



AUXLY CANNABIS GROUP INC.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

Dated November 12, 2021

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Financial Position

Expressed in thousands of Canadian dollars

Unaudited

As at:	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents (Note 4)	\$ 37,215	\$ 21,214
Short-term investments	140	286
Accounts receivables (Note 5)	19,802	10,684
Biological assets (Note 6)	598	419
Inventory (Note 7)	52,750	43,797
Research contract costs	-	2,931
Prepaid expenses	3,764	873
Deposits (Note 12)	13,490	7,444
Other receivables	3,285	2,785
	\$ 131,044	\$ 90,433
Non-current assets		
Property, plant and equipment, net (Note 8)	\$ 77,491	\$ 95,354
Intangible assets, net (Note 9)	71,716	74,259
Goodwill (Note 9)	23,641	28,595
Long-term investments (Note 10)	8,010	5,026
Investment in joint venture (Note 11)	78,488	82,079
Long-term deposits (Note 12)	1,600	1,781
	\$ 260,946	\$ 287,094
Assets held for sale (Note 26)	1,438	1,436
Total assets	\$ 393,428	\$ 378,963
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 29,481	\$ 27,241
Interest payable	213	6,563
Lease liability (Note 13)	1,143	1,473
Convertible debenture (Note 14)	10,361	-
Short-term debt (Note 15)	-	3,276
Loans payable (Note 16)	736	-
Deferred revenue	-	5,659
	\$ 41,934	\$ 44,212
Non-current liabilities		
Interest payable	1,266	-
Lease liability (Note 13)	8,649	9,410
Convertible debenture (Note 14)	93,140	110,525
Loans payable (Note 16)	1,510	-
Deferred tax liability	17,091	21,463
Other non-current liabilities	1,079	1,024
	\$ 122,735	\$ 142,422
Liabilities held for sale (Note 26)	801	800
Total liabilities	\$ 165,470	\$ 187,434
Equity		
Share capital (Note 17)	\$ 432,147	\$ 394,574
Reserves (Note 17)	112,905	98,047
Accumulated other comprehensive loss	(22,573)	(21,952)
Deficit	(290,092)	(274,729)
Total equity attributable to shareholders of the Company	\$ 232,387	\$ 195,940
Total equity attributable to non-controlling interest	(4,429)	(4,411)
Total equity	\$ 227,958	\$ 191,529
Total liabilities and equity	\$ 393,428	\$ 378,963

Commitments and contingencies (Note 21)

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

The interim condensed consolidated financial statements were approved by the Board of Directors on November 12, 2021 and were signed on its behalf by:

(s) Genevieve Young

Genevieve Young

AUXLY CANNABIS GROUP INC.

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

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

For the periods ended:	Three months September 30,		Nine months September 30,	
	2021	2020	2021	2020
CONTINUING OPERATIONS				
Revenue				
Revenue from sales of cannabis products	\$ 35,817	\$ 15,243	\$ 77,520	\$ 34,030
Other revenue	-	-	-	70
Excise taxes	(11,324)	(2,656)	(23,009)	(5,638)
Total net revenue	24,493	12,587	54,511	28,462
Costs of sales				
Costs of finished cannabis inventory sold	19,471	9,536	39,380	19,656
Inventory impairment (Note 7)	716	(312)	1,070	1,630
Gross profit excluding fair value items	4,306	3,363	14,061	7,176
Unrealized fair value gain/(loss) on biological transformation (Note 6)	352	172	922	322
Realized fair value gain/(loss) on inventory	(1)	2	(1)	(193)
Gross profit	4,657	3,537	14,982	7,305
Expenses				
Selling, general, and administrative expenses (Note 22)	11,562	10,924	32,833	37,274
Depreciation and amortization (Notes 8, 9)	2,223	2,076	6,829	6,653
Interest and accretion expense (Note 23)	3,932	3,651	13,320	9,170
Total expenses	17,717	16,651	52,982	53,097
Other income/(loss)				
Fair value gain/(loss) for financial instruments accounted under FVTPL (Note 10)	223	(34)	414	(4,670)
Interest and other income	436	392	1,283	798
Impairment of long-term assets (Note 8)	(60)	144	(11,426)	(4,362)
Gain/(loss) on settlement of assets and liabilities and other expenses	41	(3,453)	21,104	(3,639)
Gain on disposal of subsidiary (Note 28)	1,355	-	1,355	-
Share of loss on investment in joint venture (Note 11)	(3,095)	(1,214)	(6,048)	(2,995)
Foreign exchange gain/(loss)	633	(466)	(546)	122
Total other income/(loss)	(467)	(4,631)	6,136	(14,746)
Net loss before income tax	(13,527)	(17,745)	(31,864)	(60,538)
Income tax recovery	-	90	4,330	657
Net loss from continuing operations	\$ (13,527)	\$ (17,655)	\$ (27,534)	\$ (59,881)
Net income/(loss) from discontinued operations (Note 27)	-	(202)	12,156	(375)
Net income/(loss)	\$ (13,527)	\$ (17,857)	\$ (15,378)	\$ (60,256)
Net income/(loss) attributable to shareholders of the Company	\$ (13,527)	\$ (17,799)	\$ (15,363)	\$ (58,460)
Net loss attributable to non-controlling interest	\$ -	\$ (58)	\$ (15)	\$ (1,796)
Other comprehensive income/(loss)				
Fair value gain/(loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 10)	\$ (3,944)	\$ (1,194)	\$ (608)	\$ (1,896)
Currency translation adjustment - subsequently reclassified to profit or loss	(613)	114	(16)	(489)
Total comprehensive income/(loss)	\$ (18,084)	\$ (18,937)	\$ (16,002)	\$ (62,641)
Total comprehensive income/(loss) attributable to shareholders of the Company	\$ (18,206)	\$ (18,902)	\$ (16,005)	\$ (60,747)
Total comprehensive income/(loss) attributable to non-controlling interest	\$ 122	(35)	\$ 3	(1,894)
Net income/(loss) per common share				
From continuing operations	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.09)
From discontinued operations	-	(0.00)	0.02	(0.00)
Net income/(loss) per common share - basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.09)
Weighted average number of shares outstanding				
Basic and diluted	825,612,944	631,949,685	767,844,307	628,341,762

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Cash Flows

Expressed in thousands of Canadian dollars

Unaudited

For the periods ended:	Three months September 30,		Nine months September 30,	
	2021	2020	2021	2020
Operating activities				
Net loss for the period from continuing operations	\$ (13,527)	\$ (17,655)	\$ (27,534)	\$ (59,881)
Items not affecting cash:				
Inventory impairment (Note 7)	716	(312)	1,070	1,630
Realized fair value gain/(loss) on inventory	1	(2)	1	193
Unrealized fair value gain/(loss) on biological transformation (Note 6)	(352)	(172)	(922)	(322)
Depreciation and amortization (Notes 8, 9)	2,592	2,466	7,750	6,653
Share-based compensation (Note 22)	55	1,178	1,221	3,877
Interest expense (Note 23)	3,615	2,262	12,154	5,911
Interest income (Note 11)	(385)	-	(1,138)	-
Share of loss on investment in joint venture (Note 11)	3,095	1,214	6,048	2,995
Unrealized foreign exchange loss	546	-	1,947	-
Fair value gain/(loss) for financial instruments accounted under FVTPL (Note 10)	(223)	34	(414)	4,670
Income tax recovery	-	(90)	(4,330)	(657)
Impairment of long-term assets (Note 8)	60	(144)	11,426	4,362
Loss/(gain) on settlement of assets and liabilities and other expenses	(2)	2,895	(16,705)	2,067
Gain on disposal of subsidiary (Note 28)	(1,355)	-	(1,355)	-
Cash used in operating activities before net working capital	\$ (5,164)	\$ (8,326)	\$ (10,781)	\$ (28,502)
Net change in non-cash working capital (Note 24)	(2,620)	1,657	(24,950)	2,321
Cash used in operating activities from continuing operations	\$ (7,784)	\$ (6,669)	\$ (35,731)	\$ (26,181)
Net cash flows attributable to discontinued operations	-	7	(681)	525
Net cash used in operating activities	\$ (7,784)	\$ (6,662)	\$ (36,412)	\$ (25,656)
Investing activities				
Proceeds from sale of long-term investments (Note 10)	\$ 8,196	\$ 2,294	\$ 8,833	\$ 6,015
Proceeds on sale of subsidiary (Notes 27, 28)	6,000	-	7,307	-
Investment in joint venture	-	-	(900)	-
Purchase of capital assets (Note 8)	(487)	(7,122)	(5,755)	(19,217)
Cash provided by (used) in investing activities from continuing operations	\$ 13,709	\$ (4,828)	\$ 9,485	\$ (13,202)
Net cash flows attributable to discontinued operations	-	(59)	(3)	(163)
Net cash provided by (used in) investing activities	\$ 13,709	\$ (4,887)	\$ 9,482	\$ (13,365)
Financing activities				
Net proceeds from convertible debenture (Note 14)	\$ -	\$ 2,016	-	\$ 10,664
Net proceeds from financings (Note 17)	-	-	43,975	-
Repayment of convertible debenture (Note 14)	-	-	-	(2,705)
Proceeds from warrants exercised	-	-	1,084	-
Proceeds from options exercised (Note 17)	-	-	1	117
Net proceeds from loans payable (Note 16)	2,180	-	2,180	-
Repayment of short-term borrowings	(2,345)	3,747	(3,276)	3,747
Repayment on long-term debt	-	-	-	(950)
Payment on lease liabilities	(280)	(1,241)	(836)	(2,176)
Cash provided by (used in) financing activities from continuing operations	\$ (445)	\$ 4,522	\$ 43,128	\$ 8,697
Net cash flows attributable to discontinued operations	-	(124)	(197)	(237)
Net cash provided by (used in) financing activities	\$ (445)	\$ 4,398	\$ 42,931	\$ 8,460
Cash provided by (used in) continuing operations	\$ 5,480	\$ (6,975)	\$ 16,882	\$ (30,686)
Net cash flows attributable to discontinued operations	-	(176)	(881)	125
Increase/(decrease) in cash and cash equivalents	\$ 5,480	\$ (7,151)	\$ 16,001	\$ (30,561)
Cash and cash equivalents, beginning of period	31,735	20,724	21,214	44,134
Cash and cash equivalents, end of period (Note 4)	\$ 37,215	\$ 13,573	\$ 37,215	\$ 13,573

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Changes in Equity

Expressed in thousands of Canadian dollars

Unaudited

For the periods ended:	Three months		Nine months	
	September 30,		September 30,	
	2021	2020	2021	2020
Share capital				
Balance - beginning of period	\$ 432,147	\$ 384,602	\$ 394,574	\$ 384,431
Shares issued on exercise of warrants	-	-	1,084	-
Shares issued on exercise of options	-	-	2	117
Shares issued as at-the-market offerings (Note 17)	-	-	1,823	-
Shares issued on financings, net of taxes (Note 17)	-	-	33,452	-
Shares issued as employee awards	-	-	832	-
Fair value transfer on exercise of warrants	-	-	380	-
Fair value transfer on exercise of options	-	-	-	54
Share capital - end of period	\$ 432,147	\$ 384,602	\$ 432,147	\$ 384,602
Reserves				
Convertible debentures				
Balance - beginning of period	\$ 29,752	\$ 29,645	\$ 29,752	\$ 29,150
Equity component of convertible debentures	-	107	-	602
Convertible debentures - end of period	\$ 29,752	\$ 29,752	\$ 29,752	\$ 29,752
Warrants				
Balance - beginning of period	\$ 42,855	\$ 30,863	\$ 33,803	\$ 30,463
Equity component of convertible debentures	-	85	-	485
Warrants issued on financings (Note 17)	-	-	9,432	-
Fair value transfer to shares upon conversion	-	-	(380)	-
Warrants - end of period	\$ 42,855	\$ 30,948	\$ 42,855	\$ 30,948
Contributed surplus				
Balance - beginning of period	\$ 40,243	\$ 32,876	\$ 34,492	\$ 30,231
Equity component of Imperial convertible debenture, net of taxes	-	-	5,418	-
Employee share options:				
Share based compensation	55	1,178	389	3,877
Fair value transfer of exercise of options	-	-	(1)	(54)
Contributed surplus - end of period	\$ 40,298	\$ 34,054	\$ 40,298	\$ 34,054
Reserves - end of period	\$ 112,905	\$ 94,754	\$ 112,905	\$ 94,754
Accumulated other comprehensive loss				
Balance - beginning of period	\$ (18,138)	\$ (21,902)	\$ (21,952)	\$ (20,718)
Fair value changes in long-term investments (Note 10)	(3,944)	(1,194)	(608)	(1,896)
Currency translation adjustment	(491)	91	(13)	(391)
Accumulated other comprehensive loss - end of period	\$ (22,573)	\$ (23,005)	\$ (22,573)	\$ (23,005)
Deficit				
Attributable to the Company				
Balance - beginning of period	\$ (276,565)	\$ (229,964)	\$ (274,729)	\$ (189,303)
Net income/(loss) attributable to the Company	(13,527)	(17,799)	(15,363)	(58,460)
Ending deficit attributable to the Company	(290,092)	(247,763)	(290,092)	(247,763)
Attributable to non-controlling interests				
Balance - beginning of period	\$ (4,307)	\$ (4,208)	\$ (4,411)	\$ (2,349)
Currency translation adjustment	(122)	121	(3)	-
Net loss attributable to non-controlling interests	-	(156)	(15)	(1,894)
Ending deficit attributable to non-controllable interests	(4,429)	(4,243)	(4,429)	(4,243)
Deficit - end of period	\$ (294,521)	\$ (252,006)	\$ (294,521)	\$ (252,006)
Equity - end of period	\$ 227,958	\$ 204,345	\$ 227,958	\$ 204,345

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

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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

Unaudited

1. Nature of operations

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

Description of the Company

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

2. Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), specifically International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2020.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended December 31, 2020, which are available on SEDAR at www.sedar.com and on the Company’s website at www.auxly.com.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on November 12, 2021.

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

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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

Unaudited

2. Basis of preparation (continued)

Assessment of impact from global pandemic

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

As at September 30, 2021, the Company has determined that no significant revisions to estimates, judgments or assumptions were required for its operating segments; however, the continuing uncertainty associated with the COVID-19 pandemic may require changes in future periods. The Company will continue to closely monitor the impact of the COVID-19 pandemic, including any such changes to estimates, judgments or assumptions that could have a material impact on the Company's consolidated financial position and consolidated results of operations.

3. Significant accounting policies

Subsidiaries

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

Subsidiaries	Equity interests
Dosecann LD Inc.	100%
Kolab Project Inc.	100%
Robinson's Cannabis Inc.	100%
Robinson's Outdoor Grow Inc.	100%
Inverell S.A.	80%

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

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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Unaudited

3. Significant accounting policies (continued)

Future changes in accounting policies

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

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and no material impact is expected on its interim condensed consolidated financial statements.

Amendments to IFRS 9: Financial Instruments

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. The Company does not intend to early adopt these amendments and no material impact is expected on its interim condensed consolidated financial statements.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract." Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted. The Company does not intend to early adopt these amendments and no material impact is expected on its interim condensed consolidated financial statements.

4. Restricted cash

Auxly has restricted cash as collateral in order to facilitate an issuance of a letter of credit. As at September 30, 2021, Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of \$557 (December 31, 2020 – \$557) on behalf of Sunens Farms Inc. ("Sunens") in order to supply power to the facility.

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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Unaudited

5. Accounts receivables

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

	As at	
	September 30, 2021	December 31, 2020
Less than 30 days past billing date	\$ 14,558	\$ 5,784
31 to 60 days past billing date	4,812	3,885
61 to 90 days past billing date	248	1,033
Over 90 days past billing date	278	427
	\$ 19,896	\$ 11,129
Sales provision	(94)	(445)
	\$ 19,802	\$ 10,684

6. Biological assets

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

	Cannabis	Hemp	Total
Balance as at December 31, 2020	\$ 419	\$ -	\$ 419
Changes in fair value less cost to sell due to biological transformation	922	-	922
Capitalized production costs	1,321	-	1,321
Transferred to inventory upon harvest	(2,064)	-	(2,064)
Balance as at September 30, 2021	\$ 598	\$ -	\$ 598
	Cannabis	Hemp	Total
Balance as at December 31, 2019	\$ 230	\$ -	\$ 230
Changes in fair value less cost to sell due to biological transformation	537	-	537
Capitalized production costs	2,225	777	3,002
Transferred to inventory upon harvest	(2,573)	-	(2,573)
Biological asset write-off	-	(777)	(777)
Balance as at December 31, 2020	\$ 419	\$ -	\$ 419

As at September 30, 2021, the Company's cannabis plants were on average 45% complete through their estimated 14 week growing cycle.

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

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

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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6. Biological assets (continued)

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

Significant inputs and assumptions	Inputs	Sensitivity	Effect on biological asset balance
Selling price per gram	\$8.60/gram	Increase/(decrease) \$1.00/gram	Increase/(decrease) \$126.3
Average yield per plant	69 grams	Increase/(decrease) 10%	Increase/(decrease) \$63.2
Post-harvest cost per gram	\$1.26/gram	Increase/(decrease) \$0.5/gram	Increase/(decrease) \$105.1

7. Inventory

The following is a breakdown of inventory:

	As at September 30, 2021	As at December 31, 2020
Dried cannabis		
Work-in-process	\$ 9,048	\$ 3,722
Finished goods	1,702	428
Dried hemp		
Work-in-process	3,836	6,367
Cannabis oil		
Work-in-process	11,815	14,060
Generation 2 derivative products		
Work-in-process	254	1,311
Finished goods	9,736	6,703
Merchandise products	281	28
Packaging, hardware, consumables and ingredients	16,078	11,178
Total	\$ 52,750	\$ 43,797

As at September 30, 2021, the Company recognized \$52,750 (December 31, 2020 – \$43,797) of inventory on the interim condensed consolidated statements of financial position, including \$88 (December 31, 2020 – (\$186)) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest.

In the three and nine months ended September 30, 2021, the Company recognized a loss of \$716 (2020 – \$(312)) and \$1,070 (2020 – \$1,630) on cannabis inventory due to the costs capitalised exceeding the net realizable value of the inventory. The impairment loss and impairment reversals from prior periods have been included in cost of goods sold in the interim condensed consolidated statements of loss and comprehensive loss.

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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

Unaudited

8. Property, plant and equipment

	Computers and office furniture	Leasehold improvement	Equipment	Buildings	Construction- in-progress	Land	Right -of-use assets	Total
Cost:								
December 31, 2020	\$ 3,162	\$ 30,088	\$ 17,653	\$ 25,663	\$ 16,005	\$ 4,809	\$ 8,820	\$ 106,200
Additions	176	91	5,050	442	(1)	-	81	5,839
Disposals	(223)	(361)	(1,241)	(200)	(4,620)	(844)	(772)	(8,261)
Transfers	-	-	-	18	(18)	-	-	-
Impairment of long-term assets	-	-	(112)	-	(11,366)	-	-	(11,478)
September 30, 2021	\$ 3,115	\$ 29,818	\$ 21,350	\$ 25,923	\$ -	\$ 3,965	\$ 8,129	\$ 92,300
Accumulated depreciation:								
December 31, 2020	\$ 1,198	\$ 791	\$ 2,392	\$ 2,148	\$ -	\$ 25	\$ 3,013	\$ 9,567
Depreciation	507	1,103	1,648	972	-	2	1,229	5,461
Disposals	(134)	(276)	(327)	(67)	-	-	(643)	(1,447)
Impairment of long-term assets	-	-	(52)	-	-	-	-	(52)
September 30, 2021	\$ 1,571	\$ 1,618	\$ 3,661	\$ 3,053	\$ -	\$ 27	\$ 3,599	\$ 13,529
Adjustments								
Currency translation	\$ 12	\$ (19)	\$ (42)	\$ 69	\$ -	\$ (19)	\$ 4	\$ 5
Reclassification to assets held for sale (Note 26)	(1)	-	-	-	-	(1,281)	(3)	(1,285)
Carrying amounts								
September 30, 2021	\$ 1,555	\$ 28,181	\$ 17,647	\$ 22,939	\$ -	\$ 2,638	\$ 4,531	\$ 77,491

	Computers and office furniture	Leasehold improvement	Equipment	Buildings	Construction- in-progress	Land	Right -of-use assets	Total
Cost:								
December 31, 2019	\$ 4,249	\$ 1,272	\$ 10,704	\$ 24,755	\$ 36,475	\$ 5,218	\$ 7,102	\$ 89,775
Additions	355	68	7,168	1,012	13,281	14	1,963	23,861
Disposals	(59)	(1,104)	(42)	(30)	(113)	-	(245)	(1,593)
Transfers	(606)	29,852	904	3,483	(33,638)	5	-	-
Impairment of long-term assets	(777)	-	(1,081)	(3,557)	-	(428)	-	(5,843)
December 31, 2020	\$ 3,162	\$ 30,088	\$ 17,653	\$ 25,663	\$ 16,005	\$ 4,809	\$ 8,820	\$ 106,200
Accumulated depreciation:								
December 31, 2019	\$ 688	\$ 353	\$ 1,046	\$ 1,404	\$ -	\$ -	\$ 967	\$ 4,458
Depreciation	726	591	1,563	1,682	-	25	2,260	6,847
Disposals	(8)	(153)	(7)	(471)	-	-	(214)	(853)
Transfers	-	-	11	(11)	-	-	-	-
Impairment of long-term assets	(208)	-	(221)	(456)	-	-	-	(885)
December 31, 2020	\$ 1,198	\$ 791	\$ 2,392	\$ 2,148	\$ -	\$ 25	\$ 3,013	\$ 9,567
Adjustments								
Currency translation	\$ 12	\$ (19)	\$ (42)	\$ 69	\$ -	\$ (20)	\$ 4	\$ 4
Reclassification to assets held for sale (Note 26)	-	-	-	-	-	(1,280)	(3)	(1,283)
Carrying amounts								
December 31, 2020	\$ 1,976	\$ 29,278	\$ 15,219	\$ 23,584	\$ 16,005	\$ 3,484	\$ 5,808	\$ 95,354

Property, plant and equipment associated with KGK have been recorded as disposals in the continuity schedule and the associated depreciation has been presented within discontinued operations. The depreciation for KGK for the nine months ended September 30, 2021 and for the 12 months ended December 31, 2020 was \$254 and \$622, respectively. Property, plant and equipment additions for the nine months ended September 30, 2021 includes a \$81 (2020 – \$1,207) non-cash recognition of right-of-use assets.

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8. Property, plant and equipment (continued)

On July 6, 2021, the Company completed the sale of its interest in 2368523 Ontario Limited (d/b/a Curative Cannabis) to a private purchaser for total proceeds to the Company of \$6,000. During the second quarter of 2021, the property, plant and equipment related to Curative Cannabis was written down to its recoverable amount of \$6,000 resulting in an impairment loss of \$11,366. During the third quarter of 2021, as a result of the sale, the property, plant and equipment related to Curative Cannabis was written down to \$nil and is reflected in disposals within the continuity schedule above. Refer to note 28 for more information.

9. Intangible assets and goodwill

Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2020	\$ 19,783	\$ 27,152	\$ 31,100	\$ 850	\$ 2,619	81,504
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	(622)	(622)
September 30, 2021	\$ 19,783	\$ 27,152	\$ 31,100	\$ 850	\$ 1,997	\$ 80,882
Accumulated amortization:						
December 31, 2020	\$ 5,886	\$ -	\$ -	\$ 119	\$ 1,240	7,245
Amortization	1,969	-	-	45	529	2,543
Disposals	-	-	-	-	(622)	(622)
September 30, 2021	\$ 7,855	\$ -	\$ -	\$ 164	\$ 1,147	\$ 9,166
Carrying amounts:						
September 30, 2021	\$ 11,928	\$ 27,152	\$ 31,100	\$ 686	\$ 850	\$ 71,716
	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2019	\$ 19,783	\$ 27,152	\$ 31,100	\$ 829	\$ 4,512	83,376
Additions	-	-	-	21	398	419
Disposals	-	-	-	-	(2,291)	(2,291)
December 31, 2020	\$ 19,783	\$ 27,152	\$ 31,100	\$ 850	\$ 2,619	\$ 81,504
Accumulated amortization:						
December 31, 2019	\$ 3,260	\$ -	\$ -	\$ 55	\$ 2,637	5,952
Amortization	2,626	-	-	64	921	3,611
Disposals	-	-	-	-	(2,318)	(2,318)
December 31, 2020	\$ 5,886	\$ -	\$ -	\$ 119	\$ 1,240	\$ 7,245
Carrying amounts:						
December 31, 2020	\$ 13,897	\$ 27,152	\$ 31,100	\$ 731	\$ 1,379	\$ 74,259

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9. Intangible assets and goodwill (continued)

Goodwill

Balance, December 31, 2020	\$ 28,595
Change in goodwill due to sale of subsidiary (see note 27)	(4,954)
Balance, September 30, 2021	\$ 23,641

10. Long-term investments

Entity	Instrument	Classification	Balance at December 31, 2020	FV Change	Purchases (Sales)	Balance at September 30, 2021
VIVO Cannabis	Shares	FVOCI	\$ 65	\$ (18)	\$ -	\$ 47
CannTx Life Sciences	Shares	FVOCI	199	384	-	583
Inner Spirit Holdings	Shares	FVOCI	2,791	4,862	(7,653)	-
Inner Spirit Holdings	Options	FVTPL	93	233	(326)	-
Province Brands	Shares	FVOCI	153	43	-	196
Cannabis OneFive Inc.	Shares	FVOCI	109	(2)	-	107
Cannabis OneFive Inc.	Warrants	FVTPL	-	200	(200)	-
Delta 9 Cannabis	Shares	FVOCI	654	(31)	(623)	-
Good Leaf	Shares	FVOCI	535	(12)	-	523
Good Leaf	Warrants	FVTPL	376	(19)	-	357
KetamineOne	Shares	FVOCI	-	(5,807)	11,937	6,130
Sundial	Shares	FVOCI	-	(43)	43	-
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	51	16	-	67
Total			\$ 5,026	\$ (194)	\$ 3,178	\$ 8,010

Entity	Instrument	Classification	Balance at December 31, 2019	FV Change	Purchases (Sales)	Balance at December 31, 2020
VIVO Cannabis	Shares	FVOCI	\$ 205	\$ 39	\$ (179)	\$ 65
CannTx Life Sciences	Shares	FVOCI	523	(324)	-	199
Inner Spirit Holdings	Shares	FVOCI	2,983	353	(545)	2,791
Inner Spirit Holdings	Warrants	FVTPL	55	(34)	(21)	-
Inner Spirit Holdings	Options	FVTPL	-	37	56	93
Lotus Ventures Inc.	Shares	FVOCI	807	(241)	(566)	-
Lotus Ventures Inc.	Warrants	FVTPL	6	(6)	-	-
Province Brands	Shares	FVOCI	126	27	-	153
Cannabis OneFive Inc.	Shares	FVOCI	50	59	-	109
Cannabis OneFive Inc.	Warrants	FVTPL	1	(1)	-	-
Delta 9 Cannabis	Shares	FVOCI	4,136	(1,178)	(2,304)	654
FSD Pharma	Shares	FVOCI	266	248	(514)	-
Good Leaf	Shares	FVOCI	225	310	-	535
Good Leaf	Warrants	FVTPL	112	264	-	376
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	348	(297)	-	51
Inner Spirit Holdings	Convertible Debt	FVTPL	1,638	90	(1,728)	-
ICC International Cannabis Corp.	Convertible Debt	FVTPL	4,758	(4,758)	-	-
Total			\$ 16,239	\$ (5,412)	\$ (5,801)	\$ 5,026

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11. Investment in joint venture

	Class 1 common shares and Class V special shares	Class B special shares	Secured promissory notes	Total investment in joint venture
Balance as at January 1, 2020	\$ (1,301)	\$ 50,000	\$ 47,800	\$ 96,499
Expected credit loss	-	-	(993)	(993)
Loan guarantee contribution	86	-	-	86
Redemption of Class V special shares	1,004	-	-	1,004
Loss on debt modification	-	-	(8,668)	(8,668)
Accretion on promissory notes	-	-	769	769
Realization of interest income	-	-	789	789
Share of net loss of Sunens	(7,407)	-	-	(7,407)
Balance as at December 31, 2020	\$ (7,618)	\$ 50,000	\$ 39,697	\$ 82,079
Expected credit loss	\$ -	\$ -	\$ (58)	\$ (58)
Loan guarantee contribution	54	-	-	54
Investment in secured promissory notes	-	-	900	900
Loss on debt modification	-	-	(507)	(507)
Accretion on promissory notes	-	-	930	930
Realization of interest income	-	-	1,138	1,138
Share of net loss of Sunens	(6,048)	-	-	(6,048)
Balance as at September 30, 2021	\$ (13,612)	\$ 50,000	\$ 42,100	\$ 78,488

The Company has a joint venture agreement with Peter Quiring to operate a purpose-built greenhouse for cannabis cultivation in Leamington, Ontario. The joint arrangement is structured through a separate legal entity and has been classified as a joint venture per IFRS 11, *Joint Agreements*. The Company holds 45% voting shares in Sunens through 4,500,000 Class 1 common shares.

On February 8, 2021, the Company amended its secured promissory note with the joint venture so that the principal repayments to the Company will commence on June 30, 2022, originally December 31, 2021. The amendment was treated as a debt modification under IFRS 9 and the Company has calculated a new amortized cost of \$43,346, resulting in a loss of \$507 recorded in the interim condensed consolidated statement of loss and comprehensive loss. On the same date, the joint venture received another promissory note of \$2,000, in which the Company contributed \$900 and Peter Quiring contributed the other \$1,100. The note bears interest at a rate of 6% per annum, compounds monthly, and matures on July 1, 2026.

On April 16, 2021, Sunens received a notice of default from BMO in its capacity as lender, administrative agent and syndication agent under the credit facility with respect to Sunens' failure to satisfy recently established revenue milestones for the first quarter of 2021. Although the lenders have reserved their rights under the credit agreement, they advanced another \$1 million pursuant to a borrowing request made pursuant to the credit facility and BMO has granted a one-month deferral of the equipment loan payment due in May 2021 in the amount of approximately \$0.2 million, which will be used to fund day-to-day operations. In May 2021, the Company began further supporting Sunens through purchases of cannabis as production from the Sunens facility increased. In addition, Sunens may require additional funding for working capital until production and revenue from sales reach expected levels. Discussions with the lenders with respect to a formal credit facility amendment are continuing, and although there can be no assurance that an agreement with the lenders will be reached, the parties have made substantial progress in their negotiations on a credit facility amendment that is acceptable to all relevant parties. As part of such financing provided by the syndicate, the Company has guaranteed payments up to \$33 million in the event of default.

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11. Investment in joint venture (continued)

The Company has purchased cannabis inventory from the Sunens joint venture. The purchases have been treated as an upstream transaction under IFRS 9 and the Company will defer its share of profit or loss resulting from these upstream transactions until the Company sells the cannabis inventory to an arm's-length customer.

The Company recorded an equity loss for the three and nine months ended September 30, 2021 of \$3,095 and \$6,048, respectively (2020 – \$1,214 for the three months ended and \$2,995 for the nine months ended), representing the Company's 45% ownership of the Sunens joint venture. The equity loss for the three and nine months ended September 30, 2021 includes an adjustment of \$nil and \$33, respectively, for the elimination of upstream loss.

The joint venture's statements of financial position and statements of loss and comprehensive loss are as follows:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue	\$ 8,727	\$ -	\$ 13,670	\$ 9
Loss before interest, taxation, depreciation and amortization	\$ (5,050)	\$ (452)	\$ (8,055)	\$ (3,582)
Interest expense	(903)	(1,451)	(2,653)	(1,685)
Depreciation and amortization	(925)	(478)	(2,805)	(606)
Net loss and total comprehensive loss	\$ (6,878)	\$ (2,381)	\$ (13,513)	\$ (5,873)

	As at	
	September 30, 2021	December 30, 2020
Current assets	\$ 8,527	\$ 7,843
Non-current assets	143,815	147,694
Total assets	\$ 152,342	\$ 155,537
Current liabilities	\$ 40,365	\$ 76,248
Non-current liabilities	94,694	48,494
Total liabilities	\$ 135,059	\$ 124,742
Net assets	\$ 17,283	\$ 30,795

12. Deposits

	Capital Assets	Inventory	Other	Total
Current portion	\$ 5,182	\$ 8,125	\$ 183	\$ 13,490
Non-current portion	-	-	1,600	1,600
As at September 30, 2021	\$ 5,182	\$ 8,125	\$ 1,783	\$ 15,090

	Capital Assets	Inventory	Other	Total
Current portion	\$ 5,433	\$ 1,813	\$ 198	\$ 7,444
Non-current portion	-	-	1,781	1,781
As at December 31, 2020	\$ 5,433	\$ 1,813	\$ 1,979	\$ 9,225

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13. Lease liability

	As at September 30, 2021	As at December 31, 2020
Maturity analysis - contractual undiscounted cash flows		
Less than one year	\$ 1,536	\$ 1,892
Two years and beyond	12,042	13,098
Total undiscounted lease obligations	\$ 13,578	\$ 14,990
Current portion	\$ 1,146	\$ 1,473
Non-current portion	8,649	9,413
Reclassification to liabilities held for sale (Note 26)	(3)	(3)
Discounted lease obligations included in the interim condensed consolidated statements of financial position	\$ 9,792	\$ 10,883

14. Convertible debenture

The convertible debentures balance consists of the following:

	As at September 30, 2021	As at December 31, 2020
September 2019 issuance and April 2021 amendment	\$ 93,140	\$ 100,887
Standby financing	10,361	9,638
Total	\$ 103,501	\$ 110,525
Less: current portion	(10,361)	-
Long-term portion	\$ 93,140	\$ 110,525

September 2019 issuance and April 2021 amendment

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

In April 2021, the Company announced an agreement with Imperial Brands to amend the debentures to extend the maturity date by 24 months from September 25, 2022 to September 25, 2024. The amendment also provides Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the debenture into common shares at a conversion price equal to the five-day volume weighted average trading price of the common shares on the date that the interest conversion election is made. The interest rate at a rate of 4% per annum will remain unchanged but will be payable on maturity of the debenture. 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 Brands under the investor rights agreement dated September 25, 2019 between the Company and Imperial Brands. These amendments were subject to shareholder approval that was obtained at the Company's annual general and special meeting of shareholders on June 28, 2021.

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14. Convertible debenture (continued)

The amendment was treated as a debt extinguishment under IFRS 9 as the terms are substantially different given the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The Company derecognised the debenture's carrying value of \$115,123 and the new debenture under the amended terms was recorded at its fair value of \$91,111, discounted at an estimated market interest rate of 16.0%. The residual value of the gross proceeds was allocated to the equity conversion feature, net of taxes, estimated at \$5,418. During the second quarter of 2021, the net impact of the debt extinguishment and the recognition of the amended debenture resulted in a gain of \$16,642 recorded in the interim condensed consolidated statement of loss and comprehensive loss.

The accretion expense associated with the debenture for the three and nine months ended September 30, 2021 was \$2,029 and \$7,663, respectively (2020 – \$2,595 for the three months ended and \$7,306 for the nine months ended). Interest expense for the three and nine months ended September 30, 2021 was \$1,265 and \$3,702 (2020 – \$1,171 for the three months ended and \$3,621 for the nine months ended).

Convertible debenture standby financing

In April 2020, Auxly entered into an unsecured convertible debenture in the principal amount of up to \$25,000. During the year ended December 31, 2020, Auxly closed five tranches of convertible debentures for total net proceeds of \$10,664, in which \$484 was allocated to the accompanying warrants and \$995 was allocated to the conversion feature. The continuity schedule of the debentures is presented below:

	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	\$ 9,638	\$ -
Additions:		
Q2	\$ -	\$ 7,537
Q3	-	1,648
Accretion expense	723	453
Balance, end of period	\$ 10,361	\$ 9,638

The details of the accretion expense associated with the five tranches are as follows:

		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Balance, January 1, 2021	\$ \$	1,065	\$ 1,678	\$ 2,606	\$ 2,594	\$ 1,695
Accretion expense during the period		99	117	192	191	124
Balance, September 30, 2021	\$ \$	1,164	\$ 1,795	\$ 2,798	\$ 2,785	\$ 1,819
Effective interest rate	%	20.37%	17.74%	17.89%	17.95%	18.08%
Coupon rate	%	7.50%	7.50%	7.50%	7.50%	7.50%
Interest expense (nine-months)	\$ \$	70	\$ 112	\$ 168	\$ 168	\$ 112

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15. Short-term debt

The Company and several of its subsidiaries entered into a receivables purchase facility with Trichome Financial Cannabis Private Credit LP (“Trichome”) for an aggregate available amount of up to \$8,000. Under this arrangement, several of Auxly’s subsidiaries may finance accounts receivables from Canadian provincial distributors as well as other customers. Offering of accounts receivable for factoring will be at the discretion of the Company’s relevant subsidiary and acceptance of any such accounts receivable for factoring will be at the discretion of Trichome. Obligations of the Company and its subsidiaries under this arrangement are secured by a first-ranking perfected security interest in cannabis-related accounts receivable and is guaranteed by the Company and several of its subsidiaries. The Company has retained late payment and credit risk, therefore continues to recognize the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as short-term debt. In December 2020, the Company and Trichome mutually agreed to lower the aggregate funding available under the facility to \$6,000. The factoring arrangement with Trichome was subsequently terminated effective August 12, 2021 and all amounts owing under the facility have been repaid.

16. Loans payable

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

	As at	
	September 30, 2021	December 31, 2020
Balance, beginning of period	\$ -	\$ -
Additions	\$ 2,417	-
Payments	(237)	-
Non-cash interest expense	66	-
Balance, end of period	\$ 2,246	\$ -
Current	\$ 736	\$ -
Long-term	1,510	-
Total	\$ 2,246	\$ -

17. Share capital

The share capital of the Company is summarized below:

	September 30, 2021	December 31, 2020		September 30, 2021	December 31, 2020
Issued and Outstanding Shares			Exercisable securities		
Issued shares	836,607,134	691,861,024	Warrants	124,542,270	56,021,747
Escrowed shares	10,994,190	10,994,190	Convertible Debentures	188,089,377	188,089,377
Outstanding shares	825,612,944	680,866,834	Options	35,877,050	40,890,608

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17. Share capital (continued)

a) Authorized

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

b) Issued and outstanding

As at September 30, 2021, there were 836,607,134 issued and outstanding common shares, with 10,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2020 had 691,861,024 issued and outstanding common shares, and 10,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

In January 2021, 416,666 warrants with a strike price of \$0.40 per unit were exercised, resulting in the issuance of the equivalent number of common shares.

In February 2021, the Company closed a prospectus offering and distributed a total of 54,395,000 units for gross proceeds of \$20,100. Each unit consists of one share and one-half of one warrant, with each warrant entitling the holder to purchase one additional share at \$0.46 until February 2024. The Company recorded \$14,453 for the issuance of shares and \$4,156 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of \$18,609. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price – \$0.335, Annualized volatility – 90.18%; Risk-free interest rate – 0.50%; Dividend yield – 0%; and Expected life – three years.

In February 2021, 3,040,000 warrants with a strike price between \$0.30 and \$0.40 per unit were exercised, resulting in the issuance of the equivalent number of common shares.

In May 2021, the Company closed a transaction where an institutional investor agreed to purchase, on a private placement basis, 23,880,598 units of the Company at a price of \$0.335 per unit for gross proceeds of \$8,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant of the Company. Each warrant entitles the institutional investor to purchase one common share at an exercise price of \$0.42 until May 2024. The Company recorded \$5,783 for the issuance of shares and \$1,737 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of \$7,520. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price – \$0.365, Annualized volatility – 95.49%; Risk-free interest rate – 0.53%; Dividend yield – 0%; and Expected life – three years.

In May 2021, 4,846 common shares were issued on the exercise of 4,846 stock options for gross proceeds of \$2.

In June 2021, the Company closed a bought deal prospectus offering and distributed a total of 54,763,000 units for gross proceeds of \$17,250. Each unit consists of one share and one-half of one warrant, with each warrant entitling the holder to purchase one additional share at \$0.38 until June 2024. The Company recorded \$12,406 for the issuance of shares and \$3,617 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of \$16,023. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price – \$0.255, Annualized volatility – 97.00%; Risk-free interest rate – 0.50%; Dividend yield – 0%; and Expected life – three years.

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17. Share capital (continued)

In June 2021, the Company issued 3,140,000 common shares to non-executive employees of the Company as compensation, as part of their employment agreements related to prior-year services. The fair value of the common shares issued for compensation is \$832 and was included as share-based payments on the interim condensed consolidated statements of loss and comprehensive loss.

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

	Three months ended		Nine months ended	
	September 30, 2021		September 30, 2021	
Gross proceeds	\$	-	\$	1,865
Commission	\$	-	\$	42
Net proceeds	\$	-	\$	1,823
Average gross price	\$	-	\$	0.365
Number of shares issued		-		5,106,000

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 September 30, 2021:

	Number of warrants	Average exercise price (\$)	Average remaining life (years)
Opening Balance, January 1, 2020	85,928,520	1.795	0.63
Warrants issued	46,021,747	0.381	2.33
Warrants expired	(75,928,520)	1.824	
Closing Balance, December 31, 2020	56,021,747	0.593	2.35
Warrants issued	71,977,189	0.414	2.80
Warrants exercised	(3,456,666)	0.350	
Closing Balance, September 30, 2021	124,542,270	0.497	2.38

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 83,660,713 as at September 30, 2021.

During the nine months ended September 30, 2021 and 2020, 7,645,000 and 4,885,692 options were granted, respectively.

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17. Share capital (continued)

The following table summarizes information about stock options outstanding as at September 30, 2021:

	Number of options	Average exercise price (\$)	Average remaining life (years)
Opening Balance, January 1, 2020	45,649,553	0.865	6.09
Options granted	6,680,692	0.331	4.65
Options exercised	(7,611,078)	0.025	
Options forfeited	(3,828,559)	1.163	
Closing Balance, December 31, 2020	40,890,608	0.902	5.45
Options granted	7,645,000	0.271	4.75
Options exercised	(4,846)	0.300	
Options forfeited	(12,653,712)	1.135	
Closing Balance, September 30, 2021	35,877,050	0.690	4.21

Total options exercisable at September 30, 2021 were 22,102,507 with a remaining average life of 4.13 years.

e) Earnings per share

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

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

For the periods ended: (000's)	Three months September 30,		Nine months September 30,	
	2021	2020	2021	2020
Short-term benefits	\$ 505	\$ 398	\$ 1,645	\$ 1,328
Long-term benefits	104	129	230	970
Total	\$ 609	\$ 527	\$ 1,875	\$ 2,298

Other related party transactions

Terrene Ltd. provides strategic planning and advisory services to the Company on a periodic basis. Vikram Bawa, an independent Board Director, is the Managing Partner of Terrene Ltd. For the three- and nine-month periods ended September 30, 2021, the Company has incurred \$13 and \$38, respectively (2020 – \$nil) in expenses.

Global Public Affairs Inc. provides government relations and strategic counsel to the Company on a periodic basis. Genevieve Young, Chair of the Company's Board of Directors, is the President and Chief Operating Officer of Global Public Affairs Inc. For the three- and nine-month periods ended September 30, 2021, the Company has incurred \$5 and \$8, respectively (2020 – \$nil) in expenses.

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19. Financial instruments and risk management

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

a) Financial instrument classification and measurement

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

The fair value of hierarchy has the following levels:

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

Financial Instrument	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Non-voting shares in joint venture	Asset-based approach	Fair value of net assets	If the fair value of the net assets decreased by 1%, the fair value would decrease by \$500.
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 \$141 (\$141).

The table below presents the carrying value of the Company's financial instruments:

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 140	\$ -	\$ -	\$ 140
Public company shares	6,244	-	-	6,244
Company options and warrants	-	357	-	357
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	1,409	1,409
Balance, September 30, 2021	\$ 6,384	\$ 357	\$ 51,409	\$ 58,150
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 286	\$ -	\$ -	\$ 286
Public company shares	3,561	-	-	3,561
Company options and warrants	-	469	-	469
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	996	996
Balance, December 31, 2020	\$ 3,847	\$ 469	\$ 50,996	\$ 55,312

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19. Financial instruments and risk management (continued)

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

Level 3 investments	
Balance, January 1, 2020	\$ 57,320
Change in unrealized gain/(loss) - FVTPL	(4,668)
Change in unrealized gain/(loss) - FVOCI	72
Net loss on sale of convertible debentures	(1,728)
Balance, December 31, 2020	\$ 50,996
Change in unrealized gain/(loss) - FVOCI	413
Balance, September 30, 2021	\$ 51,409

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, other receivables, long-term investments, accounts payable and accrued liabilities, short-term debt, loans payable and convertible debentures. As at September 30, 2021, the carrying value of cash and cash equivalents and short-term investments are measured at fair value. Accounts receivable and accounts payable and accrued liabilities and short-term debt, approximate their fair value due to their short-term nature. The carrying value of loans payable and convertible debentures are discounted at the effective interest rate, which approximates their fair value.

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVOCI and FVTPL. For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by \$141 before tax. An equal change in the opposite direction would have decreased equity by \$141 before tax.

d) Interest rate risk

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

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19. Financial instruments and risk management (continued)

e) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The financial instruments that are exposed to such risk include cash and cash equivalents, accounts receivables, other receivables, and notes receivable.

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. The Company mitigates credit risk on notes receivable by securing the notes and monitoring the financial performance of the partners.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

g) Foreign exchange risk

The financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity within the consolidated group determines its own functional currency.

The Company is exposed to certain currency risks in that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. Management has mitigated the risk by holding sufficient cash in US dollars. A 10% increase/(decrease) in the exchange rate would increase/(decrease) net income by \$449/(\$449).

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 which optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include debt and shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

The Company is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management in the period.

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21. Commitments and contingencies

Commitments

As at September 30, 2021, 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 \$84,000 in debt financing provided by a syndicate led by BMO towards the construction of the Sunens purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments to \$33,000 in the event of default. In addition, both joint venture parties have agreed to fund any cost overruns on the construction of the facility and maintain combined cash and available credit balances of at least \$15,000;
- Funding of \$1,050 from October 1, 2021 to December 31, 2021 to Kindred Partners Inc. ("Kindred") for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada. Further, during the period 2022 to 2024, the Company has committed to a fixed/variable structure whereby the fixed amount will be \$3,600 annually;
- Annual payments of \$300 USD for five years to June 2025 to Natures Crops International for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 products;
- Payment of \$1,000 USD in 2022 to Capsugel Manufacturing, LLC, as part of a multi-year licensing arrangement with Lonza Group Ltd.; and
- Payments of an aggregate of €1,910 from October 1, 2021 to September 30, 2022 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities.

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:

(000's)	Remaining 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Thereafter	Total
Lease obligations	\$ 426	\$ 1,424	\$ 1,208	\$ 723	\$ 582	\$ 9,215	\$ 13,578
Long-term debt obligations	425	11,573	-	147,408	-	-	159,406
Total	\$ 851	\$ 12,997	\$ 1,208	\$ 148,131	\$ 582	\$ 9,215	\$ 172,984

Contingencies

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

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22. Selling, general, and administrative expenses

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
CONTINUING OPERATIONS				
Wages and salaries	\$ 3,994	\$ 5,248	\$ 12,933	\$ 17,976
Office and administrative	3,310	2,784	9,984	8,942
Professional fees	780	308	1,881	2,145
Business development	128	31	160	497
Share-based compensation	55	1,178	1,221	3,877
Selling expenses	3,295	1,375	6,654	3,837
Total	\$ 11,562	\$ 10,924	\$ 32,833	\$ 37,274

23. Interest and accretion expenses

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Interest expense from continuing operations	\$ 3,932	\$ 3,651	\$ 13,320	\$ 9,170
Interest expense from discontinued operations	-	13	10	49
Total interest expense	\$ 3,932	\$ 3,664	\$ 13,330	\$ 9,219
Less non-cash interest on loans payable	(66)	-	(66)	-
Less non-cash interest on Imperial Brands convertible debentures	(1,265)	(772)	(3,702)	(2,356)
Less non-cash accretion expense on convertible debentures	(2,284)	(2,261)	(8,386)	(5,911)
Total cash interest	\$ 317	\$ 631	\$ 1,176	\$ 952

24. Changes in non-cash working capital

The following table reconciles the changes in non-cash working capital during the comparative periods as presented in these interim consolidated financial statements of cash flows.

	Three months ended September 30, 2021	Three months ended June 30, 2020	Nine months ended September 30, 2021	Nine months ended June 30, 2020
CONTINUING OPERATIONS				
Short-term Investments	\$ 146	\$ -	\$ 146	\$ 46
Accounts receivables	(3,883)	(6,112)	(9,592)	(8,494)
Other receivables	(83)	(1,642)	493	7,883
Prepaid expenses	(5,332)	6,038	(8,872)	6,714
Interest payable	(205)	1,423	(183)	3,728
Biological assets (Note 6)	336	614	743	89
Inventory (Note 7)	(2,740)	(10,532)	(10,024)	(16,584)
Accounts payable and accrued liabilities	9,141	11,868	2,339	8,939
Total	\$ (2,620)	\$ 1,657	\$ (24,950)	\$ 2,321

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25. Operating segments

Management has determined the operating and geographic segments. The Executive Leadership Team evaluates and makes decisions on the operating performance by segment. In June 2021, the Company removed its previously reported research options operating segment, as a result of the sale of KGK. Refer to note 27 for more information.

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 Dosecann LD Inc., Kolab Project Inc., Robinson's Cannabis Inc., and Robinson's Outdoor Grow Inc.. In July 2021, Curative Cannabis was sold to a private purchaser. Refer to note 28 for more information.

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

All the Company's revenue is from the Canadian operations. For the Company's geographically segmented non-current assets, the Company has allocated \$1,438 of assets held for sale and \$801 of liabilities held for sale, under the South American cannabis cash-generating unit ("CGU"). As at September 30, 2021, the South American cannabis CGU contained \$1,285 of property, plant and equipment. Refer to note 26 for more information.

26. Assets and liabilities held for sale

As at September 30, 2021, Inverell S.A. was classified as a disposal group held for sale. The following assets and liabilities were reclassified as held for sale in relation to the South American cannabis CGU:

	As at	
	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 3	\$ 3
Other receivables	127	127
Prepaid expenses	23	23
Property, plant and equipment (Note 8)	1,285	1,283
Total assets held for sale	\$ 1,438	\$ 1,436
Accounts payable and accrued liabilities	\$ 798	\$ 797
Lease liability (Note 13)	3	3
Total liabilities held for sale	\$ 801	\$ 800

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27. Sale of KGK Science Inc.

Transaction overview

On June 2, 2021, the Company closed a transaction with KetamineOne Capital Limited (formerly Myconic Capital Corp.) ("KetamineOne") to sell all the issued and outstanding shares of KGK for consideration of up to \$16,500 as follows:

- a. \$12,500 purchase price in the form of:
 - i. \$1,500 in cash payable on the closing date of the transaction;
 - ii. \$1,000 in cash payable six months after the closing date of the transaction; and
 - iii. \$10,000 in common shares of KetamineOne at a price per share of \$1.55 (being 6,451,612 shares) all to be issued on the closing date of the transaction, with equal tranches becoming freely tradeable on the four-, six-, nine- and 12-month anniversaries of the closing date of the transaction;
- b. \$1,500 milestone payment, payable in cash or KetamineOne shares, at the option of KetamineOne, if KGK achieves gross revenues of \$8,000 in any 12-month period during the two years following the closing date of the transaction; and
- c. \$2,500 credit against future KGK services, reflected in a 10-year service agreement between Auxly and KGK.

Financial performance

The results of the discontinued operations are presented below for the following periods:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenue	\$ -	\$ 851	\$ 2,214	\$ 3,445
Cost of sales	-	511	2,109	1,333
Gross profit	\$ -	\$ 340	\$ 105	\$ 2,112
Operating expenses, net of government subsidies	-	542	90	2,487
Gain on disposal, before tax	-	-	12,141	-
Net income/(loss) before tax from discontinued operations	\$ -	\$ (202)	\$ 12,156	\$ (375)
Income tax recovery	-	-	-	-
Net income/(loss) from discontinued operations	\$ -	\$ (202)	\$ 12,156	\$ (375)

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27. Sale of KGK Science Inc. (continued)

Details of the sale of the subsidiary

Consideration received or receivable:	
Cash payable on the closing date of the transaction	\$ 1,500
Cash payable six months after the closing date of the transaction	1,000
6,451,612 shares in Myconic	11,936
Total fair value of consideration received	\$ 14,436
Carrying amount of net assets sold	(2,295)
Gain on sale	\$ 12,141

At the time of the sale, the \$1,500 milestone payment and the \$2,500 credit against future KGK services was not determined to be consideration as the realization of income from the asset is uncertain. The proceeds on sale of the subsidiary are presented in the investing section of the interim condensed consolidated statements of cash flows as \$1,307 during the second quarter of 2021, which represents the cash received on closing of \$1,500, less the cash retained by KGK of \$193.

The carrying amounts of assets and liabilities as at the date of sale were:

	As at June 2, 2021
Cash and cash equivalents	\$ 193
Accounts receivable	725
Research contract costs	2,493
Prepaid expenses	70
Investment	2
Property, plant and equipment, net	435
Goodwill	4,954
Total assets	\$ 8,872
Accounts payable and accruals	\$ (1,517)
Deferred revenue	(4,921)
Lease liability	(139)
Total liabilities	\$ (6,577)
Net assets	\$ 2,295

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28. Sale of 2368523 Ontario Limited (d/b/a Curative Cannabis)

Transaction overview

On July 6, 2021, the Company completed the sale of its interest in 2368523 Ontario Limited (d/b/a Curative Cannabis) to a private purchaser for total proceeds to the Company of \$6,000. The Company acquired substantially all the shares and assets of Curative Cannabis pursuant to a foreclosure order issued on November 27, 2019, of which assets included a cannabis cultivation facility located in Chatham-Kent, Ontario. The facility has remained non-operational since the foreclosure and while exploring all possible options with respect to the use, commercialization and/or sale of the asset the Company determined such asset was not essential to the Company's operations and strategy.

Details of the sale of the subsidiary

Consideration received or receivable:	
Cash payable on the closing date of the transaction	\$ 5,750
Cash deposit	250
Total fair value of consideration received	\$ 6,000
Carrying amount of net assets sold	(4,645)
Gain on sale	\$ 1,355

The proceeds on sale of the subsidiary are presented in the investing section of the interim condensed consolidated statements of cash flows as \$6,000 during the third quarter of 2021.

The carrying amounts of assets and liabilities as at the date of sale were:

	As at July 6, 2021
Other receivables	\$ 6
Property, plant and equipment, net	6,000
Total assets	\$ 6,006
Accounts payable and accruals	\$ (98)
Deferred tax liability	(1,263)
Total liabilities	\$ (1,361)
Net assets	\$ 4,645

29. Subsequent Events

On July 14, 2021, Entourage Health Corp. (previously WeedMD Inc.) ("Entourage") announced that it had entered into a definitive acquisition agreement to acquire all of the issued and outstanding shares of CannTx Life Sciences Inc. ("CannTx") in an all-stock transaction, which acquisition was subsequently completed on November 1, 2021. Upon closing of the acquisition, Entourage issued an aggregate of 57,352,488 Entourage common shares to CannTx shareholders. As a shareholder of CannTx, and in consideration for the termination of its streaming agreement with CannTx, the Company received total consideration of 14,742,479 Entourage shares as a result of the acquisition.