



# Rubicon Organics Inc.

## **Management's Discussion & Analysis**

For the three and nine months ended September 30, 2021

*Expressed in Canadian dollars*

## Preface

In this Management's Discussion & Analysis ("MD&A"), "Rubicon Organics", "Rubicon", the "Company", or the words "we", "us", and "our" refer to Rubicon Organics Inc. together with its subsidiaries.

This MD&A comments on our operations, financial performance, and financial condition for the three and nine months ended September 30, 2021. All amounts in this MD&A are in Canadian dollars, unless otherwise noted. It is supplemental to and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements including the accompanying notes for the three and nine months ended September 30, 2021 (the "Financial Statements"), the audited consolidated financial statements including the accompanying notes for the fiscal year ended December 31, 2020 (the "Annual Financial Statements"), and the Annual Management's Discussion and Analysis for the year ended December 31, 2020 ("Annual MDA").

All financial information contained in this MD&A and in the Financial Statements is prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board, except for certain non-GAAP information as noted and where a reconciliation to IFRS is provided.

In preparing this MD&A, we have considered all information available to us up to November 16, 2021.

This MD&A contains forward-looking information within the meaning of Canadian securities laws. Refer to '*Cautionary Note Regarding Forward-Looking Statements*'.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators. Additional information regarding the Company is available on our website at [www.rubiconorganics.com](http://www.rubiconorganics.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

## About Us

### Overview

Headquartered in Vancouver, British Columbia, Rubicon Organics Inc. exists under the laws of the Business Corporations Act (British Columbia) and its common shares are listed under the symbol "ROMJ" on the TSX Venture Exchange and under the symbol "ROMJF" on the OTCQX.

Rubicon Organics, through its wholly-owned subsidiary Rubicon Holdings Corp., is a licensed producer under the Cannabis Act focused on providing premium organic certified cannabis for the recreational and medical-use markets in Canada. Rubicon Organics owns and operates a fully licensed 125,000 square foot high-tech greenhouse located on a 20-acre property in Delta, British Columbia (the "Delta Facility"). Out of its Delta Facility, the Company grows organic cannabis certified by the Fraser Valley Organic Producers Association ("FVOPA"), Canada's preeminent certification body for organic operators.

Rubicon Organics was the first cannabis company in the world to release an Environmental, Social and Governance ("ESG") report ("ESG Report") and expects to continue to take a leadership position in ESG in the cannabis sector.

The Company is focused on building a portfolio of premium brands in the Canadian market that is anchored by its flagship Simply Bare™ Organic cannabis brand. The Company has direct supply agreements in place with the British Columbia Liquor Distribution Branch ("BCLDB"), the Alberta Gaming, Liquor and Cannabis Commission ("AGLC"), the Ontario Cannabis Stores ("OCS"), the Société Québécoise du cannabis ("SQDC"), Cannabis NB ("CNB"), the Yukon Liquor Corporation ("YLC") and Medical Cannabis by Shoppers Drug Mart Inc. and sells directly to Manitoba Liquor & Lotteries ("MBLL"). The Company also has distribution

agreements with distributors in Saskatchewan who distribute the Company's products to certain provincial distributors and retailers. In addition, the Company has entered into a supply agreement with German distributor, Canacur GmbH, to sell Rubicon Organics' cannabis products to the German medical market. The Company expects commercial exports to commence in 2022, pending European Union Good Manufacturing Practices ("EU-GMP") certification.

As at September 30, 2021, Rubicon Organics has the following subsidiaries:

<b>Name</b>	<b>Place of Incorporation</b>	<b>Ownership Percentage</b>
Rubicon Holdings Corp. ("RHC") <sup>1</sup>	BC, Canada	100%
West Coast Marketing Corporation	BC, Canada	100%

<sup>1</sup> Formerly Rubicon Organics Canada Corp.

## **Our Operations**

### **Delta Facility**

The Delta Facility is a fully licensed 125,000 square foot state-of-the-art hybrid greenhouse owned and operated by Rubicon Organics located on a 20-acre property in Delta, British Columbia. The entire greenhouse facility is licensed for cultivation and processing and is certified by FVOPA for organic cannabis cultivation.

The Delta Facility is made up of a processing area, a nursery, and a total of five cultivation compartments. Since March 2020, the Delta Facility has been in full scale operation. The Delta Facility utilizes cold cure processing rooms and follows Good Production Practices ("GPP") for processing dried flower, performing solvent-less extraction and packaging finished goods.

Rubicon Organics has invested in the Delta Facility to create year-round organic growing conditions. Since achieving full scale cultivation operations in early 2020, we have continued to adapt our infrastructure to refine and optimize our growing environment with a focus to drive high quality production. The Delta Facility utilizes two different spectrums of supplemental LED light and advanced climate and humidity controls. Our full spectrum LED lights mimic natural sunlight, resulting in healthier plants with higher yields than conventional greenhouses while reducing our energy use by up to 60% compared with other lighting methods. The Delta Facility is also outfitted with precision, sensor-based watering that reduces water consumption.

The Company's Delta Facility employs FVOPA organic certified cannabis cultivation methods. Soil and fertilizers used in cultivation are made in-house, using a proprietary blend of natural, locally sourced ingredients that naturally deliver nutrients to the crop, while minimizing the impact on our environment.

Rubicon Organics is in possession of an extensive genetic library of cultivars previously developed in the medical cannabis market that have been stabilized for successful growth in greenhouse conditions.

## Brands and Products

### Cannabis Flower Brands



**Simply Bare™ Organic** is Rubicon Organics' flagship super-premium brand launched in December 2019. Cannabis packaged and sold under the Simply Bare™ Organic brand is grown in a proprietary mix of 100% certified organic living soil made in-house with ingredients from British Columbia's Sunshine Coast. Each plant is grown under full-spectrum sunlight, harvested by hand and cold cured for two weeks to achieve a rich terpene profile. Buds are then selected and carefully trimmed before being packaged into a sustainable terracotta-coloured glass jar. Simply Bare™ Organic pre-rolls take the same dried flower, delivered in a convenient format at a more accessible price point. Simply Bare™ Organic hash is single strain and each cultivar is pressed by hand conserving the terpenes and quality of its' organic flower. Simply Bare™ PAX® ERA™ pod oil is formulated from our harvested flower in its' own terpenes and is a true expression of the cultivar. Simply Bare™ live rosin, available in limited drops, is crafted from our organic fresh flower grown in living soil; the live rosin showcases the terpenes of each carefully chosen cultivar and is kept fresh in calyx containers.

Product formats available as of November 2021:

- 3.5 gram jar
- 7.0 gram jar
- 3 x 0.5 gram pre-rolls
- 2 x 0.5 gram pre-rolls
- 1.0 gram hash
- 1.0 gram live rosin
- 0.5 gram PAX® Era™ pod
- 28 gram bag



**1964 Supply Co™**, initially launched in December 2020, is now available from Coast to Coast in seven provinces from British Columbia to New Brunswick. 1964 Supply Co™ is aimed at offering premium cannabis at legacy market prices. The brand is available in dried flower, pre-rolls, and hash formats.

Product formats available as of November 2021:

- 3.5 gram bag
- 15 gram bag
- 5 x 0.5 gram pre-rolls
- 7 x 0.5 gram pre-rolls
- 2.0 gram hash bag
- 3.5 gram hash bag



**Homestead Cannabis Supply™** launched in Western Canada in July 2021 and hit the Ontario market in October 2021. Homestead Cannabis Supply™ is Rubicon Organics' first mainstream brand developed for the price conscious and avid cannabis consumer and is the first product in Rubicon Organics' suite of brands that includes a 28g flower product format.

Product formats available as of November 2021:

- 28 gram flower

## Other Cannabis Product Brands



**LAB THEORY™** is a premium concentrate brand launched in January 2021 in British Columbia. LAB THEORY™ combines high terpene flower with industry-leading extraction techniques to produce high-quality concentrates, available in sought after formats. To create flavourful, full spectrum concentrates, every strain must be seen on its own merits. By experimenting with different processes for growing and extracting, we find the perfect formula that brings out the unique characteristics of each cultivar.

Product formats available as of November 2021:

- 1.0 gram diamonds
- 1.0 gram live resin



**Wildflower™** is a brand licensed by Rubicon Organics from Wildflower Brands Inc. to bring Wildflower-branded CBD Relief Sticks and CBD Cool Sticks to the Canadian market. The Company has an exclusive license to the brand in Canada. Launched in late March 2021 and available since early April 2021 to consumers nationally and on certain medical platforms.

Product formats available as of November 2021:

- 30 mg and 73 mg CBD Relief Stick
- 30 mg and 73 mg CBD Cool Stick

## Strategy and Outlook

### **Canadian Recreational Market**

Rubicon Organics is focused on achieving industry leading profitability through a focus on innovation and the development of brands and cannabis products, including its flagship super-premium brand Simply Bare™ Organic, its premium concentrate brand LAB THEORY™, its premium flower and hash brand 1964 Supply Co™, its mainstream brand Homestead Cannabis Supply™ and its licenced brand Wildflower™. Simply Bare™ Organic is a top organic brand in all major provinces and maintains leadership in the premium category.

### **New Product Innovation**

Rubicon has hired an experienced team of consumer-packaged goods (“CPG”) professionals with a focus on continuous innovation and a plan to launch new product innovations throughout 2021 and beyond. This team has led the expansion of the Simply Bare™ Organic product line and led the launch of both 1964 Supply Co™ in Alberta, British Columbia, Manitoba, Ontario, Quebec, Saskatchewan and New Brunswick, and Homestead Cannabis Supply™ in Alberta, British Columbia, Manitoba, Ontario, and Saskatchewan. Further product line extension and margin optimization is expected going forward.

On March 3, 2021, the Company entered into a services agreement with the Valens Company (“Valens”) to provide organic certified extraction services. This agreement is accelerating the launch of our 2.0 innovation pipeline, including the launch of the Company’s Simple Bare™ Organic branded PAX® pods.

On March 24, 2021, the Company announced the launch of Wildflower™ topicals including the CBD Relief Stick and CBD Cool Stick. The Wildflower-branded products were available in early April 2021 to consumers nationally and on certain medical platforms.

Rubicon has partnered with PAX LABS®, a leader in premium cannabis vaporization technology, to launch organic cannabis oil smart pods for the PAX® ERA™ and PAX® ERA Pro™ premium vaporizers. PAX® pods were available in June 2021 to consumers in Saskatchewan and are now available to additional consumers in Ontario, Alberta, Manitoba, New Brunswick and the Yukon.

In June 2021, Rubicon launched its first live rosin under the Simply Bare™ Organic brand into the Ontario market, with British Columbia following in August 2021. The live rosin was extracted in house and crafted without the use of solvents to enter a new space within the premium concentrates segment.

### ***Europe and Other International Markets***

The Company sold a small quantity of cannabis product to Canacur GmbH during the third quarter of 2021 to validate and test the logistics process of exporting to Germany. Through its supply agreement with Canacur GmbH, the Company established its distribution channel to the German medical cannabis market. The Company expects commercial exports to commence in 2022, pending EU-GMP certification. Although the Delta Facility is ready for the EU-GMP inspection, it has been delayed due to COVID-19 travel restrictions and thus this has delayed the commencement of commercial exports to Germany.

The Company continues to seek additional distribution channels into international cannabis markets which are expected to be formalized in the short-term with initial shipments expected in the first half of 2022 pending necessary certifications.

### ***The Delta Facility***

The Company continues to progress towards completion of its HVAC and dehumidification capital project that are expected to be completed by the end of January 2022. The Company plans to continue other relatively small scale, strategic capital investments to drive best in class production quality. Other than these strategic projects, Rubicon continues to work with BC Hydro for the installation of the power upgrade, which will reduce the need for generators, improve the Company's operating costs and further progress towards one of our ESG goals to reduce greenhouse gas emissions. The power upgrade is expected to be completed by the end of the second quarter of 2022. Furthermore, the Company is performing an assessment on areas for additional capital expenditure that will improve quality and yield, increase efficiency, and/or decrease operating costs.

## **Company Outlook**

During the third quarter of 2021, the Company maintained significant market share in the premium and organic product categories with its Simply Bare™ Organic brand. The brand continues to be the #1 premium brand nationally in flower and pre-roll as well as the #1 organic flower brand of choice in all major provinces<sup>1</sup>.

The Company experienced strong revenue growth in the third quarter of 2021 with the successful launch of 1964 Supply Co™ and Homestead Cannabis Supply™ into new large provincial markets. With these two additions to our brand portfolio, we can now offer organic cannabis to a more diversified group of consumers in high growth segments of the cannabis market. Our larger portfolio allows us to introduce new consumers to our organic franchise while ensuring we have route to market for all flower that is produced. The Company continues to assess product mix and is focused on increasing yield to meet consumer demand and optimizing margin within our product portfolio.

For the period ended September 30, 2021, we have seen accelerating retail sales velocity and strong consumer demand in the premium segment for both Simply Bare™ Organic brand and our newly launched 1964 Supply Co™ brand. Rubicon believes that the combination of new brands in key Canadian markets and increased product offerings enable us to capitalize on our momentum over 2022 along with a continued increase in quality and yield from our production. Furthermore, Rubicon Organics expects to deliver international exports for the first time in the first half of 2022. We expect 2022 to continue the growth trajectory we have seen to date, although we believe the fourth quarter of 2021 may be impacted by certain timing factors of our product availability and distribution of our product.

The Company achieved Adjusted EBITDA profitability for the first time in the month of September, although pending the timing issues referred to above the fourth quarter will likely remain negative, while operating cashflows are expected to be relatively cash neutral, the business is in the turn of profitability in the near-term.

The Company's current expectation is Adjusted EBITDA profitability and to be operating cashflow positive in 2022. With our recent expansion in brand portfolio and our plan to maximize contribution margin from production, we remain confident with the appeal of our brands and strategy to continue winning in the premium market.

## **COVID-19**

In March 2020, the World Health Organization declared the outbreak of the COVID-19 virus a global pandemic. This outbreak continues to cause major disruptions to businesses and markets worldwide as the virus, including new variants, continues to spread. Several countries, as well as certain provinces and cities within Canada, have enacted temporary closures of businesses, issued quarantine or shelter-in-place orders, and taken other restrictive measures in response to COVID-19 during the period. The extent to which COVID-19 and the related global economic crisis affect our business, results of operations and financial condition, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties (including new financial regulation and other regulatory reform) in response to the pandemic, and the effects on our products, clients, vendors and employees. We continue to service our customers amid uncertainty and disruption linked to COVID-19 and we are actively managing our business to respond to the impact.

---

<sup>1</sup> Hifyre data for the period between January 1, 2021 and September 30, 2021.

## Recent Activities

### Key Developments in the nine months ended September 30, 2021

- Launched 1964 Supply Co™ in Alberta, British Columbia, Manitoba, Ontario, Saskatchewan, Quebec, and New Brunswick
- Launched Homestead Supply Co™ brand in Alberta, British Columbia, Manitoba and Saskatchewan
- Entered into a supplier agreement with Medical Cannabis by Shoppers Drug Mart Inc.
- Received first purchase orders from CNB, YLC and first direct purchase order from MBLL
- Entered into an agreement with Valens for organic certified extraction services
- Published the Company's inaugural Environmental, Social and Governance Report
- Received Health Canada license sales amendment for the direct sale of cannabis topical, edible and concentrate products
- Completed \$23.0 million bought deal offering at \$3.80 per unit
- Repaid first and second mortgages, and refinanced with a US\$8.0 million principal amount secured debenture

#### **Commercial**

On March 3, 2021, Rubicon announced that it has entered into an agreement with Valens for organic certified extraction services.

On April 19, 2021, the Company announced that it has signed a Cannabis Purchase and Sale Agreement with the YCL for the distribution of its portfolio of cannabis products to consumers in the Yukon territory. The Company has received its first purchase order and made its first shipment to the YCL in May 2021.

On April 27, 2021, the Company announced that it has received its first direct purchase order from the MBLL. Rubicon was previously selling our portfolio of cannabis products to the MBLL indirectly through our Manitoba distributor.

On May 20, 2021, the Company announced that it has received its first purchase order from Cannabis NB, New Brunswick's provincial cannabis distributor and retailer.

On June 2, 2021, the Company received initial purchase orders for its Simply Bare™ Organic live rosin solventless concentrate and PAX® pod products.

During July 2021, the Company announced further development of its brand portfolio and the launch of 10 new SKUs of Simply Bare™ Organic. Rubicon also announced the listings of both the 1964 Supply Co™ premium brand in Alberta, British Columbia, Manitoba, Ontario, Saskatchewan, Quebec, and New Brunswick and the Homestead Cannabis Supply™ brand in Alberta, British Columbia, Manitoba, Ontario, and Saskatchewan. The 1964 Supply Co™ and Homestead Cannabis Supply™ brands began shipments in the third quarter of 2021.

During August 2021, the Company sold a small quantity of cannabis product to Canacur GmbH to validate and test the logistics process of exporting to Germany in the third quarter of 2021.

On September 13, 2021, the Company announced that it has signed a Cannabis Products Supplier Agreement with Medical Cannabis by Shoppers Drug Mart Inc.

#### **Regulatory and Licensing**

On January 14, 2021, Rubicon announced that it received its Health Canada license sales amendment which authorizes the direct sale of cannabis topical, edible and concentrate products to provincially authorized distributors/retailers and registered patients, in addition to dried and fresh cannabis products.



The Company used a licensed intermediary to launch its LAB THEORY™ and 1964 Supply Co™ brand of concentrate products to provincial distributors and subsequently completed the process of transitioning its Quebec concentrate sales to be direct with the SQDC. Since launching LAB THEORY™ in December 2020, new entrants have entered the hydrocarbon concentrate market which has resulted in a significant price drop for products in this market. The Company has been pursuing limited product releases and is further assessing how LAB THEORY™ will be positioned in the Canadian market.

On July 8, 2021, the Company announced the creation of the Cannabis Cultivators of B.C. (“CCBC”) with leading cannabis producers Pure Sunfarms and Tantalus Labs. CCBC is a non-profit industry association dedicated to advocating for the growth of a responsible cannabis industry and advancing a favourable social, economic, and business environment for cannabis cultivation in BC.

On July 29, 2021, the Company was granted a Research & Development License by Health Canada. The Research & Development License allows the Company to distribute and administer its cannabis for research purposes and to test and review its products based on taste, sight, smell, and touch.

### **Corporate**

On February 26, 2021, Rubicon closed a bought deal offering of 6,052,631 units at \$3.80 per unit for aggregate gross proceeds of \$23.0 million. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company 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.

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 a second mortgage tranche which had matured. The Company repaid a total of \$4,207,635 representing \$3,355,000 in principal and \$852,635 in accrued interest.

On April 23, 2021, the Company also early repaid a second mortgage tranche originally due on May 27, 2021. The Company repaid a total of \$6,268,057 representing \$5,000,000 in principal and \$1,268,057 in accrued interest.

With the cultivation operations in more steady state, Peter Doig, the Chief Scientific Officer, has resigned as a full-time employee of the Company and will transition to a consultant role as Scientific Advisor effective May 31, 2021.

On June 3, 2021, the Company announced the publication of its inaugural ESG Report. The ESG Report reflects the Company’s determination to embed sustainability in a formal manner through its operations and supply chain, and to communicate its progress with stakeholders in a transparent and authentic manner. The ESG Report captures the period between January 1 and December 31, 2020, and is informed by leading sustainability and reporting frameworks including Global Reporting Initiative (GRI) Standards, the Ten Principles of the United Nations Global Compact (UNGC), the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD).

On June 25, 2021, the Company fully repaid a second mortgage tranche originally due on July 11, 2021. The Company fully repaid a total of \$562,756 representing \$500,010 in principal and \$62,756 in accrued interest.

On June 29, 2021, the Company issued an US\$8.0 million principal amount secured debenture (the “Debenture”) in connection with a debt financing transaction. The Debenture has a two-year term and bears interest at 6.5% annually. In connection with the transaction, the Company issued 907,000 associated bonus warrants. Each warrant entitles the warrant holder to purchase one common share in the capital of

the Company at an exercise price of \$4.00 per common share for a period of three-years from the date of issuance.

On July 26, 2021, the Company entered several foreign exchange swap contracts (together the "Derivatives") to fix the future exchange rate of the principal and interest payments on the US\$8.0 million Debenture to 1.2580 CAD/USD. The foreign exchange swaps will settle on June 27th, 2022, December 28, 2022, and June 27th, 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 swap contracts.

## **Developments Subsequent to September 30, 2021**

### ***Commercial***

For the three months ending October 31, 2021 the Company's total market share in the flower and pre-roll category increased to 2.2%<sup>2</sup> across Canada. This is attributable to steadily rising sales of Simply Bare™ Organic, the launch of Homestead Cannabis Supply™ in British Columbia, Alberta, Manitoba, Saskatchewan and the Yukon, and the launch of 1964 Supply Co™ in Ontario, British Columbia and Alberta.

The Company has made significant advancements in the depth of its product portfolio. As of October 31, 2021, Rubicon Organics has over 60 unique SKUs across five brands

### ***Corporate***

On November 16, 2021, the Company granted 200,000 restricted share units ("RSUs") to an executive of the Company pursuant to the Company's Equity Incentive Plan and Deferred Share Unit Plan (together 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.

---

<sup>2</sup> Hifyre data for the period between August 1, 2021 and October 31, 2021.

## Results of Operations and Financial Review

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Net revenue	7,090,467	3,166,786	15,796,621	4,612,832
Production costs	2,118,908	2,053,801	7,090,011	5,492,933
Inventory expensed to cost of sales	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
<b>Gross profit before fair value adjustments</b>	<b>1,778,321</b>	<b>(640,575)</b>	<b>775,132</b>	<b>(3,307,655)</b>
Fair value adjustments to cannabis plants, inventory sold, and other charges	(1,821,571)	(34,113)	(1,485,752)	3,006,650
<b>Gross profit (loss)</b>	<b>(43,250)</b>	<b>(674,688)</b>	<b>(710,620)</b>	<b>(301,005)</b>

### Net revenue

For the three and nine months ended September 30, 2021, net revenue increased by 124% and 242%, to \$3,923,681 and \$11,183,789, respectively, compared to the same periods in the prior year. Revenue increased with the ramp up of Simply Bare™ Organic product availability and provincial distribution as well as the launch of 1964 Supply Co™ and Homestead Cannabis Supply™. The Company has experienced growth in existing provinces of British Columbia, Ontario, and Alberta, and has launched into new provinces and territories including Quebec, New Brunswick, Saskatchewan, Manitoba, and the Yukon.

The Company launched several new strains, product formats and brands throughout the nine months ended September 30, 2021. At the beginning of 2020 the Company had two strains for sale in 3.5 gram jars of Simply Bare™ Organic and by the end of the third quarter of 2021 had over 60 SKUs in markets across Canada in its various brands and formats. The expansion of the brand portfolio with 1964 Supply Co™ and Homestead Cannabis Supply™ in key Canadian markets opened new routes to market and drove revenue growth in the three months ended September 30, 2021. The largest orders for 1964 Supply Co™ and Homestead Cannabis Supply™ occurred in September resulting in September being Rubicon's best ever month on record in terms of revenue. While 1964 Supply Co™ and Homestead Cannabis Supply™ were both shipped in September to Ontario, only 1964 Supply Co™ made it to retail shelves by September 30, 2021.

During the third quarter of 2021, Rubicon's revenue growth accelerated with the launch of the new brands and expanded product offerings. Coupled with the beginning of a return to pre-pandemic behaviour, this recent revenue growth has allowed Rubicon to capitalize on increased sales velocity at retail stores. As previously disclosed, the revenue of the Company was impacted in the first half of 2021 by COVID-19 cannabis store closures, particularly in Ontario, along with reduced orders from provincial distributors as they were focused on selling through inventory built up in the fourth quarter of 2020 and the first quarter of 2021. With the launch of new products and the re-opening of the stores through the third quarter of 2021, this impact is dissipating.

To improve contribution margin, the Company continues to focus on its product mix and on research and development of new products and related genetics.

## **Production costs**

For the three and nine months ended September 30, 2021, production costs increased by \$65,107 and \$1,597,078, respectively, compared to the same periods in the prior year.

Under the Company's accounting policy, production costs are expensed as incurred. Production costs consist of the direct and indirect costs incurred to grow cannabis plants to the point of harvest. They include labour related costs, cultivation materials and consumables, utilities, facility costs, certain overheads, and production related depreciation. This methodology means that unless product is produced and sold in the period, the production costs associated with inventory held at the period end are expensed prior to revenue being derived.

Production costs for the three and nine months ended September 30, 2021, were higher than in the comparable periods as operations were being ramped up through the first half of 2020 and the Delta Facility was not fully planted until the end of March 2020. Production costs are expected to be consistent quarter over quarter now that the Delta Facility is operating at full capacity, with moderately more cost in the winter months when additional energy is consumed to heat and light the facility. As a result of cultivation process improvements, seasonality and the company-wide restructuring that occurred in the second quarter of 2021, the Company realized a decrease in production costs between the three months ended June 30, 2021, and September 30, 2021.

The Company expects that additional costs to mitigate COVID-19 risks at the Delta Facility are beginning to taper off due to the Company's high vaccination rate. These costs have included protective equipment, additional trailer space leased for social distancing on site, and lost labour time and replacement cost due to quarantining of personnel.

## **Inventory expensed to cost of sales**

For the three and nine months ended September 30, 2021, inventory expensed to cost of sales increased by \$1,750,881 and \$4,621,784, respectively, compared to the same periods in the prior year.

After cannabis is harvested, the remaining costs incurred in drying, processing, and packaging are capitalized to inventory and expensed once the finished good is sold. Inventory expensed to cost of sales was 43% and 42% of net revenue for the three and nine months ended September 30, 2021 (September 30, 2020: 41% and 42%), which was relatively consistent with the prior year.

Process improvements and the company-wide restructuring have resulted in cost savings that have been realized in the third quarter of 2021. These improvements were offset by a change to product mix with the launch of 1964 Supply Co™ and Homestead Cannabis Supply™ products that return a lower gross margin per product when compared to Simply Bare™ Organic products.

Management expects an improvement to cost of sales as a percentage of net revenue as net revenue increases and operational efficiencies are realized from process improvements and the completion of certain capital projects. Furthermore, improvements in the overall cultivation program will result in increased crop quality and yield that will drive better financial results. The addition of the Company's premium flower and hash brand 1964 Supply Co™ and mainstream brand Homestead Cannabis Supply™ will change the product mix of the Company's sales impacting the consistency of the ratio of cost of sales to net revenue in future.

## **Inventory written off or provided for**

For the three and nine months ended September 30, 2021, inventory written off or provided for was \$148,694 and \$1,371,281, respectively (September 30, 2020: \$459,897 and \$489,897).

During the three months ended March 31, 2021, \$599,416 of certain finished goods were written off, some of which has been repurposed. During the three months ended June 30, 2021, \$623,171 of finished goods and bulk flower were destroyed or written down due to product aging from sales being lower than forecasted during COVID-19 lockdowns. Furthermore, as our quality thresholds in the second quarter of 2021 increased for our premium products, we reallocated certain of our existing inventory to our mainstream brand resulting in a write down. We are evaluating the remaining inventory that has been provided for to determine if there are alternative uses in our other cannabis products.

During the three months ended September 30, 2021, \$148,694 of finished goods and bulk flower were written down or destroyed due to product aging and quality issues. This reduction during the third quarter of 2021 is due to continuous improvement of supply and demand planning to align sales with production of finished goods and bulk cannabis inventory.

## **Fair value adjustments to cannabis plants, inventory sold and other charges:**

### ***Unrealized gain on changes in fair value of cannabis plants***

Unrealized gain on changes in fair value of cannabis plants is the gain resulting from management's estimate of the fair value less costs to sell of growing cannabis plants up to the point of harvest. IFRS requires management to estimate the fair value of cannabis through its growth phase, to the point of harvest. Once harvested, the fair value estimate of a plant at the harvest date becomes "crystallized" and forms the cost base of that plant as it is further processed in post-harvest activities.

For the three and nine months ended September 30, 2021, unrealized gain on changes in fair value of cannabis plants was \$1,628,034 and \$6,901,883, respectively (September 30, 2020: \$3,591,441 and \$7,647,975).

The gain for the three months ended September 30, 2021, decreased by \$1,963,407 compared to the same period in the prior year. This decrease is driven by a decrease in the number of plants harvested and a decrease in fair value less costs to sell. The decrease in the number of plants harvested is due to timing of harvests and a decrease in plant density during the period. The reduction in fair value less costs to sell on a per dried gram basis from \$2.02 to \$1.50 per dried gram was driven by a change in wholesale pricing.

The gain for the nine months ended September 30, 2021, decreased by \$746,092 compared to the same period in the prior year. This decrease is driven by an overall reduction in the fair value less costs to sell on per gram dried basis from 2020 to 2021. This was offset by an increase in the number of plants harvested.

### ***Realized fair value of inventory sold***

For the three and nine months ended September 30, 2021, realized fair value of inventory sold was \$3,164,125 and \$5,610,224, respectively (September 30, 2020: \$1,361,395 and \$1,993,981, respectively). Realized fair value of inventory sold is the non-cash fair value estimate associated with a batch at the point of harvest, traced through inventory with throughput to cost of goods sold. Refer to *Inventory expensed to cost of sales* discussion above.

### ***Adjustment to net realizable value of inventory on hand at period end***

For the three and nine months ended September 30, 2021, fair value of inventory written off was \$285,480 and \$2,777,411, respectively (September 30, 2020: \$2,264,159 and \$2,647,344, respectively). Fair value of inventory written off consists of the non-cash fair value component of cannabis plants that were attributed to inventory. Refer to *Inventory write off* discussion above.

## Operating Expenses

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Consulting, salaries and wages <sup>1</sup>	1,724,821	1,809,693	5,905,657	4,632,491
General and administrative <sup>2</sup>	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	579,940	476,258	1,367,794	1,329,531
Depreciation and amortization	71,933	42,304	190,304	74,886
<b>Total operating expenses</b>	<b>3,661,190</b>	<b>3,429,257</b>	<b>11,295,131</b>	<b>8,306,014</b>

<sup>1</sup> Contains restructuring charges and research and development charges

<sup>2</sup> Contains research and development charges

Operating expenses increased year-over-year to support the ramp up of operations at the Delta Facility. We also expanded our sales and marketing efforts to support the existing brands in the market, launched new brands to expand our presence in Canada and focused on research and development of our cannabis 2.0 products.

### **Consulting, salaries and wages**

For the three and nine months ended September 30, 2021, consulting, salaries and wages decreased by \$84,872 and increased by \$1,273,166, respectively, compared to the same periods in the prior year. Personnel costs increased through 2020 into 2021 due to a rise in headcount and an increase in executive compensation, offset by restructuring charges. Headcount increases were largely attributed to the build out of the research and development, sales, marketing, innovation, commercial, and finance teams. Headcount increases specific to the Delta Facility are accounted for separately, as they are expensed through production costs, or capitalized to inventory and ultimately charged to cost of sales.

In the second quarter of 2021, the Company underwent a company-wide restructuring to re-align the size and capabilities of the management teams to the business needs of the Company. Certain jobs were consolidated or removed as the Company resized the organization. The restructuring charges consist of termination benefits that were paid to employees. Cost improvements from the restructuring were realized in the third quarter of 2021 resulting in the decrease of \$84,872 for the three-month period. For the three and nine months ended September 30, 2021, restructuring charges were \$nil and \$261,361, respectively, and are included in consulting, salaries and wages (September 30, 2020: \$nil and \$nil, respectively).

### **General and administrative expenses**

For the three and nine months ended September 30, 2021, general and administrative expenses increased by \$94,327 and \$704,331, respectively, compared to the same periods in the prior year. General and administrative expenses consist of certain short-term leases, insurance, professional fees, investor relations fees, office expenses, and research and development costs. This change reflects increased activity of the Company due to additional head count, more expensive insurance premiums, and expanded research and development. During 2021, the Company experienced a significant rise in its insurance premiums with the growth of its business as well as tightness in the insurance market and broad premium increases in the cannabis sector.

### ***Sales and marketing***

For the three and nine months ended September 30, 2021, sales and marketing expenses increased by \$89,167 and \$857,939, respectively, compared to the same periods in the prior year. Sales and marketing expenses consist of the costs to maintain the Simply Bare™ Organic brand, carry out marketing initiatives, and develop new brands. This increase period over period reflects the Canada-wide rollout of Simply Bare™ Organic and the launch of new brands including 1964 Supply Co™ and Homestead Cannabis Supply™. Sales and marketing expenses as a percentage of net revenue decreased to 6% and 9%, respectively, for the three and nine months ended September 30, 2021 (September 30, 2020: 10% and 13%, respectively). Marketing costs were limited in 2021 to essential expenditures required to support our brands. Sales and marketing costs are expected to grow in line with net revenue.

### ***Share-based compensation***

Non-cash share-based compensation reflects the estimated value of stock options granted to new and existing employees, RSUs issued to senior management and DSUs issued to directors.

For the three and nine months ended September 30, 2021, share-based compensation increased by \$103,682 and \$38,263, respectively, compared to the same periods in the prior year. There has been an overall decrease in vesting of options in 2021 due to fewer recent option grants, offset by the grant of 2,540,000 RSUs in April 2021.

### ***Research and development costs***

For the three and nine months ended September 30, 2021, the Company incurred \$107,887 and \$724,302, respectively, of research and development costs related to the development of cannabis 2.0 products, including those for Wildflower™, PAX®, and LAB THEORY™. Negligible research and development costs were incurred in the three and nine months ended September 30, 2020, as the Company was focused on ramp up of production and roll-out of Simply Bare™ Organic flower. Of the \$107,887, \$92,418 has been recorded in consulting, salaries and wages and \$15,469 has been recorded in general and administrative expenses. Of the \$724,302, \$425,056 has been recorded in consulting, salaries and wages and \$299,246 has been recorded in general and administrative expenses.

## Selected Financial Information

The following tables present selected financial information of the Company:

As at:	September 30, 2021 \$	December 31, 2020 \$
Current assets	29,445,028	26,175,413
Non-current assets	26,316,274	24,896,834
Current liabilities	6,873,893	22,009,233
Non-current liabilities	9,170,183	221,134
Shareholders' equity	39,717,226	28,841,880

	Three months ended		Nine months ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Net revenue	7,090,467	3,166,786	15,796,621	4,612,832
Other income	85,872	491,405	117,322	929,867
Loss from operations	(3,618,568)	(3,612,540)	(11,888,429)	(7,677,152)
Loss from continuing operations	(3,846,535)	(4,279,330)	(12,930,310)	(9,543,935)
Loss from discontinued operations	—	(37,918)	—	(396,535)
Net loss for the period	(3,846,535)	(4,317,248)	(12,930,310)	(9,940,470)
Total comprehensive loss	(3,846,535)	(4,187,147)	(12,930,310)	(9,257,697)
Adjusted EBITDA**	(644,093)	(2,627,746)	(7,435,793)	(8,174,844)
Loss per share from continuing operations	(0.07)	(0.09)	(0.24)	(0.22)
Loss per share	(0.07)	(0.09)	(0.24)	(0.23)

\*\*Adjusted EBITDA is a non-GAAP measure that is calculated as earnings (losses) from operations before interest, tax, depreciation and amortization, share-based compensation expense, and fair value changes as shown below. Management uses Adjusted EBITDA to assess the Company's performance. Adjusted EBITDA may not be comparable to similar measures presented by other issuers. The following table presents the Company's adjusted EBITDA for the three and nine months ended September 30, 2021, and September 30, 2020.

	Three months ended		Nine months ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Loss from operations	(3,618,568)	(3,612,540)	(11,888,429)	(7,677,152)
IFRS fair value accounting related to cannabis plants and inventory	(1,821,571)	(34,113)	(1,485,752)	3,006,650
	(1,796,997)	(3,578,427)	(10,402,677)	(10,683,802)
Interest revenue	(83,469)	—	(83,469)	—
Depreciation and amortization	656,433	474,423	1,682,559	1,179,427
Share-based compensation expense	579,940	476,258	1,367,794	1,329,531
Adjusted EBITDA	(644,093)	(2,627,746)	(7,435,793)	(8,174,844)



## Summary of Quarterly Results

The following table summarizes quarterly financial results for Rubicon Organics for the last eight quarters:

(C\$000's)	2021				2020			2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net revenue	<b>7,090</b>	4,596	4,111	4,774	3,167	992	454	—
Inventory written off or provided for	<b>(149)</b>	(623)	(599)	(905)	(460)	—	—	—
Gross profit	<b>1,778</b>	(411)	(592)	(719)	(641)	(1,196)	(1,471)	(1,720)
Net loss for the period	<b>(3,847)</b>	(5,096)	(3,987)	(5,043)	(4,317)	(1,815)	(3,808)	(4,031)
Weighted average shares outstanding (000's)	<b>56,033</b>	55,632	51,776	47,260	46,148	42,047	40,041	40,041
Net loss per share, basic and diluted	<b>(0.07)</b>	(0.09)	(0.08)	(0.11)	(0.09)	(0.04)	(0.10)	(0.10)

Initial revenues were earned in the first quarter of 2020, and the Company realized significant growth throughout the remainder of that year as it launched its Simply Bare™ Organic flower brand across Canada. In the first half of 2021, revenues flattened out as compared to the fourth quarter of 2020 given the impact of seasonality, COVID-19 and related store closures. The Company realized significant growth once again in the third quarter of 2021 due to the successful launch of 1964 Supply Co™ and Homestead Cannabis Supply™ in key Canadian markets.

Cultivation began in 2019, and the associated production costs were expensed while the Company earned no revenues, resulting in net losses. To continue driving growth, in the third quarter of 2020, the Company invested in its organization and new product launches resulting in increased costs for headcount, research and development, sales and marketing, and certain non-cash costs. Products that did not meet our strict quality standards were written down, which limited improvements to both gross profit and net loss. The benefits of the new product launches were seen in the third quarter of 2021.

Although COVID-19 and related store closures have decelerated the ramp up of revenue and gross profit, the Company has continued to observe improvements as internal production processes are enhanced, economies of scale are realized, and new products are launched.

For a detailed review of the three and nine months ended September 30, 2021, refer to the results analysis under 'Results of Operations and Financial Review'.

## Liquidity and Capital Resources

### Liquidity

Our objectives when managing our liquidity and capital structure are to maintain sufficient cash to fund our working capital needs, capital asset development and contractual obligations.

Nine months ended:	September 30, 2021 \$	September 30, 2020 \$	Change \$
Net cash provided (used in):			
Operating activities	(10,932,313)	(11,706,425)	774,112
Investing activities	(4,666,606)	(4,399,764)	(266,842)
Financing activities	15,346,928	22,102,234	(6,755,306)
Effect of foreign exchange on cash	87,609	(18,106)	105,715
<b>Increase (decrease) in cash</b>	<b>(164,382)</b>	<b>5,977,939</b>	<b>(6,142,321)</b>
Cash beginning of the period	12,136,459	2,083,588	
<b>Cash end of the period</b>	<b>11,972,077</b>	<b>8,061,527</b>	

### Operating Activities

In the nine months ended September 30, 2021, net cash used in operating activities decreased by \$774,112 compared to the same period in the prior year. Revenue growth in 2021 from the ramp up of Simply Bare™ Organic product distribution and expansion of the brand portfolio with 1964 Supply Co™, Homestead Cannabis Supply™ and Wildflower™ has earned additional margin to improve cash flows from operating activities. Operating activities in 2021 represent full scale operations compared to the ramp up stage in the comparable period of 2020. During the second quarter of 2021, the Company implemented process improvements and underwent a company-wide restructuring, resulting in realized cost improvements during the third quarter of 2021. Revenue growth and cost improvements have resulted in decreased net cash used in operating activities.

### Investing Activities

In the nine months ended September 30, 2021, net cash used in investing activities decreased by \$266,842 compared to the same period in the prior year. In the nine months ended September 30, 2020, the Delta Facility was ramping up to full scale operations and incurred capital expenditure to fully commission the remaining two growing compartments of the greenhouse (total of five growing compartments plus the nursery at the Delta Facility). In the nine months ended September 30, 2021, the Company incurred capital expenditure for facility upgrades. Facility upgrades included HVAC system improvements along with the purchase of dehumidifiers to enhance temperature and humidity controls, processing area expansions to accommodate the production of cannabis 2.0 products and building expansions for additional packing space.

### Financing Activities

In the nine months ended September 30, 2021, net cash provided by financing activities decreased by \$6,755,306 compared to the same period in the prior year.

The decrease is driven by \$16,186,186 in repayments of debt and accrued interest during 2021, offset by net proceeds from a prospectus offering of \$21,224,402, the issuance of the Debenture for net proceeds of \$9,834,185, proceeds from stock options exercised of \$604,085 and other minor financing activities. In the nine months ended September 30, 2021, cash inflows included net proceeds from a non-brokered private

placement of \$13,311,970, proceeds from the sale of most of its US assets of \$8,638,845, proceeds from stock options exercised of \$791,309, offset by interest paid of \$556,743 and other minor financing activities.

## Capital Resources

The 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. As at September 30, 2021, the Company had cash and cash equivalents of \$11,972,077 and net working capital of \$22,571,135. The Company fully repaid all prior loans and borrowings during the first and second quarter of 2021, and refinanced with a US\$8.0 million debenture at 6.5% interest.

The Company believes it is sufficiently capitalized to maintain ongoing operations but may seek additional financing for other purposes. After the February 26, 2021, bought deal financing, the Company has \$17.0 million remaining on its \$40.0 million Base Shelf Prospectus filed on December 29, 2020.

## Contractual Obligations

The Company has the following contractual obligations as at September 30, 2021:

Payments due by period:	Less than one year \$	One to three years \$	Over three years \$	Total \$
Lease liabilities <sup>1</sup>	170,409	103,640	—	274,049
Trailer leases <sup>2</sup>	62,583	—	—	62,583
Loans and interest obligations <sup>3</sup>	658,567	10,768,474	—	11,427,041
<b>Total contractual obligations</b>	<b>891,559</b>	<b>10,872,114</b>	<b>—</b>	<b>11,763,673</b>

<sup>1</sup> Consists of right-of-use Vancouver head office and right-of-use tractors.

<sup>2</sup> Modular buildings to provide additional space at the Delta Facility.

<sup>3</sup> Includes principal and interest on maturing loans. All USD amounts were translated at the future exchange rates specified in the swap contracts (the Derivatives).

## Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at November 16, 2021, the Company has the following securities outstanding:

	Number of units
Common Shares	55,983,327
Stock Options	3,610,416
Warrants	5,704,317
Restricted Share Units	2,740,000
Deferred Share Units	225,000
<b>Fully Diluted Shares Outstanding</b>	<b>68,263,060</b>

## Proposed Transactions

There are no undisclosed proposed transactions that will materially affect the Company.

## Off-balance Sheet Arrangements

The Company does not have any material off-balance sheet arrangements.

## 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.

### 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:

<b>For the nine months ended:</b>	<b>September 30, 2021 \$</b>	<b>September 30, 2020 \$</b>
Salaries and accrued salaries	<b>969,750</b>	1,187,437
Bonuses in accrued liabilities	—	758,906
Share based compensation	<b>1,094,785</b>	834,148
<b>Total compensation of key management personnel</b>	<b>2,064,535</b>	2,780,491

## Critical Accounting Estimates and Judgments

The preparation of the Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Management considers the policies described in Note 4 of the Financial Statements and Annual Financial Statements to be the most critical in understanding the judgments that are involved in the preparation of the Company's Financial Statements and the uncertainties that could impact its results of operations, financial condition, and cash flows.

## Changes in Accounting Policies Including Initial Adoption

The Company has not identified any new accounting standards that would be applicable and are not yet effective that would have a material impact on the Company.

## Financial Instruments

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

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Derivatives	Fair value
Security deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans and borrowings	Amortized cost

The fair values of cash and cash equivalents, accounts receivable, security deposits, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of those instruments.

The Company entered the Derivatives to offset the future foreign exchange impact of the principal and interest payments on the US\$8.0 million Debenture. Refer to Note 13 in the Financial Statements for more information on the Derivatives.

Loans and borrowings were incurred to fund the upgrades and retrofitting of the Delta Facility and to fund operations. Refer to Note 12 in the Financial Statements for more information on loans and borrowings.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The main types of risk are credit risk, liquidity risk, interest rate risk and foreign exchange risk. These risks arise throughout the normal course of operations and all transactions are undertaken as a going concern. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### Credit risk

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

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

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses credit quality of the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into arrangements with reputable and stable counterparties and frequent reviews of exposure to individual entities. With regards to receivables, the Company is not exposed to significant credit risk as the majority of the Company's sales are to government bodies. The Company provides credit to some of its customers in the normal course of business. The majority of trade receivables are held with crown corporations.

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

## Liquidity risk

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

Current liabilities, being accounts payable and accrued liabilities, the current portion of lease liabilities and the current portion of loans and borrowings are payable within one year and are to be funded from cash. Deferred revenue is due within one year and is expected to be funded through the delivery of cannabis product. Long term liabilities consist of the non-current portion of lease liabilities and the non-current portion of loans and borrowings.

## Interest rate risk

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

## Foreign exchange risk

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

The Company's main risk is associated with the impact of fluctuations in US\$ exchange rates on the Debenture. The Company entered several foreign exchange swap contracts (referred to as the Derivatives) to offset the future exchange impact of the principal and interest payments on the Debenture. The Company has not included the impact of foreign exchange on the US\$ Debenture in the analysis below as it is fully mitigated by the purchase of the Derivatives.

For the nine months ended September 30, 2021, the Company was exposed to currency risk through the following assets and liabilities denominated in US\$:

	<b>September 30, 2021</b>	December 31, 2020
Cash	<b>529,539</b>	9,641
Accounts payable and accrued liabilities	<b>(156,883)</b>	(404,164)
	<b>US\$ 372,656</b>	US\$ (394,523)

A 10% change of the US\$ against the CAD\$ would have increased net loss by \$47,480 (December 31, 2020: \$50,231).

## Fair value

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

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity. As required by IFRS 13, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

There were no transfers within the fair value hierarchy during the nine months ended September 30, 2021.

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.

## **Capital Management**

It is management's objective to safeguard its capital in order that it will be able to continue as a going concern in the best interests of all stakeholders. Through the ongoing management of its capital, the Company will modify the structure of its capital based on changing market conditions. In doing so, the Company may issue new shares or refinance existing long-term debt. Annual budgeting is the primary tool used to manage the Company's capital. Updates are made as necessary to both capital expenditure and operational budgets in order to adapt to changes in risk factors, proposed expenditure programs and market conditions.

## **Risks and Uncertainties**

The Company is exposed to risks and uncertainties relating to the business of the Company that should be considered by both existing and potential investors. The risks and uncertainties appearing in the Company's Management, Discussion and Analysis for the year ended December 31, 2020, are qualified in their entirety by reference to, and must be read in conjunction with, the Company's Annual Information Filing dated September 30, 2021. These risks and uncertainties are intended to serve as an overview and should not be considered comprehensive. Investing in the Company's common shares involves significant risks. The Company may face additional risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to the Company's business have the potential to influence its operations in a materially adverse manner. Many factors could cause the Company's results of operations, performance and financial condition to differ materially from those expressed or implied by the forward-looking statements and forward-looking information contained in this MD&A.

## **Conflicts of interest**

To the best of our knowledge, there are no known existing or potential material conflicts of interest among us and our directors, officers or other members of Management as a result of their outside business interests except that certain of our directors and officers serve as directors, officers or advisors of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director, officer or advisor of such other companies.

## **Cautionary Note Regarding Forward-Looking Statements**

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.



Forward-looking statements may be identified by such terms as “believes”, “if”, “expects”, “estimates”, “may”, “could”, “should”, “will”, “intends” and similar expressions. Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Although the Company believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking statements are based on certain assumptions and analyses made by the Company considering the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) information or statements concerning the Company’s expectations of financial resources availability to fund operations; (ii) obtaining the necessary regulatory approvals; (iii) that regulatory requirements will be maintained; (iv) general business and economic conditions; (v) the Company’s ability to successfully execute its plans and intentions; (vi) the Company’s ability to obtain financing at reasonable terms through the sale of equity and/or debt commitments; (vii) the Company’s ability to attract and retain skilled staff; (viii) market competition; (ix) the products and technology offered by the Company’s competitors; (x) that our current good relationships with our suppliers, service providers and other third parties will be maintained; and (xi) the impact of the current global health crisis caused by COVID-19 pandemic.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors including: general risks associated with the COVID-19 global pandemic, the legal status of cannabis cultivation, distribution and sales in Canada; changes in general economic conditions and conditions in the financial markets; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; uncertainty about the Company’s ability to continue as a going concern; risk that the Company will not obtain or retain any relevant licenses; technological and operational difficulties encountered in connection with the Company’s activities; changing foreign exchange rates and other matters discussed in this MD&A.

The global pandemic related to an outbreak of the COVID-19 novel coronavirus disease has cast uncertainty on the Company’s assumptions. There can be no assurance that they continue to be valid. Given the rapid pace of change, it is premature to make further assumptions about these matters. The COVID-19 outbreak was declared a pandemic by the World Health Organization in 2020. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. These impacts could include an impact on our ability to maintain operations, to obtain debt and equity financing, access to necessary supplies, credit risk associated with our accounts receivable, impairments in the value of our long-lived assets, or potential future decreases in revenue or the profitability of our ongoing operations. The Company continues to work diligently to ensure operations continue and product is delivered while continuing to emphasize the safety of our product and employees.

Although we have attempted to identify factors that would cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements or events to not be as anticipated, estimated or intended. Many of the factors are beyond our control. This list is not exhaustive of the factors that may affect any of the Company’s forward-looking statements. These and other factors should be considered carefully, and readers should not place undue reliance on the Company’s forward-looking statements. We disclaim any intention and assume no obligation to update any forward-looking statements even if new information becomes available, as a result of future events, new information, or for any other reason except as required by law. These forward-looking statements are made as of the date hereof. Additional information related to us is available by accessing the Canadian Securities Administrators’ System for Electronic Document Analysis and Retrieval (“SEDAR”) website at [www.sedar.com](http://www.sedar.com).



## Additional Information

Additional information related to the Company is available on the Company's website at [www.rubiconorganics.com](http://www.rubiconorganics.com) and through its public filings on [www.sedar.com](http://www.sedar.com).

### RUBICON ORGANICS INC.

Head Office	Unit 505 - 744 West Hastings Street Vancouver, BC, Canada, V6C 1A5 +1-604-331-1296
Registered & Records Office	C/O Borden Ladner Gervais LLP 1200 Waterfront Centre, PO Box 48600, 200 Burrard Street Vancouver, BC, Canada, V7X 1T2
Directors	Bryan Disher David Donnan John Pigott Jesse McConnell Margaret Brodie Julie Lassonde*  <i>*Currently Board Observer status as Director appointment is pending Health Canada security clearance</i>
Officers	Jesse McConnell – Chief Executive Officer Margaret Brodie – Chief Financial Officer Tim Roberts – President
Registrar and Transfer Agent	Odyssey Trust Company 350-409 Granville Street Vancouver, BC, Canada, V6C 1T2
Auditor	Deloitte LLP, Chartered Professional Accountants 939 Granville Street Vancouver, BC, Canada, V6Z 1L3
Solicitors	Borden Ladner Gervais LLP 1200 Waterfront Centre, PO Box 48600, 200 Burrard Street Vancouver, BC, Canada, V7X 1T2
Shares Listed	TSX Venture Exchange Trading symbol: ROMJ  OTCQX Best Market Trading symbol: ROMJF
Investor Relations	<a href="mailto:IR@RubiconOrganics.com">IR@RubiconOrganics.com</a> +1-437-929-1964