AUXLY CANNABIS GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

Dated March 20, 2025

Independent auditor's report

To the Shareholders of

Auxly Cannabis Group Inc.

Opinion

We have audited the consolidated financial statements of **Auxly Cannabis Group Inc.** and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2024 and 2023, and the consolidated statements of income/(loss) and comprehensive income/(loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2024 and 2023 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards [IFRS].

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group had total cash and cash equivalents of $18.4 million, and negative working capital of $46.7 million as at December 31, 2024. As stated in Note 2, these events or conditions, along with other matters set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
Annual impairment test	
As at December 31, 2024, the total carrying value of indefinite life intangible assets was $27.7 million. Management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of these assets. The Group performs their annual impairment test as of December 31 and estimates the recoverable amount of the cash generating unit ("CGU") to which indefinite life intangible assets have been allocated using a discounted cash flow model. The Group discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in note 9 to the consolidated financial statements. Auditing management's annual impairment test was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the CGU. Significant assumptions included revenue growth rates, earnings margin, terminal growth rate and the discount rate, which are affected by expectations about future market and economic conditions.	To test the estimated recoverable amount of the Canadian Cannabis CGU, our audit procedures included, among others: • We evaluated the historical accuracy of management's estimates on revenue growth rates and earnings margins by comparing management's past projections to actual performance; • We compared management's estimated revenue growth rates and the earnings margins to current industry, market and economic trends; • With the assistance of our valuation specialists, we assessed the Group's impairment model, valuation methodology, and certain significant assumptions, including the discount rate, by considering comparable company information and compared the aggregate recoverable amount of the CGU to the Group's market capitalization; • We assessed the adequacy of the Group's disclosures included in note 9 of the accompanying consolidated financial statements in relation to this matter.
Valuation of unrealized fair value gain/(loss) on biological asset transformation	
For the year ended December 31, 2024, the Group recognized unrealized fair value gain/(loss) on biological transformation for the year of $32.6 million. The Group discloses its accounting policies with relation to biological assets in note 3, and the significant components and assumptions in note 6 to the consolidated financial statements. Auditing management's measurement of the unrealized fair value gain/(loss) on biological asset transformation is complex due to the use of complex models (the "model"). The valuation of unrealized fair value gain/(loss) on biological asset transformation is a key audit matter given the subjectivity and sensitivity of significant assumptions including average selling	To test the measurement of unrealized fair value gain / (loss) on biological asset transformation, our audit procedures included, among others: • We evaluated the incorporation of the source data into the model, including comparing the average selling price to external sales, and through performing a lookback to historical actual results for the following assumptions: cost to complete production, yield, and product mix; • We tested the formulas used and the computational accuracy of the model; • We tested management's calculation of cost to complete production by assessing the appropriateness of the allocation method and

price, estimated costs to complete production, the weighted average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant (the "yield"), and the expected product mix. These assumptions are influenced by the market and historical output.

the appropriateness of utilization and recalculating the allocations;

- We tested the historical accuracy of production quantities supporting assumptions through observation and inspection of harvesting process and related documentation on a sample basis;
- We assessed the adequacy of the Group's disclosures included in notes 3 and 6 of the accompanying consolidated financial statements in relation to this matter.

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Kwan-Ho Song.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 20, 2025

Consolidated Statements of Financial Position

Expressed in thousands of Canadian dollars

As at:	December 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	**$ 18,356**	$ 15,608
Restricted cash (Note 4)	**557**	557
Short-term investments	**143**	143
Accounts receivable (Note 5)	**21,751**	15,827
Biological assets (Note 6)	**8,286**	5,334
Inventory (Note 7)	**25,713**	26,095
Prepaid expenses	**577**	1,005
Deposits (Note 11)	**411**	514
Other receivables	**814**	905
	$ 76,608	$ 65,988
Non-current assets		
Property, plant and equipment, net (Note 8)	**$ 150,808**	$ 158,962
Intangible assets, net (Note 9)	**29,758**	29,878
Long-term investments (Note 10)	**594**	1,095
Long-term deposits (Note 11)	**3,762**	3,981
	$ 184,922	$ 193,916
Assets held for sale (Note 27)	**-**	2,000
Total assets	**$ 261,530**	$ 261,904
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 44,898**	$ 41,303
Interest payable (Notes 3, 13)	**20,626**	21,171
Lease liability (Note 12)	**2,423**	3,823
Convertible debentures (Note 13)	**-**	5,755
Loans payable (Note 14)	**50,668**	54,490
Promissory notes (Note 15)	**929**	1,109
Other current liabilities (Notes 16, 23)	**3,750**	256
	$ 123,294	$ 127,907
Non-current liabilities		
Lease liability (Note 12)	**11,369**	12,485
Convertible debentures (Note 13)	**697**	59,145
Loans payable (Note 14)	**-**	701
Promissory notes (Note 15)	**2,389**	2,379
Deferred tax liability (Note 24)	**8,125**	8,125
Other non-current liabilities (Note 23)	**-**	115
	$ 22,580	$ 82,950
Total liabilities	**$ 145,874**	$ 210,857
Equity		
Share capital (Note 16)	**$ 542,632**	$ 446,555
Reserves (Note 16)	**102,844**	117,563
Accumulated other comprehensive income/(loss)	**(30,200)**	(29,799)
Retained earnings/(deficit)	**(499,620)**	(483,272)
Total equity	**$ 115,656**	$ 51,047
Total liabilities and equity	**$ 261,530**	$ 261,904

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

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

The consolidated financial statements were approved by the Board of Directors on March 20, 2025, and were signed on its behalf by:

(s) Genevieve Young

Genevieve Young

Consolidated Statements of Income/(Loss) and Comprehensive Income/(Loss)

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

For the years ended December 31:		2024		2023
Revenue				
Revenue from sales of cannabis products	**$**	**185,666**	$	151,762
Excise taxes		**(63,337)**		(50,684)
Total net revenue	**$**	**122,329**	$	101,078
Cost of sales				
Cost of finished cannabis inventory sold	**$**	**66,468**	$	66,783
Inventory impairment (Note 7)		**2,332**		10,474
Gross profit/(loss) excluding fair value items	**$**	**53,529**	$	23,821
Unrealized fair value gain/(loss) on biological transformation (Note 6)	**$**	**32,627**	$	16,207
Realized fair value gain/(loss) on inventory		**(26,227)**		(18,751)
Gross profit/(loss)	**$**	**59,929**	$	21,277
Expenses				
Selling, general and administrative expenses (Note 21)	**$**	**35,676**	$	38,641
Equity-based compensation (Notes 16, 23)		**5,055**		1,641
Depreciation and amortization (Notes 7, 8, 9)		**4,484**		6,943
Interest and accretion expenses (Note 22)		**15,041**		25,715
Total expenses	**$**	**60,256**	$	72,940
Other income/(loss)				
Interest and other income	**$**	**240**	$	32
Impairment of assets (Notes 8, 9, 27)		**-**		(39,706)
Gain/(loss) on settlement of assets and liabilities and other expenses (Notes 13, 15, 20)		**1,401**		48,365
Gain/(loss) on disposal of assets held for sale (Notes 8, 27)		**(453)**		-
Gain/(loss) on disposal of subsidiary (Note 27)		**-**		(4,006)
Foreign exchange gain/(loss)		**(1,217)**		(771)
Total other income/(loss)	**$**	**(29)**	$	3,914
Net income/(loss) before income tax	**$**	**(356)**	$	(47,749)
Income tax recovery/(expense) (Note 24)		**(15,992)**		3,238
Net income/(loss)	**$**	**(16,348)**	$	(44,511)
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)	**$**	**(401)**	$	32
Currency translation adjustment – subsequently reclassified to profit or loss		**-**		700
Total comprehensive income/(loss)	**$**	**(16,749)**	$	(43,779)
Total comprehensive income/(loss) attributable to shareholders of the Company	**$**	**(16,749)**	$	(43,911)
Total comprehensive income/(loss) attributable to non-controlling interests	**$**	**-**	$	132
Net income/(loss) per common share ($)				
Net income/(loss) per common share ($) - basic and diluted (Note 16)	**$**	**(0.01)**	$	(0.04)
Weighted average number of shares outstanding				
Basic and diluted		**1,204,591,972**		990,994,056

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

Consolidated Statements of Cash Flows

Expressed in thousands of Canadian dollars

For the years ended December 31:		2024		2023
Operating activities				
Net income/(loss) for the year	**$**	**(16,348)**	$	(44,511)
Items not affecting cash:				
Inventory impairment (Note 7)		**2,332**		10,474
Unrealized fair value loss/(gain) on biological transformation (Note 6)		**(32,627)**		(16,207)
Realized fair value loss/(gain) on inventory		**26,227**		18,751
Depreciation and amortization (Notes 7, 8, 9)		**10,276**		11,209
Interest and accretion expenses (Note 22)		**6,206**		16,345
Equity-based compensation (Notes 16, 23)		**5,045**		1,641
Unrealized foreign exchange loss/(gain)		**677**		538
Income tax expense/(recovery) (Note 24)		**15,992**		(3,238)
Impairment of assets (Notes 8, 9, 27)		**-**		39,706
Loss/(gain) on settlement of assets and liabilities and other expenses (Notes 13, 15, 20)		**(1,401)**		(48,365)
Loss/(gain) on disposal of assets held for sale (Notes 8, 27)		**453**		-
Loss/(gain) on disposal of subsidiary (Note 27)		**-**		4,006
Cash provided by/(used in) operating activities before net non-cash working capital adjustments	**$**	**16,832**	$	(9,651)
Net change in non-cash working capital (Note 25)		**(54)**		17,865
Net cash provided by/(used in) operating activities	**$**	**16,778**	$	8,214
Investing activities				
Net proceeds from sale/(purchase) of long-term investments (Note 10)	**$**	**100**	$	27
Proceeds from sale of assets (Notes 8, 27)		**2,218**		20
Purchase of property, plant and equipment (Note 8)		**(2,763)**		(1,604)
Net cash provided by/(used in) investing activities	**$**	**(445)**	$	(1,557)
Financing activities				
Net proceeds from financings (Note 16)	**$**	**-**	$	3,134
Repayment of convertible debentures (Note 13)		**(6,244)**		(1,232)
Repayment of loans payable (Note 14)		**(7,565)**		(5,597)
Proceeds from loans payable (Note 14)		**2,500**		2,564
Deferred financing fees (Note 14)		**(612)**		(431)
Proceeds from warrants exercised (Note 16)		**1,503**		-
Payment on promissory notes (Note 15)		**(450)**		(1,200)
Payment on lease liability, net (Note 12)		**(2,717)**		(2,923)
Net cash provided by/(used in) financing activities	**$**	**(13,585)**	$	(5,685)
Increase/(decrease) in cash and cash equivalents during the year	**$**	**2,748**	$	972
Cash and cash equivalents, beginning of year		**15,608**		14,636
Cash and cash equivalents, end of year	**$**	**18,356**	$	15,608

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

Consolidated Statements of Changes in Equity
Expressed in thousands of Canadian dollars

For the years ended December 31:		2024		2023
Share capital				
Balance, beginning of year	$	**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)		**1,970**		-
Shares issued as employee awards (Note 16)		**788**		-
Share capital, end of year	$	**542,632**	$	446,555
Reserves				
Convertible debentures				
Balance, beginning of year	$	**34,311**	$	34,306
Equity component of Imperial Brands convertible debentures, net of taxes (Note 13)		**-**		5
Fair value transfer to shares upon conversion, net of taxes (Note 13)		**(14,259)**		-
Convertible debentures, end of year	$	**20,052**	$	34,311
Warrants				
Balance, beginning of year	$	**43,752**	$	42,411
Warrants issued on private placement (Note 16)		**-**		1,341
Fair value transfer to shares upon conversion (Note 16)		**(467)**		-
Warrants, end of year	$	**43,285**	$	43,752
Contributed surplus				
Balance, beginning of year	$	**39,500**	$	38,230
Employee share options:				
Stock options (Notes 16, 23)		**146**		241
Restricted share units (Notes 16, 23)		**1,560**		1,029
Fair value transfer of restricted share units (Note 16)		**(1,699)**		-
Contributed surplus, end of year	$	**39,507**	$	39,500
Reserves, end of year	$	**102,844**	$	117,563
Accumulated other comprehensive income/(loss)				
Balance, beginning of year	$	**(29,799)**	$	(30,542)
Fair value changes in long-term investments (Note 10)		**(401)**		32
Currency translation adjustment		**-**		568
Disposal of subsidiary		**-**		143
Accumulated other comprehensive income/(loss), end of year	$	**(30,200)**	$	(29,799)
Retained earnings/(deficit)				
Attributable to the Company				
Balance, beginning of year	$	**(483,272)**	$	(438,761)
Net income/(loss) attributable to the Company		**(16,348)**		(44,511)
Ending retained earnings/(deficit) attributable to the Company		**(499,620)**		(483,272)
Attributable to non-controlling interests				
Balance, beginning of year	$	**-**	$	(4,719)
Currency translation adjustment		**-**		132
Disposal of non-controlling interests		**-**		4,587
Ending retained earnings/(deficit) attributable to non-controlling interests		**-**		-
Retained earnings/(deficit), end of year	$	**(499,620)**	$	(483,272)
Equity, end of year	$	**115,656**	$	51,047

The accompanying notes are an integral part of these 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 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 December 31, 2024, the Company had total cash and cash equivalents of $18,356, negative working capital of $46,686 and cash flow provided by operating activities of $16,778 for the year ended December 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; if the Company’s selling, general and administrative expenses increase; and/or debt obligations due within 12 months mature without extension or refinancing. 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 12-month period following December 31, 2024. While the Company has made improvements to its operating cash flow, the Company will continue to seek to improve its sales and cash flow by prioritizing certain products and projects with greater expected return and reduce operating costs by streamlining its operations and support function. In the event of negative cash flows from operations, the Company may seek additional 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’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; increased competition and price compression across the industry; and the industry’s inability to quickly eliminate Canada’s large illicit cannabis market.

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.

2. Basis of preparation (continued)

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on March 20, 2025.

Basis of measurement

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of consolidated financial statements in accordance with International Accounting Standard ("IAS") 1, *Presentation of Financial Statements* ("IAS 1"), requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current year ended December 31, 2024.

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis, except for biological assets, long-term investments, and Cash Settled RSUs, as defined in Note 23, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Basis of consolidation

These consolidated financial statements comprise the financial results of the Company and its subsidiaries, which are the entities over which Auxly has control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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.

2. Basis of preparation (continued)

The 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.

3. Material accounting information

a) Functional currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity within the consolidated financial statements determines its own functional currency, and items included in the consolidated financial statements of each entity are remeasured using the functional currency. The functional currency of all subsidiaries is the Canadian dollar, except for Inverell S.A. ("Inverell"), which has a U.S. dollar functional currency. The Company disposed of its interest in Inverell during the fourth quarter of 2023.

Within each entity, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in the consolidated statements of income/(loss) and comprehensive income/(loss). Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The consolidated financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the end of the reporting period for assets and liabilities and the average exchange rates for the year for revenue, expenses and cash flows. Foreign exchange differences arising on translation are recognized in other comprehensive income/(loss) and in accumulated other comprehensive income/(loss) in shareholders' equity.

b) Biological assets

The Company's biological assets consist of cannabis plants, which are valued at fair value less cost to sell. The fair value was determined using the income approach. Production costs include all direct and indirect costs relating to biological transformation, which are capitalized to biological assets as they were incurred.

3. Material accounting information (continued)

The direct and indirect costs include the following:

- Direct materials consumed in the growing process such as soil, chemicals, fertilizers and other supplies;
- Direct labour for individuals who work in the cultivation department;
- Indirect labour for other personnel's time spent related to the cultivation process;
- Indirect materials consumed related to the cultivation process;
- Depreciation and maintenance of production equipment;
- Overhead expense including utilities and insurance; and
- Quality assurance on the plants.

The Company measures and adjusts the biological assets to the fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of goods inventories after harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the year are included as a separate line in the gross profit calculation on the consolidated statements of income/(loss) and comprehensive income/(loss).

c) Inventory

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest, which becomes the initial cost. Any subsequent post-harvest costs, either direct or indirect, are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value on the consolidated statements of financial position. The Company reviews inventory for obsolete, redundant and slow-moving goods, and any such inventory is written down to net realizable value.

The post-harvest direct and indirect costs include the following:

- Direct materials such as packages and labels;
- Direct labour for individuals who work in the processing department;
- Indirect labour for other personnel's time spent related to the production process;
- Indirect materials consumed related to the production process;
- Depreciation and maintenance on dried cannabis processing and packaging equipment;
- Overhead expense including utilities and insurance; and
- Quality assurance for the final product.

The post-harvest costs capitalized in finished cannabis products and costs of other resale products are subsequently recorded in cost of sales on the consolidated statements of income/(loss) and comprehensive income/(loss) when they are sold. The realized initial costs upon sales, transferred from biological assets measured at fair value less cost to sell at harvest, are presented as realized fair value gain/(loss) on inventory on the consolidated statements of income/(loss) and comprehensive income/(loss).

3. Material accounting information (continued)

d) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Gains and losses on disposal are determined by comparing the proceeds from disposal and the carrying amount of the asset and are recognized in the consolidated statements of income/(loss) and comprehensive income/(loss).

Depreciation is calculated using the straight-line method over the useful life of each asset as follows:

•	Assets not available for use	Not depreciated
•	Construction-in-progress	Not depreciated
•	Computer equipment	3–5 years
•	Office furniture	5–10 years
•	Leasehold improvements	Over term of the lease
•	Right-of-use assets	Over term of the lease
•	Equipment	5–10 years
•	Buildings	20–30 years

Depreciation methods, useful lives, and estimated residual values are reviewed at the end of each financial year.

e) Finite-lived and indefinite-lived intangible assets

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis from when the asset is available for use, over the following terms:

•	Cultivation interests	Over the term of the agreement
•	Canadian cultivation licences	Indefinite life
•	Processing licences	Indefinite life
•	Distribution agreements	13–14 years
•	Other	Over the term of the agreement

The estimated useful lives and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives consist of acquired product rights, which are carried at cost less accumulated impairment losses.

Intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite-life intangible assets are reviewed for impairment annually or at any time if an indicator of impairment exists.

f) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that

3. Material accounting information (continued)

generates cash inflows from continuing use that are largely independent of cash inflows or other assets or groups of assets (the “CGU”). The recoverable amount of an asset or a CGU is the higher of its fair value less cost of disposal and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

g) Leased assets

The Company is a party to lease contracts for, among others: a) office space; b) machinery and equipment; and c) facilities. Leases are recognized, measured and presented in accordance with IFRS 16, *Leases* (“IFRS 16”). The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Company elected to apply exemptions for short-term leases and for leases for which the underlying asset is of low value.

The Company has also elected to apply the practical expedient to not separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

At inception of a contract, the Company assesses whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Lease payments made at or before the commencement date, less any lease incentives; and
- Any initial direct costs incurred by the lessee.

After the commencement date, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, which comprises:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;

3. Material accounting information (continued)

- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The lease term determined by the Company comprises:

- Non-cancellable period of lease contracts;
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

h) Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in consolidated statements of income/(loss) or other comprehensive income/(loss). The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payments of principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held for trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income/(loss) instead of through income/(loss). This election can be made on individual instruments and is not required to be made for the entire class of

3. Material accounting information (continued)

instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVOCI are initially measured at fair value and changes therein are recognized in other comprehensive income/(loss).

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are SPPI on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through income/(loss) or other comprehensive income/(loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income/(loss).

Summary of the Company's classification and measurements of financial assets and liabilities

	IFRS 9 Classification	**IFRS 9 Measurement**
Cash and cash equivalents	FVTPL	Fair value
Restricted cash	FVTPL	Fair value
Short-term investments	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Prepaid expenses	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Long-term investments	FVOCI	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Promissory notes	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Interest payable	Amortized cost	Amortized cost
Other current and non-current liabilities	FVTPL	Fair value

3. Material accounting information (continued)

i) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. On conversion or upon expiration, the carrying value of the equity portion is transferred to common shares or contributed surplus.

j) Revenue recognition

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

The Company follows the five-step model in IFRS 15, *Revenue from Contracts with Customers*, to recognize revenue:

1) Identify the contract with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to performance obligations in the contract; and
5) Recognize revenue when the Company satisfies a performance obligation.

Revenue from the sale of cannabis to customers is recognized when the Company transfers control of the good to the customer. This evaluation was made on the basis of whether the business retains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

k) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of income/(loss) and comprehensive income/(loss) except to the extent that it relates to items recognized directly in shareholders’ equity, in which case the income tax is also recognized directly in shareholders’ equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

3. Material accounting information (continued)

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the dates of the consolidated statements of financial position and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered. Deferred tax assets and liabilities are presented as non-current.

l) Share capital and equity-based compensation

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus. When options are exercised, the amount received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital. The impact of a revision of the original estimate is recognized in income/(loss) such that the cumulative expense reflects the revised estimate.

Restricted share units ("RSUs") are equity-settled payments, measured at their intrinsic fair value on the date of grant based on the closing price of the Company's share on the date prior to the grant, and are recognized as equity-based compensation expense over the vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus.

Cash Settled RSUs, as defined in Note 23, are settled for their cash equivalent on the applicable settlement date. For Cash Settled RSUs, the fair value of the RSUs is recognized as equity-based compensation in the 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 shares on the reporting period, and are included in the consolidated statements of financial position as other current liabilities and other non-current liabilities.

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Contributed surplus includes amounts in connection with conversion options embedded in compound financial instruments, equity-based compensation and the value of expired options and warrants. Deficit includes all current and in period income and losses.

m) Net income/(loss) per share

The Company presents basic and diluted net income/(loss) per share data for its common shares. Basic income/(loss) per share is calculated by dividing the net income/(loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

3. Material accounting information (continued)

Diluted net income/(loss) per share is determined by adjusting the net income/(loss) attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants, RSUs and share options issued.

For the years presented, all options and RSUs conversion features and warrants were anti-dilutive.

n) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Impairment of intangible assets

The carrying value of intangible assets is reviewed annually for impairment or more frequently when there are indicators that impairment may have occurred. The Company's impairment tests for intangible assets are based on the comparison of the carrying amount of the CGU and the recoverable amount, which is the greater of value-in-use calculations that use a discounted cash flow model and estimated fair value less cost of disposal. The determination of the Company's CGUs is based on management's judgment.

If the recoverable amount of the CGU is greater than the carrying amount, the difference is written off as impairment loss. The impairment loss is first allocated to goodwill, and the remainder is allocated to other assets of the CGU subject to the limitation that the carrying amount of an asset should not be reduced below the highest of fair value less cost of disposal, value in use or zero.

The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost of disposal is based on assessment of comparable company multiples and precedent transactions. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

The discount rates used to calculate impairment analysis are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

3. Material accounting information (continued)

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, expected yields for the cannabis plants, selling costs, and average or expected selling prices. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 6.

Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Equity-based compensation

In calculating the equity-based compensation expense, key estimates such as the rate of forfeiture of options and RSUs granted, the expected life of the option and RSU, the volatility of the Company's stock price, forfeiture rates and the risk-free interest rate are used.

Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating the fair value of Level 3 investments, the Company uses market-observable data to the extent it is available.

Convertible instruments

Convertible debentures are compound financial instruments that are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

3. Material accounting information (continued)

o) 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 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 December 31, 2024, interest payable of $20,626 (December 31, 2023 – $20,935) related to the Imperial convertible debentures was classified as current liabilities as a result of the amendments to IAS 1. Refer to Note 13 for more information.

p) Future changes in accounting policies

The Company monitors the potential accounting policy changes proposed by the IASB and analyzes the impact of those changes on the Company's consolidated financial statements.

Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures

In May 2024, amendments to IFRS 9, *Financial Instruments,* and IFRS 7, *Financial Instruments: Disclosures*, were issued. The amendments clarify the timing of recognition and derecognition for a financial asset or a financial liability, including clarifying that a financial liability is derecognized on the settlement date. Additional disclosures are required for financial instruments with contingent features and investments in equity instruments classified at fair value through other comprehensive income. These amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early adoption is permitted, with an option to only early adopt the amendments to the classification of financial assets. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 18, Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* ("IFRS 18") to replace International Accounting Standards 1, *Presentation of Financial Statements* ("IAS 1"). IFRS 18 impacts the presentation of the financial statements and notes, primarily the statements of income/loss and comprehensive income/(loss) where companies will be required to present separate categories of income and expenses for operating, investing and financing activities with subtotals for each new category. IFRS 18 will require management-defined performance measures to be defined and included in a separate note within the consolidated financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and require retrospective application. The Company is currently assessing the impact of the new standard on its financial statements.

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

4. Restricted cash

As at December 31, 2024, Auxly had restricted cash of $557 (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.

5. Accounts receivable

Accounts receivable comprise the following:

		As at December 31, 2024		As at December 31, 2023
Less than 30 days past billing date	**$**	**15,395**	$	11,881
31 to 60 days past billing date		**5,446**		3,673
61 to 90 days past billing date		**883**		300
Over 90 days past billing date		**27**		172
	$	**21,751**	$	16,026
Expected credit loss		**-**		(199)
Total	**$**	**21,751**	$	15,827

During the year ended December 31, 2024, bad debt expense included in selling, general and administrative expense in the consolidated statements of income/(loss) and comprehensive income/(loss) was $nil (2023 – $1,140). The bad debt expense in 2023 was primarily related to Fire & Flower Holdings Corp., who filed for credit protection under the *Companies' Creditors Arrangement Act*.

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		32,627
Capitalized production costs		19,875
Transferred to inventory upon harvest		(49,550)
Balance, December 31, 2024	**$**	**8,286**

As at December 31, 2024, the Company's cannabis plants were on average 53% (December 31, 2023 – 48%) complete in their estimated 70-day 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) Expected product mix;
(e) Standard cost per gram to complete production; and
(f) Cumulative stage of completion in production process.

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

6. Biological assets (continued)

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 December 31, 2024			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$0.14–$1.13 dollars	Increase/decrease $0.10/gram	Increase/decrease $1,786
Average yield per plant	113 grams	Increase/decrease 10%	Increase/decrease $1,122
Post-harvest cost per gram	$0.06 dollars	Increase/decrease $0.01/gram	Decrease/increase $179

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

7. Inventory

The following is a breakdown of inventory:

	As at December 31, 2024	As at December 31, 2023
Dried cannabis		
Work-in-process	**$ 12,972**	$ 9,045
Finished goods	**2,341**	2,805
Cannabis oil		
Work-in-process	**2,286**	3,312
Generation 2 derivative products		
Work-in-process	**133**	230
Finished goods	**3,173**	2,652
Merchandise products	**140**	432
Packaging, hardware, consumables and ingredients	**4,668**	7,619
Total	**$ 25,713**	$ 26,095

As at December 31, 2024, the Company recognized $25,713 (December 31, 2023 – $26,095) of inventory on the consolidated statements of financial position, including $6,302 non-cash income (December 31, 2023 – $2,175) relating to the fair value less cost to sell transferred to inventory upon harvest. During the year ended December 31, 2024, inventory expensed to cost of sales was $64,403 (2023 – $64,767).

Depreciation capitalized into inventory during the year ended December 31, 2024 was $5,864 (2023 – $6,970). Cost of sales included $5,792 (2023 – $4,266) of depreciation for the year ended December 31, 2024.

During 2024, the Company recognized a loss of $2,332 (2023 – $10,474) on cannabis inventory due to the costs capitalized exceeding the net realizable value of the inventory.

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

8. Property, plant and equipment

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	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	86	-	824	134	-	1,541	**2,585**
Disposals	-	-	(863)	(2,000)	-	-	**(2,863)**
December 31, 2024	**$ 3,613**	**$ 21,571**	**$ 31,010**	**$ 122,938**	**$ 4,127**	**$ 21,890**	**$ 205,149**
Accumulated depreciation:							
December 31, 2023	$ 2,780	$ 4,878	$ 12,627	$ 11,506	$ 27	$ 12,647	**$ 44,465**
Depreciation	249	985	3,122	4,458	-	1,414	**10,228**
Disposals	-	-	(352)	-	-	-	**(352)**
December 31, 2024	**$ 3,029**	**$ 5,863**	**$ 15,397**	**$ 15,964**	**$ 27**	**$ 14,061**	**$ 54,341**
Carrying amounts							
December 31, 2024	**$ 584**	**$ 15,708**	**$ 15,613**	**$ 106,974**	**$ 4,100**	**$ 7,829**	**$ 150,808**

	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 27)	-	-	-	(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 year ended December 31, 2024 include a $1,541 (2023 – $112) non-cash recognition of right-of-use asset.

During 2024, $1,719 of payments have been made towards equipment to be settled on deferred payment terms. Property, plant and equipment as at December 31, 2024 included $223 (December 31, 2023 – $1,942) of equipment to be settled on deferred payment terms.

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

8. Property, plant and equipment (continued)

During 2023, the Company entered into contract manufacturing agreements for the production of certain of its cannabis products. The Company recorded an impairment loss of $1,170 related to equipment no longer used in production.

During 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 December 31, 2023, the Auxly Ottawa facility was classified as assets held for sale. In May 2024, the company completed the sale of the Auxly Ottawa facility, for net proceeds of $1,547. The loss on sale have been included in the consolidated statements of income/(loss) and comprehensive income/(loss). The proceeds from the sale have been used to support the Company's ongoing operations.

During 2023, the Company recorded an impairment loss of $21,147 on property, plant and equipment as a result of the annual impairment test performed on the Canadian cannabis CGU.

9. Intangible assets

Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Other	Total
Cost:						
December 31, 2023 and December 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	-	-	-	-	120	**120**
December 31, 2024	**$ 14,016**	**$ -**	**$ -**	**$ 284**	**$ 2,152**	**$ 16,452**
Carrying amounts						
December 31, 2024	**$ -**	**$ 10,340**	**$ 17,371**	**$ -**	**$ 2,047**	**$ 29,758**

	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**

9. Intangible assets (continued)

a) Cultivation interests

The Company's cultivation interests represent its access to raw cannabis, including offtake agreements, and streaming partners. During 2023, the Company recorded an impairment loss of $3,330 as a result of the impairment test performed on the Canadian cannabis CGU.

b) Canadian cultivation licences and processing licences

Based on the Company's accounting policy, Canadian cultivation licences and processing licenses have an indefinite life. The Company performs annual impairment tests on the indefinite-life intangible assets by comparing the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts, in accordance with IAS 36*, Impairment of Assets*. During 2023, the Company recorded an impairment loss of $4,121 on its Canadian cultivation licences and $6,922 on its processing licences as a result of the impairment test performed on the Canadian cannabis CGU.

c) Distribution agreements

The Company has formed a strategic alliance with Inner Spirit Holdings Ltd. ("Inner Spirit"), which includes certain supply and marketing rights subject to applicable provincial laws for each applicable jurisdiction in which Inner Spirit operates retail cannabis stores. The distribution agreement intangible asset represents the premium paid by the Company over and above the fair market value of the shares on the date of the initial agreement. During 2023, the Company recorded an impairment loss of $428 as a result of the impairment test performed on the Canadian cannabis CGU.

d) Others

Concurrently with the acquisition of Auxly Leamington in 2021, Auxly Leamington and Fresh Energy Inc. agreed to complete the Transfer (as defined and further described in Note 15). The consideration provided for the Transfer includes an unsecured, non-interest-bearing promissory note. Refer to Note 15 for more information. The Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860. The carrying value of the intangible asset as at December 31, 2024 is $2,047 (2023 – $2,167).

Canadian cannabis CGU

The Company's Canadian cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within Canada.

Annual impairment – 2024

As at December 31, 2024, the Company performed its annual impairment test by comparing the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts. The estimated recoverable amount of the CGU exceeded its carrying amount and such, there was no impairment or recovery recorded.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of the future trends in the industry and have been based on historical data from both external and internal resources.

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

9. Intangible assets (continued)

Pre-tax discount rate	16.5%
Terminal growth rate	2.5%
Budgeted revenue growth rate (average of next five years)	6.5%
Budgeted EBITDA margin (average of next five years)	26.8%

Sensitivity to changes in assumptions

Management has performed an assessment to determine whether additional impairment would have been recognized if there was a change in any of the key assumptions identified above. An increase of 25 basis points in the pre-tax discount rate or a decrease of 25 basis points in the terminal growth rate, each used in isolation to perform the impairment test, would not result in an impairment loss during the year ended December 31, 2024.

Annual impairment – 2023

As part of the annual impairment test performed as at December 31, 2023, the Company determined that the carrying value of the Canadian cannabis CGU exceeded its recoverable amount, noting that the Company's market capitalization traded significantly below its shareholders' equity. The Company wrote down the assets of the Canadian cannabis CGU to their recoverable amount. The following is a breakdown of the impairment loss recorded:

Property, plant and equipment, net (Note 8)	$ 21,147
Intangible assets	14,801
Deferred tax liability (Note 24)	(3,238)
Total	**$ 32,710**

The key assumptions used in the estimation of the recoverable amount for the 2023 impairment test are set out below.

Pre-tax discount rate	17.5%
Terminal growth rate	2.5%
Budgeted revenue growth rate (average of next five years)	20.9%
Budgeted EBITDA margin (average of next five years)	15.6%

South American cannabis CGU

The Company's South American cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within South America. The Company disposed of its interest in the South American cannabis CGU during the fourth quarter of 2023. Refer to Note 27 for more information.

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

10. Long-term investments

Entity	Instrument	Classification	As at December 31, 2023	Fair value change	Purchases/ (sales)	As at December 31, 2024
Cannabis OneFive Inc.	Shares	FVOCI	$ 1,095	$ (401)	$ (100)	$ 594
Total			**$ 1,095**	**$ (401)**	**$ (100)**	**$ 594**

Entity	Instrument	Classification	As at December 31, 2022	Fair value change	Purchases/ (sales)	As at December 31, 2023
MediPharm Lab Corp.	Shares	FVOCI	$ 13	$ (3)	$ (10)	$ -
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**

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. During 2023, the Company disposed of its interest in MediPharm for net proceeds of $10.

11. Deposits

	Capital assets	Inventory	Other	Total
Current portion	$ -	$ 369	$ 42	**$ 411**
Non-current portion	32	-	3,730	**3,762**
As at December 31, 2024	**$ 32**	**$ 369**	**$ 3,772**	**$ 4,173**

	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 December 31, 2024, the Company made deposits towards excise bonds, vape cartridge purchases, cannabis extracts, and raw material cannabis purchases.

12. Lease liability

	As at December 31, 2024	As at December 31, 2023
Balance, beginning of year	**$ 16,308**	$ 19,119
Additions	**1,541**	112
Payments	**(3,530)**	(3,753)
Interest expense	**813**	830
Transfer to accounts payable and accrued liabilities	**(1,340)**	-
Balance, end of year	**$ 13,792**	$ 16,308

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

12. Lease liability (continued)

	As at December 31, 2024	As at December 31, 2023
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**$ 3,160**	$ 4,488
Two years and beyond	**14,329**	15,632
Total undiscounted lease obligations	**$ 17,489**	$ 20,120
Current portion	**$ 2,423**	$ 3,823
Long-term portion	**11,369**	12,485
Discounted lease obligations included in the consolidated statements of financial position	**$ 13,792**	$ 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 5 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 December 31, 2024	As at December 31, 2023
Imperial Brands	**$ 697**	$ 59,145
Standby financing	-	5,755
Total	**$ 697**	$ 64,900
Less: current portion	**-**	5,755
Long-term portion	**$ 697**	$ 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.

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.

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

13. Convertible debentures (continued)

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 consolidated statements of income/(loss) and comprehensive income/(loss).

Details of the Imperial Brands debentures amendment is presented below:

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

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.

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 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 $20,626 as at December 31, 2024 (December 31, 2023 – $20,935) was classified as current interest payable in the consolidated statements of financial position. Imperial may elect to convert all or part of the accrued interest into common shares prior to the date of maturity.

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

13. Convertible debentures (continued)

The associated accretion expense for the year ended December 31, 2024 was $3,055 (2023 – $10,532). Interest expense for the year ended December 31, 2024 was $1,255 (2023 – $4,914).

Standby financing

In 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. 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 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.

During the third quarter of 2024, the Company repaid the remaining $6,244 principal owing under the original standby financing convertible debenture.

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

	As at December 31, 2024	As at December 31, 2023
Balance, beginning of year	$ 5,755	$ 6,542
Accretion expense	489	445
Principal payment	(6,244)	(1,232)
Balance, end of year	$ -	$ 5,755

The accretion expense associated with the debentures for the year ended December 31, 2024 was $489 (2023 – $445). Interest expense for the year ended December 31, 2024 was $302 (2023 – $623).

14. Loans payable

	As at December 31, 2024	As at December 31, 2023
Amended and Restated Credit Facility	$ 38,254	$ 44,129
Equipment loans payable	701	2,145
Receivables financing loan	6,835	6,613
Inventory financing loan	4,878	2,304
Total	$ 50,668	$ 55,191
Less: current portion	50,668	54,490
Long-term portion	$ -	$ 701

14. Loans payable (continued)

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 the Canadian Overnight Repo Rate Average 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, 2024, 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.

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.

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 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.

During 2024, the Company incurred $361 of deferred financing charges, resulting in deferred financing charges of $552 on the amendment and the interim extensions. As at December 31, 2024, the Company had a balance of $271 (December 31, 2023 – $171) in its consolidated statements of financial position.

Interest expense on the Amended and Restated Credit Facility for the year ended December 31, 2024 was $3,858 (2023 – $4,328).

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

14. Loans payable (continued)

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

	As at December 31, 2024	As at December 31, 2023
Balance, beginning of year	**$ 44,129**	$ 48,150
Deferred financing fees additions	**(361)**	(191)
Deferred financing fees amortization	**261**	20
Payments	**(5,775)**	(3,850)
Balance, end of year	**$ 38,254**	$ 44,129

As at December 31, 2024, the Amended and Restated Credit Facility is classified as current liabilities.

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 December 31, 2024	As at December 31, 2023
Balance, beginning of year	**$ 2,145**	$ 3,828
Additions	**-**	64
Payments	**(1,626)**	(2,146)
Interest expense	**182**	399
Balance, end of year	**$ 701**	$ 2,145
Less: current portion	**701**	1,444
Long-term portion	**$ -**	$ 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 to July 21, 2024. The Company recorded deferred financing charges of $101 and the balance was amortized over the extension period.

On June 28, 2024, the Company entered into an amendment agreement with Savent to further extend the maturity date of the receivables financing agreement to July 21, 2025. Under the amended agreement, $700 USD of the principal amount will be repaid over 11 monthly instalments starting August 2024, with the remaining principal outstanding due on the maturity date. Both amendments were treated as a debt modification under IFRS 9 as the terms were not substantially different and 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 from the original financial liabilities.

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

14. Loans payable (continued)

As at December 31, 2024, the Company repaid $250 USD (2023 – $nil), equivalent to $346, of the principal amount outstanding.

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the year ended December 31, 2024 was $1,229 (2023 – $1,213).

Inventory financing loan

On October 19, 2023, 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 from the advance date. As of December 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 consolidated statements of financial position.

On October 25, 2024, the Company and GrassHopper entered into an amended agreement to extend that maturity date of the inventory financing agreement to October 25, 2025. The Company agreed to pay an extension fee of $150 on the closing date of the amended agreement. All other terms related to the amendment remain materially unchanged. The amendment was treated as a debt modification under IFRS 9 as the terms were not substantially different and 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 from the original financial liability. The Company recorded deferred financing charges of $150 in 2024 with a balance of $122 as at December 31, 2024 (2023 – $196).

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the year ended December 31, 2024 was $855 (2023 – $75).

15. Promissory notes

The promissory notes balance consists of the following:

		As at December 31, 2024		As at December 31, 2023
Fresh Energy Agreement	**$**	**516**	$	943
Due to Peter Quiring		**2,802**		2,545
Total	**$**	**3,318**	$	3,488
Less: current portion		**929**		1,109
Long-term portion	**$**	**2,389**	$	2,379

Fresh Energy Agreement

Concurrently with the acquisition of Auxly Leamington in 2021, 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 recorded

15. Promissory notes (continued)

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.

Due to Peter Quiring

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.

June 2023 Amendments

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. The $3,400 unsecured promissory note issued to Peter Quiring was also 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 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 consolidated statements of income/(loss) and comprehensive income/(loss).

April 2024 Amendments

On April 10, 2024, the Company entered into a second amendment 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.

On April 10, 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 August 2025.

Both amendment agreements with Peter Quiring and Fresh Energy 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.

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

15. Promissory notes (continued)

The continuity schedule of the promissory notes is presented below:

	As at December 31, 2024	As at December 31, 2023
Balance, beginning of year	$ 3,488	$ 5,276
Transfer from contingent consideration payable	-	500
Payments	(450)	(1,200)
Interest and accretion expense	497	390
Change in fair value	(217)	(1,478)
Balance, end of year	$ 3,318	$ 3,488

16. Share capital

The share capital of the Company is summarized below:

	December 31, 2024	December 31, 2023
Issued and outstanding shares		
Issued shares	1,308,255,933	1,013,138,454
Escrowed shares	1,888,421	6,994,190
Outstanding shares	1,306,367,512	1,006,144,264

	December 31, 2024	December 31, 2023
Outstanding securities		
Warrants	109,970,142	187,977,199
Convertible debentures	1,234,568	196,914,452
Options	19,286,581	19,721,837
Restricted share units	84,913,751	51,286,687

a) Authorized

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

b) Issued and outstanding

As at December 31, 2024, there were 1,308,255,933 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.

During 2024, 25,495,773 common shares were issued as part of the settlement of RSUs issued in 2022.

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.

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 December 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	(33,411,358)	0.045	-
Warrants expired	(44,595,699)	0.435	-
Closing balance, December 31, 2024	**109,970,142**	**0.064**	**2.23**

During the year ended December 31, 2024, 33,411,358 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. For year ended December 31, 2024, the Company recorded proceeds of $1,503 in the consolidated statements of cash flows.

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 130,825,593 as at December 31, 2024.

The following table summarizes information about stock options outstanding as at December 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	4.05
Options expired	(1,935,000)	0.989	-
Options forfeited	(500,256)	0.348	-
Closing balance, December 31, 2024	**19,286,581**	**0.623**	**2.45**

During 2024, the Company granted 2,000,000 options (2023 – 1,414,367). Total options exercisable as at December 31, 2024 were 16,674,815 (December 31, 2023 – 15,595,229) with a remaining average life of 2.42 years (December 31, 2023 – 2.91 years). During the year ended December 31, 2024, the Company recorded equity-based compensation of $146 for stock options (2023 – $241). Refer to Note 23 for more information.

The fair value of stock options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

For the years ended December 31:	**2024**	2023
Risk-free annual interest rate	**5.05%**	5.10%
Expected annual dividend yield	**0%**	0%
Expected annualized volatility	**100.42%**	98.65%
Expected life of options (in years)	**6.98**	7.04

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 December 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**
RSUs issuance	86,142,609	0.045	**1.51**
RSUs settled	(51,488,311)	0.091	-
RSUs forfeited	(1,027,234)	0.091	-
Closing balance, December 31, 2024	**84,913,751**	**0.045**	**1.51**

During 2024, the Company issued 86,142,609 RSUs to eligible employees and directors and settled 51,488,311 RSUs primarily related to RSUs issued in 2022. As at December 31, 2024, the unrecognized equity-based compensation related to issued RSU was $1,749 (December 31, 2023 – $325), which will be recognized over the remaining life as the RSUs vest. Other current liabilities as at December 31, 2024 include $40 of cash payable related to RSUs originally intended to be settled through equity issuance (December 31, 2023 – $nil).

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 equity-based compensation expense over the vesting period, based on the numbers of awards expected to vest. The assumptions used for the valuation of RSUs include:

For the year ended December 31:	**2024**
Expected forfeiture rate	22.00%
Expected life of RSUs	0–3 years

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.

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

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.

Compensation provided to key management personnel is as follows:

For the years ended December 31:		**2024**		2023
Short-term benefits	**$**	**2,155**	$	1,758
Long-term benefits		**3,783**		1,094
Total	**$**	**5,938**	$	2,852

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 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	$	143	$	-	$	-	$	143
Biological assets		-		-		8,286		8,286
Private company shares		-		-		594		594
Balance, December 31, 2024	**$**	**143**	**$**	**-**	**$**	**8,880**	**$**	**9,023**

		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**

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

18. Financial instruments and risk management (continued)

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.

As at December 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 Cash Settled RSUs recorded in 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 for the year ended December 31, 2024 by $59/($59) 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 $59/($59) (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 $206/($206) for the year ended December 31, 2024 (2023 – $232/($232)).

18. 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 December 31, 2024, the Company has insufficient cash to fund its operations for the next 12 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 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 $33/($33) for the year ended December 31, 2024 (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.

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

20. Commitments and contingencies

Commitments

As at December 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; and
- Payments of an aggregate of €189 in 2025 for the currently operational automated pre-roll manufacturing and packaging equipment.

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:

	Fiscal year 2025	Fiscal year 2026	Fiscal year 2027	Fiscal year 2028	Thereafter	Total
Lease obligations	$ 3,160	$ 3,181	$ 2,397	$ 1,072	$ 7,679	**$ 17,489**
Loans payable obligations	51,098	-	-	-	-	**51,098**
Promissory note obligations	1,050	1,200	1,200	1,157	-	**4,607**
Convertible debenture obligations	-	21,706	-	-	-	**21,706**
Total	**$ 55,308**	**$ 26,087**	**$ 3,597**	**$ 2,229**	**$ 7,679**	**$ 94,900**

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 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 and the Company filed its defence and counterclaim against Kindred. During the second quarter of 2024, the Company reached a settlement of $2,200 payable to Kindred. The first payment of $400 was made in September 2024, followed by 12 monthly instalments of $150 starting in October 2024.

21. Selling, general and administrative expenses

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

For the years ended December 31:	2024	2023
Wages and benefits	**$ 16,871**	$ 16,297
Office and administrative	**5,214**	10,396
Professional fees	**2,246**	3,002
Business development	**397**	497
Selling expenses	**10,948**	8,449
Total	**$ 35,676**	$ 38,641

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 years ended December 31:	2024	2023
Total interest expense	**$ 15,041**	$ 25,715
Less non-cash interest on Imperial Brands convertible debentures	**(1,255)**	(4,914)
Less non-cash accretion expense on convertible debentures	**(3,544)**	(10,977)
Less non-cash interest and accretion expense on promissory notes	**(497)**	(390)
Less deferred financing fees amortization	**(586)**	(64)
Less accretion on other liabilities	**(324)**	-
Total cash interest	**$ 8,835**	$ 9,370

23. Equity-based compensation

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

For the years ended December 31:	2024	2023
Stock options	**$ 146**	$ 241
Restricted share units	**1,560**	1,029
Cash Settled restricted share units	**3,349**	371
Total equity-based compensation	**$ 5,055**	$ 1,641

Cash Settled restricted share units

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 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 December 31, 2024, the Company recorded $3,710 as other current liabilities (December 31, 2023 – $256) and $nil as other non-current liabilities (December 31, 2023 – $115) in the 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 settled	(365,057)	0.018	-
RSUs forfeited	(5,326,874)	0.018	-
Closing balance, December 31, 2024	**170,486,131**	**0.018**	**0.66**

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

23. Equity-based compensation (continued)

The assumptions used for the valuation of Cash Settled RSUs include:

For the year ended December 31:	**2024**
Expected forfeiture rate	**30.00%**
Expected life of Cash Settled RSUs	**1–3 years**

As at December 31, 2024, the unrecognized equity-based compensation related to the issued Cash Settled RSUs was $1,101 (December 31, 2023 – $703), which will be recognized over the remaining life as the RSUs vest.

24. Income taxes

The Company operates in multiple jurisdictions with differing tax rates. The Company's effective tax rates are dependent on the jurisdiction to which income relates. The reconciliation of income tax computed at the statutory tax rates to income tax expense/(recovery) as is follows:

For the years ended December 31:		**2024**		2023
Net income/(loss) before income tax	**$**	**(356)**	$	(47,749)
Combined federal and provincial tax rate		**26.5%**		26.5%
Expected tax expense/(recovery)		**(94)**		(12,653)
Non-deductible expenses		**479**		5,235
Tax rate differentials		**404**		(1,586)
Conversion of Imperial convertible debenture		**21,232**		-
Prior year tax amendments		**(3,388)**		-
Changes in deferred tax assets not recognized		**(2,630)**		7,411
Other		**(11)**		(1,645)
Income tax expense/(recovery)	**$**	**15,992**	$	(3,238)

Deferred taxes are a result of temporary differences that arise due to the differences between the carrying amounts of assets and liabilities and the tax values. The movements of the deferred tax assets/(liabilities) consist of the following:

		As at December 31, 2023		**Recovered through/ (charged to) statement of net income/(loss)**		**Recovered through/ (charged to) equity**		**As at December 31, 2024**
Deferred tax assets								
Non-capital losses	$	20,341	$	(12,166)	$	-	$	8,175
Total deferred tax assets	**$**	**20,341**	**$**	**(12,166)**	**$**	**-**	**$**	**8,175**
Deferred tax liabilities								
Convertible debentures and other debt	$	(15,067)	$	(9)	$	15,992	$	916
Intangible assets		(7,423)		(106)		-		(7,529)
Property, plant and equipment		(6,258)		(1,793)		-		(8,051)
Financing and share issuance costs		799		96		-		895
Other		(517)		(2,014)		-		(2,531)
Total deferred tax liabilities	**$**	**(28,466)**	**$**	**(3,826)**	**$**	**15,992**	**$**	**(16,300)**
Net deferred tax assets/(liabilities)	**$**	**(8,125)**	**$**	**(15,992)**	**$**	**15,992**	**$**	**(8,125)**

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

24. Income taxes (continued)

	As at December 31, 2022	Recovered through/ (charged to) statement of net income/(loss)	As at December 31, 2023
Deferred tax assets			
Non-capital losses	$ 15,511	$ 4,830	$ 20,341
Total deferred tax assets	**$ 15,511**	**$ 4,830**	**$ 20,341**
Deferred tax liabilities			
Convertible debentures and other debt	$ (5,221)	$ (9,846)	$ (15,067)
Intangible assets	(11,445)	4,022	(7,423)
Property, plant and equipment	(10,193)	3,935	(6,258)
Financing and share issuance costs	386	413	799
Other	(401)	(116)	(517)
Total deferred tax liabilities	**$ (26,874)**	**$ (1,592)**	**$ (28,466)**
Net deferred tax assets/(liabilities)	**$ (11,363)**	**$ 3,238**	**$ (8,125)**

Deferred tax assets have not been recognized with respect of the deductible temporary differences:

For the years ended December 31:	2024	2023
Non-capital losses carried forward	**$ 237,050**	$ 242,136
Deductible temporary differences	**83,824**	84,173
Total	**$ 320,874**	$ 326,309

The Company has an income tax loss carry forward balance of approximately $268,156 (2023 – $319,278), which is predominately from Canada and, if unused, will expire between 2034 to 2044.

25. Changes in non-cash working capital

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

For the years ended December 31:	2024	2023
Accounts receivable	**$ (5,918)**	$ 805
Other receivables	**91**	(4)
Prepaid expenses	**750**	(2,837)
Interest payable	**(235)**	24
Biological assets (Note 6)	**29,675**	18,378
Inventory (Note 7)	**(28,105)**	(5,663)
Accounts payable and accrued liabilities	**3,688**	7,162
Total	**$ (54)**	$ 17,865

26. 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, Auxly Ottawa and Auxly Leamington. All the Company's revenues are from its Canadian operations.

26. Operating segments (continued)

In May 2023, the Company transitioned the operations of Auxly Ottawa to Auxly Leamington's facility, and the Auxly Ottawa facility in Carleton Place, Ontario was subsequently closed in November 2023. The Company has allocated $2,000 of assets held for sale related to the Auxly Ottawa facility. Refer to Note 27 for more information.

South American cannabis operations – The Company's South American cannabis operations were dedicated to the cultivation of cannabis products within South America, from Inverell. The Company disposed of its interest in the South America cannabis operations during the fourth quarter of 2023. Refer to Note 27 for more information.

27. Assets and liabilities held for sale

The Company did not have assets held for sale as at December 31, 2024.

Auxly Ottawa

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. During 2023, the Company wrote down the property, plant and equipment of Auxly Ottawa's facility to its recoverable amount of $2,000, resulting in an impairment of $2,588, and classified the facility as assets held for sale. On May 31, 2024, the company completed the sale of the Auxly Ottawa facility for net proceeds of $1,547. The proceeds from the sale have been used to support the Company's ongoing operations.

Inverell

On October 20, 2023, the Company completed the transfer of its share of interest in Inverell to the noncontrolling interest owner of Inverell for cash of $570 USD, which was received in 2021. The Company recorded a net loss of $4,006 on the disposal of the subsidiary, primarily related to the disposal of noncontrolling interest. In February of 2024, 5,105,769 shares issued as part of the acquisition of Inverell in 2019 were released from escrow, cancelled and returned to the treasury of the Company.