AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

Dated August 11, 2023

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Financial Position
Expressed in thousands of Canadian dollars
Unaudited

As at:	June 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	**$ 8,557**	$ 14,636
Restricted cash (Note 4)	**557**	557
Short-term investments	**145**	143
Accounts receivable (Note 5)	**16,004**	16,632
Biological assets (Note 6)	**6,000**	7,505
Inventory (Note 7)	**44,945**	46,953
Prepaid expenses	**2,247**	1,529
Deposits (Note 11)	**758**	1,047
Other receivables	**590**	901
	$ 79,803	$ 89,903
Non-current assets		
Property, plant and equipment, net (Note 8)	**$ 185,128**	$ 195,274
Intangible assets, net (Note 9)	**45,084**	45,466
Long-term investments (Note 10)	**1,131**	1,090
Long-term deposits (Note 11)	**3,744**	87
	$ 235,087	$ 241,917
Assets held for sale (Note 26)	**2,000**	-
Total assets	**$ 316,890**	$ 331,820
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 36,388**	$ 33,046
Interest payable	**237**	212
Lease liability (Note 13)	**4,137**	4,253
Loans payable (Note 15)	**54,703**	49,893
Promissory notes (Note 16)	**1,105**	4,781
Contingent consideration payable (Note 12)	**-**	500
	$ 96,570	$ 92,685
Non-current liabilities		
Interest payable	**$ 9,855**	$ 7,418
Lease liability (Note 13)	**13,621**	14,866
Convertible debentures (Note 14)	**114,538**	110,652
Loans payable (Note 15)	**1,127**	8,654
Promissory notes (Note 16)	**2,728**	495
Deferred tax liability	**11,363**	11,363
Other non-current liabilities (Note 17)	**4**	-
	$ 153,236	$ 153,448
Total liabilities	**$ 249,806**	$ 246,133
Equity		
Share capital (Note 17)	**$ 446,555**	$ 444,762
Reserves (Note 17)	**117,070**	114,947
Accumulated other comprehensive income/(loss)	**(30,059)**	(30,542)
Retained earnings/(deficit)	**(461,873)**	(438,761)
Total equity attributable to shareholders of the Company	**$ 71,693**	$ 90,406
Total equity attributable to non-controlling interests	**(4,609)**	(4,719)
Total equity	**$ 67,084**	$ 85,687
Total liabilities and equity	**$ 316,890**	$ 331,820

Going concern (Note 2); Commitments and contingencies (Note 21)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements were approved by the Board of Directors on August 11, 2023, and were signed on its behalf by:

(s) Genevieve Young
Genevieve Young

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Income/(Loss) and Comprehensive Income/(Loss)
Expressed in thousands of Canadian dollars, except share and per share amounts
Unaudited

For the periods ended:	Three months June 30, 2023	Three months June 30, 2022	Six months June 30, 2023	Six months June 30, 2022
Revenue				
Revenue from sales of cannabis products	**$ 34,514**	$ 40,088	**$ 72,058**	$ 73,292
Excise taxes	**(12,524)**	(12,753)	**(26,100)**	(23,331)
Total net revenue	**$ 21,990**	$ 27,335	**$ 45,958**	$ 49,961
Cost of sales				
Cost of finished cannabis inventory sold	**$ 16,035**	$ 20,574	**$ 31,060**	$ 38,096
Biological asset impairment (Note 6)	**-**	-	**-**	704
Inventory impairment (Note 7)	**1,459**	1,778	**2,132**	6,656
Gross profit/(loss) excluding fair value items	**$ 4,496**	$ 4,983	**$ 12,766**	$ 4,505
Unrealized fair value gain/(loss) on biological transformation (Note 6)	**$ 4,713**	$ 11,735	**$ 8,960**	$ 18,208
Realized fair value gain/(loss) on inventory	**(3,146)**	(6,898)	**(7,785)**	(9,223)
Gross profit/(loss)	**$ 6,063**	$ 9,820	**$ 13,941**	$ 13,490
Expenses				
Selling, general and administrative expenses (Note 22)	**$ 8,810**	$ 12,936	**$ 18,900**	$ 25,575
Equity-based compensation (Note 17)	**377**	2,916	**786**	3,119
Depreciation and amortization (Notes 8, 9)	**1,673**	3,900	**3,418**	8,500
Interest and accretion expense (Note 23)	**6,457**	5,336	**12,265**	10,416
Total expenses	**$ 17,317**	$ 25,088	**$ 35,369**	$ 47,610
Other income/(loss)				
Interest and other income	**$ (20)**	$ 84	**$ (6)**	$ 169
Impairment of assets (Notes 8, 9)	**(2,588)**	-	**(2,588)**	(23,673)
Gain/(loss) on settlement of assets and liabilities and other expenses (Note 14, 16)	**1,478**	(1,987)	**1,478**	(1,987)
Gain/(loss) on disposal of assets held for sale	**-**	2,150	**-**	2,150
Foreign exchange gain/(loss)	**(479)**	647	**(568)**	286
Total other income/(loss)	**$ (1,609)**	$ 894	**$ (1,684)**	$ (23,055)
Net income/(loss) before income tax	**$ (12,863)**	$ (14,374)	**$ (23,112)**	$ (57,175)
Income tax recovery/(expense)	**-**	85	**-**	3,040
Net income/(loss)	**$ (12,863)**	$ (14,289)	**$ (23,112)**	$ (54,135)
Other comprehensive income/(loss)				
Fair value gain/(loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 10)	**$ (72)**	$ (1,287)	**$ 41**	$ (2,175)
Currency translation adjustment - subsequently reclassified to profit or loss	**532**	(711)	**552**	(412)
Total comprehensive income/(loss)	**$ (12,403)**	$ (16,287)	**$ (22,519)**	$ (56,722)
Total comprehensive income/(loss) attributable to shareholders of the Company	**$ (12,509)**	$ (16,278)	**$ (22,629)**	$ (56,777)
Total comprehensive income/(loss) attributable to non-controlling interests	**$ 106**	(9)	**$ 110**	$ 55
Net income/(loss) per common share				
Net income/(loss) per common share - basic and diluted	**$ (0.01)**	$ (0.02)	**$ (0.02)**	$ (0.06)
Weighted average number of shares outstanding				
Basic and diluted	**1,002,014,308**	888,266,729	**978,146,905**	875,843,490

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Cash Flows

Expressed in thousands of Canadian dollars
Unaudited

For the periods ended:	Three months June 30,		Six months June 30,	
	2023	2022	**2023**	2022
Operating activities				
Net income/(loss) for the period	**$ (12,863)**	$ (14,289)	**$ (23,112)**	$ (54,135)
Items not affecting cash:				
Biological asset impairment (Note 6)	**-**	-	**-**	704
Inventory impairment (Note 7)	**1,459**	1,778	**2,132**	6,656
Realized fair value loss/(gain) on inventory	**3,146**	6,898	**7,785**	9,223
Unrealized fair value loss/(gain) on biological transformation (Note 6)	**(4,713)**	(11,735)	**(8,960)**	(18,208)
Depreciation and amortization (Notes 8, 9)	**2,584**	6,080	**5,449**	11,891
Equity-based compensation (Note 17)	**377**	2,916	**786**	3,119
Interest expense (Note 23)	**3,906**	3,713	**7,690**	7,358
Unrealized foreign exchange loss/(gain)	**425**	(640)	**480**	(484)
Income tax expense/(recovery)	**-**	(85)	**-**	(3,040)
Impairment of assets (Notes 8, 9)	**2,588**	-	**2,588**	23,673
Loss/(gain) on settlement of assets and liabilities and other expenses	**(1,478)**	1,987	**(1,478)**	1,987
Loss/(gain) on disposal of assets held for sale (Notes 8, 28)	**-**	(2,150)	**-**	(2,150)
Assets held for sale	**-**	115	**-**	(4)
Cash provided by/(used in) operating activities before net non-cash working capital adjustments	**$ (4,569)**	$ (5,412)	**$ (6,640)**	$ (13,410)
Net change in non-cash working capital (Note 24)	**(805)**	7,087	**4,496**	8,046
Net cash provided by/(used in) operating activities	**$ (5,374)**	$ 1,675	**$ (2,144)**	$ (5,364)
Investing activities				
Proceeds from sale of assets (Note 8)	**$ -**	$ 6,000	**$ -**	$ 6,000
Purchase of property, plant and equipment (Note 8)	**(490)**	(1,048)	**(996)**	(1,809)
Net cash provided by/(used in) investing activities	**$ (490)**	$ 4,952	**$ (996)**	$ 4,191
Financing activities				
Net proceeds from financings (Note 17)	**$ -**	$ 1,711	**$ 3,134**	$ 7,532
Repayment of convertible debentures (Note 14)	**-**	(2,500)	**(1,232)**	(2,500)
Repayment of loans payable (Note 15)	**(1,389)**	(1,601)	**(2,768)**	(3,091)
Proceeds from loans payable (Note 15)	**-**	1,058	**-**	7,183
Payment on promissory notes (Note 16)	**(300)**	(300)	**(600)**	(600)
Payment on lease liabilities	**(731)**	(896)	**(1,473)**	(1,711)
Net cash provided by/(used in) financing activities	**$ (2,420)**	$ (2,528)	**$ (2,939)**	$ 6,813
Increase/(decrease) in cash and cash equivalents during the period	**$ (8,284)**	$ 4,099	**$ (6,079)**	$ 5,640
Cash and cash equivalents, beginning of period	**16,841**	16,295	**14,636**	14,754
Cash and cash equivalents, end of period	**$ 8,557**	$ 20,394	**$ 8,557**	$ 20,394

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Changes in Equity

Expressed in thousands of Canadian dollars
Unaudited

For the periods ended:	Three months June 30, 2023	2022	Six months June 30, 2023	2022
Share capital				
Balance, beginning of period	**$ 446,555**	$ 442,282	**$ 444,762**	$ 436,508
Shares issued on amendment of convertible debenture (Note 14)	**-**	500	**-**	500
Shares issued on private placement (Note 17)	**-**	-	**1,793**	-
Shares issued as at-the-market offerings (Note 17)	**-**	1,620	**-**	7,394
Share capital, end of period	**$ 446,555**	$ 444,402	**$ 446,555**	$ 444,402
Reserves				
Convertible debentures				
Balance, beginning of period	**$ 34,306**	$ 29,752	**$ 34,306**	$ 29,752
Equity component of standby financing convertible debenture, net of taxes (Note 14)	**-**	(864)	**-**	(864)
Convertible debentures, end of period	**$ 34,306**	$ 28,888	**$ 34,306**	$ 28,888
Warrants				
Balance, beginning of period	**$ 43,752**	$ 41,581	**$ 42,411**	$ 41,581
Warrants issued on private placement (Note 17)	**-**	830	**1,341**	830
Warrants, end of period	**$ 43,752**	$ 42,411	**$ 43,752**	$ 42,411
Contributed surplus				
Balance, beginning of period	**$ 38,639**	$ 39,828	**$ 38,230**	$ 39,625
Employee share options:				
Stock options (Note 17)	**75**	254	**189**	457
Restricted share units (Note 17)	**298**	2,662	**593**	2,662
Contributed surplus, end of period	**$ 39,012**	$ 42,744	**$ 39,012**	$ 42,744
Reserves, end of period	**$ 117,070**	$ 114,043	**$ 117,070**	$ 114,043
Accumulated other comprehensive income/(loss)				
Balance, beginning of period	**$ (30,413)**	$ (27,131)	**$ (30,542)**	$ (26,478)
Fair value changes in long-term investments (Note 10)	**(72)**	(1,287)	**41**	(2,175)
Currency translation adjustment	**426**	(702)	**442**	(467)
Accumulated other comprehensive income/(loss), end of period	**$ (30,059)**	$ (29,120)	**$ (30,059)**	$ (29,120)
Retained earnings/(deficit)				
Attributable to the Company				
Balance, beginning of period	**$ (449,010)**	$ (348,314)	**$ (438,761)**	$ (308,468)
Net income/(loss) attributable to the Company	**(12,863)**	(14,289)	**(23,112)**	(54,135)
Ending retained earnings/(deficit) attributable to the Company	**(461,873)**	(362,603)	**(461,873)**	(362,603)
Attributable to non-controlling interests				
Balance, beginning of period	**$ (4,715)**	$ (4,343)	**$ (4,719)**	$ (4,407)
Currency translation adjustment	**106**	(9)	**110**	55
Ending retained earnings/(deficit) attributable to non-controlling interests	**(4,609)**	(4,352)	**(4,609)**	(4,352)
Retained earnings/(deficit), end of period	**$ (466,482)**	$ (366,955)	**$ (466,482)**	$ (366,955)
Equity, end of period	**$ 67,084**	$ 162,370	**$ 67,084**	$ 162,370

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1. Nature of operations

Auxly Cannabis Group Inc. (“Auxly”, “we”, “our”, or the “Company”) is a publicly traded company listed on the Toronto Stock Exchange (“TSX”) (as of April 20, 2021, and prior to that date was listed on the TSX Venture Exchange) under the symbol “XLY”. As of May 20, 2021, the Company has continued under the laws of the Province of Ontario and the principal business address is 777 Richmond Street West, Toronto, Ontario.

Description of the Company

Auxly is a Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada. The Company’s focus is on developing, manufacturing and distributing branded cannabis products that delight its consumers.

2. Basis of preparation

Going concern uncertainty

The Company's interim condensed consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

On June 30, 2023, the Company had total cash and cash equivalents of $8,557, negative working capital of $16,767, and cash flow used in operating activities of $2,144 for the six months ended June 30, 2023. The Company currently will have insufficient cash to fund its operations for the next 12 months if the Company’s sales do not improve or if they decline; if the Company’s margins do not improve or if they decline; if the Company’s selling, general and administrative expenses increase or do not decrease; and/or the Auxly Leamington credit facility of $46,225 matures on September 30, 2023, without extension or refinancing. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following June 30, 2023. To address its financing requirements, the Company will seek financing through debt and equity financings (which may include use of an at-the-market offering program and/or rights offerings to existing shareholders) and non-core asset sales. The Company will also seek to improve its sales and cash flows by prioritizing certain products and projects with a greater expected return and reducing operating costs by streamlining its operations and support functions. While the Company has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Company’s ability to raise capital may be adversely impacted by: market conditions that have resulted in a lack of normally available financing in the cannabis industry; the Company’s ongoing litigation matters; increased competition and price compression across the industry; the industry’s inability to quickly eliminate Canada’s large illicit

2. Basis of preparation (continued)

cannabis market, and overall negative investor sentiment in light of inflation, global conflict and negative macroeconomic impacts from the COVID-19 pandemic. Accordingly, there can be no assurance that the Company will achieve profitability, or secure financing on terms favourable to the Company or at all.

Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these interim condensed consolidated financial statements should such events impair the Company's ability to continue as a going concern.

Statement of compliance

These interim condensed statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34"). The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements as at and for the year ended December 31, 2022.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual consolidated financial statements as at and for the year ended December 31, 2022, which are available on SEDAR at www.sedar.com and on the Company's website at www.auxly.com.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim condensed consolidated financial statements, are consistent with those disclosed in the notes to the annual consolidated financial statements as at and for the year ended December 31, 2022. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on August 11, 2023.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. Non-controlling interests in the equity of Auxly's subsidiaries are shown separately in equity in the interim condensed consolidated statements of financial position.

Expressed in thousands of Canadian dollars, except share and per share amounts

2. Basis of preparation (continued)

The interim condensed consolidated financial statements of the Company include:

Subsidiaries	Equity interests
Auxly Charlottetown Inc. (formerly Dosecann LD Inc.)	100%
Auxly Ottawa Inc. (formerly Kolab Project Inc.)	100%
Auxly Annapolis Inc. (formerly Robinson's Cannabis Inc.)	100%
Auxly Annapolis OG Inc. (formerly Robinson's Outdoor Grow Inc.)	100%
Auxly Leamington Inc. (formerly Sunens Farms Inc.)	100%
Inverell S.A.	80%

Intragroup balances, and any unrealized gains or losses or income and expenses arising from transactions with controlled entities, are eliminated to the extent of the Company's interest in the entity.

3. Significant accounting policies

Adoption of new accounting pronouncements

Amendments to IAS 8, Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendments provide clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company adopted the amendments to IAS 8 with no impact to its interim condensed consolidated financial statements.

Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the IASB issued amendments to IAS 12, *Income Taxes* ("IAS 12"), to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company adopted the amendments to IAS 12 with no impact to its interim condensed consolidated financial statements.

Expressed in thousands of Canadian dollars, except share and per share amounts

4. Restricted cash

Auxly has restricted cash as collateral in order to facilitate an issuance of a letter of credit. As at June 30, 2023, Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of $557 (December 31, 2022 – $557) on behalf of Auxly Leamington Inc. ("Auxly Leamington") in order to supply power to the facility.

5. Accounts receivable

Accounts receivable for cannabis sales are paid by most provinces in less than 60 days, with some provinces paying 60–70 days from receipt of goods.

		As at June 30, 2023		As at December 31, 2022
Less than 30 days past billing date	**$**	**12,595**	$	14,497
31 to 60 days past billing date		**2,557**		1,712
61 to 90 days past billing date		**224**		19
Over 90 days past billing date		**1,563**		567
	$	**16,939**	$	16,795
Sales provision		**(935)**		(163)
Total	**$**	**16,004**	$	16,632

As at June 30, 2023, the Company recorded a provision of $780 for bad debt related to Fire & Flower Holdings Corp. filing for credit protection under the Companies' Creditors Arrangement Act. The bad debt expense has been included in selling, general and administrative expense in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss) during the second quarter of 2023.

6. Biological assets

The continuity of the Company's cannabis biological assets is as follows:

Balance, December 31, 2021	**$**	**6,563**
Changes in fair value less cost to sell due to biological transformation		28,518
Capitalized production costs		19,265
Transferred to inventory upon harvest		(46,137)
Impairment of biological assets		(704)
Balance, December 31, 2022	**$**	**7,505**
Changes in fair value less cost to sell due to biological transformation		8,960
Capitalized production costs		9,919
Transferred to inventory upon harvest		(20,384)
Balance, June 30, 2023	**$**	**6,000**

During the first quarter of 2022, the biological assets at Auxly Annapolis Inc. ("Auxly Annapolis") were written off and an impairment loss of $704 has been included in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

As at June 30, 2023, the Company's cannabis plants were on average 50% complete through their estimated 14-week growing cycle.

Expressed in thousands of Canadian dollars, except share and per share amounts

6. Biological assets (continued)

The fair value of cannabis biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of cannabis biological assets include:

(a) Selling price per gram;
(b) Attrition rate;
(c) Average yield per plant;
(d) Standard cost per gram to complete production; and
(e) Cumulative stage of completion in production process.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

As at June 30, 2023			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$0.05–$1.05/gram	Increase/decrease $0.10/gram	Increase/decrease $1,393
Average yield per plant	114 grams	Increase/decrease 10%	Increase/decrease $888
Post-harvest cost per gram	$0.08 dollar/gram	Increase/decrease $0.03/gram	Decrease/increase $418

As at December 31, 2022			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$0.10–$1.15/gram	Increase/decrease $0.10/gram	Increase/decrease $1,430
Average yield per plant	114 grams	Increase/decrease 10%	Increase/decrease $1,046
Post-harvest cost per gram	$0.04 dollar/gram	Increase/decrease $0.03/gram	Decrease/Increase $429

7. Inventory

The following is a breakdown of inventory:

	As at June 30, 2023	As at December 31, 2022
Dried cannabis		
Work-in-process	**$ 21,115**	$ 19,504
Finished goods	**3,194**	1,701
Cannabis oil		
Work-in-process	**3,842**	6,739
Generation 2 derivative products		
Work-in-process	**316**	375
Finished goods	**3,725**	3,940
Merchandise products	**507**	521
Packaging, hardware, consumables and ingredients	**12,246**	14,173
Total	**$ 44,945**	$ 46,953

As at June 30, 2023, the Company recognized $44,945 (December 31, 2022 – $46,953) of inventory on the interim condensed consolidated statements of financial position, including $5,723 non-cash income (December 31, 2022 – $2,862) relating to the fair value less cost to sell transferred to inventory upon harvest. During the three and six months ended June 30, 2023, inventory expensed to cost of sales was $15,566 (2022 – $20,077) and $30,050 (2022 – $37,091).

Expressed in thousands of Canadian dollars, except share and per share amounts

7. Inventory (continued)

Depreciation capitalized into inventory during the three and six months ended June 30, 2023 was $1,736 (2022 – $1,670) and $3,630 (2022 – $3,478). Cost of sales for the three and six months ended June 30, 2023 included $911 (2022 – $2,180) and $2,031 (2022 – $3,391) of depreciation.

In the three and six months ended June 30, 2023, the Company recognized a loss of $1,459 (2022 – $1,778) and of $2,132 (2022 – $6,656) on cannabis inventory due to the costs capitalized exceeding the net realizable value of the inventory.

8. Property, plant and equipment

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Construction-in-progress	Land	Right-of-use assets	Total
Cost:								
December 31, 2022	$ 3,623	$ 29,857	$ 38,464	$ 125,482	$ 1,089	$ 4,078	$ 24,032	**$ 226,625**
Additions	91	-	432	369	104	-	112	**1,108**
Transfers	39	-	-	1,135	(1,174)	-	-	**-**
Impairment (Notes 26)	(87)	(36)	(149)	(2,303)	-	(13)	-	**(2,588)**
June 30, 2023	**$ 3,666**	**$ 29,821**	**$ 38,747**	**$ 124,683**	**$ 19**	**$ 4,065**	**$ 24,144**	**$ 225,145**
Accumulated depreciation:								
December 31, 2022	$ 2,352	$ 3,430	$ 7,979	$ 6,945	$ -	$ 27	$ 10,618	**$ 31,351**
Depreciation	239	725	2,341	2,335	-	-	1,026	**6,666**
June 30, 2023	**$ 2,591**	**$ 4,155**	**$ 10,320**	**$ 9,280**	**$ -**	**$ 27**	**$ 11,644**	**$ 38,017**
Adjustments:								
Reclassification to assets held for sale (Note 26)	-	-	-	(2,000)	-	-	-	**(2,000)**
Carrying amounts								
June 30, 2023	**$ 1,075**	**$ 25,666**	**$ 28,427**	**$ 113,403**	**$ 19**	**$ 4,038**	**$ 12,500**	**$ 185,128**

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Construction-in-progress	Land	Right-of-use assets	Total
Cost:								
December 31, 2021	$ 3,793	$ 29,853	$ 33,790	$ 147,734	$ 295	$ 8,065	$ 23,122	**$ 246,652**
Additions	79	4	6,187	700	2,222	-	914	**10,106**
Disposals	(15)	-	(388)	(8,045)	-	(2,626)	-	**(11,074)**
Transfers	63	-	1,193	172	(1,428)	-	-	**-**
Impairment	(297)	-	(2,318)	(15,079)	-	(1,361)	(4)	**(19,059)**
December 31, 2022	**$ 3,623**	**$ 29,857**	**$ 38,464**	**$ 125,482**	**$ 1,089**	**$ 4,078**	**$ 24,032**	**$ 226,625**
Accumulated depreciation:								
December 31, 2021	$ 1,739	$ 1,980	$ 3,908	$ 4,076	$ -	$ 27	$ 7,163	**$ 18,893**
Depreciation	618	1,450	4,201	5,540	-	-	3,455	**15,264**
Disposals	(5)	-	(130)	(2,671)	-	-	-	**(2,806)**
December 31, 2022	**$ 2,352**	**$ 3,430**	**$ 7,979**	**$ 6,945**	**$ -**	**$ 27**	**$ 10,618**	**$ 31,351**
Carrying amounts								
December 31, 2022	**$ 1,271**	**$ 26,427**	**$ 30,485**	**$ 118,537**	**$ 1,089**	**$ 4,051**	**$ 13,414**	**$ 195,274**

Property, plant and equipment additions for the six months ended June 30, 2023 includes a $112 (2022 – $914) non-cash recognition of right-of-use asset.

Expressed in thousands of Canadian dollars, except share and per share amounts

8. Property, plant and equipment (continued)

For the three months ended June 30, 2023, the property, plant and equipment related to Auxly Ottawa Inc.'s ("Auxly Ottawa") facility was written down to its recoverable amount of $2,000, resulting in an impairment loss of $2,588. As at June 30, 2023, the facility related to Auxly Ottawa has been reclassified to assets held for sale. Refer to Note 26 for more information.

9. Intangible assets and goodwill

Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2022	$ 17,346	$ 14,461	$ 24,293	$ 712	$ 4,199	**$ 61,011**
June 30, 2023	**$ 17,346**	**$ 14,461**	**$ 24,293**	**$ 712**	**$ 4,199**	**$ 61,011**
Accumulated amortization:						
December 31, 2022	$ 13,398	$ -	$ -	$ 238	$ 1,909	**$ 15,545**
Amortization	298	-	-	23	61	**382**
June 30, 2023	**$ 13,696**	**$ -**	**$ -**	**$ 261**	**$ 1,970**	**$ 15,927**
Carrying amounts						
June 30, 2023	**$ 3,650**	**$ 14,461**	**$ 24,293**	**$ 451**	**$ 2,229**	**$ 45,084**

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2021	$ 17,783	$ 28,846	$ 31,100	$ 850	$ 4,857	**$ 83,436**
Transfers from deposit	988	-	-	-	-	**988**
Impairment	(1,425)	(14,385)	(6,807)	(138)	(658)	**(23,413)**
December 31, 2022	**$ 17,346**	**$ 14,461**	**$ 24,293**	**$ 712**	**$ 4,199**	**$ 61,011**
Accumulated amortization:						
December 31, 2021	$ 7,742	$ -	$ -	$ 180	$ 1,311	**$ 9,233**
Amortization	5,656	-	-	58	598	**6,312**
December 31, 2022	**$ 13,398**	**$ -**	**$ -**	**$ 238**	**$ 1,909**	**$ 15,545**
Carrying amounts						
December 31, 2022	**$ 3,948**	**$ 14,461**	**$ 24,293**	**$ 474**	**$ 2,290**	**$ 45,466**

Goodwill

Balance, December 31, 2021	**$ 24,290**
Change in purchase price allocation from business combination	1,108
Impairment of goodwill	(25,398)
Balance, December 31, 2022	**$ -**
Balance, June 30, 2023	**$ -**

Expressed in thousands of Canadian dollars, except share and per share amounts

10. Long-term investments

Entity	Instrument	Classification	Balance as at December 31, 2022	FV change	Purchases (sales)	Balance as at June 30, 2023
VIVO Cannabis Inc.	Shares	FVOCI	$ 13	$ -	$ (13)	$ -
MediPharm Labs Corp.	Shares	FVOCI	-	(4)	13	9
Cannabis OneFive Inc.	Shares	FVOCI	1,030	33	-	1,063
Wellbeing Digital Sciences Inc.	Shares	FVOCI	30	12	-	42
Herbal Dispatch Inc.	Shares	FVOCI	17	-	-	17
Total			**$ 1,090**	**$ 41**	**$ -**	**$ 1,131**

Entity	Instrument	Classification	Balance as at December 31, 2021	FV change	Purchases (sales)	Balance as at December 31, 2022
VIVO Cannabis Inc.	Shares	FVOCI	$ 40	$ (27)	$ -	$ 13
Cannabis OneFive Inc.	Shares	FVOCI	1,702	(672)	-	1,030
Wellbeing Digital Sciences Inc.	Shares	FVOCI	2,104	(2,003)	(71)	30
Herbal Dispatch Inc.	Shares	FVOCI	51	(34)	-	17
Total			**$ 3,897**	**$ (2,736)**	**$ (71)**	**$ 1,090**

VIVO Cannabis Inc. and MediPharm Labs Corp.

On April 1, 2023, MediPharm Labs Corp. (“MediPharm”) acquired all the issued and outstanding shares of VIVO Cannabis Inc. (“VIVO Cannabis”) in an all-equity business combination transaction. Upon closing of the acquisition, MediPharm issued approximately 107,930,964 MediPharm shares to VIVO Cannabis shareholders. As a shareholder of VIVO Cannabis, the Company received total consideration of 145,500 MediPharm shares as a result of the acquisition.

11. Deposits

	Capital assets	Inventory	Other	Total
Current portion	$ 424	$ 310	$ 24	**$ 758**
Non-current portion	-	-	3,744	**3,744**
As at June 30, 2023	**$ 424**	**$ 310**	**$ 3,768**	**$ 4,502**

	Capital assets	Inventory	Other	Total
Current portion	$ 685	$ 209	$ 153	**$ 1,047**
Non-current portion	-	-	87	**87**
As at December 31, 2022	**$ 685**	**$ 209**	**$ 240**	**$ 1,134**

As at June 30, 2023, the Company has made deposits towards excise bonds and specialized equipment to be utilized for pre-roll manufacturing and packaging.

12. Contingent consideration payable

As part of the acquisition of Auxly Leamington in 2021, the Company recorded a contingent consideration payable by Auxly Leamington to Fresh Energy Inc. of $500 upon the completion of the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea RD 9 PH 5 (the “Transfer”). The Transfer of the load facility from Fresh Energy Inc. to the Company was completed in April 2023.

Expressed in thousands of Canadian dollars, except share and per share amounts

12. Contingent consideration payable (continued)

In June 2023, the Company entered into an agreement with Fresh Energy to add the $500 contingent consideration payable to the remaining outstanding principal amount of the Fresh Energy promissory note and extend the term by 5 months. Refer to Note 16 for more information.

13. Lease liability

		As at June 30, 2023		As at December 31, 2022
Maturity analysis - contractual undiscounted cash flows				
Less than one year	**$**	**4,884**	$	5,068
Two years and beyond		**17,081**		18,600
Total undiscounted lease obligations	**$**	**21,965**	$	23,668
Current portion	**$**	**4,137**	$	4,253
Long-term portion		**13,621**		14,866
Discounted lease obligations included in the interim condensed consolidated statements of financial position	**$**	**17,758**	$	19,119

The Company has lease contracts for various items of building, plant, machinery, vehicles and other equipment used in its operations. Leases of building generally have lease terms between 2 and 21 years, while production and other equipment generally have lease terms between 3 and 5 years.

14. Convertible debentures

The convertible debentures balance consists of the following:

		As at June 30, 2023		As at December 31, 2022
September 2019 issuance and April 2021 amendment	**$**	**109,008**	$	104,110
2020 standby financing and 2022 amendment		**5,530**		6,542
Total	**$**	**114,538**	$	110,652
Long-term portion	**$**	**114,538**	$	110,652

September 2019 issuance and April 2021 amendment

In September 2019, the Company issued unsecured convertible debenture units in the aggregate amount of $122,851 to Imperial Brands PLC (“Imperial Brands”) as part of a collaborative partnership. The debentures bear interest at 4.0% per annum, payable annually and originally matured in September 2022. The principal amount of the debentures was convertible into common shares of the Company at a price of $0.81 per share, at the option of the holder.

In April 2021, the Company announced an agreement with Imperial Brands to amend the debentures to extend the maturity date by 24 months from September 25, 2022 to September 25, 2024. The amendment also provides Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the debentures into common shares at a conversion price equal to the five-day volume weighted average trading price of the common shares on the date that the interest conversion election is made. The interest rate of 4% per annum will remain unchanged but will be payable on the maturity of the debentures. The debentures are convertible into common shares at a price of $0.81 per share at any time prior to the close of business on the business day immediately

14. Convertible debentures (continued)

preceding maturity. The amendments also provide for the reinstatement of certain approval rights of Imperial Brands under the investor rights agreement dated September 25, 2019 between the Company and Imperial Brands. These amendments were subject to shareholder approval that was obtained at the Company's annual general and special meeting of shareholders on June 28, 2021. The amendment was treated as a debt extinguishment under IFRS 9 as the terms are substantially different given the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The Company derecognized the debentures' carrying value of $115,123, and the new debentures under the amended terms were recorded at their fair value of $91,111, discounted at an estimated market interest rate of 16.0%. The residual value of the gross proceeds was allocated to the equity conversion feature, net of taxes, estimated at $5,418. During the second quarter of 2021, the net impact of the debt extinguishment and the recognition of the amended debentures resulted in a gain of $16,642 recorded in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

The associated accretion expense for the three and six months ended June 30, 2023 was $2,504 and $4,898, respectively (2022 – $2,181 for the three months ended and $4,265 for the six months ended). Interest expense for the three and six months ended June 30, 2023 was $1,225 and $2,437 (2022 – $1,225 for the three months ended and $2,437 for the six months ended).

Subsequent to the second quarter of 2023, the Company entered into an agreement with Imperial Brands to extend the maturity date of the debenture by 24 months from September 25, 2024 to September 25, 2026. Refer to Note 27 for more information.

2020 Standby financing and 2022 amendment

On April 28, 2020, Auxly entered into an investment agreement with an institutional investor as a standby facility to provide it with access to additional capital. This investment agreement provided the Corporation with the opportunity to sell, on a private placement basis, unsecured convertible debentures of Auxly in the principal amount of up to $25,000. During 2020, Auxly closed five tranches of convertible debentures for total net proceeds of $10,664, of which $484 was allocated to the accompanying warrants and $995 was allocated to the conversion feature. Each tranche had a maturity date of 24 months from the date of issuance.

In June 2022, the Company entered into an agreement to amend the unsecured convertible debentures to extend the maturity date of the remaining outstanding debentures to August 15, 2024. As at June 30, 2023, the Company has repaid $5,006 of principal owing under the original standby financing convertible debenture, with $6,244 owing on the maturity date. The interest rate of 7.5% per annum will remain unchanged and will be payable semi-annually. The debentures are convertible into common shares at a price of $0.1380 per share at any time prior to the close on the business day immediately prior to the maturity date. The amendment includes certain repayment conditions should the Company raise additional capital prior to the maturity date.

As consideration for the amendments, the Company paid the investor an amendment fee of $500 through the issuance of 4,347,826 common shares and issued the investor warrants to purchase 20,000,000 common shares, with each warrant being exercisable until June 22, 2025 at a price per share of $0.1495. The amendment was treated as a debt extinguishment under IFRS 9 as the terms

Expressed in thousands of Canadian dollars, except share and per share amounts

14. Convertible debentures (continued)

are substantially different and the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The amendment fee of $500, paid through issuance of Auxly common shares, was assumed to be equally split between the debt extinguishment and the issuance of the new debentures.

The Company derecognized the debentures' carrying value of $8,620 and the conversion feature's carrying value of $994. The gross proceeds were allocated to the new debentures and the new warrants based on their relative fair value, in which $7,670 was allocated to the debentures and $830 was allocated to the warrants. The financial liability under the amended terms of the debentures was recorded at fair value of $7,557, discounted at an estimated market interest rate of 18.5%, and the residual value of $113 was allocated to the equity conversion feature. The relative fair value of the conversion features and warrants was derived based on the following assumptions: Share price – $0.11; Annualized volatility – 90.57%; Risk-free interest rate – 3.29%; Dividend yield – 0%; and Expected life – 2.15 years for the conversion feature and 3 years for the warrants.

During the second quarter of 2022, the net impact of the debt extinguishment and the recognition of the amended debt resulted in a gain of $512 recorded in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss). The net impact of extinguishment of the conversion feature, the recognition of the amended conversion feature and the issuance of the warrants resulted in a decrease in reserves, net of taxes, of $34, recorded in the interim condensed consolidated statements of changes in equity.

The continuity schedule of the standby financing debentures is presented below:

		As at June 30, 2023		As at December 31, 2022
Balance, beginning of period	$	6,542	$	10,627
Accretion expense	$	220	$	752
Principal payment		(1,232)		(3,774)
Change in fair value		-		(1,063)
Balance, end of period	$	5,530	$	6,542

The accretion expense associated with the debentures for the three and six months ended June 30, 2023 was $104 and $220 (2022 – $232 for the three months ended and $505 for the six months ended). Interest expense for the three and six months ended June 30, 2023 was $117 and $387 (2022 – $212 for the three months ended and $420 for the six months ended).

15. Loans payable

The loans payable balance consists of the following:

		As at June 30, 2023		As at December 31, 2022
Equipment loans payable	$	2,985	$	3,828
Amended and Restated Credit Facility		46,225		48,150
Receivables financing loan		6,620		6,569
Total	$	55,830	$	58,547
Less: current portion		54,703		49,893
Long-term portion	$	1,127	$	8,654

Expressed in thousands of Canadian dollars, except share and per share amounts

15. Loans payable (continued)

Equipment loans payable

The Company entered into arrangements with a leasing company to finance several pieces of equipment used in its operations. The equipment loans generally have terms between 2 and 3 years, with interest ranging from 9.47% to 16.54% per annum.

The continuity schedule of the equipment loans is presented below:

		As at June 30, 2023		As at December 31, 2022
Balance, beginning of period	**$**	**3,828**	$	4,452
Additions	**$**	**-**	$	382
Payments		**(1,070)**		(1,298)
Interest expense		**227**		292
Balance, end of period	**$**	**2,985**	$	3,828
Current portion	**$**	**1,858**	$	1,743
Long-term portion		**1,127**		2,085
Total	**$**	**2,985**	$	3,828

Amended and Restated Credit Facility

Concurrent with the acquisition of Auxly Leamington, the Company entered into an Amended and Restated Credit Facility with the Bank of Montreal. The credit facility bears interest at prime or the banker’s acceptance rate, plus the applicable margin in effect. The amendment includes certain financial covenants that the Company shall maintain at all times. Upon filing the financial statements for the year ended December 31, 2022, and delivering the audited financial statements for Auxly Leamington for the year ended December 31, 2022, each of the Company and Auxly Leamington was in breach of certain reporting covenants under the Amended and Restated Credit Agreement due to the inclusion of the going concern uncertainty disclosure. The Company and Auxly Leamington have each received a waiver from the syndicate of lenders for such breaches.

The credit facility consists of a $28,500 revolving credit facility and a $38,500 term credit (the “Term Credit”), for an aggregate fair value of $67,000 on acquisition. An immediate cash payment of $15,000 was applied to the outstanding principal balance of the revolving credit facility. As part of the amended agreement, the maturity date of the credit facility has been extended by a year to September 30, 2023, with an option by the Company to extend for an additional year by making a further principal repayment of $5,000 by December 31, 2022. The Company did not make the principal repayment, and discussions with the lenders with respect to a formal credit amendment have commenced although there can be no assurance that an agreement with the lenders will be reached. The quarterly principal payment on the Term Credit is $963, commencing the first business day of each calendar quarter following the repayment start date of January 2022.

The amendment was treated as a debt modification under IFRS 9 as the terms were not substantially different given the discounted present value of the cash flows under the amended terms is less than 10% different from the discounted present value of the remaining cash flows of the original financial liability. Under the amended agreement, the obligations of Auxly Leamington continue to be secured by collateral and supported by an unsecured $33,000 limited resource guarantee provided by the Company.

Expressed in thousands of Canadian dollars, except share and per share amounts

15. Loans payable (continued)

The continuity schedule of the Amended and Restated Credit Facility is presented below:

		As at June 30, 2023		As at December 31, 2022
Balance, beginning of period	$	**48,150**	$	52,000
Payments		**(1,925)**		(3,850)
Balance, end of period	$	**46,225**	$	48,150
Current portion	$	**46,225**	$	48,150

Interest expense on the Amended and Restated Credit Facility for the three and six months ended June 30, 2023 was $1,097 (2022 – $744) and $2,211 (2022 – $1,402), respectively.

Receivables financing loan

On January 21, 2022, the Company and several of its subsidiaries entered into a receivables financing agreement with Savent Financial Canada Corp. ("Savent"), where Savent made a non-revolving loan to the Company in the principal amount of $5,000 USD, which includes an origination fee of $150 USD. Obligations of the Company and its subsidiaries under this arrangement are secured by a first-priority security interest in all of its cannabis receivables and are guaranteed by the Company. The Company has retained late payment and credit risk, therefore continues to recognize the transferred assets in their entirety in its interim condensed consolidated statements of financial position.

The amount payable under the receivables financing agreement is presented as non-current loans with an extendable maturity date. The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three and six months ended June 30, 2023 was $304 and $605, respectively (2022 – $288 for the three months ended and $494 for the six months ended).

16. Promissory notes

The promissory notes balance consists of the following:

		As at June 30, 2023		As at December 31, 2022
Due to Peter Quiring	$	**2,342**	$	3,624
Fresh Energy Agreement		**1,491**		1,652
Total	$	**3,833**	$	5,276
Less: current portion		**1,105**		4,781
Long-term portion	$	**2,728**	$	495

An unsecured promissory note of $3,400 was issued to Peter Quiring as part of the consideration for the acquisition of Auxly Leamington in 2021. The promissory note bears interest of 6.00% per annum and was originally payable in monthly instalments of $210 for 18 months, starting December 2022.

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy agreed to complete the Transfer. The consideration for the Transfer includes an unsecured, non-interest bearing promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months, starting December 2021. Using a discount rate of 3.8%, the Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860.

Expressed in thousands of Canadian dollars, except share and per share amounts

16. Promissory notes (continued)

In June 2023, the Company entered into an agreement to amend the Fresh Energy promissory note whereby the $500 contingent consideration payable was added to the remaining principal amount outstanding and the Company shall continue to pay monthly instalments of $100 until the revised outstanding amount is repaid. As of June 30, 2023, the Company has repaid $1,780 of principal owing under the Fresh Energy promissory note.

In June 2023, the Company entered into an agreement to amend the $3,400 unsecured promissory note owing to Peter Quiring. Such unsecured promissory note was originally payable in monthly instalments of $210 for 18 months, starting December 2022. Such note was amended to require the Company to pay monthly instalments of $100 for 36 months, starting November 2024 and maturing in November 2027. The unsecured promissory note bears interest of 6.00% per annum, with interest accrual starting October 15, 2024.

Both amendments were treated as debt extinguishments under IFRS 9 as the discounted present value of the cash flows under the new terms are at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. The Company derecognized the promissory notes' carrying value of $4,198. The financial liability under the amended terms were recorded at fair value of $2,720, discounted at an estimated market interest rate of 18%. During the second quarter of 2023, the net impact of the debt extinguishments and the recognition of the amended debts resulted in a gain of $1,478 recorded in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

The continuity schedule of the promissory notes is presented below:

		As at June 30, 2023		As at December 31, 2022
Balance, beginning of period	**$**	**5,276**	$	6,187
Transfer from Contingent consideration payable	**$**	**500**	$	-
Payments		**(600)**		(1,200)
Interest expense		**135**		289
Change in fair value		**(1,478)**		-
Balance, end of period	**$**	**3,833**	$	5,276

17. Share capital

The share capital of the Company is summarized below:

	June 30, 2023	December 31, 2022
Issued and outstanding shares		
Issued shares	**1,009,008,498**	913,008,498
Escrowed shares	**6,994,190**	6,994,190
Outstanding shares	**1,002,014,308**	906,014,308

	June 30, 2023	December 31, 2022
Outstanding securities		
Warrants	**210,510,533**	122,510,533
Convertible debentures	**196,914,452**	205,844,409
Options	**23,730,430**	24,773,639
Restricted share units	**274,134,369**	62,088,353

Expressed in thousands of Canadian dollars, except share and per share amounts

17. Share capital (continued)

The Company's total equity-based compensation expense recognized is as follows:

For the periods ended:	Three months June 30, 2023	2022	Six months June 30, 2023	2022
Stock options	**$ 75**	$ 254	**$ 189**	$ 457
Restricted share units	**298**	2,662	**593**	2,662
Cash Settled restricted share units	**4**	-	**4**	-
Total equity-based compensation	**$ 377**	$ 2,916	**$ 786**	$ 3,119

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued and outstanding

As at June 30, 2023, there were 1,009,008,498 issued and outstanding common shares, with 6,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2022 had 913,008,498 issued and outstanding common shares, and 6,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

In February 2023, the Company completed a private placement for 96,000,000 common shares of the Company at a price of $0.035 per common share and 96,000,000 warrants of the Company. Each warrant entitles the investors to purchase one common share at an exercise price of $0.045 per common share at any time up until February 15, 2028. The Company recorded $1,793 for the issuance of shares and $1,341 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of $3,134. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price – $0.025; Annualized volatility – 113.02%; Risk-free interest rate – 3.43%; Dividend yield – 0%; and Expected life – 5 years.

The Company has issued common shares under its at-the-market equity program ("ATM Program"). The ATM Program was established in March 2021 and allowed the Company to issue and sell up to $30,000 of common shares of the Company from treasury to the public, from time to time, at the Company's discretion. The common shares sold through the ATM Program were sold through the TSX at the prevailing market price at the time of sale. The Company did not issue any common shares under the ATM Program in 2023. The Company's short form base shelf prospectus has subsequently expired as of April 18, 2023.

For the periods ended:	Three months June 30, 2022	Six months June 30, 2022
Gross proceeds	$ 1,671	$ 7,584
Commission	$ 51	$ 190
Net proceeds	$ 1,620	$ 7,394
Average gross price	$ 0.133	$ 0.148
Number of shares issued	12,608,000	51,398,500

Expressed in thousands of Canadian dollars, except share and per share amounts

17. Share capital (continued)

c) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at June 30, 2023:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2022	**122,542,280**	**0.480**	**1.89**
Warrants issued	20,000,000	0.150	2.48
Warrants cancelled	(20,031,747)	0.372	
Closing balance, December 31, 2022	**122,510,533**	**0.444**	**1.37**
Warrants issued	96,000,000	0.045	4.63
Warrants cancelled	(8,000,000)	1.570	
Closing balance, June 30, 2023	**210,510,533**	**0.219**	**2.62**

As part of the 2022 standby financing amendment, the Company issued the investor warrants to purchase 20,000,000 common shares, with each warrant being exercisable until June 22, 2025 at a price per share of $0.1495. Refer to Note 14 for more information.

d) Stock options

The Company has an equity incentive plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded is limited to 10% of the issued and outstanding shares, or 100,900,850 as at June 30, 2023.

The following table summarizes information about stock options outstanding as at June 30, 2023:

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2022	**28,920,509**	**0.801**	**4.63**
Options expired	(550,000)	1.000	
Options cancelled/forfeited	(3,596,870)	0.943	
Closing balance, December 31, 2022	**24,773,639**	**0.777**	**3.76**
Options cancelled/forfeited	(1,043,209)	0.944	
Closing balance, June 30, 2023	**23,730,430**	**0.770**	**3.25**

Total options exercisable as at June 30, 2023 were 19,925,846 (December 31, 2022 – 17,574,055) with a remaining average life of 3.30 years (December 31, 2022 – 4.01 years). During the three and six months ended June 30, 2023, the Company recorded equity-based compensation of $75 and $189, respectively, for stock options (2022 – $254 for the three months ended and $457 for the six months ended).

e) Restricted share units

The issuance of RSUs in accordance with the Company's equity incentive plan allows employees and management of the Company to participate in the growth and development of the Company. Under the terms of the plan, RSUs are issued to the participants and the units issued vest over a period of up to three years from the grant date. On the vesting date, the Company can redeem all of the participants' RSUs in cash and/or by issuing one common share for each RSU.

Expressed in thousands of Canadian dollars, except share and per share amounts

17. Share capital (continued)

The following table summarizes information about RSUs outstanding as at June 30, 2023:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
RSUs	60,806,187	0.091	1.09
Cash Settled RSUs	213,328,182	0.018	1.98
Total RSUs	**274,134,369**	**0.034**	**1.78**

The following table summarizes information about the RSUs:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
Opening balance, January 1, 2022	-		
RSUs issued	62,887,695	0.091	1.48
RSUs forfeited	(799,342)	0.091	
Closing balance, December 31, 2022	**62,088,353**	**0.091**	**1.48**
RSUs settled	(462,440)	0.091	
RSUs forfeited	(819,726)	0.091	
Closing balance, June 30, 2023	**60,806,187**	**0.091**	**1.09**

During the second quarter of 2023, the Company issued 213,328,182 RSUs to eligible employees and directors, such RSUs will be settled for their cash equivalent on the applicable settlement date, subject to a maximum settlement amount equal to two times the fair value of the RSU on June 30, 2023 (“Cash Settled RSUs”). For Cash Settled RSUs, the fair value of the RSUs is recognized as equity-based compensation expense in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss), with a corresponding increase in liabilities over the vesting period. The amount recognized as expense is based on the estimated number of RSUs expected to vest. Cash Settled RSUs are measured at their fair value at each reporting period, based on the closing price of the Company’s common share on the reporting period.

The following table summarizes information about the Cash Settled RSUs:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
Closing balance, December 31, 2022	-		
RSUs issued	213,328,182	0.018	1.98
Closing balance, June 30, 2023	**213,328,182**	**0.018**	**1.98**

During the three and six months ended June 30, 2023, the Company recorded equity-based compensation of $302 and $597 (2022 – $2,662 for the three and six month ended) of expense for RSUs granted and vested during the period. Of the equity-based compensation recorded in the three and six months ended June 30, 2023, $4 is related to Cash Settled RSUs, which is recorded as other non-current liabilities in the interim condensed consolidated statements of financial position.

As at June 30, 2023, the unrecognized equity-based compensation related to the issued RSUs was $3,132 (December 31, 2022 – $1,309), which will be recognized over the remaining life as the RSUs vest.

Expressed in thousands of Canadian dollars, except share and per share amounts

17. Share capital (continued)

f) Net income/(loss) per share

The calculation of basic and diluted net income/(loss) per share is based on the net income/(loss) for the period attributable to the shareholders divided by the weighted average number of shares in circulation during the period. In calculating the diluted net income/(loss) per share, potentially dilutive shares such as options, convertible debt and warrants have not been included as they would have the effect of decreasing the net income/(loss) per share and they would, therefore, be anti-dilutive.

18. Related party balances and transactions

Key management and director compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel includes members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, equity-based awards or post-employment benefits.

Compensation provided to current and key management is as follows:

For the periods ended:	Three months June 30,		Six months June 30,	
	2023	2022	**2023**	2022
Short-term benefits	**$ 441**	$ 579	**$ 883**	$ 1,103
Long-term benefits	**289**	1,654	**549**	1,758
Total	**$ 730**	$ 2,233	**$ 1,432**	$ 2,861

19. Financial instruments and risk management

The Company has exposure to the following risks from its use of financial instruments. The Board of Directors approves and monitors the risk management processes.

a) Financial instrument classification and measurement

Financial instruments that are recorded at fair value on the interim condensed consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in the markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial instrument	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investments in private companies	Market approach	Investment index	If the investment index fair value change increased/(decreased) by 10%, the estimated fair value of the long-term investment would increase/(decrease) by $106/($106) (December 31, 2022 – $103/($103)).

Expressed in thousands of Canadian dollars, except share and per share amounts

19. Financial instruments and risk management (continued)

The table below presents the fair value of the Company's financial instruments. The carrying values of the Company's financial instruments approximate their fair values.

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 145	$ -	$ -	$ 145
Biological assets	-	-	6,000	6,000
Public company shares	68	-	-	68
Private company shares	-	-	1,063	1,063
Balance, June 30, 2023	**$ 213**	**$ -**	**$ 7,063**	**$ 7,276**

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 143	$ -	$ -	$ 143
Biological assets	-	-	7,505	7,505
Public company shares	60	-	-	60
Private company shares	-	-	1,030	1,030
Balance, December 31, 2022	**$ 203**	**$ -**	**$ 8,535**	**$ 8,738**

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, deposits, long-term investments, accounts payable and accrued liabilities, other non-current liabilities, promissory notes, loans payable and convertible debentures. As at June 30, 2023, the carrying values of cash and cash equivalents and short-term investments are measured at fair value. The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. The carrying values of loans payable, promissory notes, and convertible debentures are discounted at the effective interest rate and approximate their fair values.

c) Market risk

Market risk is the risk that changes in market prices will affect the Company's net income/(loss) or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from investments measured at FVOCI and FVTPL. For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $106 before tax (December 31, 2022 – $103). An equal change in the opposite direction would have decreased equity by $106 before tax (December 31, 2022 – $103).

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. All of the Company's financial debt is on fixed interest rates, with the exception of the Amended and Restated Credit Facility with the Bank of Montreal. For financial debt on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows during the contract term. For the Amended and Restated Credit Facility, the impact of a 10% increase/(decrease) in interest rate would increase/(decrease) interest expense by $116/($116) for the six months ended June 30, 2023 (2022 – $27/($27)).

19. Financial instruments and risk management (continued)

e) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The financial instruments that are exposed to such risk include cash and cash equivalents, accounts receivable and other receivables. Management has mitigated the risk by using tier 1 financial institutions for managing its cash and has established communication channels with the counterparties of the receivables for ongoing monitoring of their financial performance.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities. The Company maintains financial covenants on its debt obligations and does not anticipate being in breach of any of its financial covenants. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at June 30, 2023, the Company has insufficient cash to fund its operations for the next twelve months if the Company’s sales materially decline and/or the Auxly Leamington credit facility matures without extension or refinancing. Refer to Note 2 for more information.

g) Foreign exchange risk

The interim condensed consolidated financial statements are presented in Canadian dollars, which is also the Company’s functional currency. Each entity within the consolidated group determines its own functional currency. The Company is exposed to certain foreign currency risk in that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. Management has mitigated the risk by holding sufficient cash in US dollars. A 10% increase/(decrease) in the exchange rate would increase/ (decrease) net income by $64/($64) for the six months ended June 30, 2023 (2022 – $331/($331)).

20. Capital management

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure that optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include debt and shareholders’ equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or debt, and/or acquire or dispose of assets to maintain or adjust its capital structure. The Company is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital. There were no changes to the Company’s approach to capital management in the year.

Expressed in thousands of Canadian dollars, except share and per share amounts

21. Commitments and contingencies

Commitments

As at June 30, 2023, Auxly has entered into certain agreements that commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable. Auxly has funding commitments as follows:

- As part of the debt financing provided by a syndicate led by Bank of Montreal towards the construction of the Auxly Leamington purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments to $33,000 in the event of default;
- Payments of an aggregate of €1,529 in 2023 and 2024 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities;
- Annual payment estimated to range from $128 to $148 for minimum annual volume requirement with Union Gas, with agreement ending August 1, 2029; and
- Annual payment of $73 until 2024 for guaranteed minimum purchase of bulk carbon dioxide with Air Liquide.

Auxly has commitments in respect of long-term debt obligations and leases relating to office spaces, equipment and land, which will require payments as follows:

	Remaining in 2023	Fiscal year 2024	Fiscal year 2025	Fiscal year 2026	Thereafter	Total
Lease obligations	$ 3,189	$ 3,144	$ 2,795	$ 2,775	$ 10,062	**$ 21,965**
Loans payable obligations	47,296	8,183	738	-	-	**56,217**
Promissory note obligations	600	1,200	1,200	1,200	1,136	**5,336**
Convertible debenture obligations	472	153,943	-	-	-	**154,415**
Total	**$ 51,557**	**$ 166,470**	**$ 4,733**	**$ 3,975**	**$ 11,198**	**$ 237,933**

Contingencies

The Company and its subsidiaries are involved in litigation matters arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to the interim condensed consolidated financial statements.

The Company entered into a brokerage agreement with Kindred Partners Inc. ("Kindred") to act as the Company's strategic sales agent in September 2019. In October 2022, the brokerage agreement with Kindred was terminated. In January 2023, Kindred commenced arbitration against the Company for an aggregate claim of $3,442. The Company has filed its defence and counterclaim against Kindred. As at June 30, 2023, the Company has recorded a provision of $1,235 related to this claim.

Expressed in thousands of Canadian dollars, except share and per share amounts

22. Selling, general and administrative expenses

The breakdown of the Company's selling, general and administrative expenses is as follows:

For the periods ended:	Three months June 30,		Six months June 30,	
	2023	2022	**2023**	2022
Wages and benefits	**$ 3,305**	$ 5,075	**$ 7,969**	$ 10,734
Office and administrative	**3,141**	2,577	**5,425**	6,156
Professional fees	**598**	1,093	**1,396**	1,539
Business development	**147**	98	**227**	157
Selling expenses	**1,619**	4,093	**3,883**	6,989
Total	**$ 8,810**	$ 12,936	**$ 18,900**	$ 25,575

23. Interest and accretion expenses

The breakdown of the Company's interest and accretion expenses is as follows:

	Three months June 30,		Six months June 30,	
	2023	2022	**2023**	2022
Total interest expense	**$ 6,457**	$ 5,336	**$ 12,265**	$ 10,416
Less non-cash interest on Imperial Brands convertible debentures	**(1,225)**	(1,225)	**(2,437)**	(2,437)
Less non-cash accretion expense on convertible debentures	**(2,608)**	(2,413)	**(5,118)**	(4,770)
Less non-cash interest on promissory notes	**(73)**	(75)	**(135)**	(151)
Total cash interest	**$ 2,551**	$ 1,623	**$ 4,575**	$ 3,058

24. Changes in non-cash working capital

The following table reconciles the changes in non-cash working capital as presented in the Company's interim condensed consolidated statements of cash flows:

For the periods ended:	Three months June 30,		Six months June 30,	
	2023	2022	**2023**	2022
Short-term investments	**$ (1)**	$ -	**$ (2)**	$ -
Accounts receivable	**(137)**	3,653	**628**	7,057
Other receivables	**211**	432	**311**	69
Prepaid expenses	**(302)**	1,116	**(4,086)**	2,991
Interest payable	**117**	117	**25**	325
Biological assets (Note 6)	**6,152**	11,111	**10,465**	14,376
Inventory (Note 7)	**(3,133)**	(13,893)	**(6,310)**	(18,349)
Accounts payable and accrued liabilities	**(3,712)**	4,632	**3,465**	1,738
Deferred revenue	**-**	(81)	**-**	(161)
Total	**$ (805)**	$ 7,087	**$ 4,496**	$ 8,046

25. Operating segments

Management has determined the operating and geographic segments. The Executive Leadership Team evaluates and makes decisions on the operating performance by segment. The Company's business activities are conducted through two operating segments as follows:

Canadian Cannabis operations – The Company's Canadian cannabis operations are dedicated to the cultivation and sale of cannabis products within Canada, and include subsidiaries Auxly Charlottetown Inc., Auxly Ottawa Inc., Auxly Annapolis Inc., Auxly Annapolis OG Inc., and Auxly Leamington Inc. All the Company's revenues are from its Canadian operations.

25. Operating segments (continued)

In June 2023, the Company transitioned the operations of Auxly Ottawa to Auxly Leamington's facility. The Company has allocated $2,000 of assets held for sale related to the Auxly Ottawa facility. Refer to Note 26 for more information. In February 2022, the Company ceased operations at Auxly Annapolis and Auxly Annapolis OG. The Company completed the sales of the Auxly Annapolis indoor cultivation facility and the Auxly Annapolis OG outdoor cultivation facility in June and August 2022, respectively.

South American Cannabis operations – The Company's South American cannabis operations were dedicated to the cultivation of cannabis products within South America, from Inverell S.A.

For the Company's geographically segmented non-current assets, the Company classified the assets and liabilities as held for sale, under the South American cannabis CGU. Refer to Note 26 for more information.

26. Assets and liabilities held for sale

As at June 30, 2023, disposal groups held for sale includes Inverell S.A. and the Auxly Ottawa facility. In June 2023, the Company announced the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities from the Auxly Ottawa facility to the Auxly Leamington facility. The Company intends to sell Auxly Ottawa's facility and apply the proceeds from any such sale to support its ongoing operations. During the second quarter of 2023, the Company wrote down the property, plant and equipment of Auxly Ottawa's facility to its recoverable amount, resulting in an impairment of $2,588. As at June 30, 2023, the Company has allocated $2,000 of property, plant and equipment held for sale under Auxly Ottawa. Refer to Note 8 for more information. During 2022, the Company wrote off the net assets of Inverell S.A.

27. Subsequent events

a) On July 26, 2023, the Company announced an agreement with its strategic partner, Imperial Brands, to amend certain provisions of its previously issued $123 million debenture dated September 25, 2019 as amended on July 6, 2021. Imperial Brands and the Company have agreed to extend the maturity date of the debenture by 24 months from September 25, 2024 to September 25, 2026. The parties anticipate the amendment to come into effect on August 16, 2023.

   The debentures are convertible into common shares at a price of $0.81 per share at any time prior to the close of business on the business day immediately preceding maturity. Auxly remains Imperial Brands' exclusive global partner for any future development, manufacture, commercialization, sale and distribution of cannabis products.

b) As at July 26, 2023, the Company has received all necessary approvals required to implement the warrant amendments that were previously announced on February 10, 2023, and such warrant amendments are effective as of July 14, 2023. The Company amended the terms of 27,381,500 common share purchase warrants which were issued pursuant to a bought deal financing completed on June 14, 2021 to (i) reduce the exercise price to $0.045 per common share, and (ii) extend the expiry date to June 14, 2026. None of the warrants are held, directly or indirectly, by insiders.

27. Subsequent events (continued)

c) In July 2023, the Company reached a settlement, in principle, of the class action commenced against it in the Ontario Superior Court of Justice on March 28, 2019, whereby $4,000 will be paid entirely by the Company’s insurance providers to settle all claims in the action. The settlement is being made without any admission or finding of liability and is subject to court approval.