



Rubicon Organics Inc.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2021

Expressed in Canadian dollars

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



	Notes	September 30, 2021	December 31, 2020
ASSETS			
Current			
Cash and cash equivalents		11,972,077	12,136,459
Accounts receivable	5	5,487,349	2,569,237
Prepaid expenses and deposits	6	1,551,092	1,333,464
Inventories	7	9,258,773	8,556,670
Cannabis plants	8	1,052,109	1,579,583
Derivatives	13	123,628	—
		29,445,028	26,175,413
Non-Current			
Security deposits		483,000	500,486
Property, plant and equipment	9	23,709,923	22,172,833
Right-of-use assets	10	241,602	341,766
Intangible asset		1,881,749	1,881,749
Total assets		55,761,302	51,072,247
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	5,604,006	6,001,157
Deferred revenue		460,966	465,497
Interest payable		—	1,778,353
Current portion of lease liabilities	10	146,389	123,003
Current portion of loans and borrowings	12	662,532	13,641,223
		6,873,893	22,009,233
Non-Current			
Lease liabilities	10	99,189	221,134
Non-current portion of loans and borrowings	12	9,070,994	—
Total liabilities		16,044,076	22,230,367
Shareholders' equity			
Share capital	14	107,205,007	86,349,350
Reserves	15	16,765,514	13,815,515
Deficit		(84,253,295)	(71,322,985)
Total shareholders' equity		39,717,226	28,841,880
Total liabilities and shareholders' equity		55,761,302	51,072,247

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 nine months ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue					
Product sales		9,726,994	3,725,367	19,972,329	5,447,144
Excise taxes		(2,636,527)	(558,581)	(4,175,708)	(834,312)
Net revenue		7,090,467	3,166,786	15,796,621	4,612,832
Cost of sales					
Production costs	9	2,118,908	2,053,801	7,090,011	5,492,933
Inventory expensed to cost of sales	9	3,044,544	1,293,663	6,560,197	1,938,413
Inventory written off or provided for		148,694	459,897	1,371,281	489,141
Gross profit (loss) before fair value adjustments		1,778,321	(640,575)	775,132	(3,307,655)
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	(1,821,571)	(34,113)	(1,485,752)	3,006,650
Gross loss		(43,250)	(674,688)	(710,620)	(301,005)
Other Income		85,872	491,405	117,322	929,867
Operating expenses					
Consulting, salaries and wages	18	1,724,821	1,809,693	5,905,657	4,632,491
General and administrative		870,450	776,123	2,395,252	1,690,921
Sales and marketing		414,046	324,879	1,436,124	578,185
Share-based compensation	15	579,940	476,258	1,367,794	1,329,531
Depreciation and amortization	9	71,933	42,304	190,304	74,886
		3,661,190	3,429,257	11,295,131	8,306,014
Loss from operations		(3,618,568)	(3,612,540)	(11,888,429)	(7,677,152)
Interest on loans	12	241,145	559,119	1,007,755	1,658,278
Foreign exchange loss		110,450	107,671	157,754	208,505
Fair value gain on derivatives	13	(123,628)	—	(123,628)	—
Net loss from continuing operations		(3,846,535)	(4,279,330)	(12,930,310)	(9,543,935)
Loss from discontinued operations, net of tax		—	(37,918)	—	(396,535)
Net loss for the period		(3,846,535)	(4,317,248)	(12,930,310)	(9,940,470)
Other comprehensive income (loss)					
Exchange rate differences on translation of foreign operations		—	130,101	—	682,773
Total comprehensive loss		(3,846,535)	(4,187,147)	(12,930,310)	(9,257,697)
Loss per share from continuing operations, basic and diluted		(0.07)	(0.09)	(0.24)	(0.22)
Loss per share from discontinued operations, basic and diluted		—	(0.00)	—	(0.01)
Loss per share, basic and diluted		(0.07)	(0.09)	(0.24)	(0.23)
Weighted average number of shares outstanding, basic and diluted		56,032,984	46,148,373	54,495,751	42,765,504

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
Balance, January 1, 2020		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	14	5,767,447	11,499,276	—	1,812,694	1,812,694	—	—	13,311,970
Share-based compensation - employees	15	—	—	1,329,531	—	1,329,531	—	—	1,329,531
Share issuances on exercise of options	15	685,684	1,496,780	(705,471)	—	(705,471)	—	—	791,309
Share issuances on exercise of warrants		500	1,860	—	(110)	(110)	—	—	1,750
Net loss		—	—	—	—	—	—	(9,940,470)	(9,940,470)
Other comprehensive income		—	—	—	—	—	682,773	—	682,773
Balance, September 30, 2020		46,420,056	76,592,806	8,756,036	5,600,078	14,356,114	23,622	(66,280,283)	24,692,259
Balance, January 1, 2021		49,395,131	86,349,350	8,675,960	5,139,555	13,815,515	—	(71,322,985)	28,841,880
Prospectus offering	14 & 15	6,052,631	19,492,019	—	1,731,383	1,731,383	—	—	21,223,402
Warrants issued with Debenture	12 & 15	—	—	—	610,375	610,375	—	—	610,375
Share issuances on exercise of options	14	535,565	1,363,638	(759,553)	—	(759,553)	—	—	604,085
Share-based compensation	15	—	—	1,367,794	—	1,367,794	—	—	1,367,794
Net loss		—	—	—	—	—	—	(12,930,310)	(12,930,310)
Balance, September 30, 2021		55,983,327	107,205,007	9,284,201	7,481,313	16,765,514	—	(84,253,295)	39,717,226

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 nine months ended	
	Notes	September 30, 2021	September 30, 2020
OPERATING ACTIVITIES			
Net loss from continuing operations		(12,930,310)	(9,543,935)
Net loss from discontinued operations		—	(396,535)
Adjustments to reconcile net loss to cash used in operating activities			
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	1,485,752	(3,006,650)
Depreciation and amortization	9	1,682,558	1,355,500
Share-based compensation	15	1,367,794	1,329,531
Interest on loans	12	1,007,755	1,720,821
Foreign exchange loss		189,013	208,504
Fair value gain on Derivatives	13	(123,628)	—
Impairment of assets held for sale		—	237,637
Changes in non-cash working capital items	17	(3,611,247)	(3,611,298)
Cash used in operating activities		(10,932,313)	(11,706,425)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(4,666,606)	(4,399,764)
Cash used in investing activities		(4,666,606)	(4,399,764)
FINANCING ACTIVITIES			
Net proceeds from equity financing	14	21,223,402	13,311,970
Repayment of loans and borrowings	12	(13,855,010)	—
Net proceeds from loans and borrowings	12	9,834,185	—
Interest paid		(2,331,176)	(556,743)
Proceeds from stock options exercised	14	604,085	791,309
Repayment of lease liabilities		(128,558)	(84,897)
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 warrants exercised		—	1,750
Cash provided by financing activities		15,346,928	22,102,234
Effect of exchange rate changes on cash		87,609	(18,106)
Net increase (decrease) in cash during the period		(164,382)	5,977,939
Cash and cash equivalents, beginning of period		12,136,459	2,083,588
Cash and cash equivalents, end of period		11,972,077	8,061,527

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

RUBICON ORGANICS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian dollars



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 nine months ended September 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.

Condensed Consolidated Interim Statements of Cash Flows

The Company has presented interest paid as a financing activity in the current period financial statements. Interest paid has been reclassified in the comparative period for consistency.

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.

RUBICON ORGANICS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian dollars



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.

5. ACCOUNTS RECEIVABLE

	September 30, 2021	December 31, 2020
	\$	\$
Trade receivables	5,470,441	2,153,102
Sales taxes recoverable	16,908	116,135
Excise tax security deposit	—	300,000
Total accounts receivable	5,487,349	2,569,237

Trade receivables arise from sales of cannabis to distributors and retailers in Canada. As at September 30, 2021, 92% of trade receivables were with provincial government cannabis distributors (December 31, 2020: 77%). Trade receivables are net of a \$536,255 provision for returns (December 31, 2020: \$784,331).

For the three and nine months ended September 30, 2021, the Company had four customers (September 30, 2020: three and four customers, respectively) that individually represented more than 10% of the Company's net revenue, and direct sales to provincial government cannabis distributors accounted for 99% and 95% of revenue, respectively (September 30, 2020: 95% and 74%, respectively).

6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2021	December 31, 2020
	\$	\$
Prepaid expenses	299,941	331,130
Deposits	1,154,694	787,554
Other	96,457	214,780
Total prepaid expenses and deposits	1,551,092	1,333,464

As at September 30, 2021, \$967,022 of the deposits balance was related to property, plant and equipment (December 31, 2020: \$145,915).

7. INVENTORIES

Inventory as at September 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 and finished goods.

	September 30, 2021	December 31, 2020
	\$	\$
Consumable inventory	2,086,391	1,058,102
WIP inventory	6,225,098	5,993,465
Finished goods	947,284	1,505,103
Total inventories	9,258,773	8,556,670

At September 30, 2021, WIP inventory and finished goods include \$4,366,768 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:

	\$
Balance, December 31, 2020	1,579,583
Change in fair value of cannabis plants	6,901,883
Transferred to WIP inventory upon harvest	(7,429,357)
Balance, September 30, 2021	1,052,109

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 \$1.29 to \$2.55 per gram (December 31, 2020: \$1.55 to \$3.11 per gram);
- post-harvest processing costs of \$0.49 per gram (December 31, 2020: \$0.40 per gram); and
- stage of plant growth.

The selling price used in the valuation is based on recently quoted prices of wholesale dried cannabis flower from licensed Canadian wholesalers 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 September 30, 2021, the Company determined the weighted average fair value less costs to sell was approximately \$1.50 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 \$107,521. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of \$103,936.

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

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

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	\$	\$	\$	\$
Unrealized gain on changes in fair value of cannabis plants	1,628,034	3,591,441	6,901,883	7,647,975
Realized fair value of inventory sold	(3,164,125)	(1,361,395)	(5,610,224)	(1,993,981)
Adjustment to net realizable value of inventory on hand at period end	(285,480)	(2,264,159)	(2,777,411)	(2,647,344)
	(1,821,571)	(34,113)	(1,485,752)	3,006,650

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

Cost	Buildings and leasehold improvements	Equipment and vehicles	Land	Construction in progress	Total
	\$	\$	\$	\$	\$
At December 31, 2020	13,169,383	9,317,918	2,040,722	307,227	24,835,250
Additions	420,457	753,527	—	2,098,092	3,272,076
Commissioned during the period	994,107	583,651	—	(1,577,758)	—
At September 30, 2021	14,583,947	10,655,096	2,040,722	827,561	28,107,326

Accumulated depreciation

At December 31, 2020	936,602	1,725,815	—	—	2,662,417
Depreciation	509,795	1,225,191	—	—	1,734,986
At September 30, 2021	1,446,397	2,951,006	—	—	4,397,403

Net book value

At September 30, 2021	13,137,550	7,704,090	2,040,722	827,561	23,709,923
------------------------------	-------------------	------------------	------------------	----------------	-------------------

Cost	Buildings and leasehold improvements	Equipment and vehicles	Land	Construction in progress	Total
	\$	\$	\$	\$	\$
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)
At December 31, 2020	13,169,383	9,317,918	2,040,722	307,227	24,835,250

Accumulated depreciation

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

Net book value

At December 31, 2020	12,232,781	7,592,103	2,040,722	307,227	22,172,833
-----------------------------	-------------------	------------------	------------------	----------------	-------------------

For the nine months ended September 30, 2021, depreciation of \$1,168,237 was included in production costs (September 30, 2020: \$974,992) and \$476,609 was capitalized to inventory (September 30, 2020: \$291,099).

During the nine months ended September 30, 2021, the total amount of depreciation recognized in cost of sales was \$324,017 (September 30, 2020: \$129,549).

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	—	—	—
At September 30, 2021	358,914	97,396	456,310
Accumulated depreciation			
At December 31, 2020	79,759	34,785	114,544
Depreciation	89,728	10,436	100,164
At September 30, 2021	169,487	45,221	214,708
Net book value			
At September 30, 2021	189,427	52,175	241,602

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

b. Lease payments recognized in loss from operations

The Company's short-term property and building lease costs for the three and nine months ended September 30, 2021 of \$660,868 and \$1,846,455, respectively, (September 30, 2020: \$90,555 and \$177,422, respectively) were expensed on a straight-line basis over the lease term.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	December 31, 2020
	\$	\$
Trade payables	998,957	1,745,266
Accrued liabilities	2,469,780	3,772,538
Excise taxes payable	2,135,269	483,353
Total accounts payable and accrued liabilities	5,604,006	6,001,157

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:

	September 30, 2021 \$	December 31, 2020 \$
Opening balance	13,641,223	13,217,617
Principal repayments	(13,855,010)	—
Additional loans and borrowings, net	9,223,810	—
Interest on loans	1,007,755	2,258,194
Interest payments	(552,823)	(1,834,588)
Foreign exchange loss	268,571	—
Ending balance	9,733,526	13,641,223

The Company had the following loans and borrowings:

	September 30, 2021 \$	December 31, 2020 \$
Debenture	9,733,526	—
First mortgage	—	4,950,275
Second mortgage (group)	—	3,307,613
Second mortgage (overseas lenders)	—	4,894,426
Second mortgage (US lenders)	—	488,909
Total loans and borrowings	9,733,526	13,641,223
Less: current portion	662,532	(13,641,223)
Non-current loans and borrowings	9,070,994	—

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 warrants issued as part of the compound instrument were valued at \$610,375 and transaction costs incurred were \$73,015.

Total interest on loans for the three and nine months ended September 30, 2021, was \$241,145 and \$1,007,755, respectively (September 30, 2020: \$559,119 and \$1,658,278, respectively). All interest payments due within twelve months have been translated to the Company's functional currency at the period end exchange rate and classified as current.

RUBICON ORGANICS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***13. Derivatives**

In July 2021, the Company entered several foreign exchange swap contracts (together the "Derivatives") to offset the future foreign exchange impact of the principal and interest payments on the US\$8 million Debenture. The foreign exchange swaps will settle on June 27, 2022, December 28, 2022, and June 27, 2023, at rates that range from 1.2589 to 1.2640 CAD/USD, which reflects the fixed exchange rate of 1.2580 CAD/USD plus spreads of 8.5 to 60.0 basis points.

The fair value of the Derivatives were determined using prices obtained from the Company's foreign exchange broker on the measurement date. These fair value measurements have been categorized as Level 2 on the fair value hierarchy.

The change in the fair value of the Derivatives was as follows:

	\$
Balance, December 31, 2020	—
Change in fair value of the Derivatives	123,628
Balance, September 30, 2021	123,628

14. 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

Common shares	#	\$
December 31, 2019	39,966,425	63,594,890
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
Issuance of share awards	300,000	732,900
December 31, 2020	49,395,131	86,349,350
Prospectus offering, net of financing costs	6,052,631	19,492,019
Stock option exercises	535,565	1,363,638
September 30, 2021	55,983,327	107,205,007

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 \$1,776,596. The common share purchase warrants were valued at \$1,731,383 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 nine months ended September 30, 2021, the Company issued 434,000 shares on the exercise of 434,000 options for proceeds of \$604,085 and 203,333 options were exercised via cashless exercise, resulting in the issuance of a further 101,565 common shares.

RUBICON ORGANICS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***15. 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 \$
Outstanding, December 31, 2019	5,512,750	\$2.82
Granted	172,500	\$3.69
Exercised	(1,370,000)	\$1.40
Forfeited	(53,667)	\$3.53
Outstanding, December 31, 2020	4,261,583	\$3.31
Granted	79,000	\$3.25
Exercised	(637,333)	\$1.39
Forfeited	(137,834)	\$3.36
Expired	(30,000)	\$1.29
Outstanding, September 30, 2021	3,535,416	\$3.66

The following table provides information on stock options outstanding and exercisable as at September 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)
January 12, 2017	US\$1.50	80,000	0.28	80,000	0.28
July 31, 2017	US\$2.00	220,000	0.83	220,000	0.83
November 15, 2017	US\$2.00	5,000	1.13	5,000	1.13
January 21, 2018	US\$2.00	50,000	1.31	50,000	1.31
July 31, 2018	\$3.25	2,392,000	1.83	2,392,000	1.83
September 24, 2018	\$3.25	15,000	1.98	15,000	1.98
September 24, 2018	\$8.15	350,000	1.98	350,000	1.98
May 28, 2019	\$3.25	91,250	2.66	67,500	2.66
July 12, 2019	\$3.25	135,833	2.78	101,667	2.78
September 24, 2019	\$3.25	36,333	2.98	25,333	2.98
August 18, 2020	\$3.33	12,500	3.88	4,167	3.88
October 14, 2020	\$4.10	70,000	4.04	-	4.04
April 16, 2021	\$3.25	77,500	4.55	-	4.55
		3,535,416	1.92	3,310,667	1.79

During the nine months ended September 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.

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

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 nine months ended September 30, 2021, and September 30, 2020:

	September 30, 2021	September 30, 2020
Expected stock price volatility	64.1%	67.7%
Expected life of options	5 years	5 years
Risk free interest rate	0.95%	0.41%
Expected dividend yield	0%	0%
Exercise price	\$3.25	\$3.33
Fair value per option granted	\$1.44	\$1.59

During the three and nine months ended September 30, 2021, the Company recognized \$66,446 and \$340,806, respectively, in share-based compensation expense pertaining to options (September 30, 2020: \$476,258 and \$1,329,531, respectively).

b. Warrants

The Company's outstanding warrants consisted of the following:

Issue Date	Expiry Date	Exercise Price	Number of Warrants	
			September 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
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	—
			5,704,317	7,701,274

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 nine months ended September 30, 2021, the Company recorded \$513,494 and \$1,026,988, respectively, in share-based compensation pertaining to RSUs (September 30, 2020: \$nil).

RUBICON ORGANICS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***16. RELATED PARTY TRANSACTIONS****a. Related party transactions**

Accounts payable and accrued liabilities at September 30, 2021, included \$50,375 (December 31, 2020: \$566,327) owed to executives and directors of the Company for expenses paid on behalf of the Company and deferred bonuses.

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 nine months ended September 30, 2021 was comprised of:

	September 30, 2021 \$	September 30, 2020 \$
Salaries and accrued salaries	969,750	1,187,437
Bonuses in accrued liabilities	—	758,906
Share based compensation	1,094,785	834,148
Total compensation of key management personnel	2,064,535	2,780,491

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

	September 30, 2021 \$	September 30, 2020 \$
Accounts receivable	(2,918,112)	(2,217,611)
Prepays and deposits	603,479	(657,887)
Security deposits	17,486	(470,486)
Inventory	(1,507,789)	(1,388,023)
Accounts payable and accrued liabilities	168,221	(149,017)
Deferred revenue	(4,531)	465,497
Interest payable	—	782,715
Interest on lease liabilities	29,999	23,514
Change in non-cash working capital items	(3,611,247)	(3,611,298)

As at September 30, 2021, accounts payable and accrued liabilities include \$239,423 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).

18. RESTRUCTURING CHARGES

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

**19. SUBSEQUENT EVENTS**

On November 16, 2021, the Company granted 200,000 RSUs to an executive of the Company pursuant to the Equity Plans. These RSUs vest as follows: (i) 150,000 vesting between one and three years from the date of grant; and (ii) 50,000 vesting in tranches based on 12-month EBITDA targets.

On November 16, 2021, the Company granted 90,000 stock options to certain employees of the Company pursuant to the Equity Plans. These stock options are exercisable at \$2.60 per share for a period of five years and vest between one and three years from the date of grant.

On November 16, 2021, the Company granted 75,000 deferred share units ("DSUs") to Directors of the Company pursuant to the Equity Plans. The DSUs vest immediately and may only be redeemed upon a holder ceasing to be a director of the Company.