



# Rubicon Organics Inc.

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

For the three and nine months ended September 30, 2023

*Expressed in Canadian dollars*



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The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Professional Chartered Accountants for a review of interim financial statements by an entity's auditor.

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



	Notes	September 30, 2023	December 31, 2022
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	18	9,397,297	8,294,117
Accounts receivable	5	3,639,712	4,781,328
Prepaid expenses, deposits, & other	6	1,996,944	1,554,366
Inventories	7	8,949,033	10,509,052
Cannabis plants	8	1,510,157	2,154,431
Derivatives	14	709,798	401,230
		<b>26,202,941</b>	<b>27,694,524</b>
<b>Non-Current</b>			
Property, plant and equipment	9	25,620,799	25,955,764
Right-of-use assets	11	173,188	74,663
Intangible assets	10	2,381,749	2,381,749
<b>Total assets</b>		<b>54,378,677</b>	<b>56,106,700</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12	6,668,717	7,202,325
Interest payable		—	352,765
Current portion of lease liabilities	11	50,881	58,999
Current portion of loans and borrowings	13	811,200	758,464
		<b>7,530,798</b>	<b>8,372,553</b>
<b>Non-Current</b>			
Non-current portion of lease liabilities	11	103,315	—
Non-current portion of loans and borrowings	13	9,799,953	9,401,052
<b>Total liabilities</b>		<b>17,434,066</b>	<b>17,773,605</b>
<b>Shareholders' equity</b>			
Share capital	15	107,663,260	107,610,759
Reserves	16	21,313,675	20,421,908
Deficit		(92,032,324)	(89,699,572)
<b>Total shareholders' equity</b>		<b>36,944,611</b>	<b>38,333,095</b>
<b>Total liabilities and shareholders' equity</b>		<b>54,378,677</b>	<b>56,106,700</b>

Approved on behalf of the Board:

(Signed) "David Donnan"

Director

(Signed) "Margaret Brodie"

Director, Interim CEO and  
CFO

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

**RUBICON ORGANICS INC.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
(UNAUDITED)**

*Expressed in Canadian Dollars, except for share information*

	Notes	For the three months ended		For the nine months ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
<b>Revenue</b>					
Product sales		12,987,395	13,647,819	39,485,294	31,899,435
Excise taxes		(2,945,649)	(3,104,680)	(9,361,815)	(7,373,287)
<b>Net revenue</b>		<b>10,041,746</b>	10,543,139	<b>30,123,479</b>	24,526,148
<b>Cost of sales</b>					
Production costs	9	2,797,037	2,850,646	8,067,975	7,924,820
Inventory expensed to cost of sales	9	3,806,971	3,377,239	10,657,979	8,274,785
Inventory written off or provided for		194,798	201,478	525,401	624,765
<b>Gross profit (loss) before fair value adjustments</b>		<b>3,242,940</b>	4,113,776	<b>10,872,124</b>	7,701,778
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	(1,309,266)	1,889,334	(1,776,209)	3,975,755
<b>Gross profit (loss)</b>		<b>1,933,674</b>	6,003,110	<b>9,095,915</b>	11,677,533
Other Income		—	—	—	—
<b>Operating expenses</b>					
Consulting, salaries and wages		1,645,840	1,849,406	5,665,590	5,906,260
General and administrative		666,810	852,604	2,471,448	2,263,822
Sales and marketing		529,901	242,098	1,759,100	907,979
Share-based compensation	16	529,742	773,769	944,268	2,228,243
Depreciation and amortization	9	69,099	83,255	228,120	242,423
		<b>3,441,392</b>	3,801,132	<b>11,068,526</b>	11,548,727
<b>Loss from operations</b>		<b>(1,507,718)</b>	2,201,978	<b>(1,972,611)</b>	128,806
Interest on loans	13	271,437	275,456	815,955	756,187
Gain on modification of Debenture	13	—	—	—	(238,068)
Warrants issued relating to modification of Debenture	16	—	—	—	247,639
Foreign exchange gain/(loss)		268,954	559,993	(147,246)	748,688
Fair value (gain)/loss on derivatives	14	(404,241)	(659,003)	(308,568)	(687,405)
<b>Net loss for the period</b>		<b>(1,643,867)</b>	2,025,532	<b>(2,332,752)</b>	(698,235)
<b>Loss per share, basic</b>		<b>(0.03)</b>	0.04	<b>(0.04)</b>	(0.01)
<b>Loss per share, diluted</b>		<b>(0.03)</b>	0.04	<b>(0.04)</b>	(0.01)
<b>Weighted average number of shares outstanding, basic</b>		<b>56,441,661</b>	56,249,994	<b>56,435,190</b>	56,242,882
<b>Weighted average number of shares outstanding, diluted</b>		<b>56,858,327</b>	56,733,327	<b>56,851,856</b>	56,242,882

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

**RUBICON ORGANICS INC.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**
*Expressed in Canadian Dollars, except for share information*


	Notes	Number of Shares	Share Capital	Share- Based Reserves	Warrant Reserve	Reserves	Deficit	Total Shareholders' Equity
<b>Balance, January 1, 2022</b>		<b>55,983,327</b>	<b>107,205,007</b>	<b>10,056,589</b>	<b>7,481,313</b>	<b>17,537,902</b>	<b>(85,843,725)</b>	<b>38,899,184</b>
Share-based compensation	16	—	—	2,228,243	—	2,228,243	—	2,228,243
Vesting of RSUs		16,667	52,502	(52,502)	—	(52,502)	—	—
Warrants issued with Debenture	16	—	—	—	247,639	247,639	—	247,639
Net loss for the period		—	—	—	—	—	(698,235)	(698,235)
<b>Balance, September 30, 2022</b>		<b>55,999,994</b>	<b>107,257,509</b>	<b>12,232,330</b>	<b>7,728,952</b>	<b>19,961,282</b>	<b>(86,541,960)</b>	<b>40,676,831</b>
<b>Balance, January 1, 2023</b>		<b>56,124,994</b>	<b>107,610,759</b>	<b>12,692,956</b>	<b>7,728,952</b>	<b>20,421,908</b>	<b>(89,699,572)</b>	<b>38,333,095</b>
Share-based compensation	16	—	—	944,268	—	944,268	—	944,268
Vesting of RSUs		16,667	52,501	(52,501)	—	(52,501)	—	—
Net loss for the period		—	—	—	—	—	(2,332,752)	(2,332,752)
<b>Balance, September 30, 2023</b>		<b>56,141,661</b>	<b>107,663,260</b>	<b>13,584,723</b>	<b>7,728,952</b>	<b>21,313,675</b>	<b>(92,032,324)</b>	<b>36,944,611</b>

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

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



		<b>For the nine months ended</b>	
	Notes	<b>September 30, 2023</b>	September 30, 2022
<b>OPERATING ACTIVITIES</b>			
Net loss from continuing operations		<b>(2,332,752)</b>	(698,235)
Adjustments to reconcile net loss to cash used in operating activities			
Fair value adjustments to cannabis plants, inventory sold, and other charges	8	<b>1,776,209</b>	(3,975,755)
Depreciation and amortization	9	<b>2,330,643</b>	2,260,055
Share-based compensation	16	<b>944,268</b>	2,228,243
Interest on loans	13	<b>817,120</b>	756,187
Foreign exchange loss		<b>(18,174)</b>	728,316
Fair value gain on derivatives	14	<b>(308,568)</b>	(687,405)
Gain on modification of Debenture	13	—	(238,068)
Cost associated with warrants issued relating to Debenture		—	247,639
Changes in non-cash working capital items	18	<b>742,871</b>	(1,508,288)
<b>Cash used in operating activities</b>		<b>3,951,617</b>	(887,311)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	9	<b>(2,058,779)</b>	(3,126,963)
<b>Cash used in investing activities</b>		<b>(2,058,779)</b>	(3,126,963)
<b>FINANCING ACTIVITIES</b>			
Interest paid		<b>(697,005)</b>	(667,732)
Repayment of lease liabilities		<b>(89,608)</b>	(128,101)
<b>Cash (used) provided by financing activities</b>		<b>(786,613)</b>	(795,833)
Effect of exchange rate changes on cash		<b>(3,045)</b>	64,503
<b>Net decrease in cash and cash equivalents during the</b>		<b>1,103,180</b>	(4,745,604)
Cash and cash equivalents, beginning of period		<b>8,294,117</b>	11,583,443
<b>Cash and cash equivalents, end of period</b>		<b>9,397,297</b>	6,837,839

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

# RUBICON ORGANICS INC.

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

Expressed in Canadian dollars



### 1. NATURE OF OPERATIONS

Rubicon Organics Inc. (the “Company”, “Rubicon”, or “ROI”) is a British Columbia registered company incorporated on May 15, 2015.

The Company’s principal business is the production and sale of cannabis in Canada. The Company produces and processes organic cannabis at its wholly owned, federally licensed 125,000 square foot facility in Delta, British Columbia (the “Delta Facility”) which it sells under its wholly owned and other licensed brands.

The Company’s common shares trade on the TSX Venture Exchange (the “TSXV”) under the trading symbol “ROMJ” and on the OTCQX Best Market under the symbol “ROMJF”.

The address of the Company’s registered office and records is 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600 Vancouver, British Columbia V7X 1T2. The Company’s head office is unit 505, 744 West Hastings Street, Vancouver, British Columbia V6C 1A5.

### 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. Certain information and note disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Standards Interpretation Committee (“IFRIC”) have been omitted or condensed. As a result, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2022 (“Annual Financial Statements”).

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

These financial statements were authorized for issuance by the Board of Directors of the Company on November 14, 2023.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these condensed consolidated interim financial statements are the same as those disclosed in the Company’s Annual Financial Statements.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The critical estimates and judgements made in the preparation of these condensed consolidated interim financial statements are the same as those used in preparing the Company’s Annual Financial Statements.

### 5. ACCOUNTS RECEIVABLE

	September 30, 2023	December 31, 2022
	\$	\$
Trade receivables	3,627,980	4,768,221
Sales taxes recoverable	11,732	13,107
<b>Total accounts receivable</b>	<b>3,639,712</b>	<b>4,781,328</b>

Trade receivables arise from sales of cannabis to distributors and retailers in Canada. As at September 30, 2023, 99% of trade receivables were with provincial government cannabis distributors (December 31, 2022: 97%).

# RUBICON ORGANICS INC.

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

Expressed in Canadian dollars



Trade receivables are net of a \$1,082,428 provision for returns (December 31, 2022: \$524,992).

For the three and nine months ended September 30, 2023, the Company had three and four customers respectively, (September 30, 2022: four customers) that individually represented more than 10% and together constituted 89% and 98% (September 30, 2022: 98% and 97%), of the Company's net revenue. Direct sales to provincial government cannabis distributors accounted for the three and nine months ended September 30, 2023, was 99% of revenue (September 30, 2022: 99%).

### 6. PREPAID EXPENSES, DEPOSITS, & OTHER

	September 30, 2023	December 31, 2022
	\$	\$
Prepaid expenses	863,195	530,314
Deposits	1,010,455	625,922
Deferred excise tax expense	123,294	303,526
Other	—	94,604
<b>Total prepaid expenses and deposits</b>	<b>1,996,944</b>	<b>1,554,366</b>

As at September 30, 2023, \$44,836 of the deposits balance was related to property, plant and equipment (December 31, 2022: \$84,160).

### 7. INVENTORIES

Inventory as at September 30, 2023 and December 31, 2022 consisted of consumable inventory used in the propagation and transformation of the Company's cannabis plants, work-in-process ("WIP") inventory and finished goods.

	September 30, 2023	December 31, 2022
	\$	\$
Consumable inventory	2,171,711	2,232,228
WIP inventory	6,030,287	7,051,759
Finished goods	747,035	1,225,065
<b>Total inventories</b>	<b>8,949,033</b>	<b>10,509,052</b>

At September 30, 2023, WIP inventory and finished goods include \$4,418,248 of non-cash fair value of cannabis plants transferred upon harvest (December 31, 2022: \$5,550,158).

At September 30, 2023, \$883,358 of consumable inventory is expected to be utilized more than twelve months after the reporting period (December 31, 2022: \$770,565).

### 8. CANNABIS PLANTS

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

	\$
<b>Balance, December 31, 2022</b>	<b>2,154,431</b>
Change in fair value of cannabis plants	7,839,741
Transferred to WIP inventory upon harvest	(8,484,015)
<b>Balance, September 30, 2023</b>	<b>1,510,157</b>

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 54 grams per plant (December 31, 2022: 58 grams per plant); and
- comparable selling price of wholesale dried cannabis flower ranging from \$0.73 to \$1.33 per gram (December 31, 2022: \$1.05 to \$2.12 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 period ended September 30, 2023, the Company determined the weighted average fair value less costs to sell was approximately \$1.20 per dried gram (December 31, 2022: \$1.74 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 \$211,082. A decrease in the expected average yield per plant of 10% would result in a decrease in the value of cannabis plants of \$151,016.

The number of weeks in the growth cycle is twelve to fourteen weeks from propagation to harvest. As at September 30, 2023, the cannabis plants were estimated to be, on average, 37% complete (December 31, 2022: 37% complete).

The fair value adjustment to cannabis plants, inventory sold, and other charges for the three and nine months ended September 30, 2023 and September 30, 2022 is comprised of the following:

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30, 2023</b>	September 30, 2022	<b>September 30, 2023</b>	September 30, 2022
Unrealized gain on changes in fair value of cannabis plants	<b>1,856,280</b>	6,047,126	<b>7,839,741</b>	14,073,069
Realized fair value of inventory sold	<b>(2,943,443)</b>	(3,980,791)	<b>(9,109,297)</b>	(9,200,148)
Adjustment to net realizable value of inventory on hand at period end	<b>(222,103)</b>	(177,001)	<b>(506,653)</b>	(897,166)
	<b>(1,309,266)</b>	1,889,334	<b>(1,776,209)</b>	3,975,755

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

<b>Cost</b>	<b>Buildings and leasehold improvements</b>	<b>Equipment and vehicles</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
At December 31, 2022	17,408,688	13,772,313	2,040,722	723,993	33,945,716
Additions	10,450	379,774	—	1,529,644	1,919,868
Commissioned during the period	942,460	157,553	—	(1,100,013)	—
<b>At September 30, 2023</b>	<b>18,361,598</b>	<b>14,309,640</b>	<b>2,040,722</b>	<b>1,153,624</b>	<b>35,865,584</b>

**Accumulated depreciation**

At December 31, 2022	2,392,598	5,597,354	—	—	7,989,952
Depreciation	687,910	1,566,923	—	—	2,254,833
<b>At September 30, 2023</b>	<b>3,080,508</b>	<b>7,164,277</b>	<b>—</b>	<b>—</b>	<b>10,244,785</b>

**Net book value**

<b>At September 30, 2023</b>	<b>15,281,090</b>	<b>7,145,363</b>	<b>2,040,722</b>	<b>1,153,624</b>	<b>25,620,799</b>
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<b>Cost</b>	<b>Buildings and leasehold improvements</b>	<b>Equipment and vehicles</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
At December 31, 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 year	2,639,926	400,271	—	(3,040,197)	—
<b>At December 31, 2022</b>	<b>17,408,688</b>	<b>13,772,313</b>	<b>2,040,722</b>	<b>723,993</b>	<b>33,945,716</b>

**Accumulated depreciation**

At December 31, 2021	1,628,447	3,440,304	—	—	5,068,751
Depreciation	764,151	2,157,050	—	—	2,921,201
<b>At December 31, 2022</b>	<b>2,392,598</b>	<b>5,597,354</b>	<b>—</b>	<b>—</b>	<b>7,989,952</b>

**Net book value**

<b>At December 31, 2022</b>	<b>15,016,090</b>	<b>8,174,959</b>	<b>2,040,722</b>	<b>723,993</b>	<b>25,955,764</b>
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For the nine months ended September 30, 2023, depreciation of \$1,479,015 was included in production costs (September 30, 2022: \$1,481,967) and \$612,787 was capitalized to inventory (September 30, 2022: \$305,092).

During the three and nine months ended September 30, 2023, the total amount of depreciation recognized in cost of sales was \$738,599 and \$2,093,291, respectively (for the three and nine months ended September 30, 2022: \$102,062 and \$252,917, respectively).

**RUBICON ORGANICS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***Expressed in Canadian dollars***10. INTANGIBLE ASSETS**

<b>Cost</b>	<b>Licenses</b>	<b>Patents, trademarks and other rights</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
At December 31, 2022	1,881,749	500,000	2,381,749
Additions	—	—	—
<b>At September 30, 2023</b>	<b>1,881,749</b>	<b>500,000</b>	<b>2,381,749</b>
<b>Carrying amount</b>			
<b>At September 30, 2023</b>	<b>1,881,749</b>	<b>500,000</b>	<b>2,381,749</b>

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

The intangible assets are the Health Canada license and the Wildflower™ brand. The Health Canada license was acquired in 2017 when the Company 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. \$100,000 was paid on January 3, 2023 with the remaining balance of \$50,000 paid on April 3, 2023.

**11. LEASES**

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

**a. Right-of-use assets**

<b>Cost</b>	<b>Office leases</b>	<b>Equipment and vehicles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
At December 31, 2022	358,914	97,396	456,310
Additions	172,845	—	172,845
Disposals	(358,914)	—	(358,914)
<b>At September 30, 2023</b>	<b>172,845</b>	<b>97,396</b>	<b>270,241</b>
<b>Accumulated depreciation</b>			
At December 31, 2022	319,035	62,612	381,647
Depreciation	63,885	10,435	74,320
Disposals	(358,914)	—	(358,914)
<b>At September 30, 2023</b>	<b>24,006</b>	<b>73,047</b>	<b>97,053</b>
<b>Net book value</b>			
<b>At September 30, 2023</b>	<b>148,839</b>	<b>24,349</b>	<b>173,188</b>

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

Expressed in Canadian dollars



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

Office leases contain a right-of-use asset that was derecognized in the amount of \$358,914 on April 30, 2023, at the end of the lease term. Accumulated depreciation related to the right-of-use asset amounting to \$358,914 was also written off on that date. A new right-of-use asset was capitalized in the amount of \$172,845 on May 1, 2023 and has accumulated depreciation of \$24,006 as of September 30, 2023.

**b. Lease payments recognized in 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 three and nine months ended September 30, 2023, of \$94,266 and \$357,170, respectively (September 30, 2022: \$426,569 and \$1,285,965, respectively) were expensed on a straight-line basis over the lease term.

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2023	December 31, 2022
	\$	\$
Trade payables	829,898	681,248
Accrued liabilities	2,984,065	5,262,779
Excise taxes payable	2,854,754	1,258,298
<b>Total accounts payable and accrued liabilities</b>	<b>6,668,717</b>	<b>7,202,325</b>

**13. LOANS AND BORROWINGS**

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

	June 30, 2023	December 31, 2022
	\$	\$
Opening balance	10,159,516	9,604,612
Interest on loans	817,120	1,022,762
Interest payments	(344,240)	(687,310)
Foreign exchange (gain) loss	(21,243)	665,852
Modification gain on loans and borrowings	—	(383,423)
Capitalized borrowing costs on modification	—	(62,977)
<b>Ending balance</b>	<b>10,611,153</b>	<b>10,159,516</b>
Less: current portion	811,200	758,464
<b>Non-current loans and borrowings</b>	<b>9,799,953</b>	<b>9,401,052</b>

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).

# RUBICON ORGANICS INC.

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

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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.

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 increased 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 three and nine months ended September 30, 2023, was \$272,602 and \$817,120, respectively (September 30, 2022: \$275,456 and \$756,688, respectively). All interest payments due within twelve months have been translated to the Company's functional currency at the period end exchange rate and classified as current.

### 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 had a final swap for the original interest payment schedule to settle on June 27, 2023 (settled). 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:

	\$
<b>Balance, December 31, 2022</b>	401,230
Change in fair value of the Derivatives	308,568
<b>Balance, September 30, 2023</b>	<b>709,798</b>

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

<b>Common shares</b>	<b>#</b>	<b>\$</b>
<b>December 31, 2021</b>	<b>55,983,327</b>	<b>107,205,007</b>
Vesting of RSUs	66,667	182,502
Exercise of DSUs	75,000	223,250
<b>December 31, 2022</b>	<b>56,124,994</b>	<b>107,610,759</b>
Vesting of RSUs	16,667	56,501
<b>September 30, 2023</b>	<b>56,141,661</b>	<b>107,663,260</b>

**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:

	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>
<b>Outstanding, December 31, 2021</b>	<b>3,527,083</b>	<b>\$3.51</b>
Granted	919,600	\$0.86
Forfeited	(125,568)	\$0.96
Expired	(956,833)	\$2.82
<b>Outstanding, December 31, 2022</b>	<b>3,364,282</b>	<b>\$2.28</b>
Granted	1,055,000	\$0.90
Forfeited	(92,167)	\$0.90
Expired	(1,796,416)	\$4.13
<b>Outstanding, September 30, 2023</b>	<b>2,530,699</b>	<b>\$1.55</b>

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

The following table provides information on stock options outstanding and exercisable as at September 30, 2023:

Expiry Date	Exercise Price	Options outstanding		Options exercisable	
		Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
May 28, 2024	\$3.25	20,000	0.66	20,000	0.66
July 12, 2024	\$3.25	83,333	0.78	83,333	0.78
September 20, 2024	\$3.25	3,333	0.98	3,333	0.98
December 31, 2025	\$0.85	638,833	2.55	354,750	2.55
July 13, 2027	\$0.86	670,200	3.79	670,200	3.79
November 30, 2027	\$0.85	145,000	4.17	12,500	4.17
June 1, 2028	\$0.90	970,000	4.27	-	4.27
		<b>2,530,699</b>	<b>3.55</b>	<b>1,144,116</b>	<b>3.12</b>

**Option Grants**

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.

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 September 30, 2023:

Expected stock price volatility	71.3%
Expected life of options	5 years
Risk free interest rate	2.88%
Expected dividend yield	0%
Exercise price	\$0.90
Fair value per option granted	\$0.40

During the three and nine months ended September 30, 2023, the Company recognized an aggregate amount of \$93,992 and \$315,842, respectively, in share-based compensation expense pertaining to options (September 30, 2022: \$204,820 and \$464,021, respectively).

**b. Warrants**

The Company's outstanding warrants consisted of the following:

Issue Date	Expiry Date	Exercise Price	Number of Warrants	
			September 30, 2023	December 31, 2022
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	882,000
			<b>4,815,315</b>	<b>4,815,315</b>

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

# RUBICON ORGANICS INC.

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

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### c. Restricted Share Units (“RSUs”)

During the three and nine months ended September 30, 2023, the Company recognized an aggregate amount of \$435,750 and \$628,426, respectively, in share-based compensation pertaining to RSUs (September 30, 2022: \$568,949 and \$1,719,972, respectively). As at September 30, 2023 there were 2,106,666 RSUs outstanding (December 31, 2022: 2,733,333).

### d. Deferred Stock Units (“DSUs”)

During the three and nine months ended September 30, 2023, the Company recorded \$nil and \$ nil, respectively, in share-based compensation pertaining to DSUs (September 30, 2022: \$nil and \$44,250). As at September 30, 2023 there were 300,000 DSUs outstanding (September, 2022: 250,000).

## 17. RELATED PARTY TRANSACTIONS

### a. Related party transactions

Accounts payable and accrued liabilities at September 30, 2023, included \$48,311 (December 31, 2022: \$13,041) owed to executives and directors of the Company for expenses paid on behalf of the Company.

The Company has obtained a consulting agreement with its largest shareholder, a related party (the “Related Party”). In the three and nine months ended September 30, 2023, the Company incurred an expense of \$12,000 and \$36,000, respectively, for consulting services, and \$2,250 and \$6,223, respectively, in related expenses payable to the Related Party.

### b. Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company’s executive management team and Board of Directors. Key management compensation for the nine months ended September 30, 2023 was comprised of:

	September 30, 2023	September 30, 2022
	\$	\$
Salaries and accrued salaries	724,430	409,289
Bonuses in accrued liabilities	318,902	150,000
Termination benefits	—	450,000
Share based compensation	489,405	1,924,186
<b>Total compensation of key management personnel</b>	<b>1,532,737</b>	<b>2,933,475</b>

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	September 30, 2023	September 30, 2022
	\$	\$
Accounts receivable	1,141,616	(343,110)
Prepays and deposits	(481,902)	(1,397,419)
Security deposits	—	483,000
Inventory	426,592	(687,917)
Accounts payable and accrued liabilities	(355,393)	420,940
Interest on lease liabilities	11,958	16,218
<b>Change in non-cash working capital items</b>	<b>742,871</b>	<b>(1,508,288)</b>



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

As at September 30, 2023, accounts payable and accrued liabilities include \$85,136 related to capital asset additions (December 31, 2022: \$263,372).

Cash and cash equivalents consist of the following:

	<b>September 30, 2023</b>	December 31, 2022
	<b>\$</b>	<b>\$</b>
Cash	<b>5,778,716</b>	4,812,872
Cash equivalents	<b>3,618,581</b>	3,481,245
<b>Total cash and cash equivalents</b>	<b>9,397,297</b>	8,294,117

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