



Rubicon Organics Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three and six months ended June 30, 2020

Expressed in Canadian dollars

RUBICON ORGANICS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

Expressed in Canadian Dollars



	Notes	June 30, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		12,577,730	2,083,588
Accounts receivable	6	952,888	204,910
Prepaid expenses and deposits		971,770	491,479
Inventory	7	6,364,845	2,100,883
Cannabis plants	8	1,718,037	2,021,323
Assets held for sale	5	421,397	11,455,294
		<u>23,006,667</u>	<u>18,357,477</u>
Non-Current			
Property, plant and equipment	9	20,689,317	19,536,795
Right-of-use assets	10	338,974	—
Intangible asset		1,881,749	1,881,749
Total assets		<u>45,916,707</u>	<u>39,776,021</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	3,221,142	4,536,362
Deposit received on assets held for sale	5	—	2,597,600
Interest payable	12	1,241,666	695,917
Current portion of lease liabilities		121,358	18,071
Current portion of loans and borrowings	12	12,954,514	4,858,272
Liabilities associated with assets held for sale	5	—	147,641
		<u>17,538,680</u>	<u>12,853,863</u>
Non-Current			
Lease liabilities		288,303	47,417
Loans and borrowings	12	479,633	8,359,345
Total liabilities		<u>18,306,616</u>	<u>21,260,625</u>
Shareholders' equity			
Share capital	13	75,094,166	63,594,890
Reserves	14	14,585,437	11,919,470
Deficit		(61,963,033)	(56,339,813)
Accumulated other comprehensive loss		(106,479)	(659,151)
Total shareholders' equity		<u>27,610,091</u>	<u>18,515,396</u>
Total liabilities and shareholders' equity		<u>45,916,707</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


	Notes	For the three months ended		For the six months ended	
		June 30, 2020	June 30, 2019 (As restated - note 5)	June 30, 2020	June 30, 2019 (As restated - note 5)
Revenue					
Product sales		1,198,683	—	1,721,777	—
Excise taxes		206,680	—	275,731	—
Net revenue		992,003	—	1,446,046	—
Cost of sales					
Production costs	9	1,759,598	281,700	3,468,376	281,700
Inventory expensed to cost of sales		428,848	—	644,750	—
Gross loss before fair value adjustments		(1,196,443)	(281,700)	(2,667,080)	(281,700)
Unrealized gain on changes in fair value of cannabis plants	8	3,218,918	181,151	4,056,534	302,761
Realized fair value of inventory sold		(757,270)	—	(1,015,771)	—
Gross profit (loss)		1,265,205	(100,549)	373,683	21,061
Operating expenses					
Consulting, salaries and wages		1,114,723	717,904	2,384,336	1,558,369
General and administrative		412,733	866,960	914,796	1,663,290
Share-based compensation	14	419,000	851,328	853,273	1,666,888
Depreciation and amortization	9	27,893	168,959	32,582	194,525
Sales and marketing		145,368	264,606	253,306	276,511
		2,119,717	2,869,757	4,438,293	5,359,583
Loss from operations		(854,512)	(2,970,306)	(4,064,610)	(5,338,522)
Interest on loans	12	555,543	308,903	1,099,159	355,127
Foreign exchange loss		158,306	6,781	100,834	9,380
Loss from continuing operations before income tax		(1,568,361)	(3,285,990)	(5,264,603)	(5,703,029)
Income tax recovery		—	74,582	—	74,335
Net loss from continuing operations		(1,568,361)	(3,211,408)	(5,264,603)	(5,628,694)
Loss from discontinued operations, net of tax	5	(246,691)	(246,523)	(358,617)	(159,416)
Net loss for the period		(1,815,052)	(3,457,931)	(5,623,220)	(5,788,110)
Other comprehensive income (loss)					
Exchange rate differences on translation of foreign operations		(73,219)	(312,667)	552,672	(534,315)
Total comprehensive loss		(1,888,271)	(3,770,598)	(5,070,548)	(6,322,425)
Net loss per share from continuing operations, basic and diluted		(0.04)	(0.09)	(0.13)	(0.15)
Net loss per share from discontinued operations, basic and diluted		—	(0.01)	(0.01)	(0.01)
Net loss per share, basic and diluted		(0.04)	(0.10)	(0.14)	(0.16)
Weighted average number of shares		42,047,494	36,811,425	41,055,482	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	–	–	1,666,888	–	1,666,888	–	–	1,666,888
Share-based compensation – non-employees	14	–	–	234,051	–	234,051	–	–	234,051
Warrants issued with debt		–	–	–	502,560	502,560	–	–	502,560
Net loss		–	–	–	–	–	–	(5,788,110)	(5,788,110)
Other comprehensive loss		–	–	–	–	–	(534,315)	–	(534,315)
Balance, June 30, 2019		36,811,425	56,728,191	6,875,471	3,048,327	9,923,798	(655,473)	(47,854,129)	18,142,387
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 issuance – private placement	13	5,767,447	11,499,276	–	1,812,694	1,812,694	–	–	13,311,970
Share-based compensation – employees	14	–	–	853,273	–	853,273	–	–	853,273
Net loss		–	–	–	–	–	–	(5,623,220)	(5,623,220)
Other comprehensive income		–	–	–	–	–	552,672	–	552,672
Balance, June 30, 2020		45,733,872	75,094,166	8,985,249	5,600,188	14,585,437	(106,479)	(61,963,033)	27,610,091

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 six months ended	
		June 30, 2020	June 30, 2019
	Notes		(As restated – note 5)
OPERATING ACTIVITIES			
Net loss from continuing operations		(5,264,603)	(5,628,694)
Net (loss) income from discontinued operations		(358,617)	(159,416)
Adjustments to reconcile net loss to net cash used in Operating activities			
Share based compensation	14	853,273	1,900,939
Unrealized change in the fair value of cannabis plants	8	(4,056,534)	(302,761)
Realized fair value of inventory sold		1,015,771	–
Depreciation and amortization	9	858,003	621,069
Impairment of assets held for sale	5	237,637	–
Interest on loans	12	1,161,702	355,127
Unrealized foreign exchange loss (gain)		100,836	33,614
Inventory write-down		–	137,602
Changes in non-cash working capital items	16	(1,741,974)	(1,737,557)
Interest paid		(355,477)	–
Cash used in operating activities		<u>(7,549,983)</u>	<u>(4,780,077)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(3,977,012)	(2,792,185)
Cash used in investing activities		<u>(3,977,012)</u>	<u>(2,792,185)</u>
FINANCING ACTIVITIES			
Proceeds from equity financing – private placement		13,311,970	–
Proceeds from sale of disposal group		8,638,845	–
Proceeds from loans and borrowings	11	160,007	12,788,119
Proceeds from related parties under revolving credit line	15	1,100,000	–
Repayment to related parties under revolving credit line		(1,100,000)	–
Repayment of loans and borrowings		–	(2,946,722)
Repayment of finance lease		(39,433)	(8,729)
Cash provided by financing activities		<u>22,071,389</u>	<u>9,832,668</u>
Effect of exchange rate changes on cash		<u>(50,252)</u>	<u>(9,756)</u>
Increase (decrease) in cash during the period		10,494,142	2,250,650
Cash, beginning of period		2,083,588	232,420
Cash, end of period		<u>12,577,730</u>	<u>2,483,070</u>

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". On July 23, 2020, the Company received conditional approval to list the common shares and public warrants on the TSX Venture Exchange (the "TSXV").

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

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

For the three and six months ended June 30, 2020, the Company had net revenue of \$992,003 and \$1,446,046, respectively. Product sales have been steadily increasing since the Company received the sale amendment to its Cultivation & Processing licenses from Health Canada on May 8, 2020 and has been able to sell directly to the Canadian market. The Company continues to focus on building a reputation for quality in the Canadian market under its Simply Bare™ Organic cannabis brand.

However, as at June 30, 2020, the Company had not achieved profitable operations and had accumulated losses of \$61,963,033 since its inception. Although the Company expects to achieve positive operating cashflows within the next twelve months, until such time that this is achieved, the continuing operations of the Company are dependent upon its ability to obtain debt or equity financing. There can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

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

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



2. BASIS OF PREPARATION

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Revenue from contracts with customers

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

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

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

	June 30, 2020
	\$
Land	421,397



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

	For the three months ended		For the six months ended	
	June 30, 2020 \$	June 30, 2019 \$	June 30, 2020 \$	June 30, 2019 \$
Greenhouse lease revenue	–	642,147	–	1,280,284
Inventory write-off	–	137,602	–	(137,602)
Gross profit	–	504,545	–	1,142,682
Consulting, salaries and wages	651	24	44,119	7,728
General and administrative	(2,640)	253,733	14,318	531,811
Interest on loan	11,043	–	62,543	–
Depreciation and amortization	–	216,828	–	414,212
Sales and marketing	–	315,759	–	330,152
Foreign exchange (gain) or loss	–	(35,276)	–	18,195
Impairment ¹	237,637	–	237,637	–
Income (loss) before taxes	(246,691)	(246,523)	(358,617)	(159,416)
Income taxes	–	–	–	–
Net loss from discontinued operations	(246,691)	(246,523)	(358,617)	(159,416)

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

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

	June 30, 2020 \$	June 30, 2019 \$
Cash used in operating activities	(136,860)	(50,510)
Cash used in investing activities	–	(434,432)
Cash used in financing activities	–	–
Net cash outflow	(136,860)	(484,942)

6. ACCOUNTS RECEIVABLE

	June 30, 2020 \$	December 31, 2019 \$
Trade receivables	914,545	–
Sales taxes recoverable	38,343	204,910
Total accounts receivable	952,888	204,910

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

The Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue, or whose accounts receivable balances individually represented 10% or more of the Company's total accounts receivable, as follows:



For the three months ended June 30, 2020, two customers represented 61% and 33% of revenue, respectively. For the six months ended June 30, 2020, two customers represented 73%, 23% of revenue, respectively.

As at June 30, 2020, two customers accounted for 47% and 45% of accounts receivable (December 31, 2019: \$nil).

7. INVENTORIES

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

	June 30, 2020	December 31, 2019
	\$	\$
Consumable inventory	246,045	104,713
Cannabis WIP	5,548,285	1,789,885
Finished goods	570,515	206,285
Total inventory	6,364,845	2,100,883

Included in inventory is \$237,940 of depreciation (June 30, 2019 – \$nil). Included in Cannabis WIP and Finished goods is \$4,856,781 of cost transferred from cannabis plants (June 30, 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	4,056,534
Transferred to WIP inventory upon harvest	(4,359,820)
Balance, June 30, 2020	1,718,037

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 66 grams per plant (December 31, 2019: 71 grams per plant);
- comparable selling price of wholesale dried cannabis flower ranging from \$1.55 to \$3.09 per gram (December 31, 2019: \$4.36 per gram);
- post-harvest processing costs of \$0.40 per gram (December 31, 2019: \$0.66 per gram); and
- stage of plant growth.

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



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

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

For the period ended June 30, 2020, the Company determined the fair value less costs to sell was approximately \$2.00 per gram for plants in cultivation.

The Company has quantified the sensitivity of the significant unobservable inputs used to calculate the fair value recorded. A decrease in the average selling price per gram of 10% would result in a decrease in the value of cannabis plants of \$170,757. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of \$172,583.

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

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Buildings and leasehold improvements \$	Equipment and vehicles \$	Land \$	Construction in progress \$	Total \$
At December 31, 2019	12,079,060	6,248,695	2,040,722	37,429	20,405,906
Additions	548,824	1,422,672	—	18,475	1,989,971
Commissioned during the period	—	37,429	—	(37,429)	—
Foreign exchange	—	1,536	—	—	1,536
At June 30, 2020	12,627,884	7,710,332	2,040,722	18,475	22,397,413
Accumulated depreciation					
At December 31, 2019	309,912	559,199	—	—	869,111
Depreciation	308,055	530,008	—	—	838,063
Foreign exchange	—	922	—	—	922
At June 30, 2020	617,967	1,090,129	—	—	1,708,096
Net book value					
At June 30, 2020	12,009,917	6,620,203	2,040,722	18,475	20,689,317



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

For the three months ended June 30, 2020, depreciation of \$320,302 was included in production costs (June 30, 2019 - \$37,927), \$68,071 was capitalized to inventory (June 30, 2019 - \$nil) and \$38,126 was expensed in cost of sales (June 30, 2019 - \$nil).

For the six months ended June 30, 2020, depreciation of \$629,088 was included in production costs (June 30, 2019 - \$37,927), \$131,792 was capitalized to inventory (June 30, 2019 - \$nil) and \$43,334 was expensed in cost of sales (June 30, 2019 - \$nil).

10. LEASES

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

a) Right-of-use assets



Cost	Buildings and leasehold improvements \$
At December 31, 2019	—
Additions	358,914
At June 30, 2020	358,914
Accumulated depreciation	
At December 31, 2019	—
Depreciation	19,940
At June 30, 2020	19,940
Net book value	
At December 31, 2019	—
At June 30, 2020	338,974

Buildings and leasehold improvement additions contains a right-of-use office lease that was capitalized in the amount of \$358,914 on May 1, 2020 and has accumulated depreciation of \$19,940.

b) *Lease payments recognized in net loss*

The Company's property and building leases that consisted of short-term leases were expensed on a straight-line basis over the lease term. For the three and six months ended June 30, 2020, \$44,231 and \$104,011, respectively was expensed in 'General and administrative' expenses with respect to the lease payments not included in lease liabilities.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020 \$	December 31, 2019 \$
Trade payables	682,860	2,562,849
Accrued liabilities	2,405,782	1,973,513
Excise taxes payable	132,500	—
	3,221,142	4,536,362

Included within accrued liabilities is \$160,007 received in the form of a current loan secured by the Delta Facility and used to renovate the processing area for GMP certification.



12. LOANS AND BORROWINGS

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

	June 30, 2020 \$	December 31, 2019 \$
Opening balance	13,217,617	2,946,722
Additions	—	13,855,010
Deferred financing fee	—	(637,393)
Accretion	216,530	—
Principal repayments	—	(2,946,722)
Ending balance	13,434,147	13,217,617

The Company had the following loans and borrowings:

	June 30, 2020 \$	December 31, 2019 \$
First mortgage	4,950,244	4,858,272
Second mortgage (group)	3,236,533	3,191,073
Second mortgage (overseas lenders)	4,767,737	4,696,764
Second mortgage (US lenders)	479,633	471,508
Total loans and borrowings	13,434,147	13,217,617
Less: current portion	(12,954,514)	(4,858,272)
Non-current loans and borrowings	479,633	8,359,345

Total interest expense for the three and six months ended June 30, 2020 was \$555,543 and \$1,099,159, respectively (June 30, 2019 - \$308,903 and \$355,127, respectively).

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 June 30, 2020, there were 45,733,872 (December 31, 2019: 39,966,425) issued and fully paid common shares.

Common shares	#	\$
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
Share issuance - non-brokered private placement, net of financing costs	5,767,447	11,499,276
June 30, 2020	45,733,872	75,094,166



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

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

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 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	(82,750)	\$3.25
Outstanding, June 30, 2020	5,430,000	\$2.81



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

Grant Date	Exercise Price	Options outstanding		Options exercisable	
		Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
December 17, 2015	US\$1.00	1,370,000	0.47	1,370,000	0.47
March 21, 2016	US\$1.00	24,000	0.72	24,000	0.72
June 30, 2016	US\$1.00	90,000	1.00	90,000	1.00
August 17, 2016	US\$1.00	500,000	1.13	125,000	1.13
January 12, 2017	US\$1.50	80,000	1.54	80,000	1.54
July 31, 2017	US\$2.00	270,000	2.08	270,000	2.08
November 15, 2017	US\$2.00	5,000	2.38	5,000	2.38
January 21, 2018	US\$2.00	30,000	2.56	30,000	2.56
July 31, 2018	\$3.25	2,373,250	3.08	961,917	3.08
September 24, 2018	\$3.25	15,000	3.24	-	3.24
September 24, 2018	\$8.15	350,000	3.24	350,000	3.24
May 28, 2019	\$3.25	113,250	3.91	51,083	3.91
July 12, 2019	\$3.25	164,500	4.04	-	4.04
September 24, 2019	\$3.25	45,000	4.23	-	4.23
		5,430,000	2.19	3,357,000	1.78

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 and six months ended June 30, 2020.

During the three and six months ended June 30, 2020, the Company recognized \$419,000 and \$853,273, respectively, in share-based compensation expense pertaining to option awards (June 30, 2019 - \$928,213 and 1,900,939, respectively).

(b) Warrants

At June 30, 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
May 29, 2020	May 29, 2021	Warrants	\$3.25	5,767,447
				13,098,889



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

Accounts payable and accrued liabilities at June 30, 2020 included \$54,308 (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 at June 30, 2020 are accrued bonuses for key management personnel of \$818,750. \$448,750 of these bonuses are accrued in connection with the year ended 2019 and \$370,000 are accrued for the six months ended June 30, 2020. Key management bonuses for 2019 were paid on August 17, 2020.

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

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

(b) Compensation of key management personnel

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

	For the six months ended June 30, 2020 \$	For the six months ended June 30, 2019 \$
Salaries	584,348	490,807
Bonuses accrued	370,000	—
Share based compensation	557,593	598,368
Total compensation of key management personnel	1,511,941	1,089,175

16. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items:

	For the six months ended June 30, 2020 \$	For the six months ended June 30, 2019 \$
Accounts receivable	(747,978)	(1,023,999)
Prepays and deposits	(480,291)	(240,725)



Inventory	(919,912)	170,996
Accounts payable and accrued liabilities	(149,820)	(643,829)
Interest payable	545,749	—
Current portion of lease liabilities	10,278	—
	(1,741,974)	(1,737,557)

Supplemental disclosure of non-cash activities:

- (i) As at June 30, 2020, accounts payable and accrued liabilities include \$270,423 related to capital asset additions (December 31, 2019: \$2,271,875).

17. SEGMENT INFORMATION

Prior to Q2 2020, the Company identified three reportable segments: (a) Canadian development of facilities for production and sale of cannabis; (b) corporate costs; and (c) discontinued operations related to the United States. Following the sale of the Washington greenhouse, the Company's chief operating decision maker ("CODM") determined that, from the date of the sale, the Company's corporate activities are directly linked to maintaining the success of the Canadian operation and that the performance of the Canadian operation and corporate expenditures are reviewed together in making decisions about use of the Company's resources and therefore the Company now operates in a single reportable segment, the production and sale of cannabis in Canada.

18. COMPARATIVE FIGURES

Prior year share-based compensation expense in the amount of \$234,051 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) TSX Venture Exchange conditional acceptance

On July 23, 2020, the Company received conditional approval to list the common shares and 3,150,000 warrants of the Company on the TSX Venture Exchange. The listing is subject to the Company fulfilling requirements of the TSXV in accordance with the terms of its conditional approval letter.

- (b) First mortgage extension

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



(c) Equity Incentive Plan and DSU Plan

On July 29, 2020, an executive exercised 200,000 options for common shares at \$1.34 (US\$1.00) per option under the Equity Incentive Plan and exercised 157,500 options via cashless exercise for a total of 285,684 common shares.

On August 18, 2020, the Company granted an aggregate of 92,500 stock options to employees of the Company. The options are exercisable at \$3.33 per share for a period of five years expiring on August 19, 2025, pursuant to the terms of the equity incentive plan. The options vest over three years.

On August 19, 2020, the Equity Incentive Plan and Deferred Share Unit Plan were amended to comply with TSX.V requirements set forth in the conditional approval letter.