Rubicon Organics Inc.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian dollars

Independent auditor's report

To the Shareholders of Rubicon Organics Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Rubicon Organics Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of loss and comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of cannabis plants *Refer to note 3 – Significant accounting policies, note 4 – Critical accounting estimates and judgments and note 8 – Cannabis plants to the consolidated financial statements.* As at December 31, 2022, the carrying amount of cannabis plants was $2,154,431. The Company measures cannabis plants at fair value less costs to sell up to the point of harvest, which then becomes the base cost of inventories. The fair value less costs to sell of cannabis plants is determined using a valuation model that uses the expected average yield per plant and applies this to the estimated fair value less costs to sell per gram of dried cannabis flower. The significant assumptions used in determining the fair value less costs to sell of cannabis plants included comparable selling prices per gram of wholesale dried cannabis flower and expected average yield per plant. We considered this a key audit matter due to the judgment by management in determining the fair value less costs to sell estimates of the cannabis plants, including the use of significant assumptions. This resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to the significant assumptions used by management.	Our approach to addressing the matter included the following procedures, among others: • Evaluated the appropriateness of the valuation model used by management. • Tested the underlying data used by management in the valuation model. • Evaluated the reasonableness of the comparable selling prices per gram of wholesale dried cannabis flower assumption by comparing these selling prices per gram used by management to available external market data. • Evaluated the reasonableness of the expected average yield per plant assumption by comparing the average yield of a sample of cannabis plants to the historical average yield per plant. • Performed sensitivity analyses over the significant assumptions used by management to determine the fair value less costs to sell of cannabis plants to assess the impact of changes in those assumptions on the determination of the fair value less costs to sell.

Comparative information

The consolidated financial statements of the Company for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on April 18, 2022.

Other information

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

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 31, 2023

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

	Notes	**December 31, 2022**	December 31, 2021
ASSETS			
Current			
Cash and cash equivalents	20	**8,294,117**	11,583,443
Accounts receivable	5	**4,781,328**	4,155,708
Prepaid expenses and deposits	6	**1,554,366**	694,292
Inventories	7	**10,509,052**	8,440,868
Cannabis plants	8	**2,154,431**	2,173,833
Derivatives	14	**401,230**	125,881
		27,694,524	27,174,025
Non-Current			
Security deposits		**—**	483,000
Property, plant and equipment	9	**25,955,764**	25,094,303
Right-of-use assets	11	**74,663**	208,215
Intangible assets	10	**2,381,749**	1,881,749
Total assets		**56,106,700**	54,841,292
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	12	**7,202,325**	5,793,520
Interest payable		**352,765**	332,904
Current portion of lease liabilities		**58,999**	152,073
Current portion of loans and borrowings	13	**758,464**	659,256
		8,372,553	6,937,753
Non-Current			
Lease liabilities		—	58,999
Non-current portion of loans and borrowings	13	**9,401,052**	8,945,356
Total liabilities		**17,773,605**	15,942,108
Shareholders' equity			
Share capital	15	**107,610,759**	107,205,007
Reserves	16	**20,421,908**	17,537,902
Deficit		**(89,699,572)**	(85,843,725)
Total shareholders' equity		**38,333,095**	38,899,184
Total liabilities and shareholders' equity		**56,106,700**	54,841,292

Subsequent events (Note 23)

Approved on behalf of the Board:	(Signed) *"David Donnan"*	(Signed) *"Margaret Brodie"*
	Director	Director, Interim CEO 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, 2022	December 31, 2021
Revenue			
Product sales		**46,303,346**	28,786,622
Excise taxes		**(10,785,213)**	(6,174,818)
Net revenue		**35,518,133**	22,611,804
Cost of sales			
Production costs	9	**10,484,602**	9,155,425
Inventory expensed to cost of sales	9	**11,957,149**	9,500,187
Inventory written off or provided for		**865,868**	1,651,258
Gross profit before fair value adjustments		**12,210,514**	2,304,934
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	**1,595,830**	(798,047)
Gross profit		**13,806,344**	1,506,887
Other income		**—**	83,583
Operating expenses			
Consulting, salaries and wages		**8,361,798**	7,419,633
General and administrative		**3,320,693**	3,243,456
Sales and marketing		**1,342,364**	1,779,446
Share-based compensation	16	**3,042,119**	2,140,182
Depreciation and amortization	9	**328,046**	265,170
		16,395,020	14,847,887
Loss from operations		**(2,588,676)**	(13,257,417)
Interest on loans	13	**1,022,762**	1,255,093
Gain on modification of Debenture	13	**(383,423)**	—
Warrants issued relating to modification of Debenture	16	**247,639**	—
Foreign exchange loss		**655,542**	134,111
Fair value (gain) on derivatives	14	**(275,349)**	(125,881)
Net loss for the year		**(3,855,847)**	(14,520,740)
Loss per share, basic		**(0.07)**	(0.26)
Loss per share, diluted		**(0.07)**	(0.26)
Weighted average number of shares outstanding, basic		**56,239,058**	54,917,756
Weighted average number of shares outstanding, diluted		**56,672,391**	54,917,756

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	Share-Based Reserves	Warrant Reserve	Reserves	Deficit	Total Shareholders' Equity
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**
Share issuance – prospectus offering		6,052,631	19,492,019	—	1,731,383	1,731,383	—	21,223,402
Share issuance – options exercised		535,565	1,363,638	(759,553)	—	(759,553)	—	604,085
Warrants issued with Debenture	16	—	—	—	610,375	610,375	—	610,375
Share-based compensation	16	—	—	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**
Balance, January 1, 2022		55,983,327	107,205,007	10,056,589	7,481,313	17,537,902	(85,843,725)	38,899,184
Share-based compensation	16	—	—	3,042,119	—	3,042,119	—	3,042,119
Vesting of RSUs		66,667	182,502	(182,502)	—	(182,502)	—	—
Exercise of DSUs		75,000	223,250	(223,250)	—	(223,250)	—	—
Warrants issued with Debenture	16	—	—	—	247,639	247,639	—	247,639
Net loss for the year		—	—	—	—	—	(3,855,847)	(3,855,847)
Balance, December 31, 2022		**56,124,994**	**107,610,759**	**12,692,956**	**7,728,952**	**20,421,908**	**(89,699,572)**	**38,333,095**

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, 2022	December 31, 2021
OPERATING ACTIVITIES			
Net loss from operations		**(3,855,847)**	(14,520,740)
Adjustments to reconcile net loss to cash used in operating activities			
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	**(1,595,830)**	798,047
Depreciation and amortization	9,10	**3,050,085**	2,396,498
Share-based compensation	16	**3,042,119**	2,140,182
Interest on loans	13	**1,022,762**	1,255,093
Foreign exchange loss		**616,079**	150,939
Fair value gain on derivatives	14	**(275,349)**	(125,881)
Gain on modification of Debenture	13	**(383,423)**	—
Cost associated with warrants issued relating to Debenture	16	**247,639**	—
Changes in non-cash working capital items	20	**83,773**	(2,536,481)
Cash from / (used) in operating activities		**1,952,008**	(10,442,343)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	**(4,100,864)**	(5,497,322)
Purchase of intangible asset	10	**(350,000)**	—
Cash used in investing activities		**(4,450,864)**	(5,497,322)
FINANCING ACTIVITIES			
Net proceeds from equity financing	15	**—**	21,223,402
Repayment of loans and borrowings	13	**—**	(13,855,010)
Net proceeds from loans and borrowings	13	**—**	9,834,185
Interest paid	13,20	**(667,448)**	(2,331,176)
Proceeds from stock options exercised	16	**—**	604,085
Repayment of lease liabilities		**(171,114)**	(170,866)
Prepaid financing costs		**—**	—
Cash (used) provided by financing activities		**(838,562)**	15,304,620
Effect of exchange rate changes on cash		**48,092**	82,029
Net decrease in cash and cash equivalents during the year		**(3,289,326)**	(553,016)
Cash and cash equivalents, beginning of year		**11,583,443**	12,136,459
Cash and cash equivalents, end of year		**8,294,117**	11,583,443

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 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

a. Compliance with IFRS
The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

b. Historical cost convention
The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities and cannabis plants which are measured at fair value.

c. 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.

- IAS 12 – Income Taxes. Deferred taxes related to assets and liabilities arising from a single transaction. Amended to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Effective for years beginning on/after January 1, 2023. The Company is in the process of assessing the impact of the amendment on the financial statements.

- IAS 1 – Presentation of Financial Statements. Narrow scope amendments to improve accounting policy disclosures. Effective for years beginning on/after January 1, 2023. The Company is in the process of assessing the impact of the amendment on the financial statements.

- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. Narrow scope amendments to help distinguish changes in accounting estimates from changes in accounting policies. Effective for years beginning on/after January 1, 2023. The Company is in the process of assessing the impact of the amendment on the financial statements.

These consolidated financial statements were approved for issuance by the Board of Directors on March 31, 2023.

Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity where the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (“$”), which is the Company’s functional currency.

b. 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.

c. 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 average 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.

d. 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.

e. 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 unless they exceed net realizable value, at which point they are expensed. 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 comparable 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.

f. 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.

g. 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 Wildflower™ brand, acquired during the year, was measured at cost at the time of acquisition. Both intangible assets have an indefinite life. The Company expects to renew the license at each expiry date indefinitely and expects the Wildflower™ brand to generate economic benefit in perpetuity. Both assets are tested for impairment on an annual basis or when there is an indicator of impairment.

h. 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.

i. 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.

j. 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.

k. 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.

l. 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.

m. 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	Fair value through profit or loss
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.

n. 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.

o. 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.

p. 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.

q. 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.

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 comparable selling prices and expected average yields to bring harvested cannabis to bulk inventory. Refer to Note 8 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, determined using historical 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 16.

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.

Expressed in Canadian dollars

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.

5. ACCOUNTS RECEIVABLE

	December 31, 2022 **$**	December 31, 2021 $
Trade receivables	**4,768,221**	4,138,791
Sales taxes recoverable	**13,107**	16,917
Total accounts receivable	**4,781,328**	4,155,708

Trade receivables arise from sales of cannabis to distributors and retailers in Canada. As at December 31, 2022, 97% of trade receivables were with provincial government cannabis distributors (December 31, 2021: 90%). Trade receivables are net of a $524,992 provision for returns (December 31, 2021: $499,344).

For the year ended December 31, 2022, the Company had four customers (December 31, 2021: four customers) that individually represented more than 10% and together constituted 97% (December 31, 2021: 94%), of the Company's net revenue. Direct sales to provincial government cannabis distributors accounted for 99% of revenue (December 31, 2021: 96%).

As at December 31, 2022, the estimated credit losses provision was $nil (December 31, 2021: $nil).

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2022 **$**	December 31, 2021 $
Prepaid expenses	**530,314**	438,983
Deposits	**625,922**	158,854
Prepaid excise tax expense	**303,526**	—
Other	**94,604**	96,455
Total prepaid expenses and deposits	**1,554,366**	694,292

As at December 31, 2022, $84,160 of the deposits balance was related to property, plant and equipment (December 31, 2021: $26,238).

7. INVENTORIES

Inventory as at December 31, 2022 and December 31, 2021 consisted of consumable inventory used in the propagation and transformation of the Company's cannabis plants, work-in-process ("WIP") inventory and finished goods.

	December 31, 2022 **$**	December 31, 2021 $
Consumable inventory	**2,232,228**	2,029,498
WIP inventory	**7,051,759**	5,546,737
Finished goods	**1,225,065**	864,633
Total inventories	**10,509,052**	8,440,868

Expressed in Canadian dollars

At December 31, 2022, WIP inventory and finished goods include $5,550,158 of non-cash fair value of cannabis plants transferred upon harvest (December 31, 2021: $3,932,748).

At December 31, 2022, $770,565 of consumable inventory is expected to be utilized more than twelve months after the reporting period (December 31, 2021: $1,090,137).

8. CANNABIS PLANTS

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

	$
Balance, December 31, 2021	**2,173,833**
Change in fair value of cannabis plants	16,302,269
Transferred to WIP inventory upon harvest	(16,321,671)
Balance, December 31, 2022	**2,154,431**

The fair value of cannabis plants was determined using a valuation model that estimates the expected average 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 58 grams per plant (December 31, 2021: 87 grams per plant); and
- comparable selling price of wholesale dried cannabis flower ranging from $1.05 to $2.12 per gram (December 31, 2021: $0.86 to $2.35 per gram).

The comparable 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 average 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, 2022, the Company determined the weighted average fair value less costs to sell was approximately $1.74 per dried gram (December 31, 2021: $1.76 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 comparable selling price per gram of 10% would result in a decrease in the value of cannabis plants of $274,479. A decrease in the expected average yield per plant of 10% would result in a decrease in the value of cannabis plants of $215,443.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at December 31, 2022, the cannabis plants were estimated to be, on average, 37% complete (December 31, 2021: 40% complete).

Expressed in Canadian dollars

The fair value adjustment to cannabis plants, inventory sold, and other charges for the years ended December 31, 2022 and December 31, 2021, is comprised of the following:

	For the year ended	
	December 31, 2022	December 31, 2021
Unrealized gain on changes in fair value of cannabis plants	**16,302,269**	10,176,769
Realized fair value of inventory sold	**(13,389,829)**	(7,625,311)
Adjustment to net realizable value of inventory on hand at period end	**(1,316,610)**	(3,349,505)
	1,595,830	(798,047)

9. PROPERTY, PLANT AND EQUIPMENT

Cost	**Buildings and leasehold improvements $**	**Equipment and vehicles $**	**Land $**	**Construction in progress $**	**Total $**
At December 31, 2021	14,766,194	13,013,356	2,040,722	342,781	30,163,053
Additions	2,568	358,686	—	3,421,409	3,782,663
Commissioned during the period	2,639,926	400,271		(3,040,197)	—
At December 31, 2022	**17,408,688**	**13,772,313**	**2,040,722**	**723,993**	**33,945,716**
Accumulated depreciation					
At December 31, 2021	1,628,447	3,440,304	—	—	5,068,751
Depreciation	764,151	2,157,050	—	—	2,921,201
At December 31, 2022	**2,392,598**	**5,597,354**	**—**	**—**	**7,989,952**
Net book value					
At December 31, 2022	**15,016,090**	**8,174,959**	**2,040,722**	**723,993**	**25,955,764**

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**

For the year ended December 31, 2022, depreciation of $1,957,989 was included in production costs (December 31, 2021: $1,613,653) and $400,857 was capitalized to inventory (December 31, 2021: $404,069).

During the year ended December 31, 2022, the total amount of depreciation recognized in cost of sales was $375,012 (December 31, 2021: $256,993).

Expressed in Canadian dollars

10. INTANGIBLE ASSETS

Cost	Licenses $	Patents, trademarks and other rights $	Total $
At December 31, 2021	1,881,749	—	1,881,749
Additions	—	500,000	500,000
At December 31, 2022	**1,881,749**	**500,000**	**2,381,749**
Carrying amount			
At December 31, 2022	**1,881,749**	**500,000**	**2,381,749**

Cost	Licenses $	Patents, trademarks and other rights $	Total $
At December 31, 2020	1,881,749	—	1,881,749
Additions	—	—	—
At December 31, 2021	**1,881,749**	—	**1,881,749**
Carrying amount			
At December 31, 2021	**1,881,749**	—	**1,881,749**

The intangible assets are the Health Canada license and the Wildflower™ brand. The Health Canada license was acquired in 2017 when RHC acquired all the outstanding common shares of Vintages Organic Cannabis Company Inc. for $1,881,749. The Wildflower™ brand was acquired on October 5, 2022, for $500,000 of which $350,000 was paid in 2022 with the remaining balance due in 2023. The annual impairment tests were performed as at December 31, 2022 and it was determined that no impairment was required for either intangible assets.

11. LEASES

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Cost	Office leases $	Equipment and vehicles $	Total $
At December 31, 2021	358,914	97,396	456,310
Additions	—	—	—
At December 31, 2022	**358,914**	**97,396**	**456,310**
Accumulated depreciation			
At December 31, 2021	199,397	48,698	248,095
Depreciation	119,638	13,914	133,552
At December 31, 2022	**319,035**	**62,612**	**381,647**
Net book value			
At December 31, 2022	**39,879**	**34,784**	**74,663**

Expressed in Canadian dollars

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**

a. Lease payments recognized in profit / loss from operations

The Company leases trailers for office space and natural gas generators for supplemental power on a short-term basis. The lease costs for the year ended December 31, 2022, of $1,577,262 (December 31, 2021: $2,328,791) were expensed on a straight-line basis over the lease term.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022 $	December 31, 2021 $
Trade payables	**681,248**	1,572,864
Accrued liabilities	**5,262,779**	2,740,851
Excise taxes payable	**1,258,298**	1,479,805
Total accounts payable and accrued liabilities	**7,202,325**	5,793,520

13. LOANS AND BORROWINGS

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

	December 31, 2022 $	December 31, 2021 $
Opening balance	**9,604,612**	13,641,223
Principal repayments	**—**	(13,855,010)
Additional loans and borrowings, net	**—**	9,223,810
Interest on loans	**1,022,762**	1,255,093
Interest payments	**(687,310)**	(885,727)
Foreign exchange gain	**665,852**	225,223
Other changes:		
Modification gain on loans and borrowings	**(383,423)**	—
Capitalized borrowing costs on modification	**(62,977)**	—
Ending balance	**10,159,516**	9,604,612
Less: current portion	**758,464**	659,256
Non-current loans and borrowings	**9,401,052**	8,945,356

On June 29, 2021, the Company issued a $9,907,200 (US$8,000,000) principal amount debenture (the “Debenture”). The Debenture is collateralized by the Company’s Delta Facility, originally maturing on June 29, 2023, bearing interest at 6.5% per annum (compounded and paid semi-annually). In connection with this, 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.

Expressed in Canadian dollars

On initial recognition, the Debenture was accounted for as 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.

On June 15, 2022, the Company extended the maturity date of the Debenture by approximately 18 months, from June 29, 2023 to December 31, 2024. The interest rate of the Debenture will increase from 6.5% to 7.5% effective July 1, 2023. The Company adjusted the carrying amount of the Debenture at the date of modification. In connection with the extension of the Debenture, the Company paid a cash fee of US$40,000 and issued 882,000 warrants. Each newly issued warrant is exercisable for one common share with an exercise price of $1.34 per common share and expiry date of December 31, 2025. The warrants issued as part of the extension of the Debenture were valued at $247,639 (Note 13). Transaction costs incurred with the modification were $65,941.

Total interest on loans for the year ended December 31, 2022, was $1,002,310 (December 31, 2021: $1,255,093). 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.

14. 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 Debenture.

In June 2022, as a result of the amendment and extension to the Debenture (Note 13), the Company amended certain existing and placed new foreign exchange swap contracts to match the revised payment amounts and timings of the Debenture. The Company has a final swap for the original interest payment schedule to settle on June 27, 2023. The remaining two interest payments have been covered by forward instruments to settle on December 29, 2023, and June 28, 2024, at rates that range from 1.2860 to 1.2885 CAD/USD. The principal repayment of US$8,000,000 is covered by a swap to settle in June 2024. At the time of amendment, the Company was unable to extend the swap up to the maturity date of the Debenture, being December 31, 2024, and is evaluating the option to extend.

The fair value of the Derivatives was 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, 2021	**125,881**
Change in fair value of the Derivatives	275,349
Balance, December 31, 2022	**401,230**

Expressed in Canadian dollars

15. 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, 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**
Vesting of RSUs	66,667	182,502
Exercise of DSUs	75,000	223,250
December 31, 2022	**56,124,994**	**107,610,759**

16. 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, 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**
Granted	919,600	$0.86
Forfeited	(125,568)	$0.96
Expired	(956,833)	$2.82
Outstanding, December 31, 2022	**3,364,282**	**$2.28**

The following table provides information on stock options outstanding and exercisable as at December 31, 2022:

Expressed in Canadian dollars

		Options outstanding		Options exercisable	
Expiry Date	**Exercise Price**	**Number of options**	**Weighted average remaining contractual life (years)**	**Number of options**	**Weighted average remaining contractual life (years)**
January 21, 2023	US$2.00	30,000	0.06	30,000	0.06
July 31, 2023	$3.25	1,387,083	0.58	1,387,083	0.58
September 24, 2023	$8.15	350,000	0.73	350,000	0.73
May 28, 2024	$3.25	20,000	1.41	20,000	1.41
July 12, 2024	$3.25	83,333	1.53	83,333	1.53
September 20, 2024	$3.25	3,333	1.72	3,333	1.72
December 31, 2025	$0.85	646,000	3.00	192,002	3.00
July 13, 2027	$0.86	699,533	4.53	699,533	4.53
November 30, 2027	$0.85	145,000	4.92	12,500	4.92
		3,364,282	**2.09**	**2,777,784**	**1.81**

Option Amendments

On May 25, 2022, the Company amended the terms of 778,500 stock options (the "Amended Options") for employees of the Company, pursuant to the Company's Equity Plans. The Company amended the exercise price of the Amended Options to $0.85. The total incremental fair value of the options at the date of the modification was determined to be $209,576. The incremental fair value will be recognized as an expense over the period from the modification date to the end of the vesting period.

The fair value of the modified options was determined using the Black Scholes option pricing model using the following estimates, judgments, and assumptions:

	Pre-modification	**Post-modification**
Expected stock price volatility	63.4% – 129.1%	64.5% – 67.5%
Expected life of options	0.2 – 4.5 years	3.6 – 4.5 years
Risk free interest rate	2.48% – 2.58%	2.58%
Expected dividend yield	0%	0%
Exercise price	$2.60	$0.85
Fair value per option at date of modification	$0.01 – $0.18	$0.35 – $0.37

Option Grants

On May 25, 2022, the Company granted an aggregate of 40,000 stock options (the "Options") to employees of the Company, pursuant to the Equity Plan. The options are exercisable at $0.85 per share for a period of three years from the date of grant. The options vest over two years.

On July 13, 2022, the Company granted an aggregate of 734,600 stock options to directors and officers of the Company pursuant to the Equity Plan. The options are exercisable at $0.86 per share for a period of five years. The Options have been issued in lieu of cash compensation to directors and officers of Rubicon where their cash compensation has been partially or fully reduced in order to reduce cash spend in Rubicon in fiscal 2022. The Options vested throughout 2022.

On November 30, 2022, the Company granted an aggregate of 145,000 stock options to certain employees and a consultant at the exercise price of $0.85 per share for a period of five years. The options vest over one and three years.

Expressed in Canadian dollars

The fair value of stock options is determined on the grant date. In order to compute this fair value, the Company uses the Black-Scholes option pricing model using the following estimates, judgements, and assumptions to determine the fair value of the stock options granted for the year ended December 31, 2022:

Expected stock price volatility	67.5% – 70.5%
Expected life of options	4 – 5 years
Risk free interest rate	2.54% – 3.18%
Expected dividend yield	0%
Exercise price	$0.85 – $0.86
Fair value per option granted	$0.31 – $0.50

During the year ended December 31, 2022, the Company recognized $593,939 in share-based compensation expense pertaining to options (December 31, 2021: $365,912).

b. Warrants

The Company's outstanding warrants consisted of the following:

			Number of Warrants	
Issue Date	**Expiry Date**	**Exercise Price**	**December 31, 2022**	**December 31, 2021**
April 25, 2019	April 25, 2022	$4.50	—	671,000
May 28, 2019	May 28, 2022	$4.50	—	1,000,000
July 12, 2019	July 12, 2022	$4.50	—	100,002
February 26, 2021	February 26, 2024	$5.30	3,026,315	3,026,315
June 29, 2021	June 29, 2024	$4.00	907,000	907,000
June 15, 2022	December 31, 2025	$1.34	882,000	—
			4,815,315	**5,704,317**

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

On June 15, 2022, as part of the extension and modification of the Debenture, the Company issued 882,000 warrants. Each newly issued warrant is exercisable for one common share with an exercise price of $1.34 per common share and expiry date of December 31, 2025. The warrants were valued at $247,639 and were expensed immediately.

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	67%
Expected life of warrants	3.5 years
Risk free interest rate	3.18%
Expected dividend yield	0%
Exercise price	$1.34
Fair value per warrant	$0.28

Expressed in Canadian dollars

c. Restricted Share Units ("RSUs")

On November 30, 2022, the Company granted an aggregate of 60,000 RSUs that settle in common shares to an executive employee of the Company pursuant to the Company's Equity Plan. The 60,000 RSUs vest in tranches based on 12-month EBITDA targets. The fair value of the RSUs granted was $39,000.

During the year ended December 31, 2022, the Company recognized $2,306,430 in share-based compensation pertaining to RSUs (December 31, 2021: $1,579,270). As at December 31, 2022 there were 2,733,333 RSUs outstanding (December 31, 2021: 2,740,000).

d. Deferred Stock Units ("DSUs")

On November 30, 2022, the Company granted an aggregate of 150,000 DSUs pursuant to the Equity Plan to independent directors of the Company as compensation for their services. 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 at the date of the grant. The fair value of the DSUs granted was $97,500 and was expensed as share-based compensation.

During the year ended December 31, 2022, the Company recorded $141,750 in share-based compensation pertaining to DSUs (December 31, 2021: $195,000). As at December 31, 2022 there were 300,000 DSUs outstanding (December 31, 2021: 225,000).

17. RELATED PARTY TRANSACTIONS

a. Related party transactions

Accounts payable and accrued liabilities at December 31, 2022, included $13,041 (December 31, 2021: $57,357) owed to executives and directors of the Company for expenses paid on behalf of the Company.

b. Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Key management compensation for the year ended December 31, 2022, and December 31, 2021, was comprised of:

	December 31, 2022 $	December 31, 2021 $
Salaries and accrued salaries	**805,900**	1,375,583
Bonuses in accrued liabilities	**429,687**	—
Termination benefits	**450,000**	—
Share based compensation	**2,599,324**	1,821,286
Total compensation of key management personnel	**4,284,911**	3,196,869

Expressed in Canadian dollars

18. CURRENT AND DEFERRED INCOME TAX

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 provincial (British Columbia) statutory corporate income tax rate as follows:

	December 31, 2022	December 31, 2021
	$	$
Net loss from continuing operations before tax	**3,855,847**	14,520,740
Current statutory income tax rate	**27%**	27%
Expected income tax recovery based on statutory rate	**1,041,079**	3,920,600
Change in unrecognized deferred tax assets	**(162,509)**	(3,340,761)
Tax effect of non-deductible items	**(878,570)**	(599,599)
Other	**—**	19,760
Total income tax recovery/(expense)	**—**	**—**

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of asset and liabilities for financial reporting purposes and their tax values. The following is a reconciliation of the deferred tax assets and liabilities recognized by the Company:

	December 31, 2022	December 31, 2021
Deferred tax assets	**$**	$
Non-capital loss carry forwards	**2,637,334**	1,646,162
Other	**830,729**	684,928
Total deferred tax assets	**3,468,063**	2,331,090
Deferred tax liabilities		
Inventory and biological assets	**(2,080,239)**	(1,525,657)
Property, plant and equipment	**(796,934)**	(604,340)
Other taxable temporary differences	**(590,890)**	(201,093)
Total deferred tax liabilities	**(3,468,063)**	(2,331,090)
Net deferred tax asset/(liability)	**—**	—

The following are the deferred tax assets that have not been recognized by the Company:

	December 31, 2022	December 31, 2021
	$	$
Non-capital loss carry forwards	**8,595,402**	8,403,102
Other	**1,041,140**	1,010,735
Total deferred tax assets	**9,636,542**	9,413,837

The tax benefit in connection with the Company’s non-capital losses that may be available to reduce income tax in a future taxation period amounts to $11,232,735 (December 31, 2021: $10,049,264). The Company’s non-capital loss carry forwards expire at various times between 2035 and 2042.

Expressed in Canadian dollars

19. COMMITMENTS

As at December 31, 2022, the Company had the following commitments:

	Less than one year $	One to three years $	Over three years $	Total $
Lease liabilities	73,327	—	—	73,327
Trailer Leases	69,953	—	—	69,953
Debt	714,440	11,065,100	—	11,779,540
Total commitments	**857,720**	**11,065,100**	**—**	**11,922,820**

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	December 31, 2022 $	December 31, 2021 $
Accounts receivable	**(625,620)**	(1,586,471)
Prepaids and deposits	**(802,152)**	519,495
Security deposits	**483,000**	17,486
Inventory	**(446,106)**	(1,133,109)
Accounts payable and accrued liabilities	**1,605,610**	73,814
Deferred revenue	**—**	(465,497)
Interest payable	**352,765**	332,904
Intangible asset	**(150,000)**	—
Interest on lease liabilities	**19,041**	37,801
Current portion of loans and borrowings	**(352,765)**	(332,904)
Change in non-cash working capital items	**83,773**	(2,536,481)

As at December 31, 2022, accounts payable and accrued liabilities include $263,372 related to capital asset additions (December 31, 2021: $523,651).

Cash and cash equivalents consist of the following:

	December 31, 2022 $	December 31, 2021 $
Cash	**4,812,872**	2,634,610
Cash equivalents	**3,481,245**	8,948,833
Total cash and cash equivalents	**8,294,117**	11,583,443

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

21. 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.

22. 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.

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 and forward 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, 2022, the Company was exposed to currency risk through the following assets and liabilities denominated in US$:

		December 31, 2022		December 31, 2021
Cash		**530,618**		528,510
Accounts payable and accrued liabilities		**(162,016)**		(176,546)
Interest payable		**(260,000)**		(260,000)
	US$	**108,602**	US$	91,964

A 10% change of the US$ against the CAD$ would have increased net loss by $14,709 (December 31, 2021: $11,659).

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, 2022.

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.

23. SUBSEQUENT EVENTS

On January 6, 2023, the Company granted an aggregate of 1,055,000 stock options to certain employees of the Company pursuant to the Equity Plan. The options are exercisable at $0.90 per share, for a period of 5 years. The options vest over 3 years.