AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

Dated November 27, 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		**September 30, 2020**		December 31, 2019 *Restated **
Assets				
Current assets				
Cash and cash equivalents (Note 4)	**$**	**13,573**	$	44,134
Short-term investments		**261**		306
Accounts receivables		**10,362**		1,712
Note receivable		**-**		135
Biological assets (Note 5)		**588**		230
Inventory (Note 6)		**41,328**		26,827
Research contract costs		**2,674**		1,538
Prepaid expenses		**1,405**		2,957
Deposits (Note 12)		**7,970**		-
Other receivables		**4,628**		13,759
Assets held for sale (Note 25)		**723**		-
		83,512		91,598
Non-current assets				
Property, plant and equipment, net (Note 7)		**97,102**		85,178
Intangible assets, net (Note 8)		**74,738**		77,424
Goodwill (Note 8)		**28,595**		28,595
Long-term investments (Note 10)		**3,121**		16,239
Investment in joint venture (Note 11)		**92,711**		96,499
Long-term deposits (Note 12)		**1,819**		15,649
		298,086		319,584
Total assets	**$**	**381,598**	$	411,182
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**29,042**	$	20,235
Interest payable		**5,112**		1,384
Lease liability (Note 13)		**2,362**		1,243
Convertible debenture (Note 14)		**-**		2,705
Short-term debt (Note 15)		**3,747**		-
Deferred revenue		**5,476**		4,332
Liabilities held for sale (Note 25)		**219**		-
		45,958		29,899
Non-current liabilities				
Lease liability (Note 13)		**1,196**		4,893
Convertible debenture (Note 14)		**107,604**		90,882
Deferred tax liability		**21,487**		21,752
Other non-current liabilities		**1,007**		1,851
		131,294		119,378
Total liabilities		**177,252**		149,277
Equity				
Share capital (Note 16)		**384,602**		384,431
Reserves (Note 16)		**94,755**		89,844
Accumulated other comprehensive loss		**(23,005)**		(20,718)
Deficit		**(247,763)**		(189,303)
Total equity attributable to shareholders of the Company		**208,589**		264,254
Total equity attributable to non-controlling interest		**(4,243)**		(2,349)
Total equity		**204,346**		261,905
Total liabilities and equity	**$**	**381,598**	$	411,182

* Restated Measurement Period Adjustment (Note 9)
Going Concern (Note 2); Commitments and Contingencies (Note 20)

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 27, 2020 and were signed on its behalf by:

(s) Genevieve Young
Genevieve Young

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

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

	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Revenue				
Revenue from sales of cannabis products	$ **15,243**	115	$ **34,030**	851
Research contracts and other	**862**	1,502	**3,526**	4,345
Excise taxes	**(2,656)**	-	**(5,638)**	-
Total net revenue	**13,449**	1,617	**31,918**	5,196
Costs of sales				
Costs of finished cannabis inventory sold	**9,536**	59	**19,656**	435
Research contracts and other	**511**	1,453	**1,333**	3,825
Inventory (gain)/impairment (Notes 5, 6)	**(312)**	1,074	**1,630**	1,074
Gross profit excluding fair value items	**3,714**	(969)	**9,299**	(138)
Unrealized fair value gain/ (loss) on biological transformation (Note 5)	**172**	(135)	**322**	(672)
Realized fair value gain/(loss) on inventory (Note 6)	**2**	(48)	**(193)**	(243)
Gross profit / (loss)	**3,888**	(1,152)	**9,428**	(1,053)
Expenses				
Selling, general, and administrative expenses (Note 21)	**11,363**	16,594	**39,019**	38,887
Depreciation and amortization (Notes 7, 8)	**2,310**	1,527	**7,123**	4,002
Interest expense (Note 22)	**3,664**	2,520	**9,219**	7,951
Total expenses	**17,337**	20,641	**55,361**	50,840
Other income / (loss)				
Fair value loss for financial instruments accounted under FVTPL (Note 10)	**(34)**	(5,778)	**(4,670)**	(6,208)
Interest income	**381**	858	**787**	3,837
Gain/(impairment) of long-term assets (Note 7)	**144**	-	**(4,362)**	-
Impairment of intangible assets and goodwill	**-**	-	**-**	(1,800)
Loss on settlement of assets and liabilities and other expenses	**(3,309)**	(1,413)	**(3,862)**	(1,288)
Share of loss on investment in joint venture (Note 11)	**(1,214)**	(838)	**(2,995)**	(1,390)
Foreign exchange (loss)/ gain	**(466)**	(75)	**122**	(1,015)
Total other losses	**(4,498)**	(7,246)	**(14,980)**	(7,864)
Net loss before income tax	**(17,947)**	(29,039)	**(60,913)**	(59,757)
Income tax recovery	**90**	11,524	**657**	14,247
Net loss	$ **(17,857)**	$ (17,515)	$ **(60,256)**	$ (45,510)
Net loss attributable to shareholders of the Company	$ **(17,799)**	$ (17,255)	$ **(58,460)**	$ (44,853)
Net loss attributable to non-controlling interest	$ **(58)**	$ (260)	$ **(1,796)**	$ (657)
Other comprehensive loss				
Fair value loss on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 10)	**(1,194)**	(4,935)	**(1,896)**	(6,343)
Currency translation adjustment - subsequently reclassified to profit or loss	**114**	(111)	**(489)**	(480)
Total comprehensive loss	$ **(18,937)**	$ (22,561)	$ **(62,641)**	$ (52,333)
Total comprehensive loss attributable to shareholders of the Company	$ **(18,902)**	$ (22,278)	$ **(60,747)**	$ (51,561)
Total comprehensive loss attributable to non-controlling interest	$ **(35)**	(283)	$ **(1,894)**	(772)
Net loss per common share				
Basic and diluted	$ **(0.03)**	$ (0.03)	$ **(0.09)**	$ (0.08)
Weighted average number of shares outstanding				
Basic and diluted	**631,949,685**	594,591,824	**628,341,762**	590,718,186

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

Interim Condensed Consolidated Statements of Cash Flows

Expressed in thousands of Canadian Dollars
Unaudited

	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Operating activities				
Net loss for the period	**$ (17,857)**	$ (17,515)	**$ (60,256)**	$ (45,510)
Items not affecting cash:				
Inventory (gain)/impairment (Notes 5, 6)	**(312)**	1,074	**1,630**	1,074
Realized fair value gain/(loss) on inventory (Note 6)	**(2)**	48	**193**	243
Unrealized fair value gain/ (loss) on biological transformation (Note 5)	**(172)**	135	**(322)**	672
Depreciation and amortization (Notes 7, 8)	**2,310**	1,527	**7,123**	4,002
Share-based compensation (Note 21)	**1,178**	5,433	**3,877**	11,147
Interest income	**-**	-	**-**	(1,295)
Interest expense (Note 22)	**2,262**	(200)	**5,911**	4,485
Share of loss on investment in joint venture (Note 11)	**1,214**	838	**2,995**	1,390
Fair value loss for financial instruments accounted under FVTPL (Note 10)	**34**	5,778	**4,670**	6,208
Income tax recovery	**(90)**	(11,524)	**(657)**	(14,247)
Impairment of long-term assets (Note 7)	**(144)**	-	**4,362**	-
Impairment of intangible assets and goodwill	**-**	-	**-**	1,800
Loss on settlement of assets and liabilities and other expenses	**3,262**	258	**2,434**	133
Cash used in operating activities before net working capital adjustments	**(8,317)**	(14,148)	**(28,041)**	(29,898)
Net change in non-cash working capital (Note 23)	**1,655**	907	**2,385**	(23,212)
Cash used in operating activities	**$ (6,662)**	$ (13,241)	**$ (25,656)**	$ (53,110)
Investing activities				
Issuance of notes receivable	**$ -**	$ (1,812)	**$ -**	$ (14,186)
Proceeds from repayment of promissory notes	**-**	-	**-**	400
Long-term deposits	**-**	(7,955)	**-**	(7,955)
Proceeds from debt obligation receivable in product equivalents	**-**	-	**-**	9,514
Investment in long-term investments	**-**	-	**-**	(1,500)
Proceeds from sale of long-term investments (Note 10)	**2,294**	1,122	**6,015**	2,742
Proceeds from short-term investments	**-**	-	**-**	3,000
Investment in joint venture	**-**	(18,990)	**-**	(60,453)
Purchase of capital assets (Note 7)	**(7,181)**	(12,176)	**(19,380)**	(23,421)
Cash used in investing activities	**$ (4,887)**	**$ (39,811)**	**$ (13,365)**	$ (91,859)
Financing activities				
Net proceeds from convertible debenture (Note 14)	**$ 2,016**	120,961	**$ 10,664**	120,961
Repayment of convertible debenture (Note 14)	**-**	-	**(2,705)**	(140)
Proceeds from warrants exercised	**-**	-	**-**	336
Proceeds from options exercised (Note 16)	**-**	-	**117**	-
Proceeds from short-term borrowings	**3,747**	-	**3,747**	-
Repayment on long-term debt	**-**	-	**(950)**	-
Payment on lease liabilities	**(1,365)**	(510)	**(2,413)**	(1,369)
Cash provided by financing activities	**$ 4,398**	$ 120,451	**$ 8,460**	$ 119,788
Increase (decrease) in cash and cash equivalents	**$ (7,151)**	$ 67,399	**$ (30,561)**	$ (25,181)
Cash position, beginning of period	**$ 20,724**	$ 119,127	**$ 44,134**	$ 211,707
Cash and cash equivalents, end of period (Note 4)	**$ 13,573**	$ 186,526	**$ 13,573**	$ 186,526

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

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

	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Share capital				
Balance - beginning of period	**$ 384,602**	$ 361,036	**$ 384,431**	$ 350,647
Shares issued on exercise of warrants	**-**	-	**-**	336
Shares issued on exercise of convertible debentures	**-**	-	**-**	51
Shares issued on exercise of options	**-**	-	**117**	-
Shares issued on settlement of liabilities	**-**	-	**-**	387
Shares issued on acquisition of Inverell	**-**	-	**-**	9,523
Shares issued as employee awards	**-**	3,257	**-**	3,257
Fair value transfer on exercise of warrants	**-**	-	**-**	92
Fair value transfer on exercise of options	**-**	-	**54**	-
Share capital - end of period	**384,602**	364,293	**384,602**	364,293
Reserves				
Convertible Debentures				
Balance - beginning of period	**29,645**	4,073	**29,150**	4,076
Equity component of convertible debentures	**107**	25,225	**602**	25,225
Fair value transfer to shares upon conversion	**-**	-	**-**	(3)
Convertible debentures - end of period	**29,752**	29,298	**29,752**	29,298
Warrants				
Balance - beginning of period	**30,863**	30,463	**30,463**	33,618
Equity component of convertible debentures	**85**	-	**485**	-
Expiry of warrants	**-**	-	**-**	(3,063)
Fair value transfer to shares upon conversion	**-**	-	**-**	(92)
Warrants - end of period	**30,948**	30,463	**30,948**	30,463
Contributed surplus				
Balance - beginning of period	**32,876**	26,650	**30,231**	17,873
Expiry of warrants		-	**-**	3,063
Employee share options:				
Share based compensation	**1,178**	2,176	**3,877**	7,890
Fair value transfer of exercise of options	**-**	-	**(54)**	-
Contributed surplus - end of period	**34,054**	28,826	**34,054**	28,826
Reserves - end of period	**94,755**	88,587	**94,755**	88,587
Accumulated other comprehensive loss				
Balance - beginning of period	**(21,902)**	(12,558)	**(20,718)**	(10,873)
Fair value changes in long-term investments	**(1,194)**	(4,935)	**(1,896)**	(6,343)
Currency translation adjustment	**91**	(88)	**(391)**	(365)
Accumulated other comprehensive loss - end of period	**(23,005)**	(17,581)	**(23,005)**	(17,581)
Deficit				
Attributable to the company				
Balance - beginning of period	**(229,964)**	(114,327)	**(189,303)**	(86,729)
Net loss attributable to the company	**(17,799)**	(17,255)	**(58,460)**	(44,853)
Ending deficit attributable to the company	**(247,763)**	(131,582)	**(247,763)**	(131,582)
Attributable to non-controlling interests				
Balance - beginning of period	**(4,208)**	2,528	**(2,349)**	3,017
Net loss attributable to non-controlling interests	**(35)**	(283)	**(1,894)**	(772)
Ending deficit attributable to non-controllable interests	**(4,243)**	2,245	**(4,243)**	2,245
Deficit - end of period	**(252,006)**	(129,337)	**(252,006)**	(129,337)
Shareholders' equity - end of period	**$ 204,346**	$ 305,962	**$ 204,346**	$ 305,962

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

1. Nature of operations

Auxly Cannabis Group Inc. (“Auxly”, “we”, “our”, or the “Company”) is a publicly traded company listed on the TSX Venture Exchange (“TSXV”) 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

Going concern uncertainty

These interim condensed consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations. These interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

On September 30, 2020, the Company had total cash and cash equivalents of $13,573, working capital of $37,554, and cash used in operating activities was $25,656 for the nine months ended September 30, 2020. The Company currently has insufficient cash to fund its operations for the next twelve months. Whether and when the Company can attain profitability and positive cash flows is uncertain. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve-month period following September 30, 2020. To address its financing requirements, the Company will seek financing through debt and equity financings, asset sales, and rights offerings to existing shareholders. The Company will also seek to improve its cash flows by prioritizing certain projects with a greater expected return and reducing operating costs by streamlining its operations and support functions. While the Company has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Company’s ability to raise capital may be adversely impacted by market conditions that have resulted in a lack of normally available financing in the cannabis industry, the Company’s ongoing litigation matters, increased competition across the industry, the industry’s inability to quickly eliminate Canada’s large illicit cannabis market, and overall negative investor sentiment in light of the ongoing COVID-19 pandemic. Accordingly, there can be no assurance that the Company will achieve profitability, or secure financing on terms favourable to the Company or at all.

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

2. Basis of preparation (continued)

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, except as disclosed in note 3.

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 and nine months ended September 30, 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 November 27, 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.

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, judgments 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 Science Inc. ("KGK") was initially unable to commence new clinical trials with participants that make up a significant portion of its business, but has since shifted to a virtual process allowing it to facilitate new clinical trials.

For more information, refer to note 8.

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

3. Significant accounting policies

Subsidiaries

These interim condensed consolidated financial statements are composed 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%
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.

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.

3. Significant accounting policies (continued)

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 September 30, 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.

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

5. Biological assets

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

		Cannabis		Hemp		Total
Balance at December 31, 2019	**$**	**230**	**$**	**-**	**$**	**230**
Changes in fair value less cost to sell due to biological transformation		322		-		322
Capitalized production costs		1,875		788		2,663
Transferred to inventory upon harvest		(1,839)		-		(1,839)
Biological asset write-off		-		(788)		(788)
Balance at September 30, 2020	**$**	**588**	**$**	**-**	**$**	**588**

		Cannabis		Hemp		Total
Balance at December 31, 2018	**$**	**345**	**$**	**1,813**	**$**	**2,158**
Changes in fair value less cost to sell due to biological transformation		(761)		-		(761)
Capitalized production costs		1,494		3,420		4,914
Transferred to inventory upon harvest		(848)		(2,800)		(3,648)
Biological asset write-off		-		(2,383)		(2,383)
Currency translation adjustment		-		(50)		(50)
Balance at December 31, 2019	**$**	**230**	**$**	**-**	**$**	**230**

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 interim condensed consolidated 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:

(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.

As at September 30, 2020, the cannabis plants were on average 37% complete through their estimated 16-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	$8.60 dollar	Increase/decrease $1.00/gram	Increase/decrease $176.2
Average yield per plant	84 grams	Increase/decrease 10%	Increase/decrease $48.2
Post-harvest cost per gram	$3.09 dollar/gram	Increase/decrease $0.5/gram	Decrease/increase $85.3

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

6. Inventory

	Capitalized costs	Fair value transferred from biological assets	Carrying value
Dried cannabis			
Work-in-process	$ 4,338	$ (217)	$ 4,121
Finished goods	644	-	644
Dried hemp			
Work-in-process	4,883	-	4,883
Cannabis oil			
Work-in-process	22,432	-	22,432
Generation 2 derivative products			
Work-in-process	127	-	127
Finished goods	6,274	-	6,274
Merchandise products	203	-	203
Packaging, hardware, consumables and ingredients	2,644	-	2,644
Balance at September 30, 2020	**$ 41,545**	**$ (217)**	**$ 41,328**

	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**

As of September 30, 2020, the Company recognized $41,328 (December 31, 2019 - $26,827) of inventory on the interim condensed consolidated statements of financial position, including $(217) (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 $(125) (2019 - $nil) and $1,168 (2019 - $nil) of dried hemp inventory during the three and nine months ended September 30, 2020, respectively, due to the costs capitalized exceeding the recoverable amount. The Company also impaired $(312) (2019 - $19) and $1,630 (2019 - $213) cannabis inventory during the three and nine months ended September 30, 2020, respectively, due to the costs capitalized exceeding the net realizable value of the inventory. The impairment losses and impairment reversals from prior periods have been included in cost of sales in the interim condensed consolidated statement of loss and comprehensive loss.

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

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	277	68	5,689	305	13,176	11	1,061	**20,587**
Disposals	(31)	(135)	(21)	(30)	-	-	-	**(217)**
Transfers	(606)	25	904	9,220	(9,548)	5	-	**-**
Impairment of long-term assets	(516)	-	(552)	(2,896)	-	-	-	**(3,964)**
September 30, 2020	**$ 3,373**	**$ 1,230**	**$ 16,724**	**$ 31,354**	**$ 40,103**	**$ 5,234**	**$ 8,163**	**$ 106,181**
Accumulated depreciation:								
December 31, 2019	$ 688	$ 353	$ 1,046	$ 1,404	$ -	$ -	$ 967	**$ 4,458**
Depreciation	587	148	1,130	1,356	51	24	1,767	**5,063**
Disposals	(5)	(7)	-	-	-	-	(92)	**(104)**
Transfers	-	-	11	39	(50)	-	-	**-**
Impairment of long-term assets	(150)	-	(175)	(475)	-	-	-	**(800)**
September 30, 2020	**$ 1,120**	**$ 494**	**$ 2,012**	**$ 2,324**	**$ 1**	**$ 24**	**$ 2,642**	**$ 8,617**
Adjustments								
Currency translation	**$ 15**	**$ (19)**	**$ (39)**	**$ 89**	**$ -**	**$ 38**	**$ 6**	**$ 90**
Reclassification to assets held for sale (Note 24)	**$ (15)**	**$ (368)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (169)**	**(552)**
Carrying amounts								
September 30, 2020	**$ 2,253**	**$ 349**	**$ 14,673**	**$ 29,119**	**$ 40,102**	**$ 5,248**	**$ 5,358**	**$ 97,102**

	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**

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

8. Intangible assets and goodwill

	Cultivation interests	Canadian cultivation licences	Processing licences	International cultivation licences	Distribution agreements	Others	Total
Cost:							
December 31, 2019	$ 19,783	$ 27,152	$ 31,100	$ -	$ 829	$ 4,512	**$ 83,376**
Additions	-	-	-	-	21	-	**21**
Disposals	-	-	-	-	-	(2,291)	**(2,291)**
September 30, 2020	**$ 19,783**	**$ 27,152**	**$ 31,100**	**$ -**	**$ 850**	**$ 2,221**	**$ 81,106**
Accumulated amortization:							
December 31, 2019	$ 3,260	$ -	$ -	$ -	$ 55	$ 2,637	**$ 5,952**
Amortization	1,969	-	-	-	49	716	**2,734**
Disposals	-	-	-	-	-	(2,318)	**(2,318)**
September 30, 2020	**$ 5,229**	**$ -**	**$ -**	**$ -**	**$ 104**	**$ 1,035**	**$ 6,368**
Carrying amounts:							
December 31, 2019	**$ 16,523**	**$ 27,152**	**$ 31,100**	**$ -**	**$ 774**	**$ 1,875**	**$ 77,424**
September 30, 2020	**$ 14,554**	**$ 27,152**	**$ 31,100**	**$ -**	**$ 746**	**$ 1,186**	**$ 74,738**

	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**

At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that a cash generating unit ("CGU") is impaired. As part of this assessment, the Company considers external and internal factors, including overall financial performance and relevant entity-specific factors.

Canadian Cannabis CGU

The Company's Canadian Cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis and cannabis 2.0 products within Canada. The Company has determined there were no indicators of impairment of the Cannabis CGU as at September 30, 2020.

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

8. Intangible assets and goodwill (continued)

Research CGU

The Company's Research CGU represents its operations dedicated to providing research services for customers who are conducting human clinical trials. In assessing goodwill and indefinite-life intangible assets for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts.

The recoverable amount of the CGU was based on the value in use, estimated using discounted cash flows. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

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

Pre-tax discount rate	20.0%
Terminal growth rate	2.0%
Earnings growth rate	10.0% to 12.0%

The estimated recoverable amount of the CGU exceeded its carrying amount and as such, there was no impairment recorded as at September 30, 2020.

Sensitivity to changes in assumptions

Management has performed an assessment to determine whether an impairment would have been recognized if there was a change in any of the key assumptions identified above.

An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the terminal growth rate, or a decrease of 50 basis points in the earnings growth rate, each used in isolation to perform the goodwill impairment tests, would not have resulted in an impairment charge being recognized for the nine months ended September 30, 2020.

South American Cannabis CGU

The Company's South American Cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within South America. Management determined that a liquidation approach was most appropriate in determination of the recoverable amount of the CGU due to the curtailing of Inverell's operations.

Management reviewed the carrying amounts of the CGU's assets at the impairment date and wrote them down to the recoverable amount. Management recognized impairments of $3,164 on property, plant and equipment (Note 7), and $1,199 on other assets.

Management will continue to monitor the COVID-19 situation, and closely evaluate the impact on each CGU going forward.

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

9. Business combinations

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 of an additional 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 interim condensed consolidated statement of loss and comprehensive 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

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

10. Long-term investments

Entity	Instrument	Classification	Balance at December 31, 2019	FV Change	Purchases (Sales)	Balance at September 30, 2020
VIVO Cannabis	Shares	FVOCI	$ 205	$ 62	$ (179)	$ 88
CannTx Life Sciences	Shares	FVOCI	523	(332)	-	191
Inner Spirit Holdings	Shares	FVOCI	2,983	(245)	(546)	2,192
Inner Spirit Holdings	Warrants	FVTPL	55	(34)	(21)	-
Inner Spirit Holdings	Options	FVTPL	-	11	56	67
Lotus Ventures Inc.	Shares	FVOCI	807	(241)	(566)	-
Lotus Ventures Inc.	Warrants	FVTPL	6	(6)	-	-
Province Brands	Shares	FVOCI	126	(12)	-	114
Cannabis OneFive Inc.	Shares	FVOCI	50	(6)	-	44
Cannabis OneFive Inc.	Warrants	FVTPL	1	(1)	-	-
Delta 9 Cannabis	Shares	FVOCI	4,136	(1,082)	(3,054)	-
FSD Pharma	Shares	FVOCI	266	248	(514)	-
Good Leaf	Shares	FVOCI	225	(7)	-	218
Good Leaf	Warrants	FVTPL	112	28	-	140
Ascent Industries Corp.	Shares	FVOCI	348	(281)	-	67
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**	**$ (6,566)**	**$ (6,552)**	**$ 3,121**

Inner Spirit Holdings

In the nine months ending September 30, 2020, 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. Further, Inner Spirit Holdings issued the Company options to purchase shares during the nine months ended September 30, 2020, valued at $56 when received. Auxly recorded an adjustment of $89 towards Inner Spirit Holdings convertible debentures on receipt of the scheduled June interest payment. In the three and nine months ending September 30, 2020, the Inner Spirit Holding convertible debenture units were sold for net proceeds of $1,728 and a loss on sale of $482 was recorded.

ICC International Cannabis Corp.

On September 17, 2018, the Company subscribed for $5,000 of convertible debentures of ICC International Cannabis Corp ("ICC"). The debentures bear interest at 8% and have a maturity of September 17, 2021 and can be converted into units at the option of the Company, at a price of $0.53 per unit. Each unit consists of one common share of ICC and one common share purchase warrant, exercisable at a price of $1.06 per share for a period of three years. As at September 30, 2020, the fair value of the long-term investment has been revalued to $nil. The loss on revaluation was recorded in the interim condensed consolidated statement of loss and comprehensive loss.

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

11. Investment in joint venture

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. The investment in Sunens joint venture is composed 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	-	-	-	(864)	(864)
Loan guarantee contribution	71	-	-	-	71
Share of net loss of Sunens	(2,995)	-	-	-	(2,995)
Balance: September 30, 2020	**$ (4,225)**	**$ 50,000**	**$ -**	**$ 46,936**	**$ 92,711**

The Company recorded a $2,995 equity loss for the nine months ended September 30, 2020 ($1,214 for the three months ended September 30, 2020) (2019 - $1,390 for the nine months ended and $838 for the three months ended), representing the Company's 51% ownership of the Sunens joint venture. As at September 30, 2020, the material balances within Sunens joint venture's statement of financial position and statements of loss and comprehensive loss are as follows:

	Three months ended September 30, 2020	Nine months ended September 30, 2020
Revenues	-	9
Loss before interest, taxation, depreciation and amortization	(452)	(3,582)
Interest expense	1,451	1,685
Depreciation and amortization	478	606
Net loss and total comprehensive loss	**(2,381)**	**(5,873)**

	As at September 30, 2020	As at December 31, 2019
Current assets	14,242	4,385
Non-current assets	151,895	113,385
Total assets	**166,137**	**117,770**
Current liabilities	1,813	4,151
Non-current liabilities	124,683	68,010
Total liabilities	**126,496**	**72,161**
Net assets	**39,641**	**45,609**

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	$ -	$ 5,765	$ 1,889	$ 316	**$ 7,970**
Non-current portion	-	76	6	1,737	**1,819**
September 30, 2020	**$ -**	**$ 5,841**	**$ 1,895**	**$ 2,053**	**$ 9,789**

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

13. Lease liability

	As at September 30, 2020	As at December 31, 2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	$ 2,542	$ 1,959
One to five years	1,405	5,308
Total undiscounted lease obligations	**$ 3,947**	**$ 7,267**
Current portion	$ 2,362	$ 1,243
Non-current portion	1,364	4,893
Current portion - reclassification to assets held for sale (Note 24)	(168)	-
Discounted lease obligations included in the consolidated statement of financial position	**$ 3,558**	**$ 6,136**

14. Convertible debenture

Convertible debenture standby financing

On April 28, 2020, Auxly entered into an unsecured convertible debenture in the principal amount of up to $25,000. The full principal can be withdrawn in tranches, subject to certain restrictions that may limit the amount available to the Company. Funding of additional tranches are subject to mutual agreement between the Company and the lender and such funding is not guaranteed.

Each tranche has 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.

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 each 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.

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

14. Convertible debenture (continued)

During the nine months ended September 30, 2020, Auxly closed five tranches of convertible debentures for total net proceeds of $10,664. Details of the five tranches are as follows:

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

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

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

The accretion expense on the convertible debentures was calculated using the effective interest method for the nine months ended September 30, 2020. The following is a continuity of the convertible debenture financing as at September 30, 2020:

		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Balance, December 31, 2019	$	-	-	-	-	-
Face value of debt upon issuance	$	1,250	2,000	3,000	3,000	2,000
Less: allocation to warrants	$	(54)	(87)	(129)	(130)	(85)
Less: allocation to conversion feature	$	(110)	(176)	(266)	(265)	(177)
Less: financing costs	$	(98)	(144)	(126)	(128)	(90)
Fair value of debt on initial recognition	$	988	1,593	2,479	2,477	1,648
Accretion expense during the period	$	47	49	69	58	8
Balance, September 30, 2020	$	**1,035**	**1,642**	**2,548**	**2,535**	**1,656**
Effective interest rate	%	20.37%	17.74%	17.89%	19.12%	18.08%
Coupon rate	%	7.50%	7.50%	7.50%	7.50%	7.50%
Interest expense (nine-months)	$	40	55	71	60	9

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

14. Convertible debenture (continued)

January 17, 2018 Issuance

On January 17, 2018, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of $100,000. Each convertible debenture unit consists of a $1 principal amount of senior unsecured convertible debentures and 322 share purchase warrants. The debentures boar interest at 6% per annum, payable semi-annually and mature within 24 months on January 17, 2020. On October 18, 2019, the Company received approval to amend the conversion price from $1.55 per share to $0.74 per share. Notice was provided to all debenture holders of the right to amend their conversion price and that the Company had the right to prepay holders that consented to the revised conversion price but failed to convert before October 28, 2019. The Company issued 20,352,467 common shares on October 29, 2019 and 1,249,993 common shares on November 6, 2019, for a total of 21,602,460 common shares issued on the conversion of $15,986 principal (discounted book value of $15,826, market value $14,931), repaid debentures with a total principal balance of $79,999 plus accrued interest of $1,893 during the year ended December 31, 2019, and the balance in 2020.

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 and nine months ended September 30, 2020 was $2,595 and $7,306, respectively (2019 – $nil). The effective interest rate used was 15.8% and the coupon rate on the debt is 4.0%. Interest expense for the three and nine months ended September 30, 2020 was $1,171 and $3,621, respectively (2019 – $nil).

		Convertible debenture
Balance, December 31, 2019	**$**	**90,882**
Accretion expense during the period		7,306
Balance, September 30, 2020	**$**	**98,188**

15. Short term debt

On August 12, 2020, 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 recognise the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as short-term debt.

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

16. Share capital

a) Authorized

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

b) Issued and outstanding

At September 30, 2020, there were 642,943,875 issued and outstanding common shares, with 10,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments. At December 31, 2019, the company had 606,672,075 issued and outstanding common shares, 14,329,505 shares held in escrow related to the contingent considerations in acquisitions and investments).

During the nine months ended September 30, 2020, the Company issued 4,693,929 common shares on exercise of stock options and 2,013,421 common shares released from escrow to the previous shareholders of Robinsons on completion of contingent milestones.

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 64,294,387 as at September 30, 2020. During the nine months ended September 30, 2020 and 2019, 4,885,692 and 7,415,000 options were granted, respectively.

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	0.36% - 1.35%	1.53% - 1.92%
Expected annual dividend yield	0%	0%
Expected annualized volatility	66.32% - 84.04%	92.37% - 94.86%
Expected life of options	5 - 10 years	5 - 10 years

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

The following table summarizes information about stock options outstanding as at September 30, 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	4,885,692	0.331	4.86
Options exercised	(4,693,929)	0.025	
Options forfeited	(3,828,559)	1.220	
Closing Balance, September 30, 2020	**42,012,757**	**0.865**	**5.42**

Total options exercisable at September 30, 2020 was 27,429,778, with a remaining average life of 5.33 years.

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16. Share capital (continued)

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 September 30, 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 issued	20,031,747	0.372	1.29
Warrants expired	(75,928,520)	1.824	
Closing Balance, September 30, 2020	**30,031,747**	**0.771**	**1.76**

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.

17. Related party balances and transactions

Key management and director compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, stock options or post-employment benefits. Compensation provided to current and key management are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Short-term benefits	**$ 398**	$ 505	**$ 1,328**	$ 1,571
Long-term benefits	**129**	1,114	**970**	3,071
Total	**$ 527**	$ 1,619	**$ 2,298**	$ 4,642

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 and nine months ended September 30, 2020, the Company incurred $nil and $8, respectively (2019 - $45 for the three months ended and $76 for the nine months ended).

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18. Financial instruments and risk management

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

a) Financial instrument classification and measurement

Financial instruments that are recorded at fair value on the 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	$ 261	$ -	$ -	$ 261
Public company shares	2,349	-	-	2,349
Company options and warrants	-	205	-	205
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	567	567
Balance, September 30, 2020	**$ 2,610**	**$ 205**	**$ 50,567**	**$ 53,382**

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

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 $57 ($57).

Level 3 investments	
Balance, January 1, 2020	$ 57,320
Change in unrealized loss - FVTPL	(4,668)
Change in unrealized loss - FVOCI	(357)
Net proceeds on sale of convertible debentures	(1,728)
Balance, September 30, 2020	**$ 50,567**

18. Financial instruments and risk management (continued)

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivables, note and other receivables, long-term investments, accounts payable and accrued liabilities, short-term debt, and convertible debentures. As at September 30, 2020, the carrying value of cash and cash equivalents is carried 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 notes receivable 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 $190 before tax. An equal change in the opposite direction would have decreased equity by $190 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.

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 and notes receivable.

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.

18. Financial instruments and risk management (continued)

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 $2 / ($2).

19. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure, 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.

20. Commitments and contingencies

Commitments

On December 22, 2017, the Company entered into an agreement with its cultivation partner CannTx Life Sciences Inc. ("CannTx") to fund the construction of its cannabis production facility. The Company had a commitment to pay CannTx another $7,000 related to phase II expansion of the Facility, subject to the completion of satisfactory due diligence by the parties agreeing to a construction budget and timeline for the phase II expansion. On September 25, 2020, Auxly and CannTx amended the agreement to remove Auxly's obligation to fund CannTx's phase II expansion of the facility.

As at September 30, 2020, 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 $4,200 from October 1, 2020 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; and

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- 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.

20. Commitments and contingencies (continued)

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

	2020	2021	2022	2023	2024	Thereafter	Total
Lease obligations	$ 1,379	$ 1,413	$ 587	$ 416	$ 139	$ -	**$ 3,934**
Long-term debt obligations	5,355	5,758	138,107	-	-	-	**149,220**
Total	**$ 6,734**	**$ 7,171**	**$ 138,694**	**$ 416**	**$ 139**	**$ -**	**$ 153,154**

Contingencies

On November 1, 2019, the Company entered into a commercial lease agreement with 346 Spadina Inc. and provided a security deposit of $602. In April 2020, the landlord terminated the lease and commenced a claim against the Company for breach of the lease agreement for an aggregate claim of $21,692. The Company has yet to file its defence; however, it intends to dispute the landlord's claims and termination of the lease. As at September 30, 2020, the Company has recorded a provision of $1,350 relating to this claim.

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.

21. Selling, general, and administrative expenses

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

	For the three months ended:		For the nine months ended:	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Wages and salaries	**$ 5,324**	$ 4,787	**$ 19,340**	$ 13,055
Office and administrative	**2,965**	2,859	**8,473**	6,086
Professional fees	**355**	2,441	**2,340**	5,306
Business development	**166**	1,011	**1,152**	3,082
Share-based compensation (Note 16)	**1,178**	5,433	**3,877**	11,147
Selling expenses	**1,375**	63	**3,837**	211
Total	**$ 11,363**	$ 16,594	**$ 39,019**	$ 38,887

22. Interest and accretion expenses

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

	For the three months ended:		For the nine months ended:	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Cash interest expense on lease liabilities	**$ 133**	$ 146	**$ 468**	$ 342
Other interest expense	**1,271**	149	**2,841**	3,124
Non-cash interest expense	**-**	287	**-**	837
Accretion expense	**2,261**	1,938	**5,910**	3,648
Total	**$ 3,664**	$ 2,520	**$ 9,219**	$ 7,951

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23. Changes in working capital

The following table reconciles the changes in working capital during the comparative periods as presented in these interim condensed consolidated statement of cash flows.

	Three months ended September 30 2020	Three months ended September 30 2019	**Nine months ended September 30 2020**	Nine months ended September 30 2019
Short term investments	**$ -**	$ -	**$ 46**	$ -
Accounts receivable	**(6,111)**	-	**(8,654)**	-
Other receivables	**(1,642)**	(4,424)	**8,020**	(4,607)
Prepaid expenses	**6,112**	6,293	**6,875**	(165)
Interest payable	**1,423**	(1,459)	**3,728**	(1,130)
Biological assets (Note 5)	**614**	(44,728)	**89**	(44,639)
Inventory (Note 6)	**(10,532)**	9,746	**(16,584)**	(3,608)
Research contract costs	**(303)**	(145)	**(1,136)**	111
Accounts payable and accrued liabilities	**11,773**	35,000	**8,858**	30,429
Deferred revenue	**321**	624	**1,144**	397
Total	**$ 1,655**	$ 907	**$ 2,385**	$ (23,212)

24. 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 LD Inc., Kolab Project Inc., Robinson’s Cannabis Inc., Robinson’s Outdoor Grow Inc., and Curative Cannabis.

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

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.

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24. Operating segments (continued)

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:

	September 30, 2020		December 31, 2019	
	Canada	**Uruguay**	**Canada**	**Uruguay**
Long-term deposits	$ 1,819	$ -	$ 15,649	$ -
Long-term investments	3,121	-	16,239	-
Investment in joint venture	92,711	-	96,499	-
Property, plant and equipment	94,135	2,967	78,748	6,430
Intangible assets	74,738	-	77,424	-
Goodwill *(Restated - see Note 9)*	28,595	-	28,595	-
Total	**$ 295,119**	**$ 2,967**	**$ 313,154**	**$ 6,430**

25. Assets and liabilities held for sale

As at September 30, 2020, the assets and liabilities relating to the Company's wholly owned retail store in Lloydminster, Saskatchewan, under the Kolab Project brand, has been classified as "assets held for sale" and "liabilities held for sale", respectively, in the interim condensed consolidated statements of financial position. Subsequent to September 30, the Company completed the disposal (see note 26). The following table summarizes the assets and liabilities that have been reclassified as "assets held for sale" and "liabilities held for sale":

	As at September 30, 2020
Accounts receivable	$ 5
Inventory (Note 6)	166
Property, plant and equipment (Note 7)	552
Total assets held for sale	**$ 723**
Accounts payable and accrued liabilities	$ 51
Lease liability (Note 13)	168
Total liabilities held for sale	**$ 219**

26. Subsequent events

a) On November 6, 2020, the Company completed the disposal of all or substantially all of the assets and liabilities relating to its wholly owned retail store in Lloydminster, Saskatchewan, under the Kolab Project brand. As of September 30, 2020, the assets and liabilities relating to the retail store was classified as "assets held for sale" and "liabilities held for sale", respectively, in the interim condensed consolidated statements of financial position and were derecognized upon disposal on November 6, 2020. The proceeds received for the assets and liabilities were $875, subject to customary adjustments. $750 of the purchase price was satisfied through the issuance of 1,282,270 common shares in the capital stock of the purchaser at a deemed price of $0.5849 per common share. The balance of the purchase price was paid in cash.

26. Subsequent events (continued)

b) On November 24, 2020, the Company entered into an agreement with Mackie Research Capital Corporation that agreed to purchase, on a bought-deal basis, 40,000,000 units of the Company (the "Units") at a price of $0.30 per Unit for gross proceeds to the Company of $12,000,000. Each Unit shall be comprised of one common share of the Company and one-half of one common share purchase warrant of the Company. Each warrant shall entitle the holder to purchase one common share at an exercise price of $0.40 at any time up to 36 months from closing of the offering.

   The Company has granted the underwriter an option to increase the size of the offering by up to an additional number of Units, and/or the components thereof, that in aggregate would be equal to 15% of the total number of Units to be issued under the Offering, exercisable at any time and from time to time up to 30 days following the closing of the Offering.

c) On November 27, 2020, the Company entered into a new long-term lease for its Dosecann facility. Under the terms of the new lease, Dosecann has the option to purchase the real property for the amortized lease amount of $8,000 (plus 4% interest) at any time throughout the 21-year term. Prior to this new lease, Dosecann was in the process of purchasing the real property from the original landlord; however, a new purchaser (and now landlord) agreed to purchase the property and fulfill conditions precedent thereby allowing Dosecann to be refunded $2,000 and to save an additional $6,000 in capital expenditures, thereby effectively providing the Company with $8,000 in proceeds.