AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

Dated May 13, 2022

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

AUXLY CANNABIS GROUP INC.

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

As at:		March 31, 2022		December 31, 2021
Assets				
Current assets				
Cash and cash equivalents	$	**16,295**	$	14,754
Restricted cash (Note 4)		**557**		1,561
Short-term investments		**140**		140
Accounts receivable (Note 5)		**23,619**		27,039
Biological assets (Note 6)		**9,067**		6,563
Inventory (Note 7)		**49,194**		52,378
Prepaid expenses		**5,347**		7,050
Deposits (Note 12)		**5,748**		4,888
Other receivables		**4,445**		4,170
	$	**114,412**	$	118,543
Non-current assets				
Property, plant and equipment, net (Note 8)	$	**201,706**	$	226,476
Intangible assets, net (Note 9)		**62,289**		74,203
Goodwill (Note 9)		**23,690**		24,290
Long-term investments (Note 11)		**3,009**		3,897
Long-term deposits (Note 12)		**1,555**		1,582
	$	**292,249**	$	330,448
Assets held for sale (Note 27)		**10,799**		1,431
Total assets	$	**417,460**	$	450,422
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	**27,440**	$	30,569
Interest payable		**208**		-
Lease liability (Note 14)		**3,990**		4,043
Convertible debentures (Note 15)		**10,900**		10,627
Loans payable (Note 16)		**5,305**		5,450
Promissory notes (Note 17)		**1,944**		1,370
Contingent consideration payable (Note 13)		**500**		500
Deferred revenue		**215**		295
	$	**50,502**	$	52,854
Non-current liabilities				
Interest payable		**3,716**		2,504
Lease liability (Note 14)		**16,685**		17,252
Convertible debentures (Note 15)		**97,282**		95,198
Loans payable (Note 16)		**56,127**		51,347
Promissory notes (Note 17)		**4,019**		4,817
Deferred tax liability		**14,585**		17,540
	$	**192,414**	$	188,658
Liabilities held for sale (Note 27)		**889**		797
Total liabilities	$	**243,805**	$	242,309
Equity				
Share capital (Note 18)	$	**442,282**	$	436,508
Reserves (Note 18)		**111,161**		110,958
Accumulated other comprehensive loss		**(27,131)**		(26,478)
Deficit		**(348,314)**		(308,468)
Total equity attributable to shareholders of the Company	$	**177,998**	$	212,520
Total equity attributable to non-controlling interest		**(4,343)**		(4,407)
Total equity	$	**173,655**	$	208,113
Total liabilities and equity	$	**417,460**	$	450,422

Commitments and contingencies (Note 22)

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

The interim condensed consolidated financial statements were approved by the Board of Directors on May 13, 2022 and were signed on its behalf by:

(s) Genevieve Young

Genevieve Young

AUXLY CANNABIS GROUP INC.

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

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

For the three months ended:		March 31, 2022		March 31, 2021
CONTINUING OPERATIONS				
Revenue				
Revenue from sales of cannabis products	**$**	**33,204**	$	12,152
Excise taxes		**(10,578)**		(2,986)
Total net revenue		**22,626**		9,166
Cost of sales				
Cost of finished cannabis inventory sold		**17,522**		6,848
Biological asset impairment (Note 6)		**704**		-
Inventory impairment (Note 7)		**4,878**		230
Gross profit/(loss) excluding fair value items		**(478)**		2,088
Unrealized fair value gain/(loss) on biological transformation (Note 6)		**6,473**		255
Realized fair value gain/(loss) on inventory		**(2,325)**		1
Gross profit		**3,670**		2,344
Expenses				
Selling, general, and administrative expenses (Note 23)		**12,842**		9,205
Depreciation and amortization (Notes 8, 9)		**4,600**		2,432
Interest and accretion expense (Note 24)		**5,080**		4,601
Total expenses		**22,522**		16,238
Other income/(loss)				
Fair value gain/(loss) for financial instruments accounted under fair value through profit or loss (Note 11)		**-**		116
Interest and other income		**85**		416
Impairment of long-term assets (Note 8)		**(12,884)**		-
Impairment of intangible assets and goodwill (Note 9)		**(10,789)**		-
Gain/(loss) on settlement of assets and liabilities and other expenses		**-**		4,068
Share of loss on investment in joint venture		**-**		(459)
Foreign exchange gain/(loss)		**(361)**		(608)
Total other income/(loss)		**(23,949)**		3,533
Net income/(loss) before income tax		**(42,801)**		(10,361)
Income tax recovery		**2,955**		39
Net income/(loss) from continuing operations	**$**	**(39,846)**	$	(10,322)
Net income/(loss) from discontinued operations		**-**		(178)
Net income/(loss)	**$**	**(39,846)**	$	(10,500)
Net loss attributable to shareholders of the Company	**$**	**(39,846)**	$	(10,494)
Net loss attributable to non-controlling interest	**$**	**-**	$	(6)
Other comprehensive income/(loss)				
Fair value gain/(loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 11)	**$**	**(888)**	$	3,056
Currency translation adjustment - subsequently reclassified to profit or loss		**299**		278
Total comprehensive income/(loss)	**$**	**(40,435)**	$	(7,166)
Total comprehensive income/(loss) attributable to shareholders of the Company	**$**	**(40,371)**	$	(7,116)
Total comprehensive income/(loss) attributable to non-controlling interest	**$**	**(64)**	$	(50)
Net income/(loss) per common share				
From continuing operations	**$**	**(0.05)**	$	(0.01)
From discontinued operations		**-**		-
Net income/(loss) per common share - basic and diluted	**$**	**(0.05)**	$	(0.01)
Weighted average number of shares outstanding				
Basic and diluted		**847,603,874**		714,041,130

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

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

For the three months ended:		March 31, 2022		March 31, 2021
Operating activities				
Net loss for the period from continuing operations	**$**	**(39,846)**	$	(10,322)
Items not affecting cash:				
Biological asset impairment (Note 6)		**704**		-
Inventory impairment (Note 7)		**4,878**		230
Realized fair value loss/(gain) on inventory		**2,325**		(1)
Unrealized fair value loss/(gain) on biological transformation (Note 6)		**(6,473)**		(255)
Depreciation and amortization (Notes 8, 9)		**6,408**		2,538
Share-based compensation (Note 23)		**203**		206
Interest expense (Note 24)		**3,703**		4,186
Interest income		**-**		(363)
Share of loss on investment in joint venture		**-**		459
Unrealized foreign exchange loss		**156**		222
Fair value loss/(gain) for financial instruments accounted under fair value through profit or loss (Note 11)		**-**		(116)
Income tax recovery		**(2,955)**		(39)
Impairment of long-term assets (Note 8)		**12,884**		-
Impairment of intangible assets and goodwill (Note 9)		**10,789**		-
Loss/(gain) on settlement of assets and liabilities and other expenses		**-**		188
Assets held for sale (Note 27)		**(119)**		-
Cash used in operating activities before net working capital	**$**	**(7,343)**	$	(3,067)
Net change in non-cash working capital (Note 25)		**362**		(14,864)
Cash used in operating activities from continuing operations	**$**	**(6,981)**	$	(17,931)
Net cash flows attributable to discontinued operations		**-**		(777)
Net cash used in operating activities	**$**	**(6,981)**	$	(18,708)
Investing activities				
Net proceeds from sale (purchase) of long-term investments (Note 11)	**$**	**-**	$	637
Investment in joint venture		**-**		(900)
Purchase of property, plant, and equipment (Note 8)		**(761)**		(1,207)
Cash provided by (used) in investing activities from continuing operations	**$**	**(761)**	$	(1,470)
Net cash flows attributable to discontinued operations		**-**		(1)
Net cash used in investing activities	**$**	**(761)**	$	(1,471)
Financing activities				
Net proceeds from financings (Note 18)		**5,821**		18,609
Net proceeds from loans payable (Note 16)		**6,125**		-
Proceeds from short-term borrowings		**-**		95
Proceeds from warrants exercised (Note 18)		**-**		1,084
Repayment of loans payable (Note 16)		**(1,548)**		-
Payment on promissory notes (Note 17)		**(300)**		-
Payment on lease liabilities		**(815)**		(275)
Cash provided by financing activities from continuing operations	**$**	**9,283**	$	19,513
Net cash flows attributable to discontinued operations		**-**		(117)
Net cash provided by financing activities	**$**	**9,283**	$	19,396
Cash used in continuing operations	**$**	**1,541**	$	112
Net cash flows attributable to discontinued operations		**-**		(895)
Increase/(decrease) in cash and cash equivalents during the period	**$**	**1,541**	$	(783)
Cash and cash equivalents, beginning of period		**14,754**		20,657
Cash and cash equivalents, end of period	**$**	**16,295**	$	19,874

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Changes in Equity
Expressed in thousands of Canadian dollars
Unaudited

For the three months ended:		March 31, 2022		March 31, 2021
Share capital				
Balance - beginning of period	**$**	**436,508**	$	394,574
Shares issued on exercise of warrants		**-**		1,084
Shares issued as at-the-market offerings (Note 18)		**5,774**		-
Shares issued on financings, net of taxes (Note 18)		**-**		14,453
Fair value transfer on exercise of warrants		**-**		380
Share capital - end of period	**$**	**442,282**	$	410,491
Reserves				
Convertible debentures				
Balance - beginning of period	**$**	**29,752**	$	29,752
Convertible debentures - end of period	**$**	**29,752**	$	29,752
Warrants				
Balance - beginning of period	**$**	**41,581**	$	33,803
Warrants issued on financings (Note 18)		**-**		4,156
Fair value transfer to shares upon conversion		**-**		(380)
Warrants - end of period	**$**	**41,581**	$	37,579
Contributed surplus				
Balance - beginning of period	**$**	**39,625**	$	34,492
Employee share options:				
Share-based compensation		**203**		206
Contributed surplus - end of period	**$**	**39,828**	$	34,698
Reserves - end of period	**$**	**111,161**	$	102,029
Accumulated other comprehensive loss				
Balance - beginning of period	**$**	**(26,478)**	$	(21,952)
Fair value changes in long-term investments (Note 11)		**(888)**		3,056
Currency translation adjustment		**235**		222
Accumulated other comprehensive loss - end of period	**$**	**(27,131)**	$	(18,674)
Deficit				
Attributable to the Company				
Balance - beginning of period	**$**	**(308,468)**	$	(274,729)
Net loss attributable to the Company		**(39,846)**		(10,494)
Ending deficit attributable to the Company		**(348,314)**		(285,223)
Attributable to non-controlling interests				
Balance - beginning of period	**$**	**(4,407)**	$	(4,411)
Currency translation adjustment		**64**		56
Net loss attributable to non-controlling interests		**-**		(6)
Ending deficit attributable to non-controlling interests		**(4,343)**		(4,361)
Deficit - end of period	**$**	**(352,657)**	$	(289,584)
Equity - end of period	**$**	**173,655**	$	204,262

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

1. Nature of operations

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

Description of the Company

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

2. Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34") . The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2021.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended December 31, 2021, which are available on SEDAR at www.sedar.com and on the Company's website at www.auxly.com.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2021. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on May 13, 2022.

Certain comparative amounts have been retrospectively restated in these interim condensed consolidated financial statements as a result of the sale of KGK Science Inc. ("KGK"), which occurred during the second quarter of 2021. Results of operations and cash flows associated with KGK have been aggregated and presented as discontinued operations as applicable.

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

2. Basis of preparation (continued)

Assessment of impact from global pandemic

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a global pandemic, resulting in continued and uncertain economic and business impact on a global scale. As a result, the Company has reviewed its estimates, judgments and assumptions used in the preparation of its interim condensed consolidated financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets, including goodwill and the credit risk of its counterparties.

As at March 31, 2022, the Company has determined that no significant revisions to estimates, judgments or assumptions were required for its operating segments; however, the continuing uncertainty associated with the COVID-19 pandemic may require changes in future periods. The Company will continue to closely monitor the impact of the COVID-19 pandemic, including any such changes to estimates, judgments or assumptions that could have a material impact on the Company's interim condensed consolidated financial position and consolidated results of operations.

3. Significant accounting policies

Subsidiaries

These interim condensed consolidated financial statements comprise of the financial results of the Company and its subsidiaries, which are the entities over which Auxly has control. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. Non-controlling interests in the equity of Auxly's subsidiaries are shown separately in equity in the interim condensed consolidated statements of financial position. The interim condensed consolidated financial statements of the Company include:

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

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

3. Significant accounting policies (continued)

Adoption of new accounting pronouncements

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

In January 2020, 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 which 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, 2022. Effective January 1, 2022, the Company adopted the Amendments to IAS 1 with no impact to the Company's interim condensed consolidated financial statements.

Amendments to IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Effective January 1, 2022, the Company adopted the Amendments to IFRS 9 with no impact to the Company's interim condensed consolidated financial statements.

Amendments to IAS 37, Onerous Contracts and the Cost of Fulfilling a Contract ("IAS 37")

The amendment specifies that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract." Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022. Effective January 1, 2022, the Company adopted the Amendments to IAS 37 with no impact to the Company's interim condensed consolidated financial statements.

Future changes in accounting policies

The Company monitors the potential changes proposed by the IASB and analyses the effect that changes in standards may have on the Company's operations and interim condensed consolidated financial statements. Standards issued but not effective up to the date of issuance of the Company's interim condensed consolidated financial statements are described below. The Company will adopt these standards when they become effective.

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

3. Significant accounting policies (continued)

Amendments to IAS 8, Definition of Accounting Estimates ("IAS 8")

In February 2021, IASB issued amendments to IAS 8 to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is assessing the impact of adopting these amendments on its interim condensed consolidated financial statements.

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

In May 2021, IASB issued amendments to IAS 12 to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is assessing the impact of adopting these amendments on its interim condensed consolidated financial statements.

4. Restricted cash

Auxly has restricted cash as collateral in order to facilitate an issuance of a letter of credit. As at March 31, 2022, Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of $557 (December 31, 2021 – $557) on behalf of Auxly Leamington Inc. ("Auxly Leamington") in order to supply power to the facility.

In December 2021, Auxly entered into an arrangement with a leasing company to finance a piece of equipment. The proceeds from financing of $1,004 held in escrow as at December 31, 2021 was released during the first quarter of 2022. Refer to Note 16 for more information.

5. Accounts receivable

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

	As at March 31, 2022	As at December 31, 2021
Less than 30 days past billing date	**$ 21,623**	$ 24,624
31 to 60 days past billing date	**854**	1,771
61 to 90 days past billing date	**223**	523
Over 90 days past billing date	**934**	150
	$ 23,634	$ 27,068
Sales provision	**(15)**	(29)
	$ 23,619	$ 27,039

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

6. Biological assets

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

Balance as at December 31, 2020	**$**	**419**
Acquired on business combination (Note 10)		5,361
Changes in fair value less cost to sell due to biological transformation		2,384
Capitalized production costs		4,068
Transferred to inventory upon harvest		(5,669)
Balance as at December 31, 2021	**$**	**6,563**
Changes in fair value less cost to sell due to biological transformation		6,473
Capitalized production costs		4,946
Transferred to inventory upon harvest		(8,211)
Impairment of biological assets (Note 27)		(704)
Balance as at March 31, 2022	**$**	**9,067**

For the three months ended March 31, 2022, the biological assets at Auxly Annapolis Inc. ("Auxly Annapolis") were written off and an impairment loss of $704 has been included in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

As at March 31, 2022, the Company's cannabis plants were on average 48% complete through their estimated 14-week growing cycle.

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

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

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

As at March 31, 2022			
Significant inputs and assumptions	**Inputs**	**Sensitivity**	**Effect on biological asset balance**
Weighted average selling price per gram	$0.3–$1.3/gram	Increase/(decrease) $0.3/gram	Increase/(decrease) $4,151
Average yield per plant	114 grams	Increase/(decrease) 10%	Increase/(decrease) $1,188
Post-harvest cost per gram	$0.04 dollar/gram	Increase/(decrease) $0.3/gram	Increase/(decrease) $415

As at December 31, 2021			
Significant inputs and assumptions	**Inputs**	**Sensitivity**	**Effect on biological asset balance**
Weighted average selling price per gram	$5.02/gram	Increase/(decrease) $1.00/gram	Increase/(decrease) $10,791
Average yield per plant	61–114 grams	Increase/(decrease) 10%	Increase/(decrease) $1,086
Post-harvest cost per gram	$0.05–$1.54/gram	Increase/(decrease) $0.5/gram	Increase/(decrease) $5,265

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

7. Inventory

The following is a breakdown of inventory:

	As at March 31, 2022	As at December 31, 2021
Dried cannabis		
Work-in-process	**$ 9,380**	$ 13,638
Finished goods	**1,441**	640
Dried hemp		
Work-in-process	**3,346**	3,836
Cannabis oil		
Work-in-process	**11,052**	11,726
Generation 2 derivative products		
Work-in-process	**925**	1,208
Finished goods	**8,847**	6,188
Merchandise products	**235**	199
Packaging, hardware, consumables and ingredients	**13,968**	14,943
Total	**$ 49,194**	$ 52,378

As at March 31, 2022, the Company recognized $49,194 (December 31, 2021 – $52,378) of inventory on the interim condensed consolidated statements of financial position, including $1,308 non-cash income (December 31, 2021 – $220) relating to the fair value less cost to sell transferred to inventory upon harvest. During the three months ended March 31, 2022, inventory expensed to cost of sales was $17,014 (2021 – $6,357).

In the three months ended March 31, 2022, the Company recognized a loss of $4,878 (2021 – $230) cannabis inventory due to the costs capitalised exceeding the net realizable value of the inventory, including $4,323 related to Auxly Annapolis. The impairment loss has been included in the cost of goods sold in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

8. Property, plant and equipment

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Construction-in-progress	Land	Right-of-use assets	Total
Cost:								
December 31, 2021	$ 3,793	$ 29,853	$ 33,790	$ 147,734	$ 295	$ 8,065	$ 23,122	**$ 246,652**
Additions	73	4	584	5	95	-	195	**956**
Transfers	63	-	161	14	(238)	-	-	**-**
Impairment of long-term assets	(296)	-	(457)	(12,131)	-	-	-	**(12,884)**
March 31, 2022	**$ 3,633**	**$ 29,857**	**$ 34,078**	**$ 135,622**	**$ 152**	**$ 8,065**	**$ 23,317**	**$ 234,724**
Accumulated depreciation:								
December 31, 2021	$ 1,739	$ 1,980	$ 3,908	$ 4,076	$ -	$ 27	$ 7,163	**$ 18,893**
Depreciation	187	362	1,011	1,936	-	-	1,187	**4,683**
March 31, 2022	**$ 1,926**	**$ 2,342**	**$ 4,919**	**$ 6,012**	**$ -**	**$ 27**	**$ 8,350**	**$ 23,576**
Adjustments:								
Currency translation	$ 12	$ (19)	$ (42)	$ 69	$ -	$ (43)	$ 1	**$ (22)**
Reclassification to assets held for sale (Note 27)	(7)	-	(153)	(5,375)	-	(3,882)	(3)	**(9,420)**
Carrying amounts								
March 31, 2022	**$ 1,712**	**$ 27,496**	**$ 28,964**	**$ 124,304**	**$ 152**	**$ 4,113**	**$ 14,965**	**$ 201,706**

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

8. Property, plant and equipment (continued)

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Construction-in-progress	Land	Right-of-use assets	Total
Cost:								
December 31, 2020	$ 3,162	$ 30,088	$ 17,653	$ 25,663	$ 16,005	$ 4,809	$ 8,820	**$ 106,200**
Additions	854	126	17,496	122,253	294	4,100	15,074	**160,197**
Disposals	(223)	(361)	(1,247)	(200)	(4,620)	(844)	(772)	**(8,267)**
Transfers	-	-	-	18	(18)	-	-	**-**
Impairment of long-term assets	-	-	(112)	-	(11,366)	-	-	**(11,478)**
December 31, 2021	**$ 3,793**	**$ 29,853**	**$ 33,790**	**$ 147,734**	**$ 295**	**$ 8,065**	**$ 23,122**	**$ 246,652**
Accumulated depreciation:								
December 31, 2020	$ 1,198	$ 791	$ 2,392	$ 2,148	$ -	$ 25	$ 3,013	**$ 9,567**
Depreciation	675	1,465	1,896	1,995	-	2	4,793	**10,826**
Disposals	(134)	(276)	(328)	(67)	-	-	(643)	**(1,448)**
Transfers	-	-	-	-	-	-	-	**-**
Impairment of long-term assets	-	-	(52)	-	-	-	-	**(52)**
December 31, 2021	**$ 1,739**	**$ 1,980**	**$ 3,908**	**$ 4,076**	**$ -**	**$ 27**	**$ 7,163**	**$ 18,893**
Adjustments:								
Currency translation	$ 12	$ (19)	$ (42)	$ 69	$ -	$ (25)	$ 1	**$ (4)**
Reclassification to assets held for sale (Note 27)	(1)	-	-	-	-	(1,275)	(3)	**$ (1,279)**
Carrying amounts								
December 31, 2021	**$ 2,065**	**$ 27,854**	**$ 29,840**	**$ 143,727**	**$ 295**	**$ 6,738**	**$ 15,957**	**$ 226,476**

Property, plant and equipment additions includes a $195 (2021 – $nil) non-cash recognition of right-of-use assets.

For the three months ended March 31, 2022, the property, plant and equipment related to Auxly Annapolis and Auxly Annapolis OG Inc. (“Auxly Annapolis OG”) was written down to its recoverable amount of $8,159, resulting in an impairment loss of $12,884. As at March 31, 2022, the property, plant and equipment related to Auxly Annapolis and Auxly Annapolis OG has been reclassified to assets held for sale. Refer to Note 27 for more information.

9. Intangible assets and goodwill

Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2021	$ 17,783	$ 28,846	$ 31,100	$ 850	$ 4,857	**$ 83,436**
Impairment (Note 27)	-	(10,189)	-	-	-	**(10,189)**
March 31, 2022	**$ 17,783**	**$ 18,657**	**$ 31,100**	**$ 850**	**$ 4,857**	**$ 73,247**
Accumulated amortization:						
December 31, 2021	$ 7,742	$ -	$ -	$ 180	$ 1,311	**$ 9,233**
Amortization	1,520	-	-	16	189	**1,725**
March 31, 2022	**$ 9,262**	**$ -**	**$ -**	**$ 196**	**$ 1,500**	**$ 10,958**
Carrying amounts:						
March 31, 2022	**$ 8,521**	**$ 18,657**	**$ 31,100**	**$ 654**	**$ 3,357**	**$ 62,289**

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

9. Intangible assets and goodwill (continued)

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2020	$ 19,783	$ 27,152	$ 31,100	$ 850	$ 2,619	**$ 81,504**
Additions	-	1,694	-	-	2,860	**4,554**
Disposals	(2,000)	-	-	-	(622)	**(2,622)**
December 31, 2021	**$ 17,783**	**$ 28,846**	**$ 31,100**	**$ 850**	**$ 4,857**	**$ 83,436**
Accumulated amortization:						
December 31, 2020	$ 5,886	$ -	$ -	$ 119	$ 1,240	**$ 7,245**
Amortization	2,947	-	-	61	693	**3,701**
Disposals	(1,091)	-	-	-	(622)	**(1,713)**
December 31, 2021	**$ 7,742**	**$ -**	**$ -**	**$ 180**	**$ 1,311**	**$ 9,233**
Carrying amounts:						
December 31, 2021	**$ 10,041**	**$ 28,846**	**$ 31,100**	**$ 670**	**$ 3,546**	**$ 74,203**

Goodwill

Balance, December 31, 2020	**$ 28,595**
Business combination (Note 10)	649
Change in goodwill due to sale of subsidiary	(4,954)
Balance, December 31, 2021	**$ 24,290**
Impairment of goodwill (Note 27)	(600)
Balance, March 31, 2022	**23,690**

For the three months ended March 31, 2022, the Company recorded an impairment loss of $10,189 for the Canadian cultivation license and $600 of goodwill as a result of the decision to cease operations at Auxly Annapolis and Auxly Annapolis OG.

10. Business combinations

On November 22, 2021, the Company entered into a share purchase agreement with Peter Quiring, the majority shareholder of Auxly Leamington (formerly Sunens Farms Inc.), to acquire all the issued and outstanding securities of Auxly Leamington not already owned by the Company, resulting in the Company having 100% ownership and control of Auxly Leamington. Pursuant to the share purchase agreement, the Company completed the acquisition for consideration consisting of:

- $500 in cash;
- An unsecured promissory note in the principal amount of $3,400, which bears interest at a rate of 6.00% per annum and is payable by the Company over 30 months in equal monthly instalments, with the first payment due on the first anniversary of the closing date;
- An unsecured promissory note in the principal amount of $2,745, which does not bear interest, is unsecured and due on demand. The Company and Peter Quiring agreed to set off the promissory note owing by the Company from the purchase consideration against an existing debt of $2,745 owing by Peter Quiring to the Company, resulting in both debts being paid in full and cancelled;

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

10. Business combinations (continued)

- Issuance of $1,100 worth of common shares in the capital of the Company with a value of $924, as calculated using the five-day volume-weighted average trading price of the Company's shares on the TSX on the trading day immediately preceding the date of the acquisition of $0.23 per common share at 4,017,531 common shares as consideration for the assignment of the Company of a $1,100 loan owing from Auxly Leamington to Peter Quiring; and
- $500 of contingent consideration payable by Auxly Leamington to Fresh Energy Inc. ("Fresh Energy") upon the completion of the Transfer (as hereinafter defined).

Previously held interest in Auxly Leamington, as an investment in joint venture, consisted of:

- $5,437 of Class 1 common shares in the capital of Auxly Leamington;
- $32,351 of Class B special shares in the capital of Auxly Leamington;
- $42,553 of Auxly Leamington's debt, due to the Company;
- $219 settlement of Auxly Leamington's trade payables due to the Company; and
- $1,091 settlement of financial guarantee on Auxly Leamington's credit facility in the event of default.

The purchase price allocation of the Auxly Leamington acquisition has been included in the table below. All net assets acquired, and consideration paid have been included at their respective fair value.

		As at November 22, 2021
Cash and cash equivalents	$	561
Biological assets		5,361
Inventory		4,219
Due from 2633867 Ontario Inc.		2,745
Prepaid expenses		700
Property, plant and equipment, net		155,339
Fresh Energy Inc. intangible asset		2,860
Intangible asset		1,694
Goodwill		649
Total assets	**$**	**174,128**
Accounts payable and accruals	$	(4,845)
Deferred revenue		(322)
Obligations under capital leases		(10,598)
Loans payable		(67,516)
Promissory note		(2,860)
Deferred tax liability		(449)
Total liabilities	**$**	**(86,590)**
Fair value of net assets acquired	**$**	**87,538**

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

10. Business combinations (continued)

		As at November 22, 2021
Cash	$	500
Promissory note issued to Quiring Trust		3,400
Note payable to QuiringCo		2,745
Auxly common shares issued		924
Payable to Fresh Energy Inc. upon completion of the load facility transfer (Note 13)		500
Fair value of previously held equity interest before acquisition (Class 1)		5,437
Fair value of previously held equity interest before acquisition (Class B)		32,351
Fair value of pre-existing balances effectively settled on the acquisition		42,553
Settlement of pre-existing trade balance		219
Settlement of pre-existing financial guarantee		(1,091)
Fair value of consideration paid	**$**	**87,538**

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea RD 9 PH 5 (the “Transfer”) for which Auxly Leamington shall pay Fresh Energy consideration of:

- An unsecured promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months. Refer to Note 17 for more information; and
- Contingent consideration payable of $500 upon the completion of effecting such Transfer, included in the consideration paid for the acquisition of Auxly Leamington. Refer to Note 13 for more information.

The Company has funding commitments of an aggregate of €19,820 from 2022 to 2024 to Van der Knapp Group of Companies related to the lease of an organic growing concept. As part of this acquisition of Auxly Leamington, the Company agreed to continue to temporarily lease the organic growing concept until it can be transferred to Peter Quiring, upon which, the Company’s commitments to the Van der Knapp Group of Companies related to the organic growing concept will be extinguished. Such transfer is anticipated to occur in the second half of 2022.

Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the fair value analysis and related purchase price allocation. Until such time, the fair value and purchase price allocation are provisionally reported and are subject to change, particularly with respect to intangible assets, goodwill and deferred taxes. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

11. Long-term investments

Entity	Instrument	Classification		Balance as at December 31, 2021		FV change		Purchases (sales)		Balance as at March 31, 2022
VIVO Cannabis	Shares	FVOCI	$	40	$	-	$	-	$	40
Cannabis OneFive Inc.	Shares	FVOCI		1,702		133		-		1,835
Wellbeing Digital Sciences Inc.	Shares	FVOCI		2,104		(1,021)		-		1,083
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI		51	$	-		-		51
Total			**$**	**3,897**	**$**	**(888)**	**$**	**-**	**$**	**3,009**

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

11. Long-term investments (continued)

Entity	Instrument	Classification	Balance as at December 31, 2020	FV change	Purchases (sales)	Balance as at December 31, 2021
VIVO Cannabis	Shares	FVOCI	$ 65	$ (25)	$ -	$ 40
CannTx Life Sciences Inc.	Shares	FVOCI	199	316	(515)	-
Entourage Health Corp.	Shares	FVOCI	-	(800)	800	-
Inner Spirit Holdings	Shares	FVOCI	2,791	4,862	(7,653)	-
Inner Spirit Holdings	Options	FVTPL	93	182	(275)	-
Province Brands of Canada	Shares	FVOCI	153	(153)	-	-
Cannabis OneFive Inc.	Shares	FVOCI	109	1,593	-	1,702
Cannabis OneFive Inc.	Warrants	FVTPL	-	200	(200)	-
Delta 9 Cannabis	Shares	FVOCI	654	(31)	(623)	-
Goodleaf Company	Shares	FVOCI	535	(535)	-	-
Goodleaf Company	Warrants	FVTPL	376	(376)	-	-
Wellbeing Digital Sciences Inc.	Shares	FVOCI	-	(9,787)	11,891	2,104
Sundial Growers Inc.	Shares	FVOCI	-	(43)	43	-
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	51	-	-	51
Total			**$ 5,026**	**$ (4,597)**	**$ 3,468**	**$ 3,897**

12. Deposits

	Capital assets	Inventory	Other	Total
Current portion	$ 5,103	$ 618	$ 27	**$ 5,748**
Non-current portion	-	-	1,555	**1,555**
As at March 31, 2022	**$ 5,103**	**$ 618**	**$ 1,582**	**$ 7,303**

	Capital assets	Inventory	Other	Total
Current portion	$ 3,784	$ 1,066	$ 38	**$ 4,888**
Non-current portion	-	-	1,582	**1,582**
As at December 31, 2021	**$ 3,784**	**$ 1,066**	**$ 1,620**	**$ 6,470**

As at March 31, 2022, the Company has made deposits towards specialized equipment to be utilized for extraction, product formulation, packaging, towards vape cartridge purchases and raw material cannabis purchases.

13. Contingent consideration payable

As at March 31, 2022, the Company recorded a contingent consideration payable by Auxly Leamington to Fresh Energy of $500 (December 31, 2021 – $500) upon the completion of the Transfer. Refer to Note 10 for more information.

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

14. Lease liability

		As at March 31, 2022		As at December 31, 2021
Maturity analysis - contractual undiscounted cash flows				
Less than one year	**$**	**4,005**	$	4,949
Two years and beyond		**21,877**		21,762
Total undiscounted lease obligations	**$**	**25,882**	$	26,711
Current portion	**$**	**3,993**	$	4,046
Long-term portion		**16,685**		17,252
Reclassification to liabilities held for sale (Note 27)		**(3)**		(3)
Discounted lease obligations included in the consolidated statements of financial position	**$**	**20,675**	$	21,295

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

15. Convertible debentures

The convertible debentures balance consists of the following:

		As at March 31, 2022		As at December 31, 2021
September 2019 issuance and April 2021 amendment	**$**	**97,282**	$	95,198
Standby financing		**10,900**		10,627
Total	**$**	**108,182**	$	105,825
Less: current portion		**(10,900)**		(10,627)
Long-term portion	**$**	**97,282**	$	95,198

September 2019 issuance and April 2021 amendment

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

In April 2021, the Company announced an agreement with Imperial Brands to amend the debentures to extend the maturity date by 24 months from September 25, 2022 to September 25, 2024. The amendment also provides Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the debentures into common shares at a conversion price equal to the five-day volume weighted average trading price of the common shares on the date that the interest conversion election is made. The interest rate at a 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.

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

15. Convertible debentures (continued)

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

The accretion expense associated with the debentures for the three months ended March 31, 2022 was $2,084 (2021 – $2,746). Interest expense for the three months ended March 31, 2022 was $1,212 (2021 – $1,212).

Convertible debenture standby financing

In April 2020, Auxly entered into an unsecured convertible debenture 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, in which $484 was allocated to the accompanying warrants and $995 was allocated to the conversion feature. Details of the five tranches are as follows:

		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Date raised		28-Apr-20	20-May-20	08-Jun-20	26-Jun-20	08-Sep-20
Maturity date		28-Apr-22	20-May-22	08-Jun-22	26-Jun-22	08-Sep-22
Gross proceeds	$	1,250	2,000	3,000	3,000	2,000
Conversion price	$	0.435	0.425	0.380	0.305	0.180
Financing costs	$	(98)	(144)	(126)	(128)	(90)
Net proceeds	$	1,152	1,856	2,874	2,872	1,910
Discount rate	%	16.0%	16.0%	16.0%	16.0%	16.0%
Fair value	$	988	1,593	2,479	2,477	1,648
Residual value	$	164	263	395	395	262
Warrants issued	#	1,580,460	2,588,235	4,342,105	5,409,836	6,111,111
Warrant exercise price	$	0.522	0.510	0.460	0.366	0.216
Expiry date		28-Apr-22	20-May-22	08-Jun-22	26-Jun-22	08-Sep-22

The residual value of the gross proceeds was allocated to the conversion feature and warrants based on their relative fair values and net of issuance costs. The relative fair value of the conversion features and warrants were derived based on the following assumptions:

		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Share price	$	0.44	0.43	0.37	0.30	0.17
Annualized volatility	%	84.45%	85.47%	85.44%	84.04%	81.09%
Risk-free interest rate	%	0.32%	0.30%	0.32%	0.29%	0.27%
Dividend yield	%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected life		2 years	2 years	2 years	2 years	2 years

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

15. Convertible debentures (continued)

The continuity schedule of the debentures is presented below:

		As at March 31, 2022		As at December 31, 2021
Balance, beginning of period	**$**	**10,627**	$	9,638
Accretion expense		**273**		989
Balance, end of period	**$**	**10,900**	$	10,627

The accretion expense on the convertible debentures was calculated using the effective interest method for the three months ended March 31, 2022. The details of the accretion expense associated with the five tranches are as follows:

		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Balance, December 31, 2021		**$ 1,200**	**$ 1,838**	**$ 2,869**	**$ 2,855**	**$ 1,865**
Accretion expense during the period		$ 38	$ 44	$ 73	$ 72	$ 46
Balance, March 31, 2022		**$ 1,238**	**$ 1,882**	**$ 2,942**	**$ 2,927**	**$ 1,911**
Effective interest rate	%	20.37%	17.74%	17.89%	17.95%	18.08%
Coupon rate	%	7.50%	7.50%	7.50%	7.50%	7.50%
Interest expense (3 months)	$	23	37	55	55	38

16. Loans payable

The loans payable balance consists of the following:

		As at March 31, 2022		As at December 31, 2021
Equipment loans payable	**$**	**4,270**	$	4,452
Amended and Restated Credit Facility		**51,037**		52,000
Receivables financing loan		**6,125**		-
Loan payable to SNAP Premium Finance Corp.		**-**		345
Total	**$**	**61,432**	$	56,797
Less: current portion		**5,305**		5,450
Long-term portion	**$**	**56,127**	$	51,347

Equipment loans payable

On July 1, 2021, the Company entered into an arrangement with a leasing company to finance several pieces of equipment for total net proceeds of $2,417, over a three-year term. The loan bears interest at 12.16% per annum.

On December 22, 2021, the Company entered into an arrangement to finance the deposit on packaging equipment for net proceeds of $2,382, of which $1,004 was held in escrow as at December 31, 2021 and released during the first quarter of 2022. The term of the loan is three years and bears interest at 11.80% per annum.

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

16. Loans payable (continued)

The continuity schedule of the equipment loans is presented below:

		As at March 31, 2022		As at December 31, 2021
Balance, beginning of period	$	4,452	$	-
Additions	$	-	$	4,799
Payments		(237)		(474)
Interest expense		55		127
Balance, end of period	$	4,270	$	4,452
Current portion	$	1,455	$	1,255
Long-term portion		2,815		3,197
Total	$	4,270	$	4,452

Amended and Restated Credit Facility

Concurrent with the acquisition of Auxly Leamington, the Company entered into an Amended and Restated Credit Facility with the Bank of Montreal. The credit facility bears interest at prime or the banker's acceptance rate, plus the applicable margin in effect. The credit facility consists of a $28,500 revolving credit facility and a $38,500 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 revolving credit facility has been extended by a year to September 30, 2023, with an option by the Company to extend for an additional year by making a further principal repayment of $5,000 by December 31, 2022. The term credit is repayable in 40 equal principal instalments commencing the first business day of each calendar quarter following the repayment start date of January 2022. The amendment was treated as a debt modification under IFRS 9 as the terms were not substantially different given the discounted present value of the cash flows under the amended terms is less than 10% different from the discounted present value of the remaining cash flows of the original financial liability. Under the amended agreement, the obligations of Auxly Leamington continues to be supported by an unsecured $33,000 limited resource guarantee provided by the Company. The continuity schedule of the Amended and Restated Credit Facility is presented below:

		As at March 31, 2022		As at December 31, 2021
Balance, beginning of period	$	52,000	$	-
Additions	$	-	$	67,000
Payments		(963)		(15,000)
Balance, end of period	$	51,037	$	52,000
Current portion	$	3,850	$	3,850
Long-term portion		47,187		48,150
Total	$	51,037	$	52,000

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

16. Loans payable (continued)

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 United States dollars, which includes an origination fee of $150 United States dollars. 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 is guaranteed by the Company. The Company has retained late payment and credit risk, therefore continues to recognize the transferred assets in their entirety in its interim condensed consolidated statements of financial position. The amount payable under the receivables financing agreement is presented as non-current loans with an extendable maturity date. The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three months ended March 31, 2022 was $206 (2021 – $nil). The continuity schedule of the receivables financing loan is presented below:

		As at March 31, 2022		As at December 31, 2021
Balance, beginning of period	**$**	**-**		-
Additions	**$**	**6,125**	$	-
Balance, end of period	**$**	**6,125**	$	-

Loan payable to SNAP Premium Finance Corp.

The loan payable to SNAP Premium Finance Corp. was part of the net assets acquired on the acquisition of Auxly Leamington. The loan bears interest at 4.75% per annum and was fully paid during the first quarter of 2022. The continuity schedule of the loan payable to SNAP Premium Finance Corp. is presented below:

		As at March 31, 2022		As at December 31, 2021
Balance, beginning of period	**$**	**345**	$	-
Additions	**$**	**-**	$	516
Payments		**(348)**		(173)
Interest expense		**3**		2
Balance, end of period	**$**	**-**	$	345

17. Promissory notes

The promissory note balance consists of the following:

		As at March 31, 2022		As at December 31, 2021
Due to Peter Quiring	**$**	**3,471**	$	3,421
Fresh Energy Agreement		**2,492**		2,766
Total	**$**	**5,963**	$	6,187
Less: current portion		**1,944**		1,370
Long-term portion	**$**	**4,019**	$	4,817

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

17. Promissory notes (continued)

An unsecured promissory note of $3,400 was issued to Peter Quiring as part of the consideration for the acquisition of Auxly Leamington. The promissory note bears interest of 6.00% per annum and is payable in monthly instalments of $210 for 18 months, starting December 2022. Please refer to Note 10 for more information.

Concurrent with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete the Transfer. The consideration for the Transfer includes an unsecured, non-interest bearing promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months, starting December 2021. Using a discount rate of 3.8%, consistent with the Amended and Restated Credit Facility with the Bank of Montreal interest rate, the Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860. Refer to Note 10 for more information.

The continuity schedule of the promissory notes is presented below:

		As at March 31, 2022		As at December 31, 2021
Balance, beginning of period	**$**	**6,187**	$	-
Additions	**$**	**-**	$	6,260
Payments		**(300)**		(100)
Interest expense		**76**		27
Balance, end of period	**$**	**5,963**	$	6,187
Current portion	**$**	**1,944**	$	1,370
Long-term portion		**4,019**		4,817
Total	**$**	**5,963**	$	6,187

18. Share capital

The share capital of the Company is summarized below:

	March 31, 2022	December 31, 2021
Issued and outstanding shares		
Issued shares	**889,522,672**	850,732,172
Escrowed shares	**6,994,190**	6,994,190
Outstanding shares	**882,528,482**	843,737,982

	March 31, 2022	December 31, 2021
Exercisable securities		
Warrants	**122,542,280**	122,542,280
Convertible Debentures	**188,089,377**	188,089,377
Options	**28,423,009**	28,920,509

a) Authorized

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

b) Issued and outstanding

As at March 31, 2022, there were 889,522,672 issued and outstanding common shares, with 6,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2021 had 850,732,172 issued and outstanding common shares, and 6,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

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

18. Share capital (continued)

The Company has issued common shares under its at-the-market equity program ("ATM Program"). The ATM Program was established in March 2021 and allows the Company to issue and sell up to $30,000 of common shares of the Company from treasury to the public, from time to time, at the Company's discretion. The common shares sold through the ATM Program will be sold through the TSX or any other marketplace on which the common shares are listed, quoted, or otherwise traded, at the prevailing market price at the time of sale.

For the three months ended:		**March 31, 2022**		March 31, 2021
Gross proceeds	**$**	**5,913**	$	-
Commission	**$**	**139**	$	-
Net proceeds	**$**	**5,774**	$	-
Average gross price	**$**	**0.152**	$	-
Number of shares issued		**38,790,500**		-

As at March 31, 2022, $187 of net proceeds related to transactions from the fourth quarter of 2021 was received, partially offset by $140 of net proceeds receivable from the first quarter of 2022, resulting in net proceeds from financing of $5,821 as presented in the interim condensed consolidated statements of cash flows. Net proceeds receivable was recorded in other receivables on the interim condensed consolidated statements of financial position.

c) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at March 31, 2022:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2021	**56,021,747**	**0.593**	**2.35**
Warrants issued	71,977,199	0.414	2.30
Warrants exercised	(3,456,666)	0.149	
Warrants expired	(2,000,000)	1.570	
Closing balance, December 31, 2021	**122,542,280**	**0.480**	**1.89**
Closing balance, March 31, 2022	**122,542,280**	**0.480**	**1.64**

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 88,952,267 as at March 31, 2022.

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

18. Share capital (continued)

The following table summarizes information about stock options outstanding as at March 31, 2022:

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2021	**40,890,608**	**0.902**	**5.45**
Options granted	7,645,000	0.271	4.50
Options exercised	(5,109,853)	0.025	
Options cancelled/forfeited	(14,505,246)	1.081	
Closing balance, December 31, 2021	**28,920,509**	**0.801**	**4.63**
Options cancelled/forfeited	(497,500)	0.483	
Closing balance, March 31, 2022	**28,423,009**	**0.808**	**4.40**

Total options exercisable at March 31, 2022, were 17,107,175 (2021 – 21,218,874) with a remaining average life of 4.69 years (2021 – 4.6 years).

e) Earnings/(loss) per share

The calculation of basic and diluted income/(loss) per share is based on the income/(loss) for the period attributable to the shareholders divided by the weighted average number of shares in circulation during the period. In calculating the diluted 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 loss per share from continuing operations and they would, therefore, be anti-dilutive.

19. 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, stock options or post-employment benefits. Compensation provided to current and key management are as follows:

For the three months ended:	**March 31, 2022**	March 31, 2021
Short-term benefits	**$ 524**	$ 503
Long-term benefits	**104**	83
Total	**$ 628**	$ 586

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

20. Financial instruments and risk management

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

a) Financial instrument classification and measurement

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

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

Financial instrument	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investments in private companies	Market approach	Investment index	If the investment index fair value change increased/ (decreased) by 10%, the estimated fair value of the long-term investment would increase/(decrease) by $184/($184) (2021 – $144/($144)).

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 value.

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 140	$ -	$ -	$ 140
Biological assets	-	-	9,067	9,067
Public company shares	1,174	-	-	1,174
Private company shares	-	-	1,835	1,835
Balance, March 31, 2022	**$ 1,314**	**$ -**	**$ 10,902**	**$ 12,216**

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 140	$ -	$ -	$ 140
Biological assets	-	-	6,563	6,563
Public company shares	2,195	-	-	2,195
Private company shares	-	-	1,702	1,702
Balance, December 31, 2021	**$ 2,335**	**$ -**	**$ 8,265**	**$ 10,600**

The table below presents the continuity schedule of the Company's Level 3 investments:

Level 3 investments	
Balance, January 1, 2021	$ 51,415
Change in unrealized gain/(loss) – FVOCI	1,221
Net proceeds on sale	(515)
Change in biological assets	6,144
Elimination of investment in joint venture on business combination	(50,000)
Balance, December 31, 2021	**$ 8,265**
Change in unrealized gain/(loss) – FVOCI	133
Change in biological assets	2,504
Balance, March 31, 2022	**$ 10,902**

20. Financial instruments and risk management (continued)

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, other receivables, long-term investments, accounts payable and accrued liabilities, loans payable and convertible debentures. As at March 31, 2022, the carrying value of cash and cash equivalents and short-term investments is measured at fair value. Accounts receivable and accounts payable and accrued liabilities, approximate their fair value due to their short-term nature. The carrying value of loans payable, promissory notes, and convertible debentures is discounted at the effective interest rate, which approximates their fair value.

c) Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns.

The Company is exposed to equity price risk, which arises from investments measured at FVOCI and FVTPL. For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $184 before tax (2021 – $144). An equal change in the opposite direction would have decreased equity by $184 before tax (2021 – $144).

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. As all the Company's financial debt is on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows during the contract term.

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 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.

g) Foreign exchange risk

The 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.

20. Financial instruments and risk management (continued)

The Company is exposed to certain currency risks in that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. Management has mitigated the risk by holding sufficient cash in US dollars. A 10% increase/(decrease) in the exchange rate would increase/(decrease) net income by $585/($585) (2021 – $58/(58)).

21. 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, 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. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management in the year.

22. Commitments and contingencies

Commitments

As at March 31, 2022, 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 $62,500 in debt financing provided by a syndicate led by Bank of Montreal towards the construction of the Auxly Leamington purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments to $33,000 in the event of default;
- During the period 2022 to 2024, the Company has committed to a fixed/variable structure with Kindred Partners Inc. ("Kindred") for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada. The fixed amount of the fixed/variable structure will be $3,600 annually;
- Annual payments of $300 USD for five years to June 2025 to Natures Crops International for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 products;
- Payment of $1,000 USD in 2022 to Capsugel Manufacturing, LLC, as part of a multi-year licensing arrangement with Lonza Group Ltd.;
- Payments of an aggregate of €1,971 in 2022 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities;
- Annual payment of $100 for minimum annual volume requirement with Union Gas, with agreement ending August 1, 2029; and
- Annual payment of $73 until 2024 for guaranteed minimum purchase of bulk carbon dioxide with Air Liquide.

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

22. Commitments and contingencies (continued)

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

	Remaining 2022	Fiscal year 2023	Fiscal year 2024	Fiscal year 2025	Fiscal year 2026	Thereafter	Total
Lease obligations	$ 4,005	$ 3,444	$ 2,953	$ 2,748	$ 2,728	$ 10,004	**$ 25,882**
Loans payable obligations	4,337	34,282	5,308	4,096	3,850	25,375	**77,248**
Promissory note obligations	1,110	3,718	1,549	-	-	-	**6,377**
Convertible debenture obligations	11,573	-	147,408	-	-	-	**158,981**
Total	**$ 21,025**	**$ 41,444**	**$ 157,218**	**$ 6,844**	**$ 6,578**	**$ 35,379**	**$ 268,488**

Contingencies

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

23. Selling, general, and administrative expenses

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

For the three months ended:	March 31, 2022	March 31, 2021
CONTINUING OPERATIONS		
Wages and benefits	**$ 5,659**	$ 4,208
Office and administrative	**3,579**	3,048
Professional fees	**446**	424
Business development	**59**	8
Share-based compensation	**203**	206
Selling expenses	**2,896**	1,311
Total	**$ 12,842**	$ 9,205

24. Interest and accretion expenses

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

For the three months ended:	March 31, 2022	March 31, 2021
Interest expense from continuing operations	**$ 5,080**	$ 4,601
Interest expense from discontinued operations	**-**	7
Total interest expense	**$ 5,080**	$ 4,608
Less non-cash interest on Imperial Brands convertible debentures	**(1,212)**	(1,212)
Less non-cash accretion expense on convertible debentures	**(2,357)**	(2,974)
Less non-cash interest on loans payable	**(58)**	-
Less non-cash interest on promissory note	**(76)**	-
Total cash interest	**$ 1,377**	$ 422

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

25. Changes in non-cash working capital

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

For the three months ended:		**March 31, 2022**		March 31, 2021
CONTINUING OPERATIONS				
Accounts receivable	**$**	**3,404**	$	2,297
Other receivables		**(363)**		124
Prepaid expenses		**1,875**		(4,114)
Interest payable		**208**		(189)
Biological assets (Note 6)		**3,265**		238
Inventory (Note 7)		**(5,053)**		(7,868)
Accounts payable and accrued liabilities		**(2,894)**		(5,352)
Deferred revenue		**(80)**		-
Total	**$**	**362**	$	(14,864)

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. In June 2021, the Company removed its previously reported research options operating segment, as a result of the sale of KGK.

The Company’s business activities are conducted through two operating segments as follows:

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

In February 2022, the Company ceased operations at Auxly Annapolis and Auxly Annapolis OG. As at March 31, 2022, the Company has allocated $9,389 of assets held for sale and $104 of liabilities held for sale, under Auxly Annapolis and Auxly Annapolis OG. Refer to Note 27 for more information.

All the Company’s revenue is from the Canadian operations.

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

For the Company’s geographically segmented non-current assets, the Company has allocated $1,410 of assets held for sale and $785 of liabilities held for sale, under the South American cannabis CGU. As at March 31, 2022, the South American cannabis CGU contained $1,261 of property, plant and equipment. Refer to Note 27 for more information.

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

27. Assets and liabilities held for sale

As at March 31, 2022, disposal groups held for sale includes Inverell S.A., Auxly Annapolis and Auxly Annapolis OG. The following assets and liabilities were reclassified as held for sale under the disposal groups:

	As at March 31, 2022		
	Inverell S.A.	Auxly Annapolis and Auxly Annapolis OG	Total
Cash and cash equivalents	$ 3	$ 119	**$ 122**
Inventory	-	1,034	**1,034**
Accounts receivable	-	16	**16**
Other receivables	124	61	**185**
Prepaid expenses	22	-	**22**
Property, plant and equipment, net (Note 8)	1,261	8,159	**9,420**
Total assets held for sale	**$ 1,410**	**$ 9,389**	**$ 10,799**
Accounts payable and accrued liabilities	$ 782	$ 104	**886**
Lease liability (Note 14)	3	-	**3**
Total liabilities held for sale	**$ 785**	**$ 104**	**$ 889**

	As at December 31, 2021		
	Inverell S.A.	Auxly Annapolis and Auxly Annapolis OG	Total
Cash and cash equivalents	$ 3	$ -	**$ 3**
Other receivables	126	-	**126**
Prepaid expenses	23	-	**23**
Property, plant and equipment, net (Note 8)	1,279	-	**1,279**
Total assets held for sale	**$ 1,431**	**$ -**	**$ 1,431**
Accounts payable and accrued liabilities	$ 794	$ -	**$ 794**
Lease liability (Note 14)	3	-	**3**
Total liabilities held for sale	**$ 797**	**$ -**	**$ 797**

On February 7, 2022, the Company announced that it had ceased operations at the Auxly Annapolis and Auxly Annapolis OG facilities and that it intends to divest of the non-core assets and apply the proceeds from any such sale to support its ongoing operations. As at March 31, 2022, the assets and liabilities of Auxly Annapolis and Auxly Annapolis OG have been reclassified to assets and liabilities held for sale.

During the first quarter of 2022, the Company wrote down the assets of Auxly Annapolis and Auxly Annapolis OG to its recoverable amount, resulting in an impairment loss of $25,745. The following is a breakdown of the impairment loss:

Biological assets (Note 6)	$ 704
Inventory (Note 7)	4,323
Property, plant and equipment, net (Note 8)	12,884
Intangible asset (Note 9)	10,189
Goodwill (Note 9)	600
Deferred tax liability	(2,955)
Total	**$ 25,745**