



# Rubicon Organics Inc.

## **Condensed Consolidated Interim Financial Statements (Unaudited)**

For the three and six months ended June 30, 2021

*Expressed in Canadian dollars*

**RUBICON ORGANICS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**  
*Expressed in Canadian Dollars*



	Notes	June 30, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		4,009,930	12,136,459
Accounts receivable	5	12,585,755	2,569,237
Prepaid expenses and deposits	6	1,446,706	1,333,464
Inventories	7	11,965,402	8,556,670
Cannabis plants	8	847,350	1,579,583
		<b>30,855,143</b>	<b>26,175,413</b>
<b>Non-Current</b>			
Security deposits		265,486	500,486
Property, plant and equipment	9	23,534,391	22,172,833
Right-of-use assets	10	274,990	341,766
Intangible asset		1,881,749	1,881,749
<b>Total assets</b>		<b>56,811,759</b>	<b>51,072,247</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	11	4,254,514	6,001,157
Deferred revenue		465,497	465,497
Interest payable		—	1,778,353
Current portion of lease liabilities	10	140,909	123,003
Current portion of loans and borrowings	12	—	13,641,223
		<b>4,860,920</b>	<b>22,009,233</b>
<b>Non-Current</b>			
Lease liabilities	10	138,051	221,134
Non-current portion of loans and borrowings	12	9,225,794	—
<b>Total liabilities</b>		<b>14,224,765</b>	<b>22,230,367</b>
<b>Shareholders' equity</b>			
Share capital	13	106,241,362	86,349,350
Reserves	14	16,752,392	13,815,515
Deficit		(80,406,760)	(71,322,985)
<b>Total shareholders' equity</b>		<b>42,586,994</b>	<b>28,841,880</b>
<b>Total liabilities and shareholders' equity</b>		<b>56,811,759</b>	<b>51,072,247</b>

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, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Revenue</b>					
Product sales		<b>5,425,368</b>	1,198,683	<b>10,245,335</b>	1,721,777
Excise taxes		<b>(829,777)</b>	206,680	<b>(1,539,181)</b>	275,731
<b>Net revenue</b>		<b>4,595,591</b>	992,003	<b>8,706,154</b>	1,446,046
<b>Cost of sales</b>					
Production costs	9	<b>2,361,176</b>	1,759,598	<b>4,971,103</b>	3,468,376
Inventory expensed to cost of sales	9	<b>2,022,433</b>	428,848	<b>3,515,653</b>	644,750
Inventory written off or provided for		<b>623,171</b>	—	<b>1,222,587</b>	—
<b>Gross loss before fair value adjustments</b>		<b>(411,189)</b>	(1,196,443)	<b>(1,003,189)</b>	(2,667,080)
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	<b>(329,818)</b>	2,461,648	<b>335,819</b>	3,040,763
<b>Gross profit (loss)</b>		<b>(741,007)</b>	1,265,205	<b>(667,370)</b>	373,683
Other Income		<b>31,450</b>	307,289	<b>31,450</b>	438,462
<b>Operating expenses</b>					
Consulting, salaries and wages	17	<b>2,184,328</b>	1,422,012	<b>4,180,836</b>	2,822,798
General and administrative		<b>733,241</b>	412,733	<b>1,524,802</b>	914,796
Sales and marketing		<b>610,610</b>	145,368	<b>1,022,078</b>	253,306
Share-based compensation	14	<b>615,396</b>	419,000	<b>787,854</b>	853,273
Depreciation and amortization	9	<b>62,600</b>	27,893	<b>118,371</b>	32,582
		<b>4,206,175</b>	2,427,006	<b>7,633,941</b>	4,876,755
<b>Loss from operations</b>		<b>(4,915,732)</b>	(854,512)	<b>(8,269,861)</b>	(4,064,610)
Interest on loans	12	<b>164,816</b>	555,543	<b>766,610</b>	1,099,159
Foreign exchange loss		<b>15,911</b>	158,306	<b>47,304</b>	100,834
<b>Net loss from continuing operations</b>		<b>(5,096,459)</b>	(1,568,361)	<b>(9,083,775)</b>	(5,264,603)
Loss from discontinued operations, net of tax		—	(246,691)	—	(358,617)
<b>Net loss for the period</b>		<b>(5,096,459)</b>	(1,815,052)	<b>(9,083,775)</b>	(5,623,220)
<b>Other comprehensive income (loss)</b>					
Exchange rate differences on translation of foreign operations		—	(73,219)	—	552,672
<b>Total comprehensive loss</b>		<b>(5,096,459)</b>	(1,888,271)	<b>(9,083,775)</b>	(5,070,548)
<b>Loss per share from continuing operations, basic and diluted</b>		<b>(0.09)</b>	(0.04)	<b>(0.17)</b>	(0.13)
<b>Loss per share from discontinued operations, basic and diluted</b>		—	(0.00)	—	(0.01)
<b>Loss per share, basic and diluted</b>		<b>(0.09)</b>	(0.04)	<b>(0.17)</b>	(0.14)
<b>Weighted average number of shares</b>		<b>55,631,845</b>	42,047,494	<b>53,714,395</b>	41,055,482

*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	Accumulated other comprehensive income (loss)	Deficit	Total Shareholders' Equity
<b>Balance, January 1, 2020</b>		<b>39,966,425</b>	<b>63,594,890</b>	<b>8,131,976</b>	<b>3,787,494</b>	<b>11,919,470</b>	<b>(659,151)</b>	<b>(56,339,813)</b>	<b>18,515,396</b>
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
<b>Balance, June 30, 2020</b>		<b>45,733,872</b>	<b>75,094,166</b>	<b>8,985,249</b>	<b>5,600,188</b>	<b>14,585,437</b>	<b>(106,479)</b>	<b>(61,963,033)</b>	<b>27,610,091</b>
<b>Balance, January 1, 2021</b>		<b>49,395,131</b>	<b>86,349,350</b>	<b>8,675,960</b>	<b>5,139,555</b>	<b>13,815,515</b>	<b>—</b>	<b>(71,322,985)</b>	<b>28,841,880</b>
Prospectus offering	13 & 14	6,052,631	19,474,039	—	1,729,786	1,729,786	—	—	21,203,825
Warrants issued with Debenture	12 & 14	—	—	—	610,375	610,375	—	—	610,375
Share issuances on exercise of options	14	134,193	417,973	(191,138)	—	(191,138)	—	—	226,835
Share-based compensation	14	—	—	787,854	—	787,854	—	—	787,854
Net loss		—	—	—	—	—	—	(9,083,775)	(9,083,775)
<b>Balance, June 30, 2021</b>		<b>55,581,955</b>	<b>106,241,362</b>	<b>9,272,676</b>	<b>7,479,716</b>	<b>16,752,392</b>	<b>—</b>	<b>(80,406,760)</b>	<b>42,586,994</b>

*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*



		<b>For the six months ended</b>	
	Notes	<b>June 30, 2021</b>	June 30, 2020
<b>OPERATING ACTIVITIES</b>			
Net loss from continuing operations		<b>(9,083,775)</b>	(5,264,603)
Net loss from discontinued operations		—	(358,617)
Adjustments to reconcile net loss to cash used in operating activities			
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	<b>(335,819)</b>	(3,040,763)
Depreciation and amortization	9	<b>1,026,127</b>	858,003
Share-based compensation	14	<b>787,854</b>	853,273
Interest on loans	12	<b>766,610</b>	1,161,702
Foreign exchange loss		<b>7,457</b>	100,836
Impairment of assets held for sale		—	237,637
Changes in non-cash working capital items	16	<b>(2,844,647)</b>	(1,741,974)
<b>Cash used in operating activities</b>		<b>(9,676,193)</b>	(7,194,506)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	9	<b>(3,591,502)</b>	(3,977,012)
<b>Cash used in investing activities</b>		<b>(3,591,502)</b>	(3,977,012)
<b>FINANCING ACTIVITIES</b>			
Net proceeds from equity financing	13	<b>21,203,825</b>	13,311,970
Repayment of loans and borrowings	12	<b>(13,855,010)</b>	—
Interest paid		<b>(2,331,176)</b>	(355,477)
Proceeds from stock options exercised	13	<b>226,835</b>	—
Repayment of lease liabilities		<b>(86,250)</b>	(39,433)
Prepaid financing costs		<b>(19,047)</b>	—
Proceeds from sale of disposal group		—	8,638,845
Proceeds from related parties under revolving credit line		—	1,100,000
Repayment of related party credit line		—	(1,100,000)
Proceeds from loans and borrowings		—	160,007
<b>Cash provided by financing activities</b>		<b>5,139,177</b>	21,715,912
Effect of exchange rate changes on cash		<b>1,989</b>	(50,252)
<b>Net increase (decrease) in cash during the period</b>		<b>(8,126,529)</b>	10,494,142
Cash, beginning of period		<b>12,136,459</b>	2,083,588
<b>Cash, end of period</b>		<b>4,009,930</b>	12,577,730

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



## **1. NATURE 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 TSX Venture Exchange (the "TSXV") 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.

## **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, 2020 ("Annual Financial Statements").

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.

### **Comparative balances**

The Company made certain changes to the presentation of comparative balances in the consolidated interim financial statements for the three and six months ended June 30, 2021. These changes are outlined below:

#### *Condensed Consolidated Interim Statements of Loss and Comprehensive Loss*

The Company has presented the fair value adjustments to cannabis plants under a single financial statement caption termed Fair value adjustments to cannabis plants, inventory sold, and other charges. Note 8 contains further details of the fair value adjustments to cannabis plants including a breakdown that follows the comparative period presentation.

## **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.

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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.

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***5. ACCOUNTS RECEIVABLE**

	June 30, 2021	December 31, 2020
	\$	\$
Debtore funds receivable (Note 12)	<b>9,907,200</b>	—
Trade receivables	<b>2,654,341</b>	2,153,102
Sales taxes recoverable	<b>24,214</b>	116,135
Excise tax security deposit	—	300,000
<b>Total accounts receivable</b>	<b>12,585,755</b>	2,569,237

As at June 30, 2021, \$9,907,200 (US\$8,000,000) was receivable in relation to the issuance of the Debenture (Note 12). The Company received the full amount in July 2021.

Trade receivables arise from sales of cannabis to distributors and retailers in Canada. As at June 30, 2021, 80% of trade receivables were with provincial government cannabis distributors (December 31, 2020: 77%). Trade receivables are net of a \$342,872 provision for returns (December 31, 2020: \$784,331).

For the three and six months ended June 30, 2021, the Company had four customers (June 30, 2020 – two customers) that individually represented more than 10% of the Company's net revenue, and direct sales to provincial government cannabis distributors accounted for 98% and 92% of revenue, respectively (June 30, 2020: 39% and 27%, respectively).

**6. PREPAID EXPENSES AND DEPOSITS**

	June 30, 2021	December 31, 2020
	\$	\$
Prepaid expenses	<b>235,553</b>	331,130
Deposits	<b>1,114,195</b>	787,554
Other	<b>96,958</b>	214,780
<b>Total prepaid expenses and deposits</b>	<b>1,446,706</b>	1,333,464

As at June 30, 2021, \$1,005,149 of the deposits balance was related to property, plant and equipment (December 31, 2020: \$145,915).

**7. INVENTORIES**

Inventory as at June 30, 2021 and December 31, 2020 consisted of 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, 2021	December 31, 2020
	\$	\$
Consumable inventory	<b>2,375,893</b>	1,058,102
Cannabis WIP	<b>8,403,349</b>	5,993,465
Finished goods	<b>1,186,160</b>	1,505,103
<b>Total inventories</b>	<b>11,965,402</b>	8,556,670

At June 30, 2021, total inventories are net of a \$2,282,125 provision for aged or unsaleable inventory (December 31, 2020: \$nil).

At June 30, 2021, cannabis WIP and finished goods include \$6,385,083 of non-cash fair value transferred upon harvest from cannabis plants (December 31, 2020: \$5,317,032).

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***8. CANNABIS PLANTS**

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

	\$
<b>Balance, December 31, 2020</b>	<b>1,579,583</b>
Change in fair value of cannabis plants	5,273,849
Transferred to WIP inventory upon harvest	(6,006,082)
<b>Balance, June 30, 2021</b>	<b>847,350</b>

The fair value of cannabis plants 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 average yield of approximately 70 grams per plant (December 31, 2020: 56 grams per plant);
- comparable selling price of wholesale dried cannabis flower ranging from \$1.30 to \$2.57 per gram (December 31, 2020: \$1.55 to \$3.11 per gram);
- post-harvest processing costs of \$0.40 per gram (December 31, 2020: \$0.40 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 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 the 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, 2021, the Company determined the fair value less costs to sell was approximately \$1.61 per dried gram (December 31, 2020: \$2.02 per dried 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 \$83,121. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of \$83,467.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at June 30, 2021, the cannabis plants were estimated to be, on average, 41% complete (December 31, 2020: 37% complete).

The fair value adjustment to cannabis plants, inventory sold, and other charges for the three and six months ended June 30, 2021 and June 30, 2020 is comprised of the following:

	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30, 2021</b>	<b>June 30, 2020</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Unrealized gain on changes in fair value of cannabis plants	<b>2,346,044</b>	3,218,918	<b>5,273,849</b>	4,056,534
Realized fair value of inventory sold	<b>(1,092,879)</b>	(757,270)	<b>(2,446,099)</b>	(1,015,771)
Adjustment to net realizable value of inventory on hand at period end	<b>(1,582,983)</b>	—	<b>(2,491,931)</b>	—
	<b>(329,818)</b>	2,461,648	<b>335,819</b>	3,040,763



**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***9. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost</b>	<b>Buildings and leasehold improvements</b>	<b>Equipment and vehicles</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
At December 31, 2020	13,169,383	9,317,918	2,040,722	307,227	24,835,250
Additions	350,654	684,333	—	1,451,017	2,486,004
Commissioned during the period	573,563	560,676	—	(1,134,239)	—
<b>At June 30, 2021</b>	<b>14,093,600</b>	<b>10,562,927</b>	<b>2,040,722</b>	<b>624,005</b>	<b>27,321,254</b>

**Accumulated depreciation**

At December 31, 2020	936,602	1,725,815	—	—	2,662,417
Depreciation	333,219	791,227	—	—	1,124,446
<b>At June 30, 2021</b>	<b>1,269,821</b>	<b>2,517,042</b>	<b>—</b>	<b>—</b>	<b>3,786,863</b>

**Net book value**

<b>At June 30, 2021</b>	<b>12,823,779</b>	<b>8,045,885</b>	<b>2,040,722</b>	<b>624,005</b>	<b>23,534,391</b>
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<b>Cost</b>	<b>Buildings and leasehold improvements</b>	<b>Equipment and vehicles</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
At December 31, 2019	12,081,743	6,148,634	2,040,722	37,429	20,308,528
Additions	1,087,640	3,083,996	—	368,456	4,540,092
Commissioned during the period	—	98,658	—	(98,658)	—
Impairment	—	(13,370)	—	—	(13,370)
<b>At December 31, 2020</b>	<b>13,169,383</b>	<b>9,317,918</b>	<b>2,040,722</b>	<b>307,227</b>	<b>24,835,250</b>

**Accumulated depreciation**

At December 31, 2019	309,931	538,328	—	—	848,259
Depreciation	626,671	1,187,487	—	—	1,814,158
<b>At December 31, 2020</b>	<b>936,602</b>	<b>1,725,815</b>	<b>—</b>	<b>—</b>	<b>2,662,417</b>

**Net book value**

<b>At December 31, 2020</b>	<b>12,232,781</b>	<b>7,592,103</b>	<b>2,040,722</b>	<b>307,227</b>	<b>22,172,833</b>
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For the six months ended June 30, 2021, depreciation of \$774,243 was included in production costs (June 30, 2020: \$629,088) and \$298,608 was capitalized to inventory (June 30, 2020: \$175,126).

During the six months ended June 30, 2021, the total amount of depreciation recognized in cost of sales was \$133,513 (June 30, 2020: \$nil).

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***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	Office leases	Equipment and vehicles	Total
	\$	\$	
At December 31, 2020	358,914	97,396	456,310
Additions	—	—	—
<b>At June 30, 2021</b>	<b>358,914</b>	<b>97,396</b>	<b>456,310</b>
<b>Accumulated depreciation</b>			
At December 31, 2020	79,759	34,785	114,544
Depreciation	59,819	6,957	66,776
<b>At June 30, 2021</b>	<b>139,578</b>	<b>41,742</b>	<b>181,320</b>
<b>Net book value</b>			
<b>At June 30, 2021</b>	<b>219,336</b>	<b>55,654</b>	<b>274,990</b>

Cost	Office Leases	Equipment and vehicles	Total
	\$	\$	
At December 31, 2019	—	97,396	97,396
Additions	358,914	—	358,914
<b>At December 31, 2020</b>	<b>358,914</b>	<b>97,396</b>	<b>456,310</b>
<b>Accumulated depreciation</b>			
At December 31, 2019	—	20,870	20,870
Depreciation	79,759	13,915	93,674
<b>At December 31, 2020</b>	<b>79,759</b>	<b>34,785</b>	<b>114,544</b>
<b>Net book value</b>			
<b>At December 31, 2020</b>	<b>279,155</b>	<b>62,611</b>	<b>341,766</b>

**b. Lease payments recognized in loss from operations**

The Company's short-term property and building lease costs for the three and six months ended June 30, 2021 of \$565,940 and \$1,185,587, respectively, (June 30, 2020: \$44,231 and 104,011, respectively) were expensed on a straight-line basis over the lease term.

**11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	June 30, 2021	December 31, 2020
	\$	\$
Trade payables	733,874	1,745,266
Accrued liabilities	3,127,314	3,772,538
Excise taxes payable	393,326	483,353
<b>Total accounts payable and accrued liabilities</b>	<b>4,254,514</b>	<b>6,001,157</b>

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***12. LOANS AND BORROWINGS**

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

	<b>June 30, 2021</b>	December 31, 2020
	<b>\$</b>	<b>\$</b>
Opening balance	13,641,223	13,217,617
Principal repayments	(13,855,010)	—
Accretion	766,610	2,258,194
Interest payments	(552,823)	(1,834,588)
Debenture	9,907,200	—
Deferred financing fee	(681,406)	—
<b>Ending balance</b>	<b>9,225,794</b>	<b>13,641,223</b>

The Company had the following loans and borrowings:

	<b>June 30, 2021</b>	December 31, 2020
	<b>\$</b>	<b>\$</b>
Debenture	9,225,794	—
First mortgage	—	4,950,275
Second mortgage (group)	—	3,307,613
Second mortgage (overseas lenders)	—	4,894,426
Second mortgage (US lenders)	—	488,909
<b>Total loans and borrowings</b>	<b>9,225,794</b>	<b>13,641,223</b>
Less: current portion	—	(13,641,223)
<b>Non-current loans and borrowings</b>	<b>9,225,794</b>	<b>—</b>

On March 31, 2021, the Company fully repaid the \$5.0 million first mortgage loan that matured.

On April 23, 2021, the Company fully repaid the \$3.4 million second mortgage (group) and the \$5.0 million second mortgage (overseas lenders).

On June 25, 2021, the Company fully repaid the \$0.5 million second mortgage (US lenders).

On June 29, 2021, the Company issued a \$9,907,200 (US\$8,000,000) principal amount secured debenture (the “Debenture”). The Debenture is collateralized by the Company’s Delta Facility, matures on June 29, 2023, and bears interest at 6.5% per annum (compounded and paid semi-annually). In connection with the Debenture, the Company issued 907,000 warrants. Each warrant is exercisable for one common share with an exercise price of \$4.00 per common share and expiry date of June 29, 2024.

The Debenture is a compound instrument 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, proceeds were allocated between debt and equity first by determining the fair value of the liability component using a 10% discount rate, and then allocating the residual value to the equity component. Transaction costs were allocated to the liability and equity components in proportion to the allocation of proceeds. The deferred financing fee of \$681,406 consists of \$610,375 for the warrants issued and transaction costs of \$71,031. Transaction costs of \$51,984 are included in accounts payable and accrued liabilities as at June 30, 2021.

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars*

The Company used the Black-Scholes option pricing model to calculate the fair value of the warrants, using the following estimates, judgments, and assumptions:

Expected stock price volatility	62.9%
Expected life of warrants	3 years
Risk free interest rate	0.65%
Expected dividend yield	0%
Exercise price	\$4.00
Fair value per warrant	\$0.71

Total interest on loans for the three and six months ended June 30, 2021, was \$164,816 and 766,610, respectively (June 30, 2020: \$555,543 and \$1,099,159, 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**

<b>Common shares</b>	<b>#</b>	<b>\$</b>
<b>December 31, 2019</b>	<b>39,966,425</b>	<b>63,594,890</b>
Non-brokered private placement, net of financing costs	5,767,447	11,499,276
Stock option exercises	1,298,184	2,855,230
Warrant exercises	2,063,075	7,667,054
Vesting of share awards	300,000	732,900
<b>December 31, 2020</b>	<b>49,395,131</b>	<b>86,349,350</b>
Prospectus offering, net of financing costs	6,052,631	19,474,039
Share issuances on exercise of options	134,193	417,973
<b>June 30, 2021</b>	<b>55,581,955</b>	<b>106,241,362</b>

On February 26, 2021, the Company completed a prospectus offering issuing 6,052,631 units at \$3.80 per unit for gross proceeds of \$22,999,998. Each unit is comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$5.30 until February 26, 2024, subject to an accelerated expiry if the 20-trading day volume-weighted average price of the common shares on the TSX Venture Exchange is equal to or greater than \$6.90 per common share. Share issuance costs were \$1,796,173. The common share purchase warrants were valued at \$1,729,786 using the relative fair value method using the Black-Scholes option pricing model with the following estimates, judgments, and assumptions:

Expected stock price volatility	64.2%
Expected life of warrants	3 years
Risk free interest rate	0.32%
Expected dividend yield	0%
Exercise price	\$5.30
Fair value per warrant	\$0.57

During the six months ended June 30, 2021, the Company issued 134,000 shares on the exercise of 134,000 options for proceeds of \$226,835 and 3,333 options were exercised via cashless exercise, resulting in the issuance of a further 193 common shares.


**14. RESERVES**
**a. Options**

Under the Company's Equity Incentive Plan and Deferred Share Unit Plan (together the "Equity Plans"), the Board of Directors may grant stock options, restricted share awards, restricted share units and deferred share units ("Equity Awards") to eligible directors, officers, employees, and consultants of the Company and its subsidiaries. The Equity Plans provide for the issuance of Equity Awards that shall not exceed in aggregate 9,146,774 common shares of the Company.

The exercise price of stock options issued pursuant to the Equity Plans 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 Equity Plans as follows:

	Number of options #	Weighted average exercise price \$
<b>Outstanding, December 31, 2019</b>	<b>5,512,750</b>	<b>\$2.82</b>
Granted	172,500	\$3.69
Exercised	(1,370,000)	\$1.40
Forfeited	(53,667)	\$3.53
<b>Outstanding, December 31, 2020</b>	<b>4,261,583</b>	<b>\$3.31</b>
Granted	79,000	\$3.25
Exercised	(137,333)	\$1.78
Forfeited	(96,333)	\$3.29
Expired	(30,000)	\$1.29
<b>Outstanding, June 30, 2021</b>	<b>4,076,917</b>	<b>\$3.37</b>

The following table provides information on stock options outstanding and exercisable as at June 30, 2021:

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)
August 17, 2016	US\$1.00	500,000	0.13	500,000	0.13
January 12, 2017	US\$1.50	80,000	0.54	80,000	0.54
July 31, 2017	US\$2.00	220,000	1.08	220,000	1.08
November 15, 2017	US\$2.00	5,000	1.38	5,000	1.38
January 21, 2018	US\$2.00	50,000	1.56	50,000	1.56
July 31, 2018	\$3.25	2,392,000	2.08	1,792,583	2.08
September 24, 2018	\$3.25	15,000	2.24	7,500	2.24
September 24, 2018	\$8.15	350,000	2.24	350,000	2.24
May 28, 2019	\$3.25	92,083	2.91	68,333	2.91
July 12, 2019	\$3.25	136,000	3.04	51,000	3.04
September 24, 2019	\$3.25	36,833	3.23	14,833	3.23
August 18, 2020	\$3.33	42,500	4.14	—	4.14
October 14, 2020	\$4.10	80,000	4.29	—	4.29
April 16, 2020	\$3.25	77,500	4.80	—	4.80
		<b>4,076,917</b>	<b>1.94</b>	<b>3,139,250</b>	<b>1.71</b>

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars*

During the six months ended June 30, 2021, the Company granted 79,000 stock options to certain employees of the Company pursuant to the Equity Plans. These stock options are exercisable at \$3.25 per share for a period of five years from the date of grant and vest over two or three years.

The fair value of stock options is determined on the grant date. The Company used the Black-Scholes option pricing model using the following estimates, judgments, and assumptions to determine the fair value of the stock options granted during the six months ended June 30, 2021:

Expected stock price volatility	64.1%
Expected life of options	5 years
Risk free interest rate	0.95%
Expected dividend yield	0%
Exercise price	3.25
Fair value per option granted	\$1.44

During the three and six months ended June 30, 2021, the Company recognized \$101,902 and \$274,360, respectively, in share-based compensation expense pertaining to options (June 30, 2020: \$419,000 and \$853,273, respectively).

**b. Warrants**

The Company's outstanding warrants consisted of the following:

Issue Date	Expiry Date	Exercise Price	Number of Warrants	
			June 30, 2021	December 31, 2020
April 25, 2019	April 25, 2022	\$4.50	671,000	671,000
May 28, 2019	May 28, 2022	\$4.50	1,000,000	1,000,000
July 12, 2019	July 12, 2022	\$4.50	100,002	100,002
August 23, 2019	August 23, 2021	\$2.70	174,825	174,825
May 29, 2020	May 29, 2021	\$3.25	—	5,755,447
February 26, 2021	February 26, 2024	\$5.30	3,026,315	—
June 29, 2021	June 29, 2024	\$4.00	907,000	—
			<b>5,879,142</b>	<b>7,701,274</b>

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

**c. Restricted Share Units ("RSUs")**

On April 16, 2021, the Company granted an aggregate of 2,540,000 RSUs that settle in Common Shares to certain executives of the Company pursuant to the Company's Equity Plans. These RSUs vest as follows: (i) 350,000 vesting between one and three years from the date of grant; and (ii) 2,190,000 vesting in tranches based on 12-month EBITDA targets.

During the three and six months ended June 30, 2021, the Company recorded \$513,494 in share-based compensation pertaining to RSUs (June 30, 2020: \$nil).

# RUBICON ORGANICS INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian dollars



### 15. RELATED PARTY TRANSACTIONS

#### a. Related party transactions

Accounts payable and accrued liabilities at June 30, 2021, included \$341,205 (December 31, 2020: \$566,327) owed to executives and directors of the Company for deferred bonuses and other expenses paid on behalf of the Company.

#### 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 for the six months ended June 30, 2021 was comprised of:

	June 30, 2021 \$	June 30, 2020 \$
Salaries and accrued salaries	646,500	584,348
Bonuses in accrued liabilities	—	370,000
Share based compensation	134,662	557,593
<b>Total compensation of key management personnel</b>	<b>781,162</b>	<b>1,511,941</b>

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items for the six months ended:

	June 30, 2021 \$	June 30, 2020 \$
Accounts receivable	(109,318)	(747,978)
Prepays and deposits	745,992	(480,291)
Security deposits	235,000	—
Inventory	(2,175,585)	(919,912)
Accounts payable and accrued liabilities	(1,561,809)	(149,820)
Interest payable	—	545,749
Interest on lease liabilities	21,073	10,278
<b>Change in non-cash working capital items</b>	<b>(2,844,647)</b>	<b>(1,741,974)</b>

As at June 30, 2021, accounts payable and accrued liabilities include \$566,583 related to capital asset additions (December 31, 2020: \$812,846) and \$nil related to interest payable to debt holders (December 31, 2020: \$1,778,353).

### 17. RESTRUCTURING CHARGES

During the three and six months ended June 30, 2021, the Company recognized \$261,361 in termination benefits as a result of the Company's corporate re-organization.

### 18. SUBSEQUENT EVENTS

#### Foreign exchange swaps

In July 2021, the Company entered several foreign exchange swaps to fix the future exchange rate of the principal and interest payments on the US\$8 million Debenture to 1.2580 CAD/USD. The foreign exchange swaps will settle on June 27<sup>th</sup>, 2022, December 28, 2022, and June 27<sup>th</sup>, 2023, at rates that range from 1.2589 to 1.2640 CAD/USD, which reflects the exchange rate spreads of 8.5 to 60.0 basis points on the swaps.