



**AUXLY CANNABIS GROUP INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**Dated March 24, 2024**

# AUXLY CANNABIS GROUP INC.

## Consolidated Statements of Financial Position

Expressed in thousands of Canadian dollars

As at:	December 31, 2023	December 31, 2022
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 15,608	\$ 14,636
Restricted cash (Note 4)	557	557
Short-term investments	143	143
Accounts receivable (Note 5)	15,827	16,632
Biological assets (Note 6)	5,334	7,505
Inventory (Note 7)	26,095	46,953
Prepaid expenses	1,005	1,529
Deposits (Note 11)	514	362
Other receivables	905	901
	<b>\$ 65,988</b>	<b>\$ 89,218</b>
<b>Non-current assets</b>		
Property, plant and equipment, net (Note 8)	\$ 158,962	\$ 195,274
Intangible assets, net (Note 9)	29,878	45,466
Long-term investments (Note 10)	1,095	1,090
Long-term deposits (Note 11)	3,981	772
	<b>\$ 193,916</b>	<b>\$ 242,602</b>
Assets held for sale (Note 28)	2,000	-
<b>Total assets</b>	<b>\$ 261,904</b>	<b>\$ 331,820</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 41,303	\$ 33,046
Interest payable	236	212
Lease liability (Note 13)	3,823	4,253
Convertible debentures (Note 14)	5,755	-
Loans payable (Note 15)	54,490	49,893
Promissory notes (Note 16)	1,109	4,781
Other current liabilities (Note 24)	256	-
Contingent consideration payable (Note 12)	-	500
	<b>\$ 106,972</b>	<b>\$ 92,685</b>
<b>Non-current liabilities</b>		
Interest payable	\$ 1,777	\$ 7,418
Lease liability (Note 13)	12,485	14,866
Convertible debentures (Note 14)	78,303	110,652
Loans payable (Note 15)	701	8,654
Promissory notes (Note 16)	2,379	495
Deferred tax liability (Note 25)	8,125	11,363
Other non-current liabilities (Note 24)	115	-
	<b>\$ 103,885</b>	<b>\$ 153,448</b>
<b>Total liabilities</b>	<b>\$ 210,857</b>	<b>\$ 246,133</b>
<b>Equity</b>		
Share capital (Note 17)	\$ 446,555	\$ 444,762
Reserves (Note 17)	117,563	114,947
Accumulated other comprehensive income/(loss)	(29,799)	(30,542)
Retained earnings/(deficit)	(483,272)	(438,761)
Total equity attributable to shareholders of the Company	\$ 51,047	\$ 90,406
Total equity attributable to non-controlling interests	-	(4,719)
<b>Total equity</b>	<b>\$ 51,047</b>	<b>\$ 85,687</b>
<b>Total liabilities and equity</b>	<b>\$ 261,904</b>	<b>\$ 331,820</b>

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

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 24, 2024, and were signed on its behalf by:

(s) Genevieve Young  
Genevieve Young

# AUXLY CANNABIS GROUP INC.

## 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:

	2023	2022
<b>Revenue</b>		
Revenue from sales of cannabis products	\$ 151,762	\$ 138,885
Excise taxes	(50,684)	(44,413)
<b>Total net revenue</b>	<b>\$ 101,078</b>	<b>\$ 94,472</b>
<b>Cost of sales</b>		
Cost of finished cannabis inventory sold	\$ 66,783	\$ 70,262
Biological asset impairment (Note 6)	-	704
Inventory impairment (Note 7)	10,474	10,732
<b>Gross profit/(loss) excluding fair value items</b>	<b>\$ 23,821</b>	<b>\$ 12,774</b>
Unrealized fair value gain/(loss) on biological transformation (Note 6)	\$ 16,207	\$ 28,518
Realized fair value gain/(loss) on inventory	(18,751)	(24,780)
<b>Gross profit/(loss)</b>	<b>\$ 21,277</b>	<b>\$ 16,512</b>
<b>Expenses</b>		
Selling, general and administrative expenses (Notes 5, 22)	\$ 38,641	\$ 46,649
Equity-based compensation (Notes 17, 24)	1,641	4,023
Depreciation and amortization (Notes 7, 8, 9)	6,943	14,816
Interest and accretion expense (Note 23)	25,715	21,578
<b>Total expenses</b>	<b>\$ 72,940</b>	<b>\$ 87,066</b>
<b>Other income/(loss)</b>		
Interest and other income	\$ 32	\$ 337
Impairment of assets (Notes 8, 9, 28)	(39,706)	(67,180)
Gain/(loss) on settlement of assets and liabilities and other expenses (Notes 14, 16)	48,365	(2,231)
Gain/(loss) on disposal of assets held for sale (Notes 8, 28)	-	2,150
Gain/(loss) on disposal of subsidiary (Note 28)	(4,006)	-
Foreign exchange gain/(loss)	(771)	923
<b>Total other income/(loss)</b>	<b>\$ 3,914</b>	<b>\$ (66,001)</b>
<b>Net income/(loss) before income tax</b>	<b>\$ (47,749)</b>	<b>\$ (136,555)</b>
Income tax recovery/(expense) (Note 25)	3,238	6,262
<b>Net income/(loss)</b>	<b>\$ (44,511)</b>	<b>\$ (130,293)</b>
<b>Other comprehensive income/(loss)</b>		
Fair value gain/(loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 10)	\$ 32	\$ (2,736)
Currency translation adjustment - subsequently reclassified to profit or loss	700	(1,640)
<b>Total comprehensive income/(loss)</b>	<b>\$ (43,779)</b>	<b>\$ (134,669)</b>
<b>Total comprehensive income/(loss) attributable to shareholders of the Company</b>	<b>\$ (43,911)</b>	<b>\$ (134,357)</b>
<b>Total comprehensive income/(loss) attributable to non-controlling interests</b>	<b>\$ 132</b>	<b>\$ (312)</b>
<b>Net income/(loss) per common share</b>		
<b>Net income/(loss) per common share - basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.15)</b>
<b>Weighted average number of shares outstanding</b>		
Basic and diluted	990,994,056	889,871,187

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

# AUXLY CANNABIS GROUP INC.

## Consolidated Statements of Cash Flows

Expressed in thousands of Canadian dollars

For the years ended December 31:

	2023	2022
<b>Operating activities</b>		
<b>Net income/(loss) for the year</b>	<b>\$ (44,511)</b>	<b>\$ (130,293)</b>
Items not affecting cash:		
Biological asset impairment (Note 6)	-	704
Inventory impairment (Note 7)	10,474	10,732
Unrealized fair value loss/(gain) on biological transformation (Note 6)	(16,207)	(28,518)
Realized fair value loss/(gain) on inventory	18,751	24,780
Depreciation and amortization (Notes 7, 8, 9)	11,209	20,184
Interest and accretion expense (Note 23)	16,345	14,867
Equity-based compensation (Notes 17, 24)	1,641	4,023
Unrealized foreign exchange loss/(gain)	538	(1,394)
Income tax expense/(recovery) (Note 25)	(3,238)	(6,262)
Impairment of assets (Notes 8, 9, 28)	39,706	67,180
Loss/(gain) on settlement of assets and liabilities and other expenses (Notes 14, 16)	(48,365)	2,231
Loss/(gain) on disposal of assets held for sale (Notes 8, 28)	-	(2,150)
Loss/(gain) on disposal of subsidiary (Note 28)	4,006	-
<b>Cash provided by/(used in) operating activities before net non-cash working capital adjustments</b>	<b>\$ (9,651)</b>	<b>\$ (23,916)</b>
Net change in non-cash working capital (Note 26)	17,865	21,435
<b>Net cash provided by/(used in) operating activities</b>	<b>\$ 8,214</b>	<b>\$ (2,481)</b>
<b>Investing activities</b>		
Net proceeds from sale/(purchase) of long-term investments (Note 10)	\$ 27	\$ 71
Proceeds from sale of assets (Note 8)	20	10,300
Purchase of property, plant and equipment (Note 8)	(1,604)	(9,192)
<b>Net cash provided by/(used in) investing activities</b>	<b>\$ (1,557)</b>	<b>\$ 1,179</b>
<b>Financing activities</b>		
Net proceeds from financings (Note 17)	\$ 3,134	\$ 7,941
Repayment of convertible debentures (Note 14)	(1,232)	(3,774)
Repayment of loans payable (Note 15)	(5,597)	(6,265)
Proceeds from loans payable (Note 15)	2,564	7,571
Deferred financing fees (Note 15)	(431)	-
Payment on promissory notes (Note 16)	(1,200)	(1,200)
Payment on lease liabilities, net	(2,923)	(3,089)
<b>Net cash provided by/(used in) financing activities</b>	<b>\$ (5,685)</b>	<b>\$ 1,184</b>
<b>Increase/(decrease) in cash and cash equivalents during the year</b>	<b>\$ 972</b>	<b>\$ (118)</b>
Cash and cash equivalents, beginning of year	14,636	14,754
<b>Cash and cash equivalents, end of year</b>	<b>\$ 15,608</b>	<b>\$ 14,636</b>

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

# AUXLY CANNABIS GROUP INC.

## Consolidated Statements of Changes in Equity

Expressed in thousands of Canadian dollars

For the years ended December 31:

	2023	2022
<b>Share capital</b>		
Balance, beginning of year	\$ 444,762	\$ 436,508
Shares issued on amendment of convertible debenture (Note 14)	-	500
Shares issued on private placement (Note 17)	1,793	-
Shares issued as at-the-market offerings (Note 17)	-	7,754
<b>Share capital, end of year</b>	<b>\$ 446,555</b>	<b>\$ 444,762</b>
<b>Reserves</b>		
<b>Convertible debentures</b>		
Balance, beginning of year	\$ 34,306	\$ 35,170
Equity component of Imperial Brands convertible debenture, net of taxes (Note 14)	5	-
Equity component of standby financing convertible debenture, net of taxes (Note 14)	-	(864)
<b>Convertible debentures, end of year</b>	<b>\$ 34,311</b>	<b>\$ 34,306</b>
<b>Warrants</b>		
Balance, beginning of year	\$ 42,411	\$ 41,581
Warrants issued on standby financing (Note 14)	-	830
Warrants issued on private placement (Note 17)	1,341	-
<b>Warrants, end of year</b>	<b>\$ 43,752</b>	<b>\$ 42,411</b>
<b>Contributed surplus</b>		
Balance, beginning of year	\$ 38,230	\$ 34,207
Employee share options:		
Stock options (Notes 17, 24)	241	491
Restricted share units (Notes 17, 24)	1,029	3,532
<b>Contributed surplus, end of year</b>	<b>\$ 39,500</b>	<b>\$ 38,230</b>
<b>Reserves, end of year</b>		
	<b>\$ 117,563</b>	<b>\$ 114,947</b>
<b>Accumulated other comprehensive income/(loss)</b>		
Balance, beginning of year	\$ (30,542)	\$ (26,478)
Fair value changes in long-term investments (Note 10)	32	(2,736)
Currency translation adjustment	568	(1,328)
Disposal of subsidiary	143	-
<b>Accumulated other comprehensive income/(loss), end of year</b>	<b>\$ (29,799)</b>	<b>\$ (30,542)</b>
<b>Retained earnings/(deficit)</b>		
<b>Attributable to the Company</b>		
Balance, beginning of year	\$ (438,761)	\$ (308,468)
Net income/(loss) attributable to the Company	(44,511)	(130,293)
Ending retained earnings/(deficit) attributable to the Company	(483,272)	(438,761)
<b>Attributable to non-controlling interests</b>		
Balance, beginning of year	\$ (4,719)	\$ (4,407)
Currency translation adjustment	132	(312)
Disposal of non-controlling interests	4,587	-
Ending retained earnings/(deficit) attributable to non-controlling interests	-	(4,719)
<b>Retained earnings/(deficit), end of year</b>	<b>\$ (483,272)</b>	<b>\$ (443,480)</b>
<b>Equity, end of year</b>	<b>\$ 51,047</b>	<b>\$ 85,687</b>

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 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, 2023, the Company had total cash and cash equivalents of \$15,608, negative working capital of \$40,984, and cash flow provided by operating activities of \$8,214 for the year ended December 31, 2023. The Company will have insufficient cash to fund its operations for the next 12 months if the Company's sales do not improve or if they decline; if the Company's margins do not improve or if they decline and/or if the Company's selling, general and administrative expenses increase. The Company's ability to sustain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following December 31, 2023. To address its financing requirements, the Company will seek financing through debt and equity financings (which may include use of an at-the-market offering program and/or rights offerings to existing shareholders) and non-core asset sales. The Company will also seek to improve its sales and cash flows by prioritizing certain products and projects with a greater expected return and reduce operating costs by streamlining its operations and support functions. While the Company has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Company's ability to raise capital may be adversely impacted by: market conditions that have resulted in a lack of normally available financing in the cannabis industry; the Company's ongoing litigation matters; increased competition and price compression across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market, and overall negative investor sentiment in light of inflation, global conflict and negative

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 2. Basis of preparation (continued)

macroeconomic impacts from the COVID-19 pandemic. Accordingly, there can be no assurance that the Company will achieve profitability or secure financing on terms favourable to the Company or at all.

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

#### 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 24, 2024.

#### 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, 2023.

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 24, 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 2. Basis of preparation (continued)

#### Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. The consolidated financial statements of the Company include:

Subsidiaries	Equity interests
Auxly Charlottetown Inc.	100%
Auxly Ottawa Inc.	100%
Auxly Annapolis Inc.	100%
Auxly Annapolis OG 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.



# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 3. Material accounting information (continued)

#### 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.

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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 3. Material accounting information (continued)

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).

#### 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 3. Material accounting information (continued)

#### 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 generates cash inflows from continuing use that are largely independent of the cash inflows of 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) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the CGU or CGUs to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment.

Impairment is determined for goodwill by assessing if the carrying value of CGUs, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less cost of disposal and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill, and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

#### h) 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 3. Material accounting information (continued)

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;
- 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.

#### i) 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 3. Material accounting information (continued)

#### ***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 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).

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 3. Material accounting information (continued)

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

	<b>IFRS 9 Classification</b>	<b>IFRS 9 Measurement</b>
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
Contingent consideration payable	FVTPL	Fair value
Other current and non-current liabilities	FVTPL	Fair value

#### **j) 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 3. Material accounting information (continued)

#### k) 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.

#### l) 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.

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.

#### m) 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,

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 3. Material accounting information (continued)

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. Once the RSUs are fully vested, the related share reserve is transferred from contributed surplus to share capital.

Cash Settled RSUs, as defined in Note 24, 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.

#### n) 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.

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.

#### o) 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.



# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 3. Material accounting information (continued)

#### ***Impairment of goodwill and intangible assets***

The carrying value of goodwill and 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 goodwill and 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.

#### ***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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 3. Material accounting information (continued)

#### ***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.

#### **p) Adoption of new accounting pronouncements**

##### ***Amendments to IAS 8, Definition of Accounting Estimates***

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

##### ***Amendments to IAS 1 and IFRS Practice Statement 2***

In February 2021, the IASB issued Amendments to IAS 1 and IFRS Practice Statement 2 to provide guidance to help entities apply materiality judgment to accounting policy disclosure. The amendments require disclosure of material accounting policy information rather than disclosing significant accounting policies and provide guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. The Company adopted these amendments, which have resulted in the disclosure of only material accounting policy information, but did not impact the measurement, recognition or presentation of any items in the Company's consolidated financial statements.

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### 3. Material accounting information (continued)

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

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

#### **q) 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 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 current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those that will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2024, with early adoption permitted, and the amendments are to be applied retrospectively. The Company is assessing the impact of the amendments to its 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 December 31, 2023, Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of \$557 (December 31, 2022 – \$557) on behalf of Auxly Leamington Inc. (“Auxly Leamington”) in order to supply power to the facility.

### 5. Accounts receivable

Accounts receivable is comprised of the following:

	As at		As at	
	December 31, 2023		December 31, 2022	
Less than 30 days past billing date	\$	11,881	\$	14,497
31 to 60 days past billing date		3,673		1,712
61 to 90 days past billing date		300		19
Over 90 days past billing date		172		567
	\$	16,026	\$	16,795
Sales provision		(199)		(163)
<b>Total</b>	\$	15,827	\$	16,632

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 5. Accounts receivable (continued)

During the year ended December 31, 2023, bad debt expense included in selling, general and administrative expense in the consolidated statements of income/(loss) and comprehensive income/(loss) was \$1,140 (2022 – \$nil). The bad debt expense 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:

<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>6,563</b>
Changes in fair value less cost to sell due to biological transformation		28,518
Capitalized production costs		19,265
Transferred to inventory upon harvest		(46,137)
Impairment of biological assets (Note 28)		(704)
<b>Balance, December 31, 2022</b>	<b>\$</b>	<b>7,505</b>
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)
<b>Balance, December 31, 2023</b>	<b>\$</b>	<b>5,334</b>

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

As at December 31, 2023, the Company's cannabis plants were on average 48% complete through their estimated 13-week growing cycle.

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

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

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

As at December 31, 2023			
Significant inputs and assumptions	Range of inputs	Sensitivity	Effect on biological asset balance
Selling price per gram	\$0.05–\$0.95/gram	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 dollar/gram	Increase/decrease \$0.01/gram	Decrease/increase \$139

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 6. Biological assets (continued)

As at December 31, 2022			
Significant inputs and assumptions	Range of inputs	Sensitivity	Effect on biological asset balance
Selling price per gram	\$0.10–\$1.15/gram	Increase/decrease \$0.10/gram	Increase/decrease \$1,430
Average yield per plant	114 grams	Increase/decrease 10%	Increase/decrease \$1,046
Post-harvest cost per gram	\$0.04 dollar/gram	Increase/decrease \$0.01/gram	Decrease/Increase \$143

### 7. Inventory

The following is a breakdown of inventory:

	As at December 31, 2023	As at December 31, 2022
Dried cannabis		
Work-in-process	\$ 9,045	\$ 19,504
Finished goods	2,805	1,701
Cannabis oil		
Work-in-process	3,312	6,739
Generation 2 derivative products		
Work-in-process	230	375
Finished goods	2,652	3,940
Merchandise products	432	521
Packaging, hardware, consumables and ingredients	7,619	14,173
<b>Total</b>	<b>\$ 26,095</b>	<b>\$ 46,953</b>

As at December 31, 2023, the Company recognized \$26,095 (December 31, 2022 – \$46,953) of inventory on the consolidated statements of financial position, including \$2,175 non-cash income (December 31, 2022 – \$2,862) relating to the fair value less cost to sell transferred to inventory upon harvest. During the year ended December 31, 2023, inventory expensed to cost of sales was \$64,767 (2022 – \$68,430).

Depreciation capitalized into inventory during the year ended December 31, 2023 was \$6,970 (2022 – \$6,760). Cost of sales included \$4,266 (2022 – \$5,368) of depreciation for the year ended December 31, 2023.

In the year ended December 31, 2023, the Company recognized a loss of \$10,474 (2022 – \$10,732) on cannabis inventory due to the costs capitalized exceeding the net realizable value of the inventory. The impairment loss for the year ended December 31, 2022 includes \$4,323 related to the closure of Auxly Annapolis.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 8. Property, plant and equipment

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Construction- in-progress	Land	Right-of-use assets	Total
<b>Cost:</b>								
<b>December 31, 2022</b>	\$ 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 (Notes 9, 28)	(237)	(8,267)	(10,289)	(2,303)	-	(13)	(3,796)	(24,905)
<b>December 31, 2023</b>	\$ 3,527	\$ 21,571	\$ 31,049	\$ 124,804	\$ -	\$ 4,127	\$ 20,349	\$ 205,427
<b>Accumulated depreciation:</b>								
<b>December 31, 2022</b>	\$ 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)
<b>December 31, 2023</b>	\$ 2,780	\$ 4,878	\$ 12,627	\$ 11,506	\$ -	\$ 27	\$ 12,647	\$ 44,465
<b>Adjustments:</b>								
Reclassification to assets held for sale (Note 28)	-	-	-	(2,000)	-	-	-	(2,000)
<b>Carrying amounts</b>								
<b>December 31, 2023</b>	\$ 747	\$ 16,693	\$ 18,422	\$ 111,298	\$ -	\$ 4,100	\$ 7,702	\$ 158,962

  

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Construction- in-progress	Land	Right-of-use assets	Total
<b>Cost:</b>								
<b>December 31, 2021</b>	\$ 3,793	\$ 29,853	\$ 33,790	\$ 147,734	\$ 295	\$ 8,065	\$ 23,122	\$ 246,652
Additions	79	4	6,187	700	2,222	-	914	10,106
Disposals	(15)	-	(388)	(8,045)	-	(2,626)	-	(11,074)
Transfers	63	-	1,193	172	(1,428)	-	-	-
Impairment (Notes 9, 28)	(297)	-	(2,318)	(15,079)	-	(1,361)	(4)	(19,059)
<b>December 31, 2022</b>	\$ 3,623	\$ 29,857	\$ 38,464	\$ 125,482	\$ 1,089	\$ 4,078	\$ 24,032	\$ 226,625
<b>Accumulated depreciation:</b>								
<b>December 31, 2021</b>	\$ 1,739	\$ 1,980	\$ 3,908	\$ 4,076	\$ -	\$ 27	\$ 7,163	\$ 18,893
Depreciation	618	1,450	4,201	5,540	-	-	3,455	15,264
Disposals	(5)	-	(130)	(2,671)	-	-	-	(2,806)
<b>December 31, 2022</b>	\$ 2,352	\$ 3,430	\$ 7,979	\$ 6,945	\$ -	\$ 27	\$ 10,618	\$ 31,351
<b>Carrying amounts</b>								
<b>December 31, 2022</b>	\$ 1,271	\$ 26,427	\$ 30,485	\$ 118,537	\$ 1,089	\$ 4,051	\$ 13,414	\$ 195,274

Property, plant and equipment additions for the year ended December 31, 2023 include a \$112 (2022 – \$914) non-cash recognition of right-of-use asset and \$1,942 of equipment to be settled on deferred payment terms.

During the fourth quarter of 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. Refer to Note 9 for more information.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 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 the second quarter of 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 has been reclassified to assets held for sale.

On February 7, 2022, the Company announced that it had ceased operations at its Auxly Annapolis and Auxly Annapolis OG Inc. ("Auxly Annapolis OG") cultivation facilities. The property, plant and equipment related to Auxly Annapolis and Auxly Annapolis OG were written down to their recoverable amount, resulting in an impairment loss of \$12,884. During the second quarter of 2022, the Company completed the sale of the Auxly Annapolis indoor cultivation facility to a private purchaser for total proceeds to the Company of \$6,000 and recorded a gain on sale of \$1,500. During the third quarter of 2022, the Company completed the sale of the Auxly Annapolis OG outdoor cultivation facility to a private purchaser for total proceeds of \$4,150, resulting in a gain on sale of \$650. The impairment loss and the gain on sale have been included in the consolidated statements of income/(loss) and comprehensive income/(loss). The proceeds from the sale of Auxly Annapolis and Auxly Annapolis OG facilities have been included in cash provided by investing activities in the consolidated statements of cash flows.

During the third quarter of 2022, the Company recorded an impairment loss of \$4,809 on property, plant and equipment as a result of the impairment test performed on the Canadian cannabis CGU. Refer to Note 9 for more information.

During the fourth quarter of 2022, the Company recorded an impairment loss of \$1,366 on property, plant and equipment related to the South American cannabis CGU, classified as assets held for sale. Refer to Note 28 for more information.

### 9. Intangible assets and goodwill

#### Intangible assets

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

#### 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. As at December 31, 2023, the carrying value of cultivation interests was \$nil (2022 – \$3,948).

#### 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.

During the first quarter of 2022, the Company recorded an impairment loss of \$10,189 for the Canadian cultivation licence as a result of the decision to cease operations at Auxly Annapolis and Auxly Annapolis OG. Refer to Note 28 for more information.

#### 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. As at December 31, 2023, the carrying value of distribution agreements was \$nil (2022 – \$474).



# AUXLY CANNABIS GROUP INC.

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### 9. Intangible assets and goodwill (continued)

#### 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 12). The consideration provided for the Transfer includes an unsecured, non-interest-bearing promissory note. Refer to Note 16 for more information.

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. The carrying value of the intangible asset is \$2,167 (2022 – \$2,290).

#### Goodwill

<b>Balance, December 31, 2021</b>	\$ 24,290
Change in purchase price allocation from business combination	1,108
Impairment of goodwill	(25,398)
<b>Balance, December 31, 2022 and 2023</b>	<b>\$ -</b>

During the first quarter of 2022, the Company recorded an impairment loss of \$600 of goodwill as a result of the decision to cease operations at Auxly Annapolis and Auxly Annapolis OG. Refer to Note 28 for more information.

During the third quarter of 2022, the Company recorded an increase in goodwill of \$1,108 resulting from a change in the purchase price allocation from the acquisition of Auxly Leamington in 2021.

#### Canadian cannabis CGU

The Company's Canadian cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within Canada. In assessing goodwill and indefinite-life intangible assets for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts.

#### *Annual impairment – 2023*

During 2023, the Company determined that the carrying value of the Canadian cannabis CGU exceeded its recoverable amount, noting that the Company's market capitalization trades 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 25)	(3,238)
<b>Total</b>	<b>\$ 32,710</b>

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 9. Intangible assets and goodwill (continued)

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.

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

#### 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 goodwill impairment tests, would not have a significant impact on the impairment loss that was recognized during the year ended December 31, 2023.

#### *Annual impairment – 2022*

As at September 30, 2022, the Company identified potential impairment indicators related to the Canadian cannabis CGU and performed impairment testing in accordance with IAS 36, *Impairment of Assets*.

The Company determined that the carrying value of the Canadian cannabis CGU exceeded its recoverable amount and wrote down the assets of the CGU to their recoverable amount. The following is a breakdown of the impairment loss recorded during the third quarter of 2022:

Property, plant and equipment, net (Note 8)	\$ 4,809
Intangible assets	13,224
Goodwill	24,798
Deferred tax liability (Note 25)	(2,110)
<b>Total</b>	<b>\$ 40,721</b>

As at December 31, 2022, the Company performed its annual impairment test on the indefinite-life intangible assets. As at December 31, 2022, the estimated recoverable amount of the CGU exceeded its carrying amount and, as such, there was no additional 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.

Pre-tax discount rate	18.5%
Terminal growth rate	2.5%
Budgeted revenue growth rate (average of next five years)	24.6%

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 9. Intangible assets and goodwill (continued)

#### 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.

### 10. Long-term investments

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

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

#### 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 the third quarter of 2023, the Company disposed of its interest in MediPharm for net proceeds of \$10.

### 11. Deposits

	Capital assets		Inventory		Other		Total
Current portion	\$ -	\$ -	\$ 391	\$ -	\$ 123	\$ -	\$ 514
Non-current portion		169		-	3,812		3,981
<b>As at December 31, 2023</b>	<b>\$ -</b>	<b>\$ 169</b>	<b>\$ 391</b>	<b>\$ -</b>	<b>\$ 3,935</b>	<b>\$ -</b>	<b>\$ 4,495</b>
	Capital assets		Inventory		Other		Total
Current portion	\$ -	\$ -	\$ 209	\$ -	\$ 153	\$ -	\$ 362
Non-current portion		685		-	87		772
<b>As at December 31, 2022</b>	<b>\$ -</b>	<b>\$ 685</b>	<b>\$ 209</b>	<b>\$ -</b>	<b>\$ 240</b>	<b>\$ -</b>	<b>\$ 1,134</b>

As at December 31, 2023, the Company has made deposits towards excise bonds, vape cartridge purchases, and specialized equipment to be utilized for pre-roll manufacturing and packaging.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 12. Contingent consideration payable

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

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

### 13. Lease liability

	As at	
	December 31, 2023	December 31, 2022
Balance, beginning of year	\$ 19,119	\$ 21,294
Additions	112	914
Payments	(3,753)	(4,029)
Interest expense	830	940
<b>Balance, end of year</b>	<b>\$ 16,308</b>	<b>\$ 19,119</b>

	As at	
	December 31, 2023	December 31, 2022
<b>Maturity analysis - contractual undiscounted cash flows</b>		
Less than one year	\$ 4,488	\$ 5,068
Two years and beyond	15,632	18,600
<b>Total undiscounted lease obligations</b>	<b>\$ 20,120</b>	<b>\$ 23,668</b>
Current portion	\$ 3,823	\$ 4,253
Long-term portion	12,485	14,866
<b>Discounted lease obligations included in the consolidated statements of financial position</b>	<b>\$ 16,308</b>	<b>\$ 19,119</b>

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

### 14. Convertible debentures

The convertible debentures balance consists of the following:

	As at	
	December 31, 2023	December 31, 2022
September 2019 issuance, April 2021 amendment and August 2023 amendment	\$ 78,303	\$ 104,110
2020 Standby financing and 2022 amendment	5,755	6,542
<b>Total</b>	<b>\$ 84,058</b>	<b>\$ 110,652</b>
Less: current portion	(5,755)	-
<b>Long-term portion</b>	<b>\$ 78,303</b>	<b>\$ 110,652</b>

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 14. Convertible debentures (continued)

#### September 2019 issuance, April 2021 amendment and August 2023 amendment

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 amendments also provide 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.

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

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 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 result in a gain of \$46,889 recorded in the consolidated statements of income/(loss) and comprehensive income/(loss). Details of the Imperial debentures amendments are presented below:

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 14. Convertible debentures (continued)

The associated accretion expense for the year ended December 31, 2023 was \$10,532 (2022 – \$8,912). Interest expense for the year ended December 31, 2023 was \$4,914 (2022 – \$4,914).

#### 2020 Standby financing and 2022 amendment

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

In June 2022, the Company entered into an agreement to amend the unsecured convertible debentures to extend the maturity date of the remaining outstanding debentures to August 15, 2024. As at December 31, 2023, the Company has repaid \$5,006 of principal owing under the original standby financing convertible debenture, with \$6,244 owing on the maturity date. The interest rate of 7.5% per annum will remain unchanged and will be payable semi-annually. The debentures are convertible into common shares at a price of \$0.1380 per share at any time prior to the close on the business day immediately prior to the maturity date. The amendment includes certain repayment conditions should the Company raise additional capital prior to the maturity date.

As consideration for the amendments, the Company paid the investor an amendment fee of \$500 through the issuance of 4,347,826 common shares and issued the investor warrants to purchase 20,000,000 common shares, with each warrant being exercisable until June 22, 2025 at a price per share of \$0.1495. The amendment was treated as a debt extinguishment under IFRS 9 as the terms are substantially different and the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The amendment fee of \$500, paid through issuance of Auxly common shares, was assumed to be equally split between the debt extinguishment and the issuance of the new debentures.

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

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 14. Convertible debentures (continued)

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

	As at		As at
	December 31, 2023	December 31, 2022	December 31, 2022
Balance, beginning of period	\$ 6,542		\$ 10,627
Accretion expense	445		752
Principal payment	(1,232)		(3,774)
Change in fair value	-		(1,063)
<b>Balance, end of period</b>	<b>\$ 5,755</b>		<b>\$ 6,542</b>

The accretion expense associated with the debentures for the year ended December 31, 2023 was \$445 (2022 – \$752). Interest expense for the year ended December 31, 2023 was \$623 (2022 – \$721).

### 15. Loans payable

The loans payable balance consists of the following:

	As at		As at
	December 31, 2023	December 31, 2022	December 31, 2022
Amended and Restated Credit Facility	\$ 44,129		\$ 48,150
Equipment loans payable	2,145		3,828
Receivables financing loan	6,613		6,569
Inventory financing loan	2,304		-
<b>Total</b>	<b>\$ 55,191</b>		<b>\$ 58,547</b>
Less: current portion	54,490		49,893
<b>Long-term portion</b>	<b>\$ 701</b>		<b>\$ 8,654</b>

#### Amended and Restated Credit Facility

Concurrent with the acquisition of Auxly Leamington, the Company entered into an Amended and Restated Credit Facility with the Bank of Montreal. The credit facility bears interest at prime or the banker's acceptance rate, plus the applicable margin in effect. The amendment includes certain financial covenants that the Company shall maintain at all times. Upon filing the Company's financial statements for the year ended December 31, 2023, the Company was in breach of certain reporting covenants under the Amended and Restated Credit Facility due to the inclusion of going concern qualifications. The Company has received a waiver from the syndicate of lenders for such breach.

The credit facility consists of a \$28,500 revolving credit facility and a \$38,500 term credit (the "Term Credit"), for an aggregate fair value of \$67,000 on acquisition. An immediate cash payment of \$15,000 was applied to the outstanding principal balance of the revolving credit facility. As part of the amended agreement, the maturity date of the credit facility 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.

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 15. Loans payable (continued)

The Amended and Restated Credit Agreement included an option by the Company to extend the maturity date for an additional year, to September 30, 2024, by making a further principal repayment of \$5,000 by December 31, 2022. The Company did not make this principal repayment. 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. The interim extensions were treated as debt modifications under IFRS 9 as the terms were not substantially different and the discounted present value of cash flows under the extension is less than 10% different from the discounted present value of the remaining cash flow of the original financial liability. The interim extensions had a nominal impact on the Company's consolidated financial statements.

Subsequent to year end, the Company announced that it had signed a definitive agreement to amend and restate the Amended and Restated Credit Facility, in order to, among other things, extend the maturity date by two years until December 31, 2025. The Company recorded deferred financing charges of \$191 with a balance of \$171 as at December 31, 2023 (2022 – \$nil). Refer to Note 29 for more information.

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

	As at		As at
	December 31, 2023	December 31, 2022	December 31, 2022
Balance, beginning of year	\$ 48,150	\$ 52,000	52,000
Deferred financing fees	(171)	-	-
Payments	(3,850)	(3,850)	(3,850)
<b>Balance, end of year</b>	<b>\$ 44,129</b>	<b>\$ 48,150</b>	<b>48,150</b>
Current portion	\$ 44,129	\$ 48,150	48,150

Interest expense on the Amended and Restated Credit Facility for the year ended December 31, 2023 was \$4,328 (2022 – \$3,351).

### 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		As at
	December 31, 2023	December 31, 2022	December 31, 2022
Balance, beginning of year	\$ 3,828	\$ 4,452	4,452
Additions	64	382	382
Payments	(2,146)	(1,298)	(1,298)
Interest expense	399	292	292
<b>Balance, end of year</b>	<b>\$ 2,145</b>	<b>\$ 3,828</b>	<b>3,828</b>
Less: Current portion	\$ 1,444	\$ 1,743	1,743
<b>Long-term portion</b>	<b>\$ 701</b>	<b>\$ 2,085</b>	<b>2,085</b>



# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 15. 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 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.

The amount payable under the receivables financing agreement is presented as current loans payable. The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the year ended December 31, 2023 was \$1,213 (2022 – \$1,099).

Subsequent to year end, the Company entered into an agreement with Savent to extend the maturity date of the receivables financing agreement by six months from January 21, 2024 to July 21, 2024.

#### 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. As of December 31, 2023, \$2,500 of the principal amount has been advanced, with a second tranche of \$2,500 to be advanced upon the satisfaction of certain conditions. As of the date hereof, the remaining conditions have been satisfied and the second tranche of \$2,500 has been advanced. 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.

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the year ended December 31, 2023 was \$75 (2022 – \$nil). The Company recorded deferred financing charges of \$240 with a balance of \$196 as at December 31, 2023 (2022 – \$nil).

### 16. Promissory notes

The promissory notes balance consists of the following:

	As at	
	December 31, 2023	December 31, 2022
Fresh Energy Agreement	\$ 943	\$ 1,652
Due to Peter Quiring	2,545	3,624
<b>Total</b>	<b>\$ 3,488</b>	<b>\$ 5,276</b>
Less: current portion	1,109	4,781
<b>Long-term portion</b>	<b>\$ 2,379</b>	<b>\$ 495</b>

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 16. Promissory notes (continued)

#### Fresh Energy Agreement

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy agreed to complete the Transfer, as defined in Note 12. 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.

In June 2023, the Company entered into an agreement to amend the Fresh Energy promissory note whereby the \$500 contingent consideration payable was added to the remaining principal amount outstanding and the Company shall continue to pay monthly instalments of \$100 until the revised outstanding amount is repaid. As of December 31, 2023, the Company has repaid \$2,364 of principal owing under the Fresh Energy promissory note.

An unsecured promissory note of \$3,400 was issued to Peter Quiring as part of the consideration for the acquisition of Auxly Leamington in 2021. Such unsecured promissory note bears interest of 6.00% per annum and was originally payable in monthly instalments of \$210 for 18 months, starting December 2022. In June 2023, such note was amended to require the Company to pay monthly instalments of \$100 for 36 months, starting November 2024 and maturing in November 2027. The unsecured promissory note bears interest of 6.00% per annum, with interest accrual starting October 15, 2024.

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

The continuity schedule of the promissory notes is presented below:

	As at		As at
	December 31, 2023	December 31, 2022	December 31, 2022
Balance, beginning of year	\$ 5,276	\$	6,187
Transfer from Contingent consideration payable	500		-
Payments	(1,200)		(1,200)
Interest and accretion expense	390		289
Change in fair value	(1,478)		-
<b>Balance, end of year</b>	<b>\$ 3,488</b>	<b>\$</b>	<b>5,276</b>

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 17. Share capital

The share capital of the Company is summarized below:

	December 31, 2023	December 31, 2022		December 31, 2023	December 31, 2022
<b>Issued and outstanding shares</b>			<b>Outstanding securities</b>		
Issued shares	1,013,138,454	913,008,498	Warrants	187,977,199	122,510,533
Escrowed shares	6,994,190	6,994,190	Convertible debentures	196,914,452	205,844,409
Outstanding shares	1,006,144,264	906,014,308	Options	19,721,837	24,773,639
			Restricted share units	51,286,687	62,088,353

#### a) Authorized

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

#### b) Issued and outstanding

As at December 31, 2023, there were 1,013,138,454 issued and outstanding common shares, with 6,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2022 had 913,008,498 issued and outstanding common shares, and 6,994,190 shares held in escrow related to contingent considerations in acquisitions and investments). Subsequent to year end, 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. Refer to Note 29 for more information.

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

The Company has issued common shares under its at-the-market equity program (“ATM Program”). The ATM Program was established in March 2021 and allowed the Company to issue and sell up to \$30,000 of common shares of the Company from treasury to the public, from time to time, at the Company’s discretion. The common shares sold through the ATM Program were sold through the TSX at the prevailing market price at the time of sale. The Company did not issue any common shares under the ATM Program in 2023. The Company’s short-form base shelf prospectus has subsequently expired as of April 18, 2023. The following table summarizes the common shares sold through the ATM Program during 2022:

For the year ended December 31, 2022:	
Gross proceeds	\$ 7,960
Commission	\$ 206
Net proceeds	\$ 7,754
Average gross price	\$ 0.137
Number of shares issued	57,928,500

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### 17. Share capital (continued)

#### c) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at December 31, 2023:

	Number of warrants	Average exercise price (\$)	Average remaining life (years)
<b>Opening balance, January 1, 2022</b>	<b>122,542,280</b>	<b>0.480</b>	<b>1.89</b>
Warrants issued	20,000,000	0.150	2.48
Warrants cancelled	(20,031,747)	0.372	-
<b>Closing balance, December 31, 2022</b>	<b>122,510,533</b>	<b>0.444</b>	<b>1.37</b>
Warrants issued	96,000,000	0.045	4.13
Warrants cancelled	(30,533,334)	1.570	-
<b>Closing balance, December 31, 2023</b>	<b>187,977,199</b>	<b>0.149</b>	<b>2.67</b>

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

#### d) Stock options

The Company has an equity incentive plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded is limited to 10% of the issued and outstanding shares, or 101,313,845 as at December 31, 2023.

The following table summarizes information about stock options outstanding as at December 31, 2023:

	Number of options	Average exercise price (\$)	Average remaining life (years)
<b>Opening balance, January 1, 2022</b>	<b>28,920,509</b>	<b>0.801</b>	<b>4.63</b>
Options expired	(550,000)	1.000	-
Options forfeited	(3,596,870)	0.943	-
<b>Closing balance, December 31, 2022</b>	<b>24,773,639</b>	<b>0.777</b>	<b>3.76</b>
Options granted	1,414,367	0.091	4.61
Options forfeited	(6,466,169)	0.823	-
<b>Closing balance, December 31, 2023</b>	<b>19,721,837</b>	<b>0.713</b>	<b>2.95</b>

During 2023, the Company granted 1,414,367 options. Total options exercisable as at December 31, 2023 were 15,595,229 (December 31, 2022 – 17,574,055) with a remaining average life of 2.91 years (December 31, 2022 – 4.01 years). During the year ended December 31, 2023, the Company recorded equity-based compensation of \$241 for stock options (2022 – \$491). Refer to Note 24 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:	2023	2022
Risk-free annual interest rate	5.10%	0.65%
Expected annual dividend yield	0%	0%
Expected annualized volatility	98.65%	93.55%
Expected life of options	5–10 years	5–10 years

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### 17. Share capital (continued)

#### e) Restricted share units

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

The following table summarizes information about the RSUs:

	Number of RSUs	Weighted average issue price (\$)	Average remaining life (years)
<b>Opening balance, January 1, 2022</b>	-	-	-
RSUs issued	62,887,695	0.091	1.48
RSUs forfeited	(799,342)	0.091	-
<b>Closing balance, December 31, 2022</b>	<b>62,088,353</b>	<b>0.091</b>	<b>1.48</b>
RSUs settled	(5,030,615)	0.091	-
RSUs forfeited	(5,771,051)	0.091	-
<b>Closing balance, December 31, 2023</b>	<b>51,286,687</b>	<b>0.091</b>	<b>1.00</b>

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:

	2022
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.

### 18. Related party balances and transactions

#### Key management and director compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 18. Related party balances and transactions (continued)

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

For the years ended December 31:		2023	2022
Short-term benefits	\$	1,758	\$ 2,083
Long-term benefits		1,094	2,656
<b>Total</b>	<b>\$</b>	<b>2,852</b>	<b>\$ 4,739</b>

### 19. Financial instruments and risk management

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

#### a) Financial instrument classification and measurement

Financial instruments that are recorded at fair value on the 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	-	-	5,334	5,334
Private company shares	-	-	1,095	1,095
<b>Balance, December 31, 2023</b>	<b>\$ 143</b>	<b>\$ -</b>	<b>\$ 6,429</b>	<b>\$ 6,572</b>

  

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

#### 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 19. Financial instruments and risk management (continued)

As at December 31, 2023, the carrying values of cash and cash equivalents, restricted cash, and short-term investments are measured at fair value. The carrying values of accounts receivable, accounts payable and accrued liabilities and other receivables approximate their fair values due to their short-term nature. The carrying values of loans payable, promissory notes, and convertible debentures are discounted at the effective interest rate and approximate their fair values. The carrying values of other current liabilities and other non-current liabilities are measured at their fair value at each reporting period, based on the closing price of the Company's common shares on the reporting period.

#### c) Market risk

Market risk is the risk that changes in market prices will affect the Company's net income/(loss) or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from investments measured at FVOCI and FVTPL. For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase/(decrease) in the share price would have increased/(decreased) equity by \$110/(\$110) before tax (December 31, 2022 – \$103/(\$103)).

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 \$110/(\$110) (December 31, 2022 – \$103/(\$103)).

#### d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. All of the Company's financial debt is on fixed interest rates, with the exception of the Amended and Restated Credit Facility with the Bank of Montreal. For financial debt on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows during the contract term. For the Amended and Restated Credit Facility, the impact of a 10% increase/(decrease) in interest rate would increase/(decrease) interest expense by \$232/(\$232) for the year ended December 31, 2023 (2022 – \$113/(\$113)).

#### 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 19. Financial instruments and risk management (continued)

As at December 31, 2023, the Company has insufficient cash to fund its operations for the next twelve months if the Company's sales materially decline and/or the Auxly Leamington credit facility matures without extension or refinancing. Subsequent to year end, the Company entered into a definitive agreement to amend and restate the Amended and Restated Credit Facility with the Bank of Montreal to extend the maturity date to December 31, 2025. Refer to Note 2 and 29 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 by \$69/(\$69) for the year ended December 31, 2023 (2022 – \$76/(\$76)).

### 20. Capital management

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

### 21. Commitments and contingencies

#### Commitments

As at December 31, 2023, Auxly has entered into certain agreements that commit the Company to future funding following a mutually agreed-upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable. Auxly has funding commitments as follows:

- As part of the debt financing provided by a syndicate led by the Bank of Montreal towards the construction of the Auxly Leamington purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments to \$33,000 in the event of default;
- Payments of an aggregate of €1,570 in 2024 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities;
- Annual payments estimated to range from \$131 to \$148 for a minimum annual volume requirement with Union Gas, with the agreement ending August 1, 2029; and
- Annual payments of \$73 until 2025 for guaranteed minimum purchase of bulk carbon dioxide with Air Liquide.



# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 21. 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:

	2024	2025	2026	2027	Thereafter	Total
Lease obligations	\$ 4,488	\$ 2,795	\$ 2,775	\$ 1,951	\$ 8,111	\$ 20,120
Loans payable obligations	58,888	738	-	-	-	59,626
Promissory note obligations	1,200	1,200	1,200	1,136	-	4,736
Convertible debenture obligations	6,771	-	157,236	-	-	164,007
<b>Total</b>	<b>\$ 71,347</b>	<b>\$ 4,733</b>	<b>\$ 161,211</b>	<b>\$ 3,087</b>	<b>\$ 8,111</b>	<b>\$ 248,489</b>

#### 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. The Company has filed its defence and counterclaim against Kindred. As at December 31, 2023, the Company has recorded a provision of \$1,235 related to this claim.

### 22. 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:	2023	2022
Wages and benefits	\$ 16,297	\$ 18,665
Office and administrative	10,396	11,601
Professional fees	3,002	2,963
Business development	497	292
Selling expenses	8,449	13,128
<b>Total</b>	<b>\$ 38,641</b>	<b>\$ 46,649</b>

### 23. Interest and accretion expenses

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

For the years ended December 31:	2023	2022
<b>Total interest expense</b>	<b>\$ 25,715</b>	<b>\$ 21,578</b>
Less non-cash interest on Imperial Brands convertible debentures	(4,914)	(4,914)
Less non-cash accretion expense on convertible debentures	(10,977)	(9,664)
Less non-cash interest and accretion on promissory notes	(390)	(289)
Less deferred financing fees amortization	(64)	-
<b>Total cash interest</b>	<b>\$ 9,370</b>	<b>\$ 6,711</b>

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 24. Equity-based compensation

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

For the years ended December 31:		
	2023	2022
Stock options	\$ 241	\$ 491
Restricted share units	1,029	3,532
Cash Settled restricted share units	371	-
<b>Total equity-based compensation</b>	<b>\$ 1,641</b>	<b>\$ 4,023</b>

During the second quarter of 2023, the Company issued 213,328,178 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 on December 31, 2023 ("Cash Settled RSUs"). For Cash Settled RSUs, the fair value of the RSUs is recognized as 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.

The following table summarizes information about the Cash Settled RSUs:

	Number of RSUs	Weighted average issue price (\$)	Average remaining life (years)
<b>Closing balance, December 31, 2022</b>	-	-	-
RSUs issued	213,328,178	0.018	1.46
RSUs forfeited	(37,150,116)	0.018	-
<b>Closing balance, December 31, 2023</b>	<b>176,178,062</b>	<b>0.018</b>	<b>1.46</b>

During the year ended December 31, 2023, the Company recorded equity-based compensation of \$1,400 (2022 – \$3,532) of expense for RSUs and Cash Settled RSUs granted and vested during the period. Of the equity-based compensation recorded in the year ended December 31, 2023, \$371 is related to Cash Settled RSUs, of which \$256 is recorded as other current liabilities and \$115 is recorded as other non-current liabilities in the consolidated statements of financial position (December 31, 2022 – \$nil).

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

For the year ended December 31:	
	2023
Expected forfeiture rate	30.00%
Expected life of Cash Settled RSUs	1–3 years

As at December 31, 2023, the unrecognized equity-based compensation related to the issued RSUs and Cash Settled RSUs was \$1,028 (December 31, 2022 – \$1,309), which will be recognized over the remaining life as the RSUs vest. Refer to Note 17 for more information.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 25. Income taxes

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:		2023	2022
Net income/(loss) before income tax	\$	(47,749)	\$ (136,555)
Combined federal and provincial tax rate		26.50%	26.50%
Expected tax expense/(recovery)		(12,653)	(36,187)
Non-deductible expenses		5,235	6,839
Tax rate differentials		(1,586)	(2,057)
Changes in deferred tax assets not recognized		7,411	25,293
Other		(1,645)	(150)
<b>Income tax expense/(recovery)</b>	<b>\$</b>	<b>(3,238)</b>	<b>\$ (6,262)</b>

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.

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, 2022	Recovered through/ (charged to) statement of net income/(loss)	As at December 31, 2023
<b>Deferred tax assets</b>			
Non-capital losses	\$ 15,511	\$ 4,830	\$ 20,341
<b>Total deferred tax assets</b>	<b>\$ 15,511</b>	<b>\$ 4,830</b>	<b>\$ 20,341</b>
<b>Deferred tax liabilities</b>			
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)
<b>Total deferred tax liabilities</b>	<b>\$ (26,874)</b>	<b>\$ (1,592)</b>	<b>\$ (28,466)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>\$ (11,363)</b>	<b>\$ 3,238</b>	<b>\$ (8,125)</b>

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

For the years ended December 31:		2023	2022
Non-capital losses carried forward	\$	242,136	\$ 218,452
Deductible temporary differences		84,173	104,040
<b>Total</b>	<b>\$</b>	<b>326,309</b>	<b>\$ 322,492</b>

The Company has an income tax loss carry forward balance of approximately \$319,278 (2022 – \$275,235), which is predominately from Canada and, if unused, will expire between 2034 to 2043.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 26. 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:		
	2023	2022
Short-term investments	\$ -	\$ (3)
Accounts receivable	805	10,407
Other receivables	(4)	89
Prepaid expenses	(2,837)	9,683
Interest payable	24	212
Biological assets (Note 6)	18,378	26,872
Inventory (Note 7)	(5,663)	(28,695)
Accounts payable and accrued liabilities	7,162	3,165
Deferred revenue	-	(295)
<b>Total</b>	<b>\$ 17,865</b>	<b>\$ 21,435</b>

### 27. 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, Auxly Leamington, Auxly Annapolis, and Auxly Annapolis OG. All the Company's revenues are from its Canadian operations.

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. In February 2022, the Company ceased operations at Auxly Annapolis and Auxly Annapolis OG. The Company completed the sales of the Auxly Annapolis indoor cultivation facility and the Auxly Annapolis OG outdoor cultivation facility in June and August 2022, respectively. Refer to Note 28 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 28 for more information.

### 28. Assets and liabilities held for sale

#### Auxly Ottawa facility

As at December 31, 2023, assets held for sale include the Auxly Ottawa facility. In May 2023, the Company announced the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities from the Auxly Ottawa facility in Carleton Place, Ontario to the Auxly Leamington facility, and the Auxly Ottawa facility was subsequently closed in November 2023. The Company intends to sell the Auxly Ottawa facility and apply the proceeds from any such sale to support its ongoing operations.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 28. Assets and liabilities held for sale (continued)

During the second quarter of 2023, the Company wrote down the property, plant and equipment of Auxly Ottawa's facility to its recoverable amount, resulting in an impairment of \$2,588. As at December 31, 2023, the Company has allocated \$2,000 of property, plant and equipment held for sale under Auxly Ottawa. Refer to Note 8 for more information.

#### Inverell

On October 20, 2023, the Company completed the transfer of its share of interest in Inverell to the non-controlling 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 non-controlling interest. Subsequent to year end, 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.

During 2022, the Company wrote off the net assets of Inverell, resulting in an impairment loss of \$676. The following is a breakdown of the impairment loss recorded during 2022:

Cash and cash equivalents	\$	4
Other receivables		135
Prepaid expenses		24
Property, plant and equipment, net (Note 8)		1,366
Accounts payable and accrued liabilities		(849)
Lease liability (Note 13)		(4)
<b>Total</b>	<b>\$</b>	<b>676</b>

#### Auxly Annapolis and Auxly Annapolis OG

On February 7, 2022, the Company announced that it had ceased operations at the Auxly Annapolis and Auxly Annapolis OG facilities and that it intended to divest the non-core assets and apply the proceeds from any such sale to support its ongoing operations. The Company wrote down the assets of Auxly Annapolis and Auxly Annapolis OG to their recoverable amount, resulting in an impairment loss of \$25,745. The following is a breakdown of the impairment loss recorded during the first quarter of 2022:

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

The Company completed the sale of Auxly Annapolis' indoor cultivation facility and Auxly Annapolis OG's outdoor cultivation facility in June and August 2022, respectively, for total proceeds of \$10,150. Refer to Note 8 for more information.

# AUXLY CANNABIS GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### 29. Subsequent events

- a) On February 1, 2024, the Company announced that it had signed a definitive agreement (the “Amendment Agreement”) to amend and restate the Amended and Restated Credit Facility between Auxly Leamington and a syndicate of lenders, led by the Bank of Montreal as administrative agent, upon the following terms:
- Extension of the maturity date by two years until December 31, 2025, with an option for Auxly Leamington to extend the maturity date for an additional year by making a \$2,500 principal repayment by December 31, 2025;
  - Updated EBITDA and other financial and operational covenants for Auxly Leamington;
  - Increased quarterly principal payments throughout the term; and
  - The obligations of Auxly Leamington under the Amended and Restated Credit Facility will continue to be supported by a \$33,000 limited guarantee by Auxly and a pledge by Auxly of all its securities of Auxly Leamington.

Also as announced on September 29, 2023, November 30, 2023 and January 3, 2024, respectively, prior to entering into the Amendment Agreement, the Company was granted 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 the formal credit amendment.

- b) On March 22, 2024, Imperial, through its wholly owned subsidiary, provided the Company with notice of its election to convert (i) approximately \$121,851 of the principal amount outstanding under its \$122,851 unsecured convertible debenture (the “Imperial Debenture”) and (ii) approximately \$1,565 of accrued interest under the Imperial Debenture, which, together with Imperial’s existing equity holdings, will result in Imperial holding an equity position in the Company of approximately 19.8% (the “Imperial Debt Conversion”).

In connection with the Imperial Debt Conversion:

- \$121,851 of the principal amount under the Imperial Debenture will be converted at an exercise price of \$0.81 for 150,433,450 common shares in the capital of the Company;
- \$1,565 of accrued interest will be converted and issued, on a private placement basis, into 90,882,667 common shares in the capital of the Company at a price of \$0.017, subject to the approval of the TSX; and
- Imperial and Auxly have agreed to amend 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.

After completing the Imperial Debt Conversion: (i) a principal amount of \$1,000 will remain outstanding under the Imperial Debenture convertible at \$0.81 per share and due on September 25, 2026; (ii) approximately \$20,501 of accrued interest due September 25, 2026 will remain outstanding, without accruing further interest thereon, unless otherwise converted in accordance with the terms of the Imperial Debenture; and (iii) Imperial will own approximately 19.8% of the Company’s common shares.

The closing of the Imperial Debt Conversion is conditional upon certain customary closing conditions for a transaction of this nature, including the approval of the TSX. The parties anticipate the Imperial Debt Conversion will close by early April 2024.