AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

Dated May 10, 2024

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:		March 31, 2024		December 31, 2023
Assets				
Current assets				
Cash and cash equivalents	$	**13,079**	$	15,608
Restricted cash (Note 4)		**707**		557
Short-term investments		**145**		143
Accounts receivable (Note 5)		**18,714**		15,827
Biological assets (Note 6)		**5,618**		5,334
Inventory (Note 7)		**24,750**		26,095
Prepaid expenses		**1,430**		1,005
Deposits (Note 11)		**577**		514
Other receivables		**829**		905
	$	**65,849**	$	65,988
Non-current assets				
Property, plant and equipment, net (Note 8)	$	**157,825**	$	158,962
Intangible assets, net (Note 9)		**29,848**		29,878
Long-term investments (Note 10)		**707**		1,095
Long-term deposits (Note 11)		**3,898**		3,981
	$	**192,278**	$	193,916
Assets held for sale (Note 26)		**2,000**		2,000
Total assets	$	**260,127**	$	261,904
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	**42,757**	$	41,303
Interest payable (Note 13)		**20,713**		21,171
Lease liability (Note 12)		**2,458**		3,823
Convertible debentures (Note 13)		**5,873**		5,755
Loans payable (Note 14)		**18,746**		54,490
Promissory notes (Note 15)		**1,286**		1,109
Other current liabilities (Note 23)		**658**		256
	$	**92,491**	$	127,907
Non-current liabilities				
Lease liability (Note 12)		**13,191**		12,485
Convertible debentures (Note 13)		**601**		59,145
Loans payable (Note 14)		**37,340**		701
Promissory notes (Note 15)		**2,232**		2,379
Deferred tax liability		**8,125**		8,125
Other non-current liabilities (Note 23)		**2,069**		115
	$	**63,558**	$	82,950
Total liabilities	$	**156,049**	$	210,857
Equity				
Share capital (Note 16)	$	**539,992**	$	446,555
Reserves (Note 16)		**103,457**		117,563
Accumulated other comprehensive income/(loss)		**(30,087)**		(29,799)
Retained earnings/(deficit)		**(509,284)**		(483,272)
Total equity	$	**104,078**	$	51,047
Total liabilities and equity	$	**260,127**	$	261,904

Going concern (Note 2); Commitments and contingencies (Note 20)

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 May 10, 2024, and were signed on its behalf by:

(s) Genevieve Young
Genevieve Young

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 three months ended March 31:		2024		2023
Revenue				
Revenue from sales of cannabis products	**$**	**38,357**	$	37,544
Excise taxes		**(13,116)**		(13,576)
Total net revenue	**$**	**25,241**	$	23,968
Cost of sales				
Cost of finished cannabis inventory sold	**$**	**15,672**	$	15,025
Inventory impairment (Note 7)		**456**		673
Gross profit/(loss) excluding fair value items	**$**	**9,113**	$	8,270
Unrealized fair value gain/(loss) on biological transformation (Note 6)	**$**	**2,773**	$	4,247
Realized fair value gain/(loss) on inventory		**(2,435)**		(4,639)
Gross profit/(loss)	**$**	**9,451**	$	7,878
Expenses				
Selling, general and administrative expenses (Note 21)	**$**	**8,621**	$	10,090
Equity-based compensation (Notes 16, 23)		**1,927**		409
Depreciation and amortization (Notes 7, 8, 9)		**1,230**		1,745
Interest and accretion expenses (Note 22)		**6,868**		5,808
Total expenses	**$**	**18,646**	$	18,052
Other income/(loss)				
Interest and other income	**$**	**19**	$	14
Gain/(loss) on settlement of assets and liabilities and other expenses		**(634)**		-
Foreign exchange gain/(loss)		**(210)**		(89)
Total other income/(loss)	**$**	**(825)**	$	(75)
Net income/(loss) before income tax	**$**	**(10,020)**	$	(10,249)
Income tax recovery/(expense) (Note 13)		**(15,992)**		-
Net income/(loss)	**$**	**(26,012)**	$	(10,249)
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)	**$**	**(288)**	$	113
Currency translation adjustment - subsequently reclassified to profit or loss		**-**		20
Total comprehensive income/(loss)	**$**	**(26,300)**	$	(10,116)
Total comprehensive income/(loss) attributable to shareholders of the Company	**$**	**(26,300)**	$	(10,120)
Total comprehensive income/(loss) attributable to non-controlling interests	**$**	**-**	$	4
Net income/(loss) per common share				
Net income/(loss) per common share - basic and diluted	**$**	**(0.03)**	$	(0.01)
Weighted average number of shares outstanding				
Basic and diluted		**1,016,839,478**		954,014,308

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

Interim Condensed Consolidated Statements of Cash Flows
Expressed in thousands of Canadian dollars
Unaudited

For the three months ended March 31:		2024		2023
Operating activities				
Net income/(loss) for the period	**$**	**(26,012)**	$	(10,249)
Items not affecting cash:				
Inventory impairment (Note 7)		**456**		673
Unrealized fair value loss/(gain) on biological transformation (Note 6)		**(2,773)**		(4,247)
Realized fair value loss/(gain) on inventory		**2,435**		4,639
Depreciation and amortization (Notes 7, 8, 9)		**2,522**		2,865
Interest and accretion expenses (Note 22)		**4,586**		3,784
Equity-based compensation (Notes 16, 23)		**1,927**		409
Unrealized foreign exchange loss/(gain)		**121**		55
Income tax expense/(recovery) (Note 13)		**15,992**		-
Loss/(gain) on settlement of assets and liabilities and other expenses		**634**		-
Cash provided by/(used in) operating activities before net non-cash working capital adjustments	**$**	**(112)**	$	(2,071)
Net change in non-cash working capital (Note 24)		**(2,122)**		5,301
Net cash provided by/(used in) operating activities	**$**	**(2,234)**	$	3,230
Investing activities				
Net proceeds from sale/(purchase) of long-term investments (Note 10)	**$**	**100**	$	-
Proceeds from sale of assets (Note 8)		**194**		-
Purchase of property, plant and equipment (Note 8)		**(305)**		(506)
Net cash provided by/(used in) investing activities	**$**	**(11)**	$	(506)
Financing activities				
Net proceeds from financings (Note 16)	**$**	**-**	$	3,134
Repayment of convertible debentures (Note 13)		**-**		(1,232)
Repayment of loans payable (Note 14)		**(1,512)**		(1,379)
Proceeds from loans payable (Note 14)		**2,500**		-
Deferred financing fees (Note 14)		**(409)**		-
Proceeds from warrants exercised (Note 16)		**90**		-
Payment on promissory notes (Note 15)		**(100)**		(300)
Payment on lease liability, net (Note 12)		**(703)**		(742)
Change in restricted cash (Note 4)		**(150)**		-
Net cash provided by/(used in) financing activities	**$**	**(284)**	$	(519)
Increase/(decrease) in cash and cash equivalents during the period	**$**	**(2,529)**	$	2,205
Cash and cash equivalents, beginning of period		**15,608**		14,636
Cash and cash equivalents, end of period	**$**	**13,079**	$	16,841

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

Interim Condensed Consolidated Statements of Changes in Equity

Expressed in thousands of Canadian dollars
Unaudited

For the three months ended March 31:		2024		2023
Share capital				
Balance, beginning of period	$	**446,555**	$	444,762
Shares issued on exercise of Imperial Brands convertible debentures (Note 13)		**93,319**		-
Shares issued on private placement (Note 16)		**-**		1,793
Fair value transfer on exercise of warrants (Note 16)		**118**		-
Share capital, end of period	$	**539,992**	$	446,555
Reserves				
Convertible debentures				
Balance, beginning of period	$	**34,311**	$	34,306
Fair value transfer to shares upon conversion, net of taxes (Note 13)		**(14,259)**		-
Convertible debentures, end of period	$	**20,052**	$	34,306
Warrants				
Balance, beginning of period	$	**43,752**	$	42,411
Warrants issued on private placement (Note 16)		**-**		1,341
Fair value transfer to shares upon conversion (Note 16)		**(28)**		-
Warrants, end of period	$	**43,724**	$	43,752
Contributed surplus				
Balance, beginning of period	$	**39,500**	$	38,230
Employee share options:				
Stock options (Notes 16, 23)		**63**		114
Restricted share units (Notes 16, 23)		**118**		295
Contributed surplus, end of period	$	**39,681**	$	38,639
Reserves, end of period	$	**103,457**	$	116,697
Accumulated other comprehensive income/(loss)				
Balance, beginning of period	$	**(29,799)**	$	(30,542)
Fair value changes in long-term investments (Note 10)		**(288)**		113
Currency translation adjustment		**-**		16
Accumulated other comprehensive income/(loss), end of period	$	**(30,087)**	$	(30,413)
Retained earnings/(deficit)				
Attributable to the Company				
Balance, beginning of period	$	**(483,272)**	$	(438,761)
Net income/(loss) attributable to the Company		**(26,012)**		(10,249)
Ending retained earnings/(deficit) attributable to the Company		**(509,284)**		(449,010)
Attributable to non-controlling interests				
Balance, beginning of period	$	**-**	$	(4,719)
Currency translation adjustment		**-**		4
Ending retained earnings/(deficit) attributable to non-controlling interests		**-**		(4,715)
Retained earnings/(deficit), end of period	$	**(509,284)**	$	(453,725)
Equity, end of period	$	**104,078**	$	79,114

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”) under the symbol “XLY”. 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.

2. Basis of preparation

Going concern uncertainty

The Company's 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 March 31, 2024, the Company had total cash and cash equivalents of $13,079, negative working capital of $26,642 and cash flow used in operating activities of $2,234 for the three months ended March 31, 2024. The Company 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 and/or if the Company’s selling, general and administrative expenses increase. The Company’s ability to sustain 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 considered all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following March 31, 2024. 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 reduce 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 cannabis market, overall negative investor sentiment in light of inflation and global conflict. Accordingly, there can be no assurance that the Company will achieve profitability or secure financing on terms favourable to the Company or at all.

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

2. Basis of preparation (continued)

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 consolidated financial statements should such events impair the Company's ability to continue as a going concern.

Statement of compliance

These interim condensed consolidated 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, 2023.

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, 2023, 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, 2023. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on May 10, 2024.

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.

The interim condensed consolidated financial statements of the Company include:

Subsidiaries	Equity interests
Auxly Charlottetown Inc.	100%
Auxly Ottawa Inc.	100%
Auxly Leamington Inc.	100%

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.

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

3. Material accounting information

Adoption of new accounting pronouncements

Amendments to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

In January 2020 and October 2022, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those that will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2024, with early adoption permitted, and the amendments are to be applied retrospectively. The Company adopted the amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1"), effective January 1, 2024, and reclassified comparative figures. As at March 31, 2024, interest payable of $20,596 (December 31, 2023 – $20,935) related to the Imperial convertible debentures has been classified as current liabilities as a result of the amendments to IAS 1. Refer to Note 13 for more information.

4. Restricted cash

As at March 31, 2024, Auxly has restricted cash of $707 (December 31, 2023 – $557). Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of $557 (December 31, 2023 – $557) as collateral on behalf of Auxly Leamington Inc. ("Auxly Leamington") in order to supply power to the facility. As part of the Amendment Agreement (as defined and further described in Note 14) with the Bank of Montreal, the Company also retained $150 (December 31, 2023 – $nil) as cash reserves.

5. Accounts receivable

Accounts receivable comprise the following:

	As at March 31, 2024	As at December 31, 2023
Less than 30 days past billing date	**$ 13,379**	$ 11,881
31 to 60 days past billing date	**5,121**	3,673
61 to 90 days past billing date	**233**	300
Over 90 days past billing date	**174**	172
	$ 18,907	$ 16,026
Sales provision	**(193)**	(199)
Total	**$ 18,714**	$ 15,827

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

6. Biological assets

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

Balance, December 31, 2022	**$**	**7,505**
Changes in fair value less cost to sell due to biological transformation		16,207
Capitalized production costs		18,901
Transferred to inventory upon harvest		(37,279)
Balance, December 31, 2023	**$**	**5,334**
Changes in fair value less cost to sell due to biological transformation		2,773
Capitalized production costs		4,376
Transferred to inventory upon harvest		(6,865)
Balance, March 31, 2024	**$**	**5,618**

As at March 31, 2024, the Company's cannabis plants were on average 52% complete through their estimated 13-week growing cycle.

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 March 31, 2024			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	\$0.05–\$0.95 dollars	Increase/decrease \$0.10/gram	Increase/decrease \$1,567
Average yield per plant	116 grams	Increase/decrease 10%	Increase/decrease \$891
Post-harvest cost per gram	\$0.08 dollars	Increase/decrease \$0.01/gram	Decrease/increase \$157

As at December 31, 2023			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	\$0.05–\$0.95 dollars	Increase/decrease \$0.10/gram	Increase/decrease \$1,389
Average yield per plant	114 grams	Increase/decrease 10%	Increase/decrease \$789
Post-harvest cost per gram	\$0.08 dollars	Increase/decrease \$0.01/gram	Decrease/increase \$139

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

7. Inventory

The following is a breakdown of inventory:

		As at March 31, 2024		As at December 31, 2023
Dried cannabis				
Work-in-process	**$**	**8,405**	$	9,045
Finished goods		**2,613**		2,805
Cannabis oil				
Work-in-process		**2,511**		3,312
Generation 2 derivative products				
Work-in-process		**173**		230
Finished goods		**2,779**		2,652
Merchandise products		**436**		432
Packaging, hardware, consumables and ingredients		**7,833**		7,619
Total	**$**	**24,750**	$	26,095

As at March 31, 2024, the Company recognized $24,750 (December 31, 2023 – $26,095) of inventory on the interim condensed consolidated statements of financial position, including $2,386 non-cash income (December 31, 2023 – $2,175) relating to the fair value less cost to sell transferred to inventory upon harvest. During the three months ended March 31, 2024, inventory expensed to cost of sales was $15,257 (2023 – $14,484).

Depreciation capitalized into inventory during the three months ended March 31, 2024 was $1,375 (2023 – $1,894). Cost of sales for the three months ended March 31, 2024 included $1,292 (2023 – $1,120) of depreciation.

In the three months ended March 31, 2024, the Company recognized a loss of $456 (2023 – $673) 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, 2023	$ 3,527	$ 21,571	$ 31,049	$ 124,804	$ -	$ 4,127	$ 20,349	**$ 205,427**
Additions	-	-	263	-	42	-	1,384	**1,689**
Disposals	-	-	(427)	-	-	-	-	**(427)**
March 31, 2024	**$ 3,527**	**$ 21,571**	**$ 30,885**	**$ 124,804**	**$ 42**	**$ 4,127**	**$ 21,733**	**$ 206,689**
Accumulated depreciation:								
December 31, 2023	$ 2,780	$ 4,878	$ 12,627	$ 11,506	$ -	$ 27	$ 12,647	**$ 44,465**
Depreciation	70	246	821	1,114	-	-	324	**2,575**
Disposals	-	-	(176)	-	-	-	-	**(176)**
March 31, 2024	**$ 2,850**	**$ 5,124**	**$ 13,272**	**$ 12,620**	**$ -**	**$ 27**	**$ 12,971**	**$ 46,864**
Adjustments:								
Reclassification to assets held for sale (Note 26)	-	-	-	(2,000)	-	-	-	**(2,000)**
Carrying amounts								
March 31, 2024	**$ 677**	**$ 16,447**	**$ 17,613**	**$ 110,184**	**$ 42**	**$ 4,100**	**$ 8,762**	**$ 157,825**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023
Expressed in thousands of Canadian dollars, except share and per share amounts
Unaudited

8. Property, plant and equipment (continued)

	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	90	-	2,950	401	105	-	112	**3,658**
Disposals	-	-	(34)	-	-	-	-	**(34)**
Transfers	39	-	-	1,155	(1,194)	-	-	**-**
Currency translation	12	(19)	(42)	69	-	62	1	**83**
Impairment	(237)	(8,267)	(10,289)	(2,303)	-	(13)	(3,796)	**(24,905)**
December 31, 2023	**$ 3,527**	**$ 21,571**	**$ 31,049**	**$ 124,804**	**$ -**	**$ 4,127**	**$ 20,349**	**$ 205,427**
Accumulated depreciation:								
December 31, 2022	$ 2,352	$ 3,430	$ 7,979	$ 6,945	$ -	$ 27	$ 10,618	**$ 31,351**
Depreciation	428	1,448	4,660	4,561	-	-	2,029	**13,126**
Disposals	-	-	(12)	-	-	-	-	**(12)**
December 31, 2023	**$ 2,780**	**$ 4,878**	**$ 12,627**	**$ 11,506**	**$ -**	**$ 27**	**$ 12,647**	**$ 44,465**
Adjustments:								
Reclassification to assets held for sale (Note 26)	-	-	-	(2,000)	-	-	-	**$ (2,000)**
Carrying amounts								
December 31, 2023	**$ 747**	**$ 16,693**	**$ 18,422**	**$ 111,298**	**$ -**	**$ 4,100**	**$ 7,702**	**$ 158,962**

Property, plant and equipment additions for the three months ended March 31, 2024 include a $1,384 (2023 – $112) non-cash recognition of right-of-use asset. Property, plant and equipment as at March 31, 2024 include $1,942 (December 31, 2023 – $1,942) of equipment to be settled on deferred payment terms.

9. Intangible assets

Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Other	Total
Cost:						
December 31, 2023 and March 31, 2024	**$ 14,016**	**$ 10,340**	**$ 17,371**	**$ 284**	**$ 4,199**	**$ 46,210**
Accumulated amortization:						
December 31, 2023	$ 14,016	$ -	$ -	$ 284	$ 2,032	**$ 16,332**
Amortization	-	-	-	-	30	**30**
March 31, 2024	**$ 14,016**	**$ -**	**$ -**	**$ 284**	**$ 2,062**	**$ 16,362**
Carrying amounts						
March 31, 2024	**$ -**	**$ 10,340**	**$ 17,371**	**$ -**	**$ 2,137**	**$ 29,848**

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

9. Intangible assets (continued)

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Other	Total
Cost:						
December 31, 2022	$ 17,346	$ 14,461	$ 24,293	$ 712	$ 4,199	**$ 61,011**
Impairment	(3,330)	(4,121)	(6,922)	(428)	-	**(14,801)**
December 31, 2023	**$ 14,016**	**$ 10,340**	**$ 17,371**	**$ 284**	**$ 4,199**	**$ 46,210**
Accumulated amortization:						
December 31, 2022	$ 13,398	$ -	$ -	$ 238	$ 1,909	**$ 15,545**
Amortization	618	-	-	46	123	**787**
December 31, 2023	**$ 14,016**	**$ -**	**$ -**	**$ 284**	**$ 2,032**	**$ 16,332**
Carrying amounts						
December 31, 2023	**$ -**	**$ 10,340**	**$ 17,371**	**$ -**	**$ 2,167**	**$ 29,878**

10. Long-term investments

Entity	Instrument	Classification	Balance as at December 31, 2023	Fair value change	Purchases/ (sales)	Balance as at March 31, 2024
Cannabis OneFive Inc.	Shares	FVOCI	1,095	(288)	(100)	707
Total			**$ 1,095**	**$ (288)**	**$ (100)**	**$ 707**

Entity	Instrument	Classification	Balance as at December 31, 2022	Fair value change	Purchases/ (sales)	Balance as at December 31, 2023
VIVO Cannabis Inc.	Shares	FVOCI	$ 13	$ -	$ (13)	$ -
MediPharm Labs Corp.	Shares	FVOCI	-	(3)	3	-
Cannabis OneFive Inc.	Shares	FVOCI	1,030	65	-	1,095
Wellbeing Digital Sciences Inc.	Shares	FVOCI	30	(30)	-	-
Herbal Dispatch Inc.	Shares	FVOCI	17	-	(17)	-
Total			**$ 1,090**	**$ 32**	**$ (27)**	**$ 1,095**

11. Deposits

	Capital assets	Inventory	Other	Total
Current portion	$ -	$ 446	$ 131	**$ 577**
Non-current portion	70	-	3,828	**3,898**
As at March 31, 2024	**$ 70**	**$ 446**	**$ 3,959**	**$ 4,475**

	Capital assets	Inventory	Other	Total
Current portion	$ -	$ 391	$ 123	**$ 514**
Non-current portion	169	-	3,812	**3,981**
As at December 31, 2023	**$ 169**	**$ 391**	**$ 3,935**	**$ 4,495**

As at March 31, 2024, the Company has made deposits towards excise bonds, vape cartridge purchases, cultivation supply purchases, and building enhancements at Auxly Leamington to support higher and consistent output.

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

12. Lease liability

		As at March 31, 2024		As at December 31, 2023
Balance, beginning of period	$	16,308	$	19,119
Additions		1,384		112
Payments		(882)		(3,753)
Interest expense		179		830
Transfer to accounts payable and accrued liabilities		(1,340)		-
Balance, end of period	$	15,649	$	16,308

		As at March 31, 2024		As at December 31, 2023
Maturity analysis – contractual undiscounted cash flows				
Less than one year	$	3,277	$	4,488
Two years and beyond		16,702		15,632
Total undiscounted lease obligations	$	19,979	$	20,120
Current portion	$	2,458	$	3,823
Long-term portion		13,191		12,485
Discounted lease obligations included in the interim condensed consolidated statements of financial position	$	15,649	$	16,308

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.

13. Convertible debentures

The convertible debentures balance consists of the following:

		As at March 31, 2024		As at December 31, 2023
Imperial Brands	$	601	$	59,145
Standby financing		5,873		5,755
Total	$	6,474	$	64,900
Less: current portion		5,873		5,755
Long-term portion	$	601	$	59,145

Imperial Brands

In September 2019, the Company issued unsecured convertible debenture units in the aggregate amount of $122,851 to Imperial Brands PLC (“Imperial”) 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.

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

13. Convertible debentures (continued)

In April 2021, the Company announced an agreement with Imperial 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 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 preceding maturity. The amendment also provides for the reinstatement of certain approval rights of Imperial under the investor rights agreement dated September 25, 2019 between the Company and Imperial. 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.

On August 21, 2023, the Company and Imperial amended the debentures to extend the maturity of the debentures by 24 months from September 25, 2024 to September 25, 2026. The amended 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. The 2023 amendment was treated as a debt extinguishment under IFRS 9, *Financial Instruments* ("IFRS 9"), as the discounted present value of 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 discount rate used to calculate the net present value of convertible debentures is based on management's best estimate of an approximate industry peer group weighted cost of capital and management's best estimate of the Company's risk levels. During 2023, the net impact of the debt extinguishment and the recognition of the amended debentures resulted in a gain of $46,889 recorded in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

Details of the Imperial debentures amendments are presented below:

		2023 Amendment		2021 Amendment
Carrying value of debentures derecognized	$	110,480	$	115,123
New debentures recorded at fair value	$	74,141	$	91,111
Estimated market interest rate		27.5%		16.0%
Equity conversion feature, net of taxes (residual value of gross proceeds)	$	5	$	5,418

During the first quarter of 2024, Imperial, through its wholly owned subsidiary, provided the Company with notice of its election to convert (i) $121,851 of the principal amount outstanding under the $122,851 unsecured convertible debentures and (ii) $1,565 of accrued interest under the unsecured convertible debentures (together defined as "Imperial Debt Conversion"). On March 28, 2024, the Company completed the conversion of the $121,851 principal amount into 150,433,450 common shares at the exercise price of $0.81 per share and the conversion of $1,565 of accrued interest into 90,882,667 common shares at a price of $0.017 per share.

13. Convertible debentures (continued)

Following the Imperial Debt Conversion, (i) a principal amount of $1,000 remains outstanding under the unsecured convertible debentures convertible at $0.81 per share and due on September 25, 2026; (ii) $20,596 of accrued interest due on September 25, 2026 remains outstanding, and will not accrue further interest thereon; and (iii) Imperial owns approximately 19.8% of the Company's common shares. Imperial and Auxly also amended the existing amended and restated investor rights agreement dated July 6, 2021 between the parties to, among other things, remove the existing requirement that Imperial will use the Company as its exclusive cannabis partner.

The Imperial Debt Conversion resulted in a reclassification of $63,068 from liabilities to equity and a reclassification of $30,251 from reserves to share capital in the interim condensed consolidated statements of financial position. The Company recorded a deferred tax expense of $15,992, with a corresponding release from reserves. As a result of the amendments to IAS 1 effective January 1, 2024, the accrued interest of $20,596 as at March 31, 2024 (December 31, 2023 – $20,935) has been classified as current interest payable in the interim condensed consolidated statements of financial position. Imperial may elect to convert all or part of the accrued interest into common shares.

The associated accretion expense for the three months ended March 31, 2024 was $2,959 (2023 – $2,394). Interest expense for the three months ended March 31, 2024 was $1,225 (2023 – $1,212).

Standby financing

On April 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 Company 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 March 31, 2024, 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 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.

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

13. Convertible debentures (continued)

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 feature 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 three years for the warrants.

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

		As at March 31, 2024		As at December 31, 2023
Balance, beginning of period	$	5,755	$	6,542
Accretion expense		118		445
Principal payment		-		(1,232)
Balance, end of period	$	5,873	$	5,755

The accretion expense associated with the debentures for the three months ended March 31, 2024 was $118 (2023 – $116). Interest expense for the three months ended March 31, 2024 was $117 (2023 – $270).

14. Loans payable

The loans payable balance consists of the following:

		As at March 31, 2024		As at December 31, 2023
Amended and Restated Credit Facility	$	42,852	$	44,129
Equipment loans payable		1,658		2,145
Receivables financing loan		6,712		6,613
Inventory financing loan		4,864		2,304
Total	$	56,086	$	55,191
Less: current portion		18,746		54,490
Long-term portion	$	37,340	$	701

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 Company's consolidated financial statements for the year ended December 31, 2023, the Company was in breach of certain reporting covenants under the Amended and Restated Credit Facility due to the inclusion of going concern qualifications. The Company has received a waiver from the syndicate of lenders for such breach.

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

14. Loans payable (continued)

The credit facility consisted 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 was extended by a year to September 30, 2023. 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. Under the amended agreement, the obligations of Auxly Leamington continue to be secured by collateral and supported by an unsecured $33,000 limited recourse guarantee provided by the Company.

Between September 29, 2023 and December 28, 2023, the Company received three interim extensions of the maturity date of the Amended and Restated Credit Facility from September 30, 2023 to January 31, 2024, as the Company and the lenders worked towards a formal credit amendment.

On January 31, 2024, the Company, Auxly Leamington and the Bank of Montreal signed a definitive agreement (the "Amendment Agreement") to amend and restate the Amended and Restated Credit Facility. The maturity date of the Amended and Restated Credit Facility was extended by two years until December 31, 2025, and includes an option by the Company to extend the maturity date for an additional year, to December 31, 2026, by making a further $2,500 principal repayment by December 31, 2025. The Amendment Agreement includes updated financial and operational covenants that the Company shall maintain at all times. The quarterly principal payments on the Term Credit have been revised with increased quarterly principal payments throughout the term. Under the Amendment Agreement, the obligations of Auxly Leamington continue to be secured by collateral and supported by an unsecured $33,000 limited recourse guarantee provided by the Company. The Company recorded deferred financing charges of $469 on the amendment with a balance of $252 as at March 31, 2024 (December 31, 2023 – $171).

The interim extensions and the Amendment Agreement were treated as debt modifications under IFRS 9 as the terms were not substantially different and the discounted present value of cash flows under the extension is less than 10% different from the discounted present value of the remaining cash flow of the original financial liability.

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

		As at March 31, 2024		As at December 31, 2023
Balance, beginning of period	**$**	**44,129**	$	48,150
Deferred financing fees		**(308)**		(191)
Deferred financing fees amortization		**56**		20
Payments		**(1,025)**		(3,850)
Balance, end of period	**$**	**42,852**	$	44,129
Less: current portion		**5,990**		44,129
Long-term portion	**$**	**36,862**	$	-

Interest expense on the Amended and Restated Credit Facility for the three months ended March 31, 2024 was $1,160 (2023 – $1,114).

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

14. 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 one and three years, with interest ranging from 9.47% to 16.54% per annum. The continuity schedule of the equipment loans is presented below:

		As at March 31, 2024		As at December 31, 2023
Balance, beginning of period	**$**	**2,145**	$	3,828
Additions		**-**		64
Payments		**(552)**		(2,146)
Interest expense		**65**		399
Balance, end of period	**$**	**1,658**	$	2,145
Less: current portion		**1,180**		1,444
Long-term portion	**$**	**478**	$	701

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, and therefore continues to recognize the transferred assets in their entirety in its consolidated statements of financial position.

On January 21, 2024, the Company entered into an agreement with Savent to extend the maturity date of the receivables financing agreement by six months from January 21, 2024 to July 21, 2024. The Company recorded deferred financing charges of $101 with a balance of $63 as at March 31, 2024 (December 31, 2023 – $nil). 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.

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three months ended March 31, 2024 was $304 (2023 – $301).

Inventory financing loan

On October 19, 2023, Auxly Ottawa Inc. ("Auxly Ottawa") and Auxly Charlottetown Inc. ("Auxly Charlottetown"), as borrowers, entered into an inventory financing agreement with GrassHopper Capital Inc. ("GrassHopper") whereby GrassHopper agreed to loan an aggregate principal amount of $5,000 that matures in 12 months. As of March 31, 2024, the principal amount has been fully advanced, including the second tranche of $2,500, which was advanced during the first quarter of 2024 upon the satisfaction of certain conditions. Obligations of the borrowers under the agreement are secured by a first-priority security interest in all cannabis inventory and are guaranteed by the Company. The Company will retain the risk of inventory impairment, and therefore will continue to recognize the transferred assets in their entirety in its interim condensed consolidated statements of financial position.

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

14. Loans payable (continued)

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three months ended March 31, 2024 was $178 (2023 – $nil). The Company recorded deferred financing charges of $240 in 2023 with a balance of $136 as at March 31, 2024 (December 31, 2023 – $196).

15. Promissory notes

The promissory notes balance consists of the following:

		As at March 31, 2024		As at December 31, 2023
Fresh Energy Agreement	**$**	**866**	$	943
Due to Peter Quiring		**2,652**		2,545
Total	**$**	**3,518**	$	3,488
Less: current portion		**1,286**		1,109
Long-term portion	**$**	**2,232**	$	2,379

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

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 March 31, 2024, the Company has repaid $2,463 of principal owing under the Fresh Energy promissory note.

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. Such unsecured promissory note bears interest of 6.0% per annum and was originally payable in monthly instalments of $210 for 18 months, starting December 2022. In June 2023, 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 6.0% 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 is at least 10% 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 was 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).

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

15. Promissory notes (continued)

Subsequent to quarter end, both the Fresh Energy promissory note and the unsecured promissory note issued to Peter Quiring were amended. Refer to Note 27 for more information.

The continuity schedule of the promissory notes is presented below:

	As at March 31, 2024	As at December 31, 2023
Balance, beginning of period	$ 3,488	$ 5,276
Transfer from contingent consideration payable	-	500
Payments	(100)	(1,200)
Interest and accretion expense	130	390
Change in fair value	-	(1,478)
Balance, end of period	$ 3,518	$ 3,488

16. Share capital

The share capital of the Company is summarized below:

	March 31, 2024	December 31, 2023
Issued and outstanding shares		
Issued shares	1,251,348,802	1,013,138,454
Escrowed shares	1,888,421	6,994,190
Outstanding shares	1,249,460,381	1,006,144,264

	March 31, 2024	December 31, 2023
Outstanding securities		
Warrants	156,059,949	187,977,199
Convertible debentures	46,481,002	196,914,452
Options	21,535,803	19,721,837
Restricted share units	51,286,687	51,286,687

a) Authorized

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

b) Issued and outstanding

As at March 31, 2024, there were 1,251,348,802 issued and outstanding common shares, with 1,888,421 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2023 had 1,013,138,454 issued and outstanding common shares, and 6,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

On February 8, 2024, 5,105,769 common shares issued as part of the acquisition of Inverell in 2019 were released from escrow, cancelled and returned to the treasury of the Company.

On March 28, 2024, 241,316,117 common shares were issued as part of the Imperial Debt Conversion whereby 150,433,450 convertible debenture units and $1,565 of accrued interest were converted into 90,882,667 common shares. Refer to Note 13 for more information.

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

16. 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 March 31, 2024:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2023	**122,510,533**	**0.444**	**1.37**
Warrants issued	96,000,000	0.045	4.13
Warrants cancelled	(30,533,334)	0.707	-
Closing balance, December 31, 2023	**187,977,199**	**0.149**	**2.67**
Warrants exercised	(2,000,000)	0.045	-
Warrants expired	(29,917,250)	0.452	-
Closing balance, March 31, 2024	**156,059,949**	**0.092**	**2.90**

On March 28, 2024, 2,000,000 warrants from the February 2023 private placement were exercised. Each warrant entitled the investor to purchase one common share at the price of $0.045 per common share. The Company recorded proceeds of $90 in the interim condensed consolidated statements of cash flow.

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 125,134,880 as at March 31, 2024.

The following table summarizes information about stock options outstanding as at March 31, 2024:

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2023	**24,773,639**	**0.777**	**3.76**
Options granted	1,414,367	0.091	4.61
Options forfeited	(6,466,169)	0.823	-
Closing balance, December 31, 2023	**19,721,837**	**0.713**	**2.95**
Options granted	2,000,000	0.025	4.80
Options expired	(135,000)	0.840	-
Options forfeited	(51,034)	0.814	-
Closing balance, March 31, 2024	**21,535,803**	**0.646**	**2.47**

During the first quarter of 2024, the Company granted 2,000,000 options, at an exercise price of $0.025 per share, exercisable in five years. Total options exercisable as at March 31, 2024 were 16,411,695 (December 31, 2023 – 15,595,229) with a remaining average life of 2.36 years (December 31, 2023 – 2.91 years). During the three months ended March 31, 2024, the Company recorded equity-based compensation of $63 for stock options (2023 – $114). Refer to Note 23 for more information.

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

16. Share capital (continued)

e) Restricted share units

The issuance of restricted share units ("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.

The following table summarizes information about the RSUs outstanding as at March 31 2024:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
Opening balance, January 1, 2023	**62,088,353**	**0.091**	**1.48**
RSUs settled	(5,030,615)	0.091	-
RSUs forfeited	(5,771,051)	0.091	-
Closing balance, December 31, 2023	**51,286,687**	**0.091**	**1.00**
Closing balance, March 31, 2024	**51,286,687**	**0.091**	**0.75**

RSUs are measured at their intrinsic fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and are recognized as an equity-based compensation expense over the vesting period, based on the number of awards expected to vest. During the three months ended March 31, 2024, the Company recorded equity-based compensation of $118 (2023 – $295) for RSUs. As at March 31, 2024, the unrecognized equity-based compensation related to the issued RSU was $259 (2023 – $1,130), which will be recognized over the remaining life as the RSUs vest. Refer to Note 23 for more information.

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 year attributable to the shareholders divided by the weighted average number of shares in circulation during the year. 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.

17. 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 include 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.

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

17. Related party balances and transactions (continued)

Compensation provided to current and key management personnel is as follows:

For the three months ended March 31:		2024		2023
Short-term benefits	**$**	**436**	$	442
Long-term benefits		**1,280**		260
Total	**$**	**1,716**	$	702

18. 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.

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		-		-		5,618		5,618
Private company shares		-		-		707		707
Balance, March 31, 2024	**$**	**145**	**$**	**-**	**$**	**6,325**	**$**	**6,470**

		Level 1		Level 2		Level 3		Total
Short-term investments	$	143	$	-	$	-	$	143
Biological assets		-		-		5,334		5,334
Private company shares		-		-		1,095		1,095
Balance, December 31, 2023	**$**	**143**	**$**	**-**	**$**	**6,429**	**$**	**6,572**

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 current liabilities, other non-current liabilities, promissory notes, loans payable and convertible debentures.

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

18. Financial instruments and risk management (continued)

As at March 31, 2024, the carrying values of cash and cash equivalents, restricted cash and short-term investments are measured at fair value. The carrying values of accounts receivable, accounts payable and accrued liabilities, and other receivables 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. The carrying values of other current liabilities and other non-current liabilities are measured at their fair value at each reporting period, based on the closing price of the Company's common shares on the reporting period.

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 fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase/(decrease) in the share price would have increased/(decreased) equity by $71/($71) before tax (December 31, 2023 – $110/($110)).

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 $71/($71) (December 31, 2023 – $110/($110)).

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, 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 $70/($70) for the three months ended March 31, 2024 (2023 – $58/($58)).

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.

18. Financial instruments and risk management (continued)

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 March 31, 2024, the Company has insufficient cash to fund its operations for the next twelve months if the Company's sales materially decline and/or the debt obligations mature 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/(loss) by $28/($28) (December 31, 2023 – $69/($69)).

19. 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 period.

20. Commitments and contingencies

Commitments

As at March 31, 2024, 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 the 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 €1,321 in 2024 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities;

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

20. Commitments and contingencies (continued)

- Annual payments estimated to range from $131 to $148 for a minimum annual volume requirement with Union Gas, with the agreement ending August 1, 2029; and
- Annual payments of $73 until 2025 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 2024	Fiscal year 2025	Fiscal year 2026	Fiscal year 2027	Thereafter	Total
Lease obligations	$ 2,491	$ 3,158	$ 3,182	$ 2,397	$ 8,751	**$ 19,979**
Loans payable obligations	12,847	44,847	-	-	-	**57,694**
Promissory note obligations	1,200	1,200	1,200	1,136	-	**4,736**
Convertible debenture obligations	6,535	20,666	1,030	-	-	**28,231**
Total	**$ 23,073**	**$ 69,871**	**$ 5,412**	**$ 3,533**	**$ 8,751**	**$ 110,640**

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 March 31, 2024, the Company has recorded a provision of $1,767 related to this claim.

21. Selling, general and administrative expenses

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

For the three months ended March 31:	2024	2023
Wages and benefits	**$ 4,277**	$ 4,664
Office and administrative	**1,362**	2,284
Professional fees	**455**	798
Business development	**135**	80
Selling expenses	**2,392**	2,264
Total	**$ 8,621**	$ 10,090

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

22. Interest and accretion expenses

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

For the three months ended March 31:	2024	2023
Total interest expense	**$ 6,868**	$ 5,808
Less non-cash interest on Imperial Brands convertible debentures	**(1,225)**	(1,212)
Less non-cash accretion expense on convertible debentures	**(3,077)**	(2,510)
Less non-cash interest and accretion on promissory notes	**(130)**	(62)
Less deferred financing fees amortization	**(154)**	-
Total cash interest	**$ 2,282**	$ 2,024

23. Equity-based compensation

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

For the three months ended March 31:	2024	2023
Stock options	**$ 63**	$ 114
Restricted share units	**118**	295
Cash Settled restricted share units	**1,746**	-
Total equity-based compensation	**$ 1,927**	$ 409

During 2023, the Company issued 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 RSUs ("Cash Settled RSUs"). For Cash Settled RSUs, the fair value of the RSUs is recognized as an 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. As at March 31, 2024, the Company recorded $658 as other current liabilities (December 31, 2023 – $256) and $1,459 was recorded as other non-current liabilities (December 31, 2023 – $115) in the interim condensed consolidated statements of financial position related to Cash Settled RSUs.

The following table summarizes information about the Cash Settled RSUs:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
Opening balance, January 1, 2023	**-**	**-**	**-**
RSUs issued	213,328,178	0.018	1.46
RSUs forfeited	(37,150,116)	0.018	-
Closing balance, December 31, 2023	**176,178,062**	**0.018**	**1.46**
RSUs forfeited	(434,772)	0.018	-
Closing balance, March 31, 2024	**175,743,290**	**0.018**	**1.39**

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

24. Changes in non-cash working capital

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

For the three months ended March 31:		**2024**		2023
Short-term investments	**$**	**(2)**	$	(1)
Accounts receivable		**(2,887)**		765
Other receivables		**76**		100
Prepaid expenses		**(405)**		(3,784)
Interest payable		**(118)**		(92)
Biological assets (Note 6)		**2,489**		4,313
Inventory (Note 7)		**(1,463)**		(3,177)
Accounts payable and accrued liabilities		**188**		7,177
Total	**$**	**(2,122)**	$	5,301

25. Operating segments

Management evaluates and makes decisions on the operating performance by segment. The Company currently has one operating segment. The Company's Canadian cannabis operations are dedicated to the cultivation and sale of cannabis products within Canada, and include Auxly Charlottetown, Auxly Ottawa and Auxly Leamington. All the Company's revenues are from its Canadian operations.

During the fourth quarter of 2023, the Company disposed of its interest in its South America cannabis operations, which was dedicated to the cultivation of cannabis products within South America, through Inverell S.A.

26. Assets and liabilities held for sale

As at March 31, 2024, assets held for sale include the Auxly Ottawa facility. In May 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 in Carleton Place, Ontario to the Auxly Leamington facility, and the Auxly Ottawa facility was subsequently closed in November 2023. The Company intends to sell the Auxly Ottawa 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 March 31, 2024, the Company has allocated $2,000 of property, plant and equipment held for sale under Auxly Ottawa. Refer to Note 8 for more information.

27. Subsequent events

Subsequent to March 31, 2024, the Company and Fresh Energy entered into a second agreement to amend the Fresh Energy Promissory Note to revise the payment schedule for the remaining principal outstanding. Under the revised payment plan, the monthly instalments were reduced to $25 for 12 months beginning March 15, 2024 and resume to $100 until the outstanding amount is repaid. The maturity date of the amended Fresh Energy Promissory Note is July 15, 2025.

Subsequent to March 31, 2024, the unsecured note owing to Peter Quiring was amended for a second time, such that the Company will be required to pay monthly instalments of $100, starting in August 2025 and maturing in November 2028, and a one-time payment of $72 on the maturity date of the note. The unsecured promissory note bears interest of 8.0% per annum between November 2024 and August 2025, and 6.0% per annum starting in August 2025.