



AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

Dated May 29, 2020

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Financial Position

Expressed in thousands of Canadian Dollars

Unaudited

As at	March 31, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see note 9)</i>
Assets		
Current assets		
Cash and cash equivalents (Note 4)	\$ 21,355	\$ 44,134
Short-term investments	306	306
Accounts receivables	8,684	1,712
Note receivable	-	135
Biological assets (Note 5)	284	230
Inventory (Note 6)	28,661	26,827
Research contract costs	2,211	1,538
Prepaid expenses	3,946	2,957
Deposits (Note 12)	6,306	-
Other receivables	7,416	13,759
	79,169	91,598
Non-current assets		
Property, plant and equipment, net (Note 7)	92,338	85,178
Intangible assets, net (Note 8)	76,467	77,424
Goodwill	28,595	28,595
Long-term investments (Note 10)	11,894	16,239
Investment in joint venture (Note 11)	95,194	96,499
Long-term deposits (Note 12)	6,623	15,649
	311,111	319,584
Total assets	\$ 390,280	\$ 411,182
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 14,290	\$ 20,235
Interest payable	2,465	1,384
Lease liability (Note 13)	1,223	1,243
Convertible debenture (Note 14)	-	2,705
Deferred revenue	5,496	4,332
	23,474	29,899
Non-current liabilities		
Lease liability (Note 13)	4,678	4,893
Convertible debenture (Note 14)	93,125	90,882
Deferred tax liability	21,752	21,752
Other non-current liabilities	974	1,851
	120,529	119,378
Total liabilities	144,003	149,277
Equity		
Share capital (Note 15)	384,431	384,431
Reserves (Note 15)	91,261	89,844
Accumulated other comprehensive loss	(24,316)	(20,718)
Deficit	(202,047)	(189,303)
Total equity attributable to shareholders of the Company	249,329	264,254
Total equity attributable to non-controlling interest	(3,052)	(2,349)
Total equity	246,277	261,905
Total liabilities and equity	\$ 390,280	\$ 411,182

Commitments are found in Note 19

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

The interim condensed consolidated financial statements were approved by the Board of Directors on May 29, 2020 and were signed on its behalf by:

(s) Chuck Rifici

Chuck Rifici

(s) Genevieve Young

Genevieve Young

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

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

Unaudited

For the three-months ended:	March 31, 2020	March 31, 2019
Revenue		
Revenue from sales of cannabis products	\$ 10,467	292
Research contracts and other	901	525
Excise taxes	(1,463)	-
Total net revenue	9,905	817
Costs of sales		
Costs of finished cannabis inventory sold	5,091	148
Research contracts and other	548	282
Impairment on inventory (Notes 5, 6)	1,274	-
Gross profit excluding fair value items	2,992	387
Unrealized fair value loss on biological transformation (Note 5)	(51)	(382)
Realized fair value loss on inventory (Note 6)	(180)	(194)
Gross profit / (loss)	2,761	(189)
Expenses		
Selling, general, and administrative expenses (Note 20)	14,018	10,968
Depreciation and amortization (Notes 7, 8)	2,374	1,038
Interest expense (Note 21)	2,199	3,534
Total expenses	18,591	15,540
Other income / (loss)		
Fair value gain / (loss) for financial instruments accounted under FVTPL (Note 10)	(115)	1,382
Interest income	61	960
Impairment of intangible assets and goodwill	-	(1,800)
Gain on settlement of financial assets and liabilities	1,834	375
Share of loss on investment in joint venture (Note 11)	(785)	(180)
Foreign exchange gain / (loss)	1,644	(71)
Total other income	2,639	666
Net loss before income tax	(13,191)	(15,063)
Income tax recovery	-	1,259
Net loss	\$ (13,191)	\$ (13,804)
Net loss attributable to shareholders of the Company	\$ (12,744)	\$ (13,611)
Net loss attributable to non-controlling interest	\$ (447)	\$ (193)
Other comprehensive loss		
Fair value loss on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 10)	(2,576)	8,128
Currency translation adjustment - subsequently reclassified to profit or loss	(1,278)	(219)
Total comprehensive loss	\$ (17,045)	\$ (5,895)
Total comprehensive loss attributable to shareholders of the Company	\$ (16,342)	\$ (5,690)
Total comprehensive loss attributable to non-controlling interest	\$ (703)	\$ (205)
Net loss per common share		
Basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding		
Basic and diluted	625,242,335	587,246,553

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 three-months ended:		March 31, 2020		March 31, 2019
Operating activities				
Net loss for the period	\$	(13,191)	\$	(13,804)
Items not affecting cash:				
Impairment on inventory (Notes 5, 6)		1,274		-
Realized fair value loss on inventory (Note 6)		180		-
Unrealized fair value loss on biological transformation (Note 5)		51		382
Depreciation and amortization (Notes 7, 8)		2,374		1,038
Share-based compensation (Note 20)		1,417		3,042
Interest expense (Note 21)		1,740		1,984
Share of loss on investment in joint venture (Note 11)		785		180
Fair value gain / (loss) for financial instruments accounted under FVTPL (Note 10)		115		(1,382)
Income tax recovery		-		(1,259)
Impairment of intangible assets and goodwill		-		1,800
Gain on settlement of financial assets and liabilities		691		(375)
Changes in non-cash working capital items:				
Accounts receivable		(6,972)		-
Other receivables		5,923		(1,231)
Prepaid expenses		1,731		1,850
Interest payable		1,081		(1,043)
Biological assets (Note 5)		(105)		(138)
Inventory (Note 6)		(3,294)		(3,617)
Research contract costs		(673)		(539)
Accounts payable and accrued liabilities		(6,787)		(6,012)
Deferred revenue		1,164		990
Cash used in operating activities	\$	(12,496)	\$	(18,134)
Investing activities				
Issuance of notes receivable	\$	-	\$	(5,210)
Proceeds from repayment of promissory notes		-		400
Proceeds from debt obligation receivable in product equivalents		-		9,191
Proceeds from sale of long-term investments (Note 10)		1,633		75
Investment in joint venture		-		(24,600)
Purchase of capital assets (Note 7)		(7,713)		(6,455)
Net cash used for business combinations		-		(1,776)
Cash used in investing activities	\$	(6,080)	\$	(28,375)
Financing activities				
Repayment of convertible debenture (Note 14)		(2,705)		-
Proceeds from warrants exercised		-		336
Repayment on long-term debt		(950)		-
Payment on lease liabilities		(548)		(511)
Cash used in financing activities	\$	(4,203)	\$	(175)
Decrease in cash and cash equivalents	\$	(22,779)	\$	(46,684)
Cash position, beginning of period	\$	44,134	\$	211,707
Cash and cash equivalents, end of period (Note 4)	\$	21,355	\$	165,023

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

	Attributable to the shareholders of the Company									
	Share Capital		Reserves					Accumulated other comprehensive loss	Non-controlling interests	Total equity
	Number of shares	Share capital	Warrants	Contributed surplus	Convertible debenture	Deficit				
Balance December 31, 2019	625,242,335	\$ 384,431	\$ 30,463	\$ 30,231	\$ 29,150	\$ (189,303)	\$ (20,718)	\$ (2,349)	\$ 261,905	
Share-based payments (Note 20)	-	-	-	1,417	-	-	-	-	1,417	
Net loss	-	-	-	-	-	(12,744)	-	(447)	(13,191)	
Changes in fair value of long-term investments	-	-	-	-	-	-	(2,576)	-	(2,576)	
Currency translation adjustment	-	-	-	-	-	-	(1,022)	(256)	(1,278)	
Balance March 31, 2020	625,242,335	\$ 384,431	\$ 30,463	\$ 31,648	\$ 29,150	\$ (202,047)	\$ (24,316)	\$ (3,052)	\$ 246,277	

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

	Attributable to the shareholders of the Company									
	Share Capital			Reserves				Accumulated other comprehensive loss	Non-controlling interests	Total equity
	Number of shares	Share capital	Shares to be issued	Warrants	Contributed surplus	Convertible debenture	Deficit			
Balance December 31, 2018	573,532,247	\$ 350,647	\$ 9,523	\$ 33,618	\$ 17,873	\$ 4,076	\$ (86,729)	\$ (10,873)	\$ 3,017	\$ 321,152
Shares issued for acquisition of Inverell	1,927,343	9,523	(9,523)	-	-	-	-	-	-	-
Shares issued on exercise of warrants	14,387,301	336	-	-	-	-	-	-	-	336
Fair value transfer on exercise of warrants	-	92	-	(92)	-	-	-	-	-	-
Expiry of warrants	-	-	-	(3,063)	3,063	-	-	-	-	-
Shares issued to settle financial liabilities	450,000	387	-	-	-	-	-	-	-	387
Shares issued on conversion of convertible debt	32,258	51	-	-	-	(3)	-	-	-	48
Share-based payments	-	-	-	-	3,042	-	-	-	-	3,042
Net loss	-	-	-	-	-	-	(13,611)	-	(193)	(13,804)
Changes in fair value of long-term investments	-	-	-	-	-	-	-	8,128	-	8,128
Currency translation adjustment	-	-	-	-	-	-	-	(207)	(12)	(219)
Balance March 31, 2019	590,329,149	\$ 361,036	\$ -	\$ 30,463	\$ 23,978	\$ 4,073	\$ (100,340)	\$ (2,952)	\$ 2,812	\$ 319,070

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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Unaudited

1. Nature of operations

Auxly Cannabis Group Inc. (“Auxly”, “we”, “our”, or the “Company”) is a publicly traded company listed on the TSX Venture Exchange under the symbol “XLY”, and was incorporated in British Columbia, Canada. The principal business address is 777 Richmond Street West, Toronto, Ontario.

Description of the Company

Auxly is an international cannabis company dedicated to bringing innovative, effective, and high-quality cannabis products to the medical, wellness and adult-use markets. Auxly's experienced team have secured a diversified supply of raw cannabis, clinical, scientific and operating capabilities and research and development infrastructure in order to create trusted products and brands in an expanding global market.

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, 2019.

Certain comparative figures have been reclassified to conform to the current period's presentation.

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 for the three months ended March 31, 2020 should be read together with the annual consolidated financial statements for the year ended December 31, 2019, 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, 2019. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on May 29, 2020.

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.

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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Unaudited

2. Basis of preparation (continued)

Based on this analysis, the Company has determined that no significant revisions to estimates, judgments or assumptions were required for the Cannabis related operating segments; however, the continuing uncertainty associated with the COVID - 19 pandemic may require changes in future periods. Any such changes to estimates, judgements or assumptions could have a material impact on the Company's financial position and results of operations.

Due to social distancing measures put in place in order to reduce the transmission of COVID-19, KGK has been unable to commence new clinical trials with participants that make up a significant portion of its business, but anticipates being able to do so in the coming months provided that its extensive COVID-19 protocols remain in place. In response KGK has taken temporary measures to reduce staff in order to appropriately scale its operations.

To date, the current conditions related to COVID - 19 has not had a material impact on the Company's business; however, the situation is dynamic and the impact of COVID - 19 on the Company's results of operations and financial condition cannot be reasonably estimated at this time. Management continues to monitor and evaluate the situation and its impact on the Company's business.

3. Significant accounting policies

Subsidiaries

These interim condensed consolidated financial statements are comprised 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 Inc.	100%
KGK Science Inc.	100%
Kolab Project Inc.	100%
Robinson's Cannabis Inc.	100%
Robinson's Outdoor Grow Inc.	100%
2368523 Ontario Ltd. (dba Curative Cannabis)	96%
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 MONTHS ENDED MARCH 31, 2020 AND 2019

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3. Significant accounting policies (continued)

New accounting policies adopted

Amendments to IFRS 3, Business Combinations ("IFRS 3") – Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its interim condensed consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"); and IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Effective January 1, 2020, the Company adopted the amendments to IAS 1 and IAS 8, with no material impact on its interim condensed consolidated financial statements.

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 is currently assessing the impact of these amendment on its consolidated financial statements.

4. Restricted cash

Auxly has provided Union Gas a Letter of Credit in the amount of \$557 on behalf of Sunens Farms Inc. ("Sunens") in order to supply power to the facility in Leamington, Ontario. As at March 31, 2020, Auxly has restricted the cash as collateral in order to facilitate the issuance of the Letter of Credit.

As at December 31, 2019, Auxly had \$3,480 in restricted cash to be used towards the repayment of convertible debentures. On January 17, 2020, \$2,705 was used to repay all maturing convertible debentures, and the remaining cash is no longer restricted.

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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5. Biological assets

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

	Cannabis		Hemp		Total
Balance at December 31, 2019	\$	230	\$	-	230
Changes in fair value less cost to sell due to biological transformation		(51)		-	(51)
Capitalized production costs		437		517	954
Transferred to inventory upon harvest		(332)		-	(332)
Biological Asset Write-off		-		(517)	(517)
Balance at March 31, 2020	\$	284	\$	-	284

Inverell produces the Company's hemp biological asset. The value attributable to hemp cultivation is nominal due to the previously announced regulatory delays causing uncertainty in the timing of sales.

The hemp biological asset write-off is included in the impairment of inventory on the statement of loss and comprehensive loss.

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:

- Selling price per gram;
- Attrition rate;
- Average yield per plant;
- Standard cost per gram to complete production
- Cumulative stage of completion in production process

As at March 31, 2020, the cannabis plants were on average 55% complete through their estimated 14-week growing cycle.

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	\$12.80 dollar	Increase/decrease \$1.00/gram	Increase/decrease \$69
Average yield per plant	72 grams	Increase/decrease 10%	Increase/decrease \$26
Post-harvest cost per gram	\$2.52 dollar/gram	Increase/decrease \$0.50/gram	Decrease/increase \$33

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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Unaudited

6. Inventory

The following is a breakdown of inventory at December 31, 2019:

	Capitalized costs	Fair value transferred from biological assets	Carrying value
Dried cannabis			
Work-in-process	4,437	21	4,458
Finished goods	189	52	241
Dried hemp	-	-	-
Work-in-process	233	-	233
Cannabis oil			
Work-in-process	14,290	-	14,290
Finished goods	1,387	-	1,387
Generation 2 derivative products			
Work-in-process	735	-	735
Finished goods	447	-	447
Merchandise products	54	-	54
Packaging, hardware, consumables and ingredients	4,982	-	4,982
Balance at December 31, 2019	\$ 26,754	\$ 73	\$ 26,827

The following is a breakdown of inventory at March 31, 2020:

	Capitalized costs	Fair value transferred from biological assets	Carrying value
Dried cannabis			
Work-in-process	5,251	(79)	5,172
Finished goods	248	(88)	160
Dried hemp	-	-	-
Work-in-process	3,014	-	3,014
Cannabis oil			
Work-in-process	10,936	-	10,936
Generation 2 derivative products			
Work-in-process	1,097	-	1,097
Finished goods	1,484	-	1,484
Merchandise products	214	-	214
Packaging, hardware, consumables and ingredients	6,584	-	6,584
Balance at March 31, 2020	\$ 28,828	\$ (167)	\$ 28,661

As of March 31, 2020, the Company recognized \$28,661 (December 31, 2019 - \$26,827) of inventory on the interim condensed consolidated statements of financial position, including \$167 (December 31, 2019 - \$73) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest. The Company wrote off \$259 of dried hemp inventory due to the costs capitalized exceeding recoverable amount (December 31, 2019 - \$1,851). The Company also impaired \$498 of cannabis inventory due to costs capitalised exceeding management's estimate of net realizable value of the inventory, including inventory that did not meet the quality control specifications (December 31, 2019 - \$1,393). The impairment loss has been included in the cost of sales in the interim condensed consolidated statement of loss and comprehensive loss.

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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

Unaudited

7. Property, plant and equipment

	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	172	68	970	307	6,186	10	313	8,026
Transfers	(606)	59	829	8,683	(8,948)	(17)	-	-
March 31, 2020	\$ 3,815	\$ 1,399	\$ 12,503	\$ 33,745	\$ 33,713	\$ 5,211	\$ 7,415	\$ 97,801
Accumulated depreciation:								
December 31, 2019	\$ 688	\$ 353	\$ 1,046	\$ 1,404	\$ -	\$ -	\$ 967	\$ 4,458
Depreciation	183	47	256	456	-	-	454	1,396
March 31, 2020	\$ 871	\$ 400	\$ 1,302	\$ 1,860	\$ -	\$ -	\$ 1,421	\$ 5,854
Adjustments								
Currency translation	\$ 17	\$ -	\$ 87	\$ 190	\$ -	\$ 84	\$ 13	\$ 391
Carrying amounts								
March 31, 2020	\$ 2,961	\$ 999	\$ 11,288	\$ 32,075	\$ 33,713	\$ 5,295	\$ 6,007	\$ 92,338

	Computers and Office Furniture	Leasehold Improvement	Equipment	Buildings	Construction in Progress	Land	Right of Use Assets	Total
Cost:								
December 31, 2018	\$ 1,854	\$ 1,013	\$ 2,689	\$ 4,361	\$ 18,823	\$ 675	\$ -	\$ 29,415
Reclassification on transition to IFRS 16	-	-	-	-	-	-	5,148	5,148
Additions from foreclosure	5	-	-	148	16,598	844	-	17,595
Additions	2,507	937	6,876	3,131	20,652	3,699	1,954	39,756
Transfers	-	(3)	2,090	17,342	(19,429)	-	-	-
Dispositions	-	-	-	-	(169)	-	-	(169)
Impairment of long-term assets	(117)	(675)	(951)	(227)	-	-	-	(1,970)
December 31, 2019	\$ 4,249	\$ 1,272	\$ 10,704	\$ 24,755	\$ 36,475	\$ 5,218	\$ 7,102	\$ 89,775
Accumulated depreciation:								
December 31, 2018	\$ 161	\$ 68	\$ 140	\$ 343	\$ -	\$ -	\$ -	\$ 712
Depreciation	538	360	980	1,072	-	-	967	3,917
Impairment of long-term assets	(11)	(75)	(74)	(11)	-	-	-	(171)
December 31, 2019	\$ 688	\$ 353	\$ 1,046	\$ 1,404	\$ -	\$ -	\$ 967	\$ 4,458
Adjustments								
Currency translation	\$ (9)	\$ (19)	\$ (72)	\$ (31)	\$ -	\$ (8)	\$ -	\$ (139)
Carrying amounts								
December 31, 2019	\$ 3,552	\$ 900	\$ 9,586	\$ 23,320	\$ 36,475	\$ 5,210	\$ 6,135	\$ 85,178

AUXLY CANNABIS GROUP INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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Unaudited

8. Intangible assets

	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	-	21
March 31, 2020	\$ 19,783	\$ 27,152	\$ 31,100	\$ 850	\$ 4,512	\$ 83,397
Accumulated amortization:						
December 31, 2019	\$ 3,260	\$ -	\$ -	\$ 55	\$ 2,637	\$ 5,952
Amortization	556	-	-	14	408	978
March 31, 2020	\$ 3,816	\$ -	\$ -	\$ 69	\$ 3,045	\$ 6,930
Carrying amounts						
December 31, 2019	\$ 16,523	\$ 27,152	\$ 31,100	\$ 774	\$ 1,875	\$ 77,424
March 31, 2020	\$ 15,967	\$ 27,152	\$ 31,100	\$ 781	\$ 1,467	\$ 76,467

	Cultivation Interests	Canadian Cultivation Licences	Processing Licences	International Cultivation Licences	Distribution Agreements	Others	Total
Cost:							
December 31, 2018	\$ 11,142	\$ 27,152	\$ 31,100	\$ 14,206	\$ 829	\$ 4,240	\$ 88,669
Additions	1,597	-	-	-	-	1,603	3,200
Dispositions	-	-	-	-	-	(603)	(603)
Reclassification	10,441	-	-	-	-	-	10,441
Impairment	(3,397)	-	-	(14,936)	-	(728)	(19,061)
December 31, 2019	\$ 19,783	\$ 27,152	\$ 31,100	\$ (730)	\$ 829	\$ 4,512	\$ 82,646
Accumulated amortization:							
December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,446	\$ 1,446
Dispositions	-	-	-	-	-	(151)	(151)
Amortization	3,260	-	-	-	55	1,342	4,657
December 31, 2019	\$ 3,260	\$ -	\$ -	\$ -	\$ 55	\$ 2,637	\$ 5,952
Adjustments							
Currency translation	\$ -	\$ -	\$ -	\$ 730	\$ -	\$ -	\$ 730
Carrying amounts							
December 31, 2019	\$ 16,523	\$ 27,152	\$ 31,100	\$ -	\$ 774	\$ 1,875	\$ 77,424

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9. Business combinations

a) Curative Cannabis Inc.

On May 15, 2019, Auxly entered into a Supply Agreement with Curative Cannabis Inc. and was issued 25 common shares of Curative, or 20%, as additional consideration for committing to fund Curative's facility. The Company's construction funding was secured against the 76% share ownership of the Curative shareholders. On November 27, 2019, Auxly foreclosed on the shares of the Curative shareholders and took ownership over 76% of Curative's shares, bringing total ownership up to 96%.

The note and interest receivable prior to the foreclosure was \$18,995. The foreclosure resulted in a loss of \$893 due to the fair value of Curative's net assets being insufficient to cover Auxly's obligation due from the company. The loss was recorded in the consolidated statement of profit and loss. A non-controlling interest was recorded on foreclosure of \$724.

Goodwill of \$4,457 arose due to the recognition of a deferred tax liability on the date of the acquisition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The purchase price allocation for Curative was finalized during the period ended March 31, 2020. All net assets acquired, and consideration paid were included at their respective fair values. The Company has restated the comparative figures in the consolidated statement of financial position for the year ended December 31, 2019 based on the measurement period adjustments. The following table summarize the effects of the change described above on the line items of the consolidated statement of financial position for the year ended December 31, 2019:

As at December 31, 2019	As previously reported	Adjustment	As restated
Goodwill	29,005	(410)	28,595
Deferred tax liability	22,162	(410)	21,752

The purchase price allocations of business combinations that were preliminary as at December 31, 2019 have been included in the table below:

	2019
	Curative Cannabis (restated)
Cash and cash equivalents	\$ 616
Other receivables	693
Prepaid expenses	9
Property, plant and equipment	17,595
Goodwill	4,457
Accounts payable and accrued liabilities	(811)
Deferred tax liabilities	(4,457)
Non-controlling interests	(724)
Net assets acquired	\$ 17,378
Loan settled through foreclosure	\$ 13,757
Value of existing investments in acquisition	3,621
	\$ 17,378
Consideration paid in cash	\$ -
Less: Cash and cash equivalents acquired	616
Net cash (outflow) / inflow	\$ 616

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10. Long-term investments

Entity	Instrument	Classification	Balance at December 31, 2019	FV Change	Disposals	Balance at March 31, 2020
VIVO Cannabis	Shares	FVOCI	\$ 205	\$ 84	\$ (179)	\$ 110
CannTx Life Sciences	Shares	FVOCI	523	(311)	-	212
Inner Spirit Holdings	Shares	FVOCI	2,983	(389)	-	2,594
Inner Spirit Holdings	Warrants	FVTPL	55	(34)	(21)	-
Lotus Ventures Inc.	Shares	FVOCI	807	(261)	(362)	184
Lotus Ventures Inc.	Warrants	FVTPL	6	(5)	-	1
Province Brands	Shares	FVOCI	126	(22)	-	104
Cannabis OneFive Inc.	Shares	FVOCI	50	(4)	-	46
Cannabis OneFive Inc.	Warrants	FVTPL	1	(1)	-	-
Delta 9 Cannabis	Shares	FVOCI	4,136	(1,521)	(578)	2,037
FSD Pharma	Shares	FVOCI	266	248	(514)	-
Good Leaf	Shares	FVOCI	225	(52)	-	173
Good Leaf	Warrants	FVTPL	112	(39)	-	73
Ascent Industries Corp.	Shares	FVOCI	348	(348)	-	-
Inner Spirit Holdings	Convertible Debt	FVTPL	1,638	(147)	-	1,491
ICC International Cannabis Corp.	Convertible Debt	FVTPL	4,758	111	-	4,869
Total			\$ 16,239	\$ (2,691)	\$ (1,654)	\$ 11,894

- a) Note that the Inner Spirit Holding warrants were cancelled in favour of an amended commercial rights agreement, resulting in a \$21 disposal within long-term investments and a corresponding \$21 addition in distribution intangible assets. All other disposals were sales of marketable securities for cash.

11. Investment in joint venture

The investment in Sunens joint venture is comprised of:

	Class 1 common shares and Class V special shares	Class B special shares	Convertible promissory notes	Secured promissory notes	Total investment in joint venture
Balance: December 31, 2019	\$ (1,301)	\$ 50,000	\$ -	\$ 47,800	\$ 96,499
Expected credit loss	-	-	-	(556)	(556)
Loan guarantee contribution	36	-	-	-	36
Share of net loss of Sunens	(785)	-	-	-	(785)
Balance: March 31, 2020	\$ (2,050)	\$ 50,000	\$ -	\$ 47,244	\$ 95,194

The Company recorded a \$785 equity loss for the three months ended March 31, 2020 (2019 - \$180). As at March 31, 2020, the material statement of financial position balances of Sunens were cash of \$2,322 (December 31, 2019 - \$nil), receivables of \$3,374 (December 31, 2019 - \$3,644), property, plant and equipment of \$135,918 (December 31, 2019 - \$112,979), trade and other payables of \$17,584 (December 31, 2019 - \$4,151), and third party long-term debt of \$29,777 (December 31, 2019 - \$20,157).

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12. Deposits

	Sponsorship	Capital Assets	Inventory	Other	Total
Balance:					
Non-current portion	6,202	5,743	2,406	1,298	15,649
December 31, 2019	\$ 6,202	\$ 5,743	\$ 2,406	\$ 1,298	\$ 15,649
Balance:					
Current portion	\$ 3,232	\$ -	\$ 2,855	\$ 219	\$ 6,306
Non-current portion	\$ -	\$ 6,103	\$ -	\$ 520	\$ 6,623
March 31, 2020	\$ 3,232	\$ 6,103	\$ 2,855	\$ 739	\$ 12,929

a) Sponsorship deposits

The Company has sponsored the development of a hemp farming co-operative, consisting of six individual hemp licence holders. As at March 31, 2020, the Company had funded \$6,202 by way of a deposit towards the biomass and has received \$2,970 of biomass value that is offset against the original deposit (December 31, 2019 – funded \$6,202 and received \$nil). The Company maintains the right of first refusal to offtake the biomass produced.

b) Capital assets

As at March 31, 2020, the Company has made certain deposits towards the purchase of specialized equipment to be utilized for extraction and product formulation.

c) Inventory

As at March 31, 2020, \$2,337 was deposited towards vape cartridge purchases (December 31, 2019 - \$1,649), \$409 was deposited towards raw material cannabis purchases (December 31, 2019 - \$757), and \$109 (December 31, 2019 - \$nil) was deposited towards packaging.

13. Lease liability

	March 31, 2020
Maturity analysis - contractual undiscounted cash flows	
Less than one year	\$ 1,971
One to five years	\$ 4,744
Total undiscounted lease obligations	\$ 6,715
Current portion	1,223
Non-current portion	4,678
Discounted lease obligations included in the consolidated statement of financial position	\$ 5,901

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14. Convertible debenture

September 25, 2019 Issuance

On September 25, 2019, the Company issued unsecured convertible debentures units in the aggregate amount of \$122,851 to Imperial Brands as part of a collaborative partnership. The debentures bear interest at 4.0% per annum, payable annually and mature within 36 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of \$0.81 per share, at the option of the holder. The debenture was recorded at its fair value of \$88,444, discounted at a market interest rate of 16.0% and is net of debt issue costs.

The accretion expense calculated using the effective interest method for the three months ended March 31, 2020 was \$2,243 (2019 – nil), of which \$930 was capitalized towards the construction of capital assets. The effective interest rate used was 15.8% and the coupon rate on the debt is 4.0%. Interest expense for the three months ended March 31, 2020 was \$1,158 (2019 – nil), of which \$481 (2019 – nil) was capitalized towards the construction of capital assets.

		Convertible debenture
Balance at December 31, 2019	\$	90,882
Accretion expense during the period		2,243
Balance at March 31, 2020	\$	93,125

January 17, 2018 Issuance

		Convertible debenture
Balance at December 31, 2019	\$	2,705
Less: Repayment of convertible debentures		(2,705)
Balance at March 31, 2020	\$	-

15. Share capital

a) Authorized

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

b) Issued and outstanding

At March 31, 2020, there were 638,249,946 issued and outstanding common shares, with 13,007,611 shares held in escrow related to the contingent considerations in acquisitions and investments (March 31, 2019 had 606,672,075 issued and outstanding common shares, 16,342,926 shares held in escrow related to the contingent considerations in acquisitions and investments).

c) Stock options

The Company has a stock award 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 63,824,994 as at March 31, 2020.

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15. Share capital (continued)

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

	2020	2019
Risk-free annual interest rate	1.35%	1.42% - 1.92%
Expected annual dividend yield	0%	0%
Expected annualized volatility	66.32%	87.27% - 94.86%
Expected life of options	5 years	5 - 10 years

The expected annualized volatility was estimated based on the Company's historical stock returns.

During the three months ended March 31, 2020 and 2019, 166,000 and 1,440,000 options were granted, respectively.

The following table summarizes information about stock options outstanding as at March 31, 2020:

	Number of options	Average exercise price (\$)	Average remaining life (years)
Opening Balance, December 31, 2018	41,052,053	0.846	6.50
Options granted	7,980,000	0.959	5.40
Options forfeited	(3,382,500)	1.385	
Closing Balance, December 31, 2019	45,649,553	0.865	6.09
Options granted	166,000	1.000	5.00
Options forfeited	(1,563,334)	1.241	
Closing Balance, March 31, 2020	44,252,219	0.852	5.76

Total options exercisable at March 31, 2020 were 29,329,123 with a remaining average life of 5.76 years.

d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at March 31, 2020:

	Number of warrants	Average exercise price (\$)	Average remaining life (years)
Closing Balance, December 31, 2018	103,735,321	1.539	1.39
Warrants exercised	(14,387,301)	0.023	
Warrants expired	(3,419,500)	1.500	
Closing Balance, December 31, 2019	85,928,520	1.795	0.63
Warrants expired	(34,716,020)	1.796	
Closing Balance, March 31, 2020	51,212,500	1.794	0.76

e) Earnings per share

The calculation of basic and diluted loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted 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 and they would, therefore be antidilutive.

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16. 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:

(000's)	For the three months ended March 31,	
	2020	2019
Short-term benefits	\$ 336	\$ 533
Long-term benefits	467	944
	\$ 803	\$ 1,477

Other related party transactions

Nesta Holding Co. Ltd., a company owned and controlled by the Chairman of the Company's Board of Directors and former Chief Executive Officer, provides travel and accommodation services to the Company on a month to month basis. For the three months ended March 31, 2020, the Company incurred \$8 (2019 - \$10) in general expenses.

17. 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.

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 306	\$ -	\$ -	\$ 306
Public company shares	8,745	-	-	8,745
Company warrants	-	174	-	174
Convertible debenture	-	-	6,396	6,396
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	924	924
As at December 31, 2019	\$ 9,051	\$ 174	\$ 57,320	\$ 66,545

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17. Financial instruments and risk management (continued)

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 306	\$ -	\$ -	\$ 306
Public company shares	4,925	-	-	4,925
Company warrants	-	74	-	74
Convertible debenture	-	-	6,360	6,360
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	535	535
As at March 31, 2020	\$ 5,231	\$ 74	\$ 56,895	\$ 62,200

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 \$39 (\$39).
Investment in ICC International Cannabis Corp.	Monte Carlo Simulation	- volatility: 222.6% - discount rate: 19.8%	- If the volatility was lower (higher) by 10%, the fair value would decrease (increase) by \$6 (\$7). - If the estimated discount rate was lower (higher) by 2%, the fair value would increase (decrease) by \$24 (\$23).

Level 3 Investments

Balance, January 1, 2020	\$ 57,320
Change in unrealized loss - FVTPL	(36)
Change in unrealized gain - FVOCI	(389)
Balance, March 31, 2020	\$ 56,895

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, note and other receivables, long-term investments, debt obligation receivable in product equivalent, accounts payable and accrued liabilities, convertible debenture and long-term loans and interest payable on convertible debt. As at March 31, 2020, the carrying value of cash and cash equivalents is carried at fair value. Notes receivable and accounts payable and accrued liabilities, interest payable on convertible debenture approximate their fair value due to their short-term nature. The carrying value of notes receivable, convertible debentures, and long-term loans approximate their fair value due to their short-term nature and market rates for similar instruments.

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 \$266 before tax. An equal change in the opposite direction would have decreased equity by \$266 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 are 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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17. Financial instruments and risk management (continued)

e) Credit risk

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

Management has mitigated the risk by using tier 1 financial institutions for managing its cash, selling cannabis products through provincial boards for most accounts receivables, and establishing 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 1% increase / (decrease) in the exchange rate would increase / (decrease) net income by \$16 / (\$16).

18. 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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19. Commitments

As at March 31, 2020, Auxly has entered into certain agreements which 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 related to construction 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;
- Funding of \$7,000 to CannTx Life Sciences Inc. related to a phase II expansion of the Facility, subject to the completion of satisfactory due diligence and the parties agreeing to a construction budget and timeline for the phase II expansion;
- Funding of \$6,000 over two years to Kindred Partners Inc. ("Kindred") for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada;
- Annual payments of \$300 USD for five years to Natures Crops International for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 products; and
- Annual contributions of \$100 for four years to OCAD University as part of a strategic and philanthropic collaboration.

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	2020	2021	2022	2023	2024	Thereafter	Total
Lease obligations	\$ 1,407	\$ 4,048	\$ 655	\$ 465	\$ 140	\$ -	\$ 6,715
Long-term debt obligations	4,914	4,914	126,432	-	-	-	136,260
Total	\$ 6,321	\$ 8,962	\$ 127,087	\$ 465	\$ 140	\$ -	\$ 142,975

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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20. Selling, general, and administrative expenses

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

	For the three months ended:	
	March 31, 2020	March 31, 2019
Wages and salaries	\$ 6,487	\$ 4,105
Office and administrative	2,601	1,685
Professional fees	1,446	1,044
Business development	769	1,011
Share-based compensation (Note 15)	1,417	3,042
Selling expenses	1,298	81
Total	\$ 14,018	\$ 10,968

21. Interest and accretion expenses

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

	For the three months ended:	
	March 31, 2020	March 31, 2019
Cash interest expense on lease liabilities	\$ 172	\$ 122
Other interest expense	677	338
Non-cash interest expense	-	1,984
Accretion expense	1,350	1,090
Total	\$ 2,199	\$ 3,534

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22. Operating segments

Management has determined the operating and geographic segments. The Executive Leadership Team evaluates and makes decisions on operating performance by segment. The Company's business activities are conducted through three operating segments as follows:

Canadian Cannabis operations - The Company's Canadian Cannabis operations are dedicated to the cultivation and sale of cannabis and cannabis 2.0 products within Canada, and include subsidiaries Dosecann Inc., Kolab Project Inc., Robinson's Cannabis Inc., Robinson's Outdoor Grow Inc., and Curative Cannabis.

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

Research operations - The Company's Research operations provide research services for customers who are conducting human clinical trials, through KGK Science Inc. in Canada.

Geographic information

All the Company's revenue is from the Canadian operations. For the Company's geographically segmented non-current assets, the Company has allocated them based on the location of assets, as follows:

Long-term assets	March 31, 2020		December 31, 2019	
	Canada	Uruguay	Canada	Uruguay
Long-term deposits	\$ 6,623	\$ -	\$ 15,649	\$ -
Long-term investments	11,894	-	16,239	-
Investment in joint venture	95,194	-	96,499	-
Property, plant, and equipment	85,271	7,067	78,748	6,430
Intangible assets	76,467	-	77,424	-
Goodwill (<i>Restated - see note 9</i>)	28,595	-	28,595	-
Total	\$ 304,044	\$ 7,067	\$ 313,154	\$ 6,430

23. Subsequent events

- a) On April 28, 2020, Auxly entered into an unsecured convertible debenture in the principal amount of up to \$25,000. The full principal will be withdrawn in tranches with each having a maturity date of 24 months from the date of issue and will bear guaranteed interest from the date of issue at 7.5% per annum, payable semi-annually on June 30 and December 31 of each year. In addition, common share purchase warrants of the Company will be issued equal to 55% of the number of common shares into which the convertible debenture is convertible. The conversion price is based on the closing price of the common shares on the TSXV on the trading date immediately prior to the closing date for such tranche. Each warrant will be exercisable to purchase one Common Share for a period of 24 months from the date of issuance at an exercise price equal to 120% of the applicable conversion price.

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23. Subsequent events (continued)

In addition to an initial tranche of \$1.25 million, the Company may request that the investor subscribe for subsequent tranches of convertible debentures at an amount per Convertible Debenture mutually agreeable to the Company and the investor. The initial gross proceeds were \$1,250 at a conversion price of \$0.435 per common share, and the Company issued 1,580,460 warrants expiring April 29, 2022, with an exercise price of \$0.522.

The Company may require the investor, at any point after four months and one day after the date of issuance of a convertible debenture, to convert:

- a) up to 50% of the principal amount of such convertible debenture if for any five consecutive trading days the volume weighted average price (the "VWAP") of the common shares on the TSXV is greater than 112% of the conversion Price; or
- b) up to 100% of the principal amount of such convertible debenture if for any five consecutive trading days the VWAP of the common shares on the TSXV is greater than 120% of the conversion price; and/or
- c) 100% of the principal amount of such convertible debenture at any time by paying a mutually agreeable make-whole payment to the investor, plus in each case interest on the principal amount of such convertible debenture.

In connection with the completion of the initial tranche, the Company has agreed to indemnify (the "Indemnity") certain of its directors and officers for any and all losses not otherwise recoverable from the collateral provided by the investor for the common shares provided by such directors and officers to the investor pursuant to the terms of the Agreement. The indemnity has been approved by the independent directors of the Company.

- b) On May 21, 2020, the Company issued an additional \$2,000 of convertible debentures with a conversion price of \$0.425 per common share and a maturity of May 21, 2022. In addition, the Company issued 2,588,235 warrants to acquire common shares until May 21, 2022 at an exercise price of \$0.51 per common share. The Company has agreed to an Indemnity in connection with this second tranche.