Rubicon Organics Inc.

Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian dollars

Independent Auditor's Report

To the Shareholders and the Board of Directors of

Rubicon Organics Inc.

Opinion

We have audited the consolidated financial statements of Rubicon Organics Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Jayana Darras.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
April 18, 2022

RUBICON ORGANICS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Expressed in Canadian Dollars

	Notes	**December 31, 2021**	December 31, 2020
ASSETS			
Current			
Cash and cash equivalents	23	**11,583,443**	12,136,459
Accounts receivable	6	**4,155,708**	2,569,237
Prepaid expenses and deposits	7	**694,292**	1,333,464
Inventories	8	**8,440,868**	8,556,670
Cannabis plants	9	**2,173,833**	1,579,583
Derivatives	16	**125,881**	—
		27,174,025	26,175,413
Non-current			
Security deposits		**483,000**	500,486
Property, plant and equipment	10	**25,094,303**	22,172,833
Right-of-use assets	12	**208,215**	341,766
Intangible asset	11	**1,881,749**	1,881,749
Total assets		**54,841,292**	51,072,247
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	13	**5,793,520**	6,001,157
Deferred revenue	14	**—**	465,497
Interest payable		**332,904**	1,778,353
Current portion of lease liabilities	12	**152,073**	123,003
Current portion of loans and borrowings	15	**659,256**	13,641,223
		6,937,753	22,009,233
Non-current			
Non-current portion of lease liabilities	12	**58,999**	221,134
Non-current portion of loans and borrowings	15	**8,945,356**	—
Total liabilities		**15,942,108**	22,230,367
Shareholders' equity			
Share capital	17	**107,205,007**	86,349,350
Reserves	18	**17,537,902**	13,815,515
Deficit		**(85,843,725)**	(71,322,985)
Total shareholders' equity		**38,899,184**	28,841,880
Total liabilities and shareholders' equity		**54,841,292**	51,072,247

Approved on behalf of the Board:	(Signed) *"Bryan Disher"*	(Signed) *"Margaret Brodie"*
	Director	Director and CFO

The accompanying Notes form an integral part of these consolidated financial statements.

RUBICON ORGANICS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Expressed in Canadian Dollars, except for share information

	Notes	For the year ended December 31, 2021	December 31, 2020
Revenue			
Product sales		**28,786,622**	11,203,893
Excise taxes		**(6,174,818)**	(1,816,573)
Net revenue		**22,611,804**	9,387,320
Cost of sales			
Production costs	10	**9,155,425**	8,051,854
Inventory expensed to cost of sales	10	**9,500,187**	3,967,624
Inventory written off		**1,651,258**	1,394,363
Gross profit (loss) before fair value adjustments		**2,304,934**	(4,026,521)
Fair value adjustments to cannabis plants, inventory sold, and other charges	9	**(798,047)**	3,362,559
Gross profit (loss)		**1,506,887**	(663,962)
Other income	21	**83,583**	929,867
Operating expenses			
Consulting, salaries and wages		**7,419,633**	5,867,231
General and administrative		**3,243,456**	2,669,831
Share-based compensation	18	**2,140,182**	2,552,786
Sales and marketing		**1,779,446**	1,043,470
Depreciation and amortization	10	**265,170**	122,457
		14,847,887	12,255,775
Loss from operations		**(13,257,417)**	(11,989,870)
Interest on loans	15	**1,255,093**	2,258,194
Foreign exchange loss		**134,111**	101,477
Fair value gain on derivatives	16	**(125,881)**	—
Net loss from continuing operations		**(14,520,740)**	(14,349,541)
Net loss from discontinued operations, net of tax	5	**—**	(633,631)
Net loss for the year		**(14,520,740)**	(14,983,172)
Other comprehensive income (loss)			
Reclassification of exchange rate differences on disposal of discontinued operations	5	**—**	659,151
Total comprehensive loss		**(14,520,740)**	(14,324,021)
Net loss per share from continuing operations, basic and diluted		**(0.26)**	(0.33)
Net loss per share from discontinued operations, basic and diluted		**—**	(0.01)
Net loss per share, basic and diluted		**(0.26)**	(0.34)
Weighted average number of shares outstanding, basic and diluted		**54,917,756**	43,895,313

The accompanying Notes form an integral part of these consolidated financial statements.

RUBICON ORGANICS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in Canadian Dollars, except for share information

	Notes	Number of shares	Share capital (net of financing costs)	Share-based reserves	Warrant reserve	Reserves total	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance, 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	17	5,767,447	11,499,276	—	1,812,694	1,812,694	—	—	13,311,970
Share issuance on warrant exercises	17	2,063,075	7,667,054	—	(460,633)	(460,633)	—	—	7,206,421
Share issuance on stock option exercises	17	1,298,184	2,855,230	(1,275,902)	—	(1,275,902)	—	—	1,579,328
Share issuance on RSA vesting	17	300,000	732,900	(732,900)	—	(732,900)	—	—	—
Share-based compensation	18	—	—	2,552,786	—	2,552,786	—	—	2,552,786
Net loss for the year		—	—	—	—	—	—	(14,983,172)	(14,983,172)
Reclassification of exchange rate differences on disposal of discontinued operations		—	—	—	—	—	659,151	—	659,151
Balance, December 31, 2020		**49,395,131**	**86,349,350**	**8,675,960**	**5,139,555**	**13,815,515**	**—**	**(71,322,985)**	**28,841,880**
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	17 & 18	6,052,631	19,492,019	—	1,731,383	1,731,383	—	—	21,223,402
Warrants issued with debenture	15 & 18	—	—	—	610,375	610,375	—	—	610,375
Share issuance on stock option exercises	17	535,565	1,363,638	(759,553)	—	(759,553)	—	—	604,085
Share-based compensation	18	—	—	2,140,182	—	2,140,182	—	—	2,140,182
Net loss for the year		—	—	—	—	—	—	(14,520,740)	(14,520,740)
Balance, December 31, 2021		**55,983,327**	**107,205,007**	**10,056,589**	**7,481,313**	**17,537,902**	**—**	**(85,843,725)**	**38,899,184**

The accompanying Notes form an integral part of these consolidated financial statements.

RUBICON ORGANICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in Canadian Dollars

	Notes	For the year ended December 31, 2021	December 31, 2020
OPERATING ACTIVITIES			
Net loss from continuing operations		**(14,520,740)**	(14,349,541)
Net loss from discontinued operations		**—**	(633,631)
Adjustments to reconcile net loss to net cash used in operating activities			
Fair value adjustments to cannabis plants, inventory sold, and other charges	9	**798,047**	(3,362,559)
Depreciation and amortization	10	**2,396,498**	1,717,647
Share based compensation	18	**2,140,182**	2,552,786
Interest on loans	15	**1,255,093**	2,320,737
Foreign exchange loss		**150,938**	197,215
Fair value gain on Derivatives	16	**(125,881)**	—
Impairment of assets held for sale	5	**—**	237,637
Changes in non-cash working capital items	23	**(2,536,481)**	(2,991,145)
Cash used in operating activities		**(10,442,343)**	(14,310,854)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7, 10 & 23	**(5,497,322)**	(5,984,326)
Proceeds from sale of disposal group	5	**—**	9,059,413
Cash provided by (used in) investing activities		**(5,497,322)**	3,075,087
FINANCING ACTIVITIES			
Net proceeds from equity financing	17	**21,223,402**	13,311,970
Repayment of loans and borrowings	15	**(13,855,010)**	—
Net proceeds from loans and borrowings	15	**9,834,185**	—
Interest paid	15 & 23	**(2,331,176)**	(707,993)
Proceeds from stock options exercised	17	**604,085**	1,579,328
Repayment of lease liabilities		**(170,866)**	(130,361)
Proceeds from warrants exercised	17	**—**	7,206,421
Proceeds from related parties under revolving credit line	19	**—**	1,100,000
Repayment of related party credit line	19	**—**	(1,100,000)
Cash provided by financing activities		**15,304,620**	21,259,365
Effect of exchange rate changes on cash		**82,029**	29,273
Net (decrease) increase in cash during the year		**(553,016)**	10,052,871
Cash and cash equivalents, beginning of year		**12,136,459**	2,083,588
Cash and cash equivalents, end of year		**11,583,443**	12,136,459

The accompanying Notes form an integral part of these consolidated financial statements.

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 common shares of the Company were voluntarily delisted from the Canadian Securities Exchange at the close of trading on September 21, 2020 and commenced trading on the TSXV at the opening of trading on September 22, 2020.

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

Basis of presentation:

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”), effective as of December 31, 2021.

These consolidated financial statements were approved for issuance by the Board of Directors on April 18, 2022.

Basis of measurement

These consolidated financial statements were prepared on a going concern basis under the historical cost method except for certain financial instruments and biological assets which are measured at fair value. The consolidated financial statements are presented in Canadian dollars, except where otherwise indicated. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Comparative balances

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 in the statement of loss and comprehensive loss. This is a change from the 2020 presentation. Note 9 contains further details of the fair value adjustments to cannabis plants including a breakdown that follows the comparative year’s presentation.

Basis of consolidation

These consolidated financial statements include the financial statements of Rubicon and its controlled subsidiaries. Control exists when Rubicon has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of each subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition or up to the effective date of disposal. All inter-company transactions, balances, income and expenses are eliminated through the consolidation process.

Entities in Rubicon's consolidated financial statements are as follows:

Name	Place of Incorporation	Ownership Percentage
Rubicon Holdings Corp. ("RHC") [1]	BC, Canada	100%
West Coast Marketing Corp.	BC, Canada	100%

[1] Formerly Rubicon Organics Canada Corp.

On October 1, 2020, the Company amalgamated Bridge View Greenhouses Ltd. and Vintages Organic Cannabis Company Inc. ("Vintages") into RHC. In this process, the Health Canada license issued in accordance with the Cannabis Act and Cannabis Regulations held by Vintages was transferred to RHC.

In the year ended December 31, 2020 the following subsidiaries were consolidated prior to their sale or dissolution:

Name	Transaction	Transaction Date	Place of Incorporation	Ownership Percentage
Rubicon Holdings, Inc. ("RHI")	Dissolved	December 1, 2020	WA, United States	100%
West Coast Property Holdings, Inc.	Dissolved	December 1, 2020	WA, United States	100%
Rubicon Property 1, LLC	Sold	April 3, 2020	WA, United States	100%
Rubicon Property 2, LLC	Dissolved	October 26, 2020	WA, United States	100%
Rubicon California, LLC	Dissolved	December 1, 2020	CA, United States	100%
Great Pacific Brands, LLC	Dissolved	October 26, 2020	WA, United States	100%
Red Dog Operations, Inc.	Dissolved	October 26, 2020	WA, United States	100%
Seymour Soils, Inc.	Dissolved	October 26, 2020	WA, United States	100%

3. SIGNIFICANT ACCOUNTING POLICIES

a. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("$"). The functional currency of the Company and its existing and now sold or dissolved subsidiaries is the currency of the primary economic environment in which each operates. The functional currency of all the Company's operations is Canadian dollars other than those US entities that were sold or dissolved in 2020 where the functional currency was United States dollars ("US$"). Once the Company determines the functional currency of an entity it is not changed unless there is a change in the relevant underlying transactions, events and circumstances. Any change in an entity's functional currency is accounted for prospectively from the date of the change, and the consolidated statements of financial performance are translated using the exchange rate at that date.

b. Foreign currency translation

Transactions in foreign currencies are initially recorded by the Company's subsidiaries at their respective functional currency spot rates at the date the transaction is recognized. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at reporting period ends. Differences arising on settlement or translation of monetary items are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income ("OCI") or profit or loss are also recognized in OCI or profit or loss, respectively).

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at the average exchange rate prevailing during each reporting period. Equity balances are translated at historical exchange rates prevailing at the date of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

c. Assets held for sale and discontinued operations

The Company classifies assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the asset or disposal group, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or, is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

d. Cash and cash equivalents

Cash and cash equivalents consists of deposits held at financial institutions and other deposits that are highly liquid and readily convertible into cash.

e. Cannabis plants

The Company's cannabis plants consist of cannabis plants and seeds. Cannabis plants are measured at their fair value less costs to sell up to the point of harvest in accordance with IAS 41 – Agriculture. Fair value at the point of harvest becomes the base cost of inventories. Fair value is 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. The Company then measures and adjusts the cannabis plants to the fair value less cost to sell. Unrealized gains or losses arising from changes in the fair value of cannabis plants are included in the consolidated statements of loss and comprehensive loss of the related year. Seeds are measured at cost which approximates fair value.

f. Production costs

The Company expenses the direct and indirect costs related to the biological transformation of cannabis plants prior to harvest as incurred. Production costs include labour related costs, cultivation materials and consumables, utilities, facility costs and production related depreciation.

g. Inventories

Inventories consist of finished goods, work in progress, packaging materials and unused consumable inventory used in propagation and transformation of the Company's cannabis plants. Inventories are measured at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from cannabis plants at their fair value less costs to sell at harvest which becomes the base cost of work in process inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Post-harvest costs include any direct labour related costs, packaging supplies and consumables, utilities, facilities costs, quality and testing costs, and related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value.

h. Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over its useful life as outlined below:

Asset type	Reporting Category	Useful Life
Computer equipment and software	Equipment and vehicles	3 years
Office equipment	Equipment and vehicles	3 years
Propagation equipment	Equipment and vehicles	3 years
Greenhouse equipment	Equipment and vehicles	5-7 years
Extraction lab equipment	Equipment and vehicles	7 years
Security equipment	Equipment and vehicles	7 years
Vehicles	Equipment and vehicles	5 years
Greenhouse and improvements	Buildings and leasehold improvements	20 years
Residential building and improvements	Buildings and leasehold improvements	30 years

An asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate. Land and construction in progress are stated at cost. Once available for service, depreciation is provided over the estimated useful life of each class of depreciable asset. Improvements which increase the useful life of property and equipment and replacements of major components of property and equipment are capitalized, while maintenance, repairs, and minor replacements are expensed as incurred.

An asset is classified as under construction if the Company is currently constructing it and it is not yet ready to be used for its final intended purpose. Assets under construction are measured at cost with no depreciation. Once an item is ready for its intended use, it is reclassified to its appropriate asset category and depreciated accordingly.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Long-lived assets, including property, plant and equipment are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

i. Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. The Health Canada license was measured at fair value at the time of acquisition. The Health Canada license has an indefinite life and is tested for impairment on an annual basis or when there is an indicator of impairment.

j. Leases

At the inception of a contract, the Company assesses whether the contract conveys the right for the Company to control the use of an identified asset for a period of time in exchange for consideration. If it does, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property, plant, and equipment. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize right-of-use assets and lease liabilities for lease terms of 12 months or less and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

k. Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new common shares are shown as a deduction, net of tax, from the proceeds. When equity offerings consist of common shares issued with attached share purchase warrants, if both instruments are classified as equity, the net proceeds are allocated based on the relative fair value of each component of equity. In determining the fair value of warrants that are not publicly traded, the Company uses the Black-Scholes option pricing model.

l. Share-based compensation

The Company has an employee equity award plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest.

Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For stock options granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

m. Income taxes

Income tax expense includes current and deferred income taxes.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount to be expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax related to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax filings with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

n. Related party transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties subject to common control are also considered to be related. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

o. Financial instruments

All financial instruments are initially recorded at fair value at the time of acquisition. The Company classifies financial instruments in accordance with IFRS 9, *Financial Instruments*, into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of transaction.

Financial assets

All financial assets are initially recorded at fair value and classified upon inception into one of the following categories: amortized cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI").

Financial assets classified as amortized cost are initially recognized at fair value plus directly attributed transaction costs. After initial recognition, these financial assets are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. Regular purchases and sales of FVTPL financial assets are accounted for at the trade date, as opposed to the settlement date.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or amortized cost.

Financial liabilities at amortized cost are initially recorded at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial instrument classification

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	FVTPL
Security deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Interest payable	Amortized cost
Loans and borrowings	Amortized cost

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without deduction for transaction costs. For financial instruments that are not traded in active markets, the fair value is determined using appropriate valuation techniques, such as using a recent arm's length market transaction, discounted cash flow analysis or other valuation models.

p. Impairment of financial assets

The Company makes an assessment at each reporting date whether a financial asset is impaired. The Company applies the simplified approach under IFRS 9 to its account receivables and calculates expected credit losses based on lifetime expected losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

q. Segment information

Operating segments are components of the Company that engages in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Company), the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker ("CODM") for the purposes of resource allocation and assessing its performance. The Company's CODM has been identified as the Chief Executive Officer ("CEO").

Management has determined that the Company operates in a single reportable segment, being the production and sale of cannabis in Canada.

r. Revenue from contracts with customers

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

s. Government grants and government assistance

Government grants and assistance that compensate the Company for expenses incurred are recognized in the statement of profit or loss as other income on a systematic basis in the periods in which the expenses are recognized, unless the conditions for receiving the grant or assistance are met after the related expenses have been recognized. In that case, the grant is recognized when it becomes receivable.

t. New accounting pronouncements

The following IFRS standard has been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company has evaluated the potential impact of these amendments and determined there is no impact on the Company's consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated 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 the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Estimates by their nature are uncertain. The impacts of such estimates could be pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following accounting policies are subject to such judgments and because of the uncertainty associated with the estimation process they could have the most significant impact on the reported results and financial position:

a. Estimated useful lives and depreciation of property and equipment and intangible assets

Amortization of property and equipment and intangible assets are dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment.

b. Valuation of cannabis plants

Cannabis plants are measured at their fair value less costs to sell up to the point of harvest. Determination of the fair value of cannabis plants requires management to estimate selling prices, selling costs, stage of growth of cannabis plants, harvest yields, and post-harvest costs to bring harvested cannabis to bulk inventory. Refer to Note 9 for further details.

c. Valuation of share-based transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17 and Note 18.

d. Valuation and bifurcation of compound financial instruments

Compound financial instruments are bifurcated and recorded as separate liability and equity components. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest determined by comparable market instruments of similar credit status. The equity component is assigned the residual amount after deducting from the fair value of the whole instrument the amount separately determined for the liability component. Valuation of the liability component requires management to exercise judgment in the determination of the interest rate of debt with substantially the same credit status, cash flows and terms.

e. Return allowance

The Company estimates a return allowance on invoiced sales using a tiered structure which considers whether the product was produced in-house or by a third-party and whether the product was an existing SKU or new innovation. A different return allowance percentage is applied to each of these product categories based on historical actual returns.

f. Inventory net realizable value

The Company uses judgment in determining the net realizable value of inventory. When assessing net realizable value, the Company considers the impact of product quality, age, spoilage, expected future demand, expected future use, and price fluctuation.

g. Going concern

The ability of the Company to continue as a going concern is dependent on its ability to achieve future profitable operations. Current management forecasts and related assumptions support the view that the Company can adequately manage the operational needs of the business.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The Company has taken extensive measures to protect and sustain its operations during the pandemic but there can be no assurance that the Company will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic. The extent to which COVID-19 impacts the Company's operations will depend on future developments, which continue to be highly uncertain and cannot be predicted with confidence. The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business.

Expressed in Canadian dollars

5. DISCONTINUED OPERATIONS – UNITED STATES

On April 3, 2020, Rubicon completed the sale of the majority of its US assets for gross proceeds of $12,020,700 (US$8,500,000), excluding transaction costs. On November 18, 2020, Rubicon sold a parcel of land in California for proceeds of $509,457 (US$390,000). All of the Company's US subsidiaries were sold or dissolved by December 31, 2020.

For the year ended December 31, 2020, the Company had a net loss from discontinued operations of $633,631.

6. ACCOUNTS RECEIVABLE

	December 31, 2021 **$**	December 31, 2020 $
Trade receivables	**4,138,791**	2,153,102
Sales taxes recoverable	**16,917**	116,135
Excise tax security deposit	**—**	300,000
Total accounts receivable	**4,155,708**	2,569,237

Trade receivables arise from sales of cannabis to distributors and retailers in Canada. As at December 31, 2021, 90% of trade receivables were with provincial government cannabis distributors (December 31, 2020: 77%). Trade receivables is presented net of a $499,344 provision for returns (December 31, 2020: $784,331).

For the year ended December 31, 2021, the Company had four customers (December 31, 2020: four customers) that individually represented more than 10% and together constitute 94% (December 31, 2020; 94%), of the Company's net revenue. Direct sales to all provincial government cannabis distributors accounted for 96% of revenue (December 31, 2020: 83%).

During the year ended December 31, 2020, the Health Canada license was transferred from Vintages to RHC, and RHC submitted a new excise tax security deposit. The previous Vintages exercise tax security deposit of $300,000 which was therefore repayable by Health Canada to Vintages as at December 31, 2020 was received in full during 2021.

7. PREPAID EXPENSES AND DEPOSITS

	December 31, 2021 **$**	December 31, 2020 $
Prepaid expenses	**438,983**	331,130
Deposits	**158,854**	787,554
Other	**96,455**	214,780
Total prepaid expenses and deposits	**694,292**	1,333,464

As at December 31, 2021, $26,238 of the deposits balance was related to property, plant and equipment (December 31, 2020: $145,915).

8. INVENTORIES

Inventory as at December 31, 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.

Expressed in Canadian dollars

	December 31, 2021 $	December 31, 2020 $
Consumable inventory	**2,029,498**	1,058,102
WIP inventory	**5,546,737**	5,993,465
Finished goods	**864,633**	1,505,103
Total inventories	**8,440,868**	8,556,670

At December 31, 2021, WIP inventory and finished goods include $3,932,748 of non-cash fair value of cannabis plants transferred upon harvest (December 31, 2020: $5,317,032).

At December 31, 2021, $1,090,137 of consumable inventory is expected to be utilized more than twelve months after the reporting period (December 31, 2020: $nil).

9. 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	10,176,769
Transferred to WIP inventory upon harvest	(9,582,519)
Balance, December 31, 2021	**2,173,833**

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 87 grams per plant (December 31, 2020: 56 grams per plant);
- comparable selling price of wholesale dried cannabis flower ranging from $0.86 to $2.35 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 year ended December 31, 2021, the Company determined the weighted average fair value less costs to sell was approximately $1.76 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 $221,857. A decrease in the harvest yield per plant of 10% would result in a decrease in the value of cannabis plants of $216,109.

Expressed in Canadian dollars

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at December 31, 2021, the cannabis plants were estimated to be, on average, 40% complete (December 31, 2020: 37% complete).

The fair value adjustment to cannabis plants, inventory sold, and other charges for the years ended December 30, 2021 and December 31, 2020 is comprised of the following:

	For the year ended	
	December 31, 2021	December 31, 2020
	$	$
Unrealized gain on changes in fair value of cannabis plants	**10,176,769**	10,838,979
Realized fair value of inventory sold	**(7,625,311)**	(4,206,039)
Adjustment to net realizable value of inventory on hand at year end	**(3,349,505)**	(3,270,381)
	(798,047)	3,362,559

10. 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	424,774	859,923	—	4,043,107	5,327,804
Commissioned during the year	1,172,037	2,835,517	—	(4,007,554)	—
At December 31, 2021	**14,766,194**	**13,013,358**	**2,040,722**	**342,780**	**30,163,054**
Accumulated depreciation					
At December 31, 2020	936,602	1,725,815	—	—	2,662,417
Depreciation	691,845	1,714,489	—	—	2,406,334
At December 31, 2021	**1,628,447**	**3,440,304**	**—**	**—**	**5,068,751**
Net book value					
At December 31, 2021	**13,137,747**	**9,573,054**	**2,040,722**	**342,780**	**25,094,303**

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 year	—	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 year ended December 30, 2021, depreciation of $1,613,653 was included in production costs (December 31, 2020: $1,332,967) and $661,062 was capitalized to inventory (December 31, 2020: $452,408).

Expressed in Canadian dollars

During the year ended December 30, 2021, the total amount of depreciation recognized in cost of sales was $517,675 (December 31, 2020: $262,223).

11. INTANGIBLE ASSET

The intangible asset is the Health Canada license that was acquired in 2017 when RHC acquired all the outstanding common shares of Vintages for $1,881,749. The annual impairment test was performed as at December 31, 2021 and it was determined that no impairment was required.

12. 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 December 31, 2021	**358,914**	**97,396**	**456,310**
Accumulated depreciation			
At December 31, 2020	79,759	34,785	114,544
Depreciation	119,638	13,913	133,551
At December 31, 2021	**199,397**	**48,698**	**248,095**
Net book value			
At December 31, 2021	**159,517**	**48,698**	**208,215**

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 leases trailers for office space, HVAC units for managing greenhouse climate and natural gas generators for supplemental power on a short-term basis. The lease costs for the year ended December 31, 2021, of $2,328,791 (December 31, 2020: $733,088) were expensed on a straight-line basis over the lease term.

Expressed in Canadian dollars

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021 $	December 31, 2020 $
Trade payables	**1,572,864**	1,745,266
Accrued liabilities	**2,740,851**	3,772,538
Excise taxes payable	**1,479,805**	483,353
Total accounts payable and accrued liabilities	**5,793,520**	6,001,157

14. DEFERRED REVENUE

During the year ended December 31, 2020, the Company received $465,497 from Canacur GmbH in advanced payment for product under a product sale agreement. This advanced payment was used to assist the Company to prepare for EU-GMP certification.

During the year ended December 31, 2021, the Company delivered $4,717 of cannabis to Canacur GmbH to validate and test the logistics process of exporting to Germany. The Company reclassified the remaining balance of $460,780 to accounts payable and accrued liabilities as repayment is now expected to occur in the form of cash.

On February 25, 2022, the Company repaid $230,390 in cash to Canacur GmbH.

15. LOANS AND BORROWINGS

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

	December 31, 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	**1,255,093**	2,258,194
Interest payments	**(885,727)**	(1,834,588)
Foreign exchange loss	**225,223**	—
Ending balance	**9,604,612**	13,641,223

The Company had the following loans and borrowings:

	December 31, 2021 $	December 31, 2020 $
Debenture	**9,604,612**	—
First Mortgage	**—**	4,950,275
Second mortgage (group)	**—**	3,307,613
Second mortgage (overseas lender)	**—**	4,894,426
Second mortgage (US lenders)	**—**	488,909
Total loans and borrowings	**9,604,612**	13,641,223
Less: current portion	**659,256**	(13,641,223)
Non-current loans and borrowings	**8,945,356**	—

First Mortgage

On March 20, 2019, the Company entered into a $6,000,000 mortgage financing loan at 12% per annum, collateralized by the Company's Delta Facility, with an investment corporation (the "First Mortgage"). On March 25, 2019, the Company drew $5,000,000 under the First Mortgage. On March 19, 2020, the Company capped the First Mortgage and did not draw the additional $1,000,000. On August 10, 2020, the Company executed an extension option on the First Mortgage extending the maturity date six months to April 1, 2021.

On March 31, 2021, the Company fully repaid the $5,000,000 First Mortgage.

Second mortgage (group)

On April 25, 2019, the Company entered into a $3,355,000 second mortgage financing loan at 12.0% per annum (compounded quarterly) with a group of lenders, of which $1,655,000 was provided by three related parties. The loan matured on April 25, 2021. The lenders were issued 671,000 warrants that are each exercisable for one common share with an exercise price of $4.50 per common share and expiry date of April 25, 2022.

In connection with amounts owed to them under the $3,355,000 second mortgage financing loan, five of the lenders, including three related parties, agreed to defer the interest payment due on April 25, 2020 in the amount of $383,429 until the maturity of the loan on April 25, 2021. The deferred interest was compounded with the principal amount owed.

On April 23, 2021, the Company fully repaid the $3,355,000 second mortgage (group).

Second mortgage (overseas lender)

On May 28, 2019, the Company entered into a $5,000,000 second mortgage financing loan at 12.0% per annum (compounded quarterly) with an overseas lender. The loan matured on May 28, 2021, with all accrued interest due at maturity. The lender was issued 1,000,000 warrants that are each exercisable for one common share with an exercise price of $4.50 per common share and expiry date of May 28, 2022.

On April 23, 2021, the Company fully repaid the $5,000,000 second mortgage (overseas lenders).

Second mortgage (US lenders)

On July 12, 2019, the Company entered into a $500,010 second mortgage financing loan at 12.0% per annum (compounded quarterly) with a group of US lenders. The loan matured on July 12, 2021. The lenders were issued 100,002 warrants that are each exercisable for one common share with an exercise price of $4.50 per common share and expiry date of July 12, 2022.

On June 25, 2021, the Company fully repaid the $500,010 second mortgage (US lenders).

The second mortgages were all compound instruments with separate components, being the debt and the warrants. The debt components were classified as a financial liability and the warrants were classified as equity. On initial recognition of each compound instrument, proceeds net of transaction costs were allocated between debt and equity, first by determining the fair value of each debt component, discounted at an effective interest rate of 17%, and then allocating the residual value to the equity component.

Debenture

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 year ended December 31, 2021, was $1,255,093 (December 31, 2020: $2,258,194). 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.

Expressed in Canadian dollars

16. 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	125,881
Balance, December 31, 2021	**125,881**

17. 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
December 31, 2021	**55,983,327**	**107,205,007**

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

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

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:

Expressed in Canadian dollars

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 year ended December 31, 2020, the Company issued 1,212,500 shares on the exercise of 1,212,500 options for proceeds of $1,579,330 and 157,500 options were exercised via cashless exercise, resulting in the issuance of a further 85,684 common shares.

During the year ended December 31, 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.

During the year ended December 31, 2021, the Company issued nil shares (December 31, 2020: 2,063,075) on the exercise of warrants for proceeds of $nil (December 31, 2020: $7,206,423).

18. 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	169,000	$2.61
Exercised	(637,333)	$1.39
Forfeited	(236,167)	$3.34
Expired	(30,000)	$1.29
Outstanding, December 31, 2021	**3,527,083**	**$3.51**

Expressed in Canadian dollars

The following table provides information on stock options outstanding and exercisable as at December 31, 2021:

		Options outstanding		**Options exercisable**	
Grant Date	**Exercise Price**	**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	0.03	80,000	0.03
July 31, 2017	US$2.00	200,000	0.58	200,000	0.58
November 15, 2017	US$2.00	5,000	0.87	5,000	0.87
January 21, 2018	US$2.00	50,000	1.06	50,000	1.06
July 31, 2018	$3.25	1,987,083	1.58	1,987,084	1.58
July 31, 2018	$2.60	328,250	1.58	328,250	1.58
September 24, 2018	$2.60	15,000	1.73	15,000	1.73
September 24, 2018	$8.15	350,000	1.73	350,000	1.73
May 28, 2019	$3.25	20,000	2.41	20,000	2.41
May 28, 2019	$2.60	69,584	2.41	47,500	2.41
July 12, 2019	$3.25	83,333	2.53	66,666	2.53
July 12, 2019	$2.60	52,500	2.53	35,000	2.53
September 24, 2019	$3.25	3,333	2.72	3,334	2.72
September 24, 2019	$2.60	33,000	2.72	22,000	2.72
August 18, 2020	$2.60	12,500	3.63	4,166	3.63
October 14, 2020	$2.60	70,000	3.79	23,333	3.79
April 16, 2021	$2.60	77,500	4.29	–	4.29
November 16, 2021	$2.60	90,000	4.88	–	4.88
		3,527,083	**1.76**	**3,237,333**	**1.56**

During the year ended December 31, 2021, the Company granted 169,000 stock options to certain employees of the Company pursuant to the Equity Plans (December 31, 2020: 172,500). 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 year ended December 31, 2021, and December 31, 2020:

	December 31, 2021	December 31, 2020
Expected stock price volatility	**61.1% – 64.1%**	66.0% – 67.7%
Expected life of options	**5 years**	5 years
Risk free interest rate	**0.95% – 1.56%**	0.36% – 0.41%
Expected dividend yield	**0%**	0%
Weighted average exercise price	**$2.90**	$3.69
Weighted average fair value per option granted	**$1.28**	$1.75

On November 16, 2021, the Company amended the terms of 660,000 stock options (the "Amended Options") for employees of the Company, pursuant to the Equity Plans. The Company amended the exercise price of the Amended Options to $2.60. The total incremental fair value of the options at the date of the modification was determined to be $112,212. The incremental fair value for vested options of 86,833 was expensed immediately. The incremental fair value for vesting options of $25,380 will be recognized as an expense over the period from the modification date to the end of the vesting period. The expense for the original option grant will continue to be recognized as if the terms had not been modified. The fair value of the modified options were determined using the Black Scholes option pricing model using the following estimates, judgments, and assumptions:

Expressed in Canadian dollars

	Pre-modification	Post-modification
Expected stock price volatility	54.7% – 61.1%	54.7% – 61.1%
Expected life of options	1.7 – 4.4 years	1.7 – 4.4 years
Risk free interest rate	1.02% – 1.44%	1.02% – 1.44%
Expected dividend yield	0%	0%
Exercise price	$3.25 – $4.10	$2.60
Fair value per option at date of modification	$0.46 – $0.96	$0.63 – $1.09

During the year ended December 31, 2021, the Company recognized $365,912 in share-based compensation expense pertaining to options (December 31, 2020: $1,512,386).

b. Warrants

The Company's outstanding warrants consisted of the following:

			Number of Warrants	
Issue Date	Expiry Date	Exercise Price	December 31, 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. Deferred Share Units ("DSUs")

During the year ended December 31, 2021, the Company granted an aggregate of 75,000 DSUs pursuant to the Equity Plans to independent directors of the Company as compensation for their services (December 31, 2020: 75,000). The DSUs vested immediately and may only be redeemed upon a holder ceasing to be a director of the Company. The DSUs were valued using the market price of shares on the date of the grant. The fair value of the DSUs granted was $195,000 and was expensed as share-based compensation (December 31, 2020: $307,500). The Company intends to settle these DSUs in equity.

d. Restricted Share Awards ("RSAs")

On December 28, 2020, the Company issued 100,000 RSAs to each of the CEO, CFO and President of the Company that settle in common shares and vest immediately. The fair value per RSA at issuance was $2.44 per award. The RSAs are subject to a lock-up agreement restricting the sale or transfer of shares according to the prescribed schedule whereby the shares are released from lock-up in 25% portions on or after 3 months, 6 months, 9 months, and 12 months from December 28, 2020.

During the year ended December 31, 2021, the Company recorded $nil in share-based compensation pertaining to RSAs (December 31, 2020: $732,900).

e. Restricted Share Units ("RSUs")

During the year ended December 31, 2021, the Company granted an aggregate of 2,740,000 RSUs that settle in common shares to certain executives of the Company pursuant to the Company's Equity Plans (December 31, 2020: nil). These RSUs vest as follows: (i) 500,000 vesting between one and three years from the date of grant; and (ii) 2,240,000 vesting in tranches based on 12-month EBITDA targets.

Expressed in Canadian dollars

During the year ended December 31, 2021, the Company recorded $1,579,270 in share-based compensation pertaining to RSUs (December 31, 2020: $nil).

19. RELATED PARTY TRANSACTIONS

a. Related party transactions

Accounts payable and accrued liabilities at December 31, 2021, included $57,357 (December 31, 2020: $566,327) owed to executives and directors of the Company for expenses paid on behalf of the Company and deferred bonuses.

In the first quarter of 2020, the Board approved revolving credit lines from the CEO, CFO, CSO, President, and a shareholder of the Company for aggregate proceeds of up to $1,350,000 at an annual interest rate of 12% and requiring repayment no later than December 31, 2020. On April 21, 2020, the amount was increased to $1,850,000. On April 22, 2020, the Company repaid $335,377 of accrued salaries and expenses to the CEO, CFO, CSO, and President as well as $100,000 in principal and $2,926 in interest to the CFO for amounts drawn on the revolving credit line. On May 19, 2020, the Company repaid $1,000,000 in principal and $32,795 in interest to the CEO and shareholder for amounts drawn on the revolving credit line. There are no further amounts owing under these loans as at December 31, 2020.

During the year ended December 31, 2020, the issuance of 300,000 RSAs to the CEO, CFO and President resulted in $392,100 withholding taxes payable to the Canada Revenue Agency. The withholding taxes were paid by the Company on behalf of the individuals in February 2021. The amounts were settled with the CEO, CFO and President in 2021.

During the year ended December 31, 2021, the Company issued 2,500,000 RSUs (December 31, 2020: nil) and 75,000 DSUs (December 31, 2020: 75,000), respectively, to executives and directors of the Company.

b. Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Key management compensation for the year ended December 31, 2021, and December 31, 2020, was comprised of:

	December 31, 2021 **$**	December 31, 2020 $
Salaries and accrued salaries	**1,375,583**	1,527,787
Bonuses in accrued liabilities	**—**	560,000
Share based compensation	**1,821,286**	1,957,875
Total compensation of key management personnel	**3,196,869**	4,045,662

Expressed in Canadian dollars

20. CURRENT AND DEFERRED INCOME TAX

a. Temporary differences

As at December 31, 2021, the deferred tax assets are not recognized on the following temporary differences as it is not probable that sufficient taxable profits will be available to utilize such assets:

	December 31, 2021	December 31, 2020
	$	$
Tax loss carry forwards	**37,219,496**	29,474,850
Capital loss carry forwards	**7,486,919**	7,511,229
Other	**627,939**	389,705
	45,334,354	37,375,784

b. Income tax expense

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the combined federal and state statutory income tax rates as follows:

	December 31, 2021	December 31, 2020
	$	$
Net loss from continuing operations before tax	**14,520,740**	14,349,541
Net loss from discontinued operations before tax	**—**	633,631
Current statutory income tax rate	**27%**	27%
Expected income tax recovery based on statutory rate	**3,920,600**	4,045,456
Differences between statutory and foreign tax rate	**—**	317,418
Differences between statutory and future tax rates	**—**	—
Tax losses not recognized in the year that the benefit arose	**(3,340,761)**	(3,662,533)
Non-deductible expenses	**(599,599)**	(700,341)
Other	**19,760**	—
	—	—

c. Income tax loss carryforwards

As of December 31, 2021, the Company has loss carry forwards of $37,219,496 (December 31, 2020: $29,474,850) available to reduce future years' income tax for tax purposes. The tax loss carry forwards expire at various times between 2035 and 2041.

21. OTHER INCOME

	December 31, 2021	December 31, 2020
	$	$
Interest income	**83,583**	—
Government assistance	**—**	929,867
Total other income	**83,583**	929,867

During the year ended 2020, government assistance consists of amounts received from the government of Canada in connection with the COVID-19 Canada Emergency Wage Subsidy ("CEWS") program, for salaries paid during the period of March 15 to July 4, 2020.

Expressed in Canadian dollars

22. COMMITMENTS

As at December 31, 2021, the Company had the following commitments:

	Less than one year $	One to three years $	Over three years $	Total $
Lease liabilities	171,114	60,626	—	**231,740**
Trailer Leases	207,940	—	—	**207,940**
Debt	988,039	10,440,640	—	**11,428,679**
Total commitments	**1,367,093**	**10,501,266**	**—**	**11,868,359**

23. SUPPLEMENTAL CASH FLOW INFORMATION

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

	December 31, 2021 **$**	December 31, 2020 $
Accounts receivable	**(1,586,471)**	(2,364,327)
Prepaids and deposits	**519,495**	(841,985)
Security deposits	**17,486**	(500,486)
Inventory	**(1,133,109)**	(2,461,303)
Accounts payable and accrued liabilities	**73,814**	1,593,338
Deferred revenue	**(465,497)**	465,497
Interest payable	**332,904**	1,082,436
Interest on lease liabilities	**37,801**	35,685
Current portion of loans and borrowings	**(332,904)**	—
Change in non-cash working capital items	**(2,536,481)**	(2,991,145)

As at December 31, 2021, accounts payable and accrued liabilities include $523,651 related to capital asset additions (December 31, 2020: $812,846).

Interest of $1,778,353 was accrued as at December 31, 2020 and paid during 2021. Interest of $332,904 was accrued as at December 31, 2021 to be paid in 2022.

Cash and cash equivalents consist of the following:

	December 31, 2021 **$**	December 31, 2020 $
Cash	**2,634,610**	7,136,459
Cash equivalents	**8,948,833**	5,000,000
Total cash and cash equivalents	**11,583,443**	12,136,459

Cash equivalents consist of redeemable guaranteed investment certificates that are immediately convertible to cash.

24. 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.

25. FINANCIAL INSTRUMENT RISK MANAGEMENT

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 and market 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 and trade receivables are with government bodies and 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, deferred revenue, interest payable, 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. 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 debt is held at a fixed interest rate 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 mitigated by the purchase of the Derivatives.

For the year ended December 31, 2021, the Company was exposed to currency risk through the following assets and liabilities denominated in US$:

		December 31, 2021		December 31, 2020
Cash		**528,510**		9,641
Accounts payable and accrued liabilities		**(176,546)**		(404,164)
Interest payable		**(260,000)**		—
	US$	**91,964**	US$	(394,523)

A 10% change of the US$ against the CAD$ would have increased net loss by $11,659 (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 year ended December 31, 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.

26. SUBSEQUENT EVENTS

On January 7, 2022, the Company granted 25,000 DSUs to a Director of the Company pursuant to the Equity Plans. The DSUs vest immediately and may only be redeemed upon the holder ceasing to be a director of the Company.