



Rubicon Organics Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three months ended March 31, 2020 and 2019

Expressed in Canadian dollars

RUBICON ORGANICS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

Expressed in Canadian Dollars



	Notes	March 31, 2020	December 31, 2019
ASSETS			
Current			
Cash		1,650,313	2,083,588
Accounts receivable	6	683,583	204,910
Prepaid expenses and deposits		364,285	491,479
Inventory	7	3,121,977	2,100,883
Cannabis plants	8	2,022,991	2,021,323
Assets held for sale	5	12,583,690	11,455,294
		<u>20,426,839</u>	<u>18,357,477</u>
Non-Current			
Property, plant and equipment	9	20,131,775	19,536,795
Intangible asset		1,881,749	1,881,749
Total assets		<u>42,440,363</u>	<u>39,776,021</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	3,866,515	4,536,362
Deposit received on assets held for sale	5	2,837,400	2,597,600
Interest payable	12	983,608	695,917
Due to related parties	15	1,100,000	—
Current portion of lease liabilities		131,061	18,071
Current portion of loans and borrowings	12	4,903,321	4,858,272
Liabilities associated with assets held for sale	5	4,128,336	147,641
		<u>17,950,241</u>	<u>12,853,863</u>
Non-Current			
Lease liabilities		302,150	47,417
Loans and borrowings	12	8,420,583	8,359,345
Total liabilities		<u>26,672,974</u>	<u>21,260,625</u>
Shareholders' equity			
Share capital	13	63,594,890	63,594,890
Reserves	14	12,353,743	11,919,470
Deficit		(60,147,984)	(56,339,813)
Accumulated other comprehensive loss		(33,260)	(659,151)
Total shareholders' equity		<u>15,767,389</u>	<u>18,515,396</u>
Total liabilities and shareholders' equity		<u>42,440,363</u>	<u>39,776,021</u>

Approved on behalf of the Board:

(Signed) "Bryan Disher"

Director

(Signed) "Margaret Brodie"

Director and CFO

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

RUBICON ORGANICS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

Expressed in Canadian Dollars, except for share information



		For the three months ended	
		March 31, 2020	March 31, 2019
	Notes	(As restated – note 5)	
Revenue			
Product sales		523,094	–
Excise taxes		(69,051)	–
Net revenue		454,043	–
Cost of sales			
Production costs		1,708,778	–
Inventory expensed to cost of sales		215,902	–
Gross loss before fair value adjustments		(1,470,637)	–
Unrealized gain on changes in fair value of cannabis plants	8	837,616	121,610
Realized fair value of inventory sold		(258,501)	–
Gross loss		(891,522)	121,610
Operating expenses			
Consulting, salaries and wages		1,269,613	840,465
General and administrative		502,066	796,328
Share-based compensation	14	434,273	815,561
Depreciation and amortization	9	4,689	25,566
Sales and marketing		107,938	11,906
		2,318,579	2,489,826
Loss from operations		(3,210,101)	(2,368,216)
Interest on loans	12	543,616	46,224
Net foreign exchange (gain) loss		(57,472)	2,599
Loss from continuing operations before income tax		(3,696,245)	(2,417,039)
Income tax expense		-	(247)
Net loss from continuing operations		(3,696,245)	(2,417,286)
(Loss) Gain from discontinued operations, net of tax	5	(111,926)	87,107
Net loss for the period		(3,808,171)	(2,330,179)
Other comprehensive income (loss)			
Exchange rate differences on translation of foreign operations		625,891	(221,648)
Total comprehensive loss		(3,182,280)	(2,551,827)
Net loss per share from continuing operations, basic and diluted		(0.09)	(0.07)
Net loss per share from discontinued operations, basic and diluted		(0.01)	0.01
Net loss per share, basic and diluted		(0.10)	(0.06)
Weighted average number of shares		40,041,425	36,811,425

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

RUBICON ORGANICS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Expressed in Canadian Dollars, except for share information



	Notes	Number of Shares	Share Capital (Net of Financing Costs)	Share-Based Reserves	Warrant Reserve	Reserves Total	Accumulated other comprehensive income (loss)	Deficit	Total Shareholders' Equity
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-based compensation - employees	14	—	—	815,561	—	815,561	—	—	815,561
Share-based compensation - non-employees	14	—	—	157,167	—	157,167	—	—	157,167
Net loss		—	—	—	—	—	—	(2,276,712)	(2,276,712)
Other comprehensive loss		—	—	—	—	—	(275,115)	—	(275,115)
Balance, March 31, 2019		36,811,425	56,728,191	5,947,260	2,545,767	8,493,027	(396,273)	(44,342,731)	20,482,214
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
Share-based compensation - employees	14	—	—	434,273	—	434,273	—	—	434,273
Net loss		—	—	—	—	—	—	(3,808,171)	(3,808,171)
Other comprehensive income		—	—	—	—	—	625,891	—	625,891
Balance, March 31, 2020		39,966,425	63,594,890	8,566,249	3,787,494	12,353,743	(33,260)	(60,147,984)	15,767,389

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



		For the three months ended	
		March 31, 2020	March 31, 2019
	Notes		(As restated – note 5)
OPERATING ACTIVITIES			
Net loss from continuing operations		(3,696,245)	(2,417,286)
Net (loss) income from discontinued operations		(111,926)	87,107
Adjustments to reconcile net loss to net cash used in operating activities			
Share based compensation	14	434,273	972,728
Unrealized change in the fair value of cannabis plants	8	(837,616)	(121,610)
Realized fair value of inventory sold		258,501	–
Depreciation and amortization	9	393,510	222,950
Interest on loans	12	595,115	–
Unrealized foreign exchange loss (gain)		(55,418)	76,601
Changes in non-cash working capital items	16	(96,266)	350,287
Interest paid		(149,638)	–
Cash used in operating activities		(3,265,710)	(829,223)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(2,138,697)	(1,110,179)
Cash used in investing activities		(2,138,697)	(1,110,179)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	12	3,893,861	4,736,400
Proceeds from related parties under revolving credit line	15	1,100,000	1,207,056
Funds received in advance of debt closing		–	295,920
Repayment of loans and borrowings		–	(2,946,722)
Repayment of finance lease		(4,596)	(4,349)
Cash provided by financing activities		4,989,265	3,288,305
Effect of exchange rate changes on cash		(18,133)	9,224
Increase (decrease) in cash during the period		(433,275)	1,358,127
Cash, beginning of period		2,083,588	232,420
Cash, end of period		1,650,313	1,590,547

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



1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

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

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

The Company's common shares trade on the 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 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.

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 until such time that the Company received a sales license from Health Canada. Sales of the Company's products to provincial and territorial distributors began in February 2020 through the agreement with Agro-Greens. On May 8, 2020, the Company received approval from Health Canada for its sales license to sell directly to the Canadian market.

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 against the property, and excluding transaction costs. On May 19, 2020, the Company announced a non-brokered private placement financing of up to \$10,000,000 which was subsequently upsized to \$13,500,000 (note 19(c)). This private placement is expected to close on or about May 29, 2020.

However, as at March 31, 2020, the Company had not achieved profitable operations and had accumulated losses of \$60,147,984 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 condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Revenue from contracts with customers

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

5. DISCONTINUED OPERATIONS – UNITED STATES

In the second half of 2019 the Company decided to dispose of its US operations 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:

	March 31, 2020
	\$
Cash	2,198
Inventory	—
Other assets	3,406
Land	673,883
Property, plant and equipment	11,904,203
Assets classified as held for sale	12,583,690
Accounts payable and accrued liabilities	61,512
Interest payable on US Mortgage	43,308
US Mortgage (US real estate group)	4,023,516
Liabilities associated with assets held for sale	4,128,336
Net assets classified as held for sale	8,455,354

On March 2, 2020, the Company closed a \$4,006,800 (US\$3,000,000) loan from a US real estate group. The loan had a term of 24 months, bore interest at 12.9% per annum, and was 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 (note 19(a)).

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

	March 31, 2020	March 31, 2019
	\$	\$
Greenhouse lease revenue	—	638,137
Gross profit	—	638,137
Consulting, salaries and wages	43,468	7,704
General and administrative	16,958	278,078
Interest on loan	51,500	—
Depreciation and amortization	—	197,384
Sales and marketing	—	14,393
Foreign exchange (gain) or loss	—	53,471
Income (loss) before taxes	(111,926)	87,107
Income taxes	—	—
Net income (loss) from discontinued operations	(111,926)	87,107

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. At September 30, 2019, the Company abated rent related to the Washington greenhouse from the inception of the lease to the greenhouse's 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:

	March 31, 2020	March 31, 2019
	\$	\$
Cash provided by (used in) operating activities	(145,914)	(186,946)
Cash used in investing activities	(68,825)	(300,199)
Cash used in financing activities	—	—
Net cash outflow	(214,739)	(487,145)

6. ACCOUNTS RECEIVABLE

	March 31, 2020	December 31, 2019
	\$	\$
Trade receivables	485,399	—
Sales taxes recoverable	61,483	204,910
Other receivables	136,701	—
Total accounts receivable	683,583	204,910

Trade receivables are comprised of sales of cannabis to Agro-Greens which it sold on to provincial distributors and retailers in Canada.

7. INVENTORIES

Inventory as at March 31, 2020 and 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.

	March 31, 2020	December 31, 2019
	\$	\$
Consumable inventory	223,385	104,713
Cannabis WIP	2,110,909	1,789,885
Finished goods	787,683	206,285
Total inventory	3,121,977	2,100,883

Included in inventory is \$63,721 of depreciation (March 31, 2019 - \$nil). Included in Cannabis WIP and Finished goods is \$2,083,895 of cost transferred from cannabis plants (March 31, 2019 - \$nil).

8. CANNABIS PLANTS

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

	\$
Balance, December 31, 2019	2,021,323
Change in fair value of cannabis plants	837,616
Transferred to WIP inventory upon harvest	(835,948)
Balance, March 31, 2020	2,022,991



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 60 grams per plant;
- selling price ranging from \$1.86 to \$3.27 per gram;
- post-harvest processing costs of \$0.44 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 the 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.

For the period ended March 31, 2020, the Company determined the fair value less costs to sell was approximately \$2.21 per gram for growing plants.

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 \$200,506. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of \$201,748.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at March 31, 2020, on average, the cannabis plants were estimated to be 49% complete. (December 31, 2019 – 30% complete).

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Buildings and leasehold improvements \$	Equipment and vehicles \$	Land \$	Construction in progress \$	Total \$
At December 31, 2018	10,862,652	2,437,602	2,732,884	8,496,502	24,529,640
Additions	1,379,999	2,828,349	—	5,297,248	9,505,596
Commissioned during the period	10,790,111	2,966,210	—	(13,756,321)	—
Impairment related to discontinued operations	(571,185)	(304,767)	(36,437)	—	(912,389)
Impairment	—	(17,669)	—	—	(17,669)
Foreign exchange	(507,384)	(97,076)	(33,182)	—	(637,642)



Transferred to assets held for sale	(9,875,133)	(1,563,954)	(622,543)	—	(12,061,630)
At December 31, 2019	12,079,060	6,248,695	2,040,722	37,429	20,405,906

Accumulated depreciation					
At December 31, 2018	158,709	350,883	—	—	509,592
Depreciation	813,494	811,449	—	—	1,624,943
Foreign exchange	(17,946)	(20,972)	—	—	(38,918)
Transferred to assets held for sale	(644,345)	(582,161)	—	—	(1,226,506)
At December 31, 2019	309,912	559,199	—	—	869,111

Net book value					
At December 31, 2019	11,769,148	5,689,496	2,040,722	37,429	19,536,795

Cost	Buildings and leasehold improvements \$	Equipment and vehicles \$	Land \$	Construction in progress \$	Total \$
At December 31, 2019	12,079,060	6,248,695	2,040,722	37,429	20,405,906
Additions	760,908	225,884	500	—	987,292
Commissioned during the period	—	37,429	—	(37,429)	—
Foreign exchange	—	3,086	—	—	3,086
At March 31, 2020	12,839,968	6,515,094	2,041,222	—	21,396,284

Accumulated depreciation					
At December 31, 2019	309,912	559,199	—	—	869,111
Depreciation	152,186	241,324	—	—	393,510
Foreign exchange	—	1,888	—	—	1,888
At March 31, 2020	462,098	802,411	—	—	1,264,509

Net book value					
At March 31, 2020	12,377,870	5,712,683	2,041,222	—	20,131,775

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 three months ended March 31, 2020, depreciation of \$308,786 was included in production costs (March 31, 2019 - \$nil), \$63,721 was capitalized to inventory (March 31, 2019 - \$nil) and \$5,208 (March 31, 2019 - \$nil) was expensed in cost of goods sold.

Buildings and leasehold improvement additions contains a right-of-use office lease that was capitalized in the amount of \$358,914.



10. LEASES

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

a) 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:

	Three months ended March 31, 2020 \$
Expenses related to short-term leases	46,852
Lease payments recognized in net loss	46,852

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020 \$	December 31, 2019 \$
Trade payables	1,824,984	2,562,849
Accrued liabilities	2,015,247	1,973,513
Excise taxes payable	21,000	—
Refund liability	5,284	—
	3,866,515	4,536,362

12. LOANS AND BORROWINGS

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

	March 31, 2020 \$	December 31, 2019 \$
Opening balance	13,217,617	2,946,722
Additions	—	13,855,010
Deferred financing fee	—	(637,393)
Accretion	106,287	—
Principal repayments	—	(2,946,722)
Ending balance	13,323,904	13,217,617

The Company had the following loans and borrowings:



	March 31, 2020 \$	December 31, 2019 \$
First mortgage	4,903,321	4,858,272
Second mortgage (group)	3,218,334	3,191,073
Second mortgage (overseas lenders)	4,726,679	4,696,764
Second mortgage (US lenders)	475,570	471,508
Total loans and borrowings	13,323,904	13,217,617
Less: current portion	(4,903,321)	(4,858,272)
Long term	8,420,583	8,359,345

Total interest expense for the three months ended March 31, 2020 was \$543,616 (March 31, 2019: \$46,224).

13. 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 March 31, 2020, there were 39,966,425 (December 31, 2019: 39,966,425) issued and fully paid common shares.

14. 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 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	\$2.80
Forfeited	(42,750)	\$3.25
Outstanding, March 31, 2020	5,470,000	\$2.82



The following table provides information on stock options outstanding and exercisable as at December 31, 2019:

Grant Date	Exercise Price	Options outstanding		Options exercisable	
		Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
December 17, 2015	US\$1.00	1,370,000	0.72	1,370,000	0.72
March 21, 2016	US\$1.00	24,000	0.97	24,000	0.97
June 30, 2016	US\$1.00	90,000	1.25	90,000	1.25
August 17, 2016	US\$1.00	500,000	1.38	125,000	1.38
January 12, 2017	US\$1.50	80,000	1.79	80,000	1.79
July 31, 2017	US\$2.00	270,000	2.33	270,000	2.33
November 15, 2017	US\$2.00	5,000	2.63	5,000	2.63
January 21, 2018	US\$2.00	30,000	2.81	30,000	2.81
July 31, 2018	\$3.25	2,373,250	3.33	961,917	3.33
September 24, 2018	\$3.25	15,000	3.48	-	3.48
September 24, 2018	\$8.15	350,000	3.48	350,000	3.48
May 28, 2019	\$3.25	153,250	4.16	-	4.16
July 12, 2019	\$3.25	164,500	4.28	-	4.28
September 24, 2019	\$3.25	45,000	4.48	-	4.48
		5,470,000	2.45	3,305,917	1.99

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. There were no options granted in the three months ended March 31, 2020, nor in the three months ended March 31, 2019.

During the three months ended March 31, 2020, the Company recognized \$434,290 (March 31, 2019: \$972,728) in share-based compensation expense pertaining to option awards.

(b) Warrants

At March 31, 2020, 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.

15. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Beginning in 2019, certain executives and directors of the Company agreed to defer portions of their remuneration. As at March 31, 2020, included in accounts payable and accrued liabilities is accrued salaries and director fees of \$194,721 (December 31, 2019: 151,250). Accounts payable and accrued liabilities also included \$160,364 (December 31, 2019: \$75,459) owed to executives and directors of the Company for expenses paid on behalf of the Company.

Included in accrued liabilities are accrued bonuses for key management personnel of \$685,000. \$500,000 of these bonuses are estimates relating to the year ended 2019 and \$185,000 relates to the three months ended March 31, 2020. Key management bonuses will not be paid until the Board approves payment which is not expected prior to positive operating cashflows of the Company.

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

Due to related parties as at March 31, 2020, contained \$750,000, \$100,000, and \$250,000 owed to the CEO, CFO, and the shareholder, respectively. Included in accounts payable and accrued liabilities is accrued interest of \$12,658, \$2,203 and \$4,027 owed to the CEO, CFO, and shareholder, respectively.

On April 22, 2020, the Company repaid \$335,377 of accrued salaries and expenses to the CEO, CFO, CSO, and President as well as \$102,926 to the CFO for principal and interest owed under the revolving credit line. On May 19, 2020, the Company repaid \$1,032,795 to the CEO, and shareholder for principal and interest owed under the revolving credit line.

(b) Compensation of key management personnel

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

	For the three months ended March 31, 2020 \$	For the three months ended March 31, 2019 \$
Salaries	288,587	170,403
Bonuses	185,000	—
Share based compensation	278,343	436,713
Total compensation of key management personnel	751,930	607,116

16. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items:



	For the three months ended March 31, 2020 \$	For the three months ended March 31, 2019 \$
Accounts receivable	(478,673)	(524,902)
Prepays and deposits	127,195	69,909
Inventory	(443,646)	96,875
Accounts payable and accrued liabilities	354,454	719,908
Interest payable	330,999	—
Due from related parties	—	(11,503)
Current portion of lease liabilities	13,405	—
	(96,266)	350,287

Supplemental disclosure of non-cash activities:

- (i) As at March 31, 2020, accounts payable and accrued liabilities includes \$830,381 related to capital asset additions (December 31, 2019: \$2,271,875).

17. SEGMENT INFORMATION

The Company's business activities in 2020 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 period ended March 31, 2020

	Canada \$	Corporate \$	Discontinued operations \$	Total \$
Net revenue and other income	454,043	—	—	454,043
Change in fair value of cannabis plants	837,616	—	—	837,616
Expenses	(3,501,124)	(1,486,780)	—	(4,987,904)
Net income (loss), continuing operations	(2,209,465)	(1,486,780)	—	(3,696,245)
Net income (loss), discontinued operations	—	—	(111,926)	(111,926)
Net income (loss)	(2,209,465)	(1,486,780)	(111,926)	(3,808,171)
Assets	28,117,328	1,739,345	12,583,690	42,440,363
Liabilities	6,805,019	15,739,619	4,128,336	26,672,974

*As at and for the period ended March 31, 2019**

	Canada \$	Corporate \$	Discontinued operations \$	Total \$
Net revenue and other income	—	—	—	—
Change in fair value of cannabis plants	121,610	—	—	121,610
Expenses	(428,174)	(2,110,722)	—	(2,538,896)



Net income (loss), continuing operations	(306,564)	(2,110,722)	–	(2,417,286)
Net income (loss), discontinued operations	–	–	87,107	87,107
Net income (loss)	(306,564)	(2,110,722)	87,107	(2,330,179)
Assets	14,347,489	1,618,441	14,223,523	30,189,453
Liabilities	5,078,336	4,375,115	253,788	9,707,239

* re-stated for presentation of discontinued operations

18. COMPARATIVE FIGURES

Prior year share-based compensation expense in the amount of \$157,167 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.

19. SUBSEQUENT EVENTS

(a) Exit from the United States

On April 3, 2020, the Company completed the sale of its Washington greenhouse for gross proceeds of \$12,020,700 (US\$8,500,000), netting the Company \$7,685,194 (excluding transaction costs) after discharging the secured debt against the property (note 12). Effective May 15, 2020, the Company contemporaneously terminated its lease on the extraction lab in Washington and sold all related cannabis extraction equipment, thereby ceasing all ancillary services to the cannabis industry in the US.

(b) 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.

(c) Non-brokered private placement

On May 19, 2020, the Company announced a non-brokered private placement of units for up to \$10,000,000, which was subsequently upsized to \$13,500,000. The offering is priced at \$2.35 per unit. 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 \$3.25 per share for a period of 12 months following the closing of the offering. The private placement is expected to close on or about May 29, 2020.