company for up to $250,000 at an annual interest rate of 12% with repayment no later than December 31, 2020.

(d) Interest deferral on second mortgage

In connection with amounts owed to them under the $3,355,000 second mortgage financing loan, three related parties agreed to defer the interest payment due on April 24, 2020 in the amount of $383,429 until the maturity of the loan on April 24, 2021. The deferred interest will be compounded to the principal amount owing.

(e) Stock option forfeiture

In connection with the departure of certain employees, 42,750 stock options were forfeited and cancelled.