



**AUXLY CANNABIS GROUP INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020**

**Dated May 27, 2021**

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 2021	December 31 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	\$ 20,431	\$ 21,214
Short-term investments	286	286
Accounts receivables (Note 5)	8,500	10,684
Biological assets (Note 6)	436	419
Inventory (Note 7)	51,436	43,797
Research contract costs	2,918	2,931
Prepaid expenses	1,696	873
Deposits (Note 12)	10,708	7,444
Other receivables	2,665	2,785
	<b>99,076</b>	<b>90,433</b>
<b>Non-current assets</b>		
Property, plant and equipment, net (Note 8)	94,731	95,354
Intangible assets, net (Note 9)	73,383	74,259
Goodwill (Note 9)	28,595	28,595
Long-term investments (Note 10)	7,636	5,026
Investment in joint venture (Note 11)	82,665	82,079
Long-term deposits (Note 12)	1,749	1,781
	<b>288,759</b>	<b>287,094</b>
Assets held for sale (Note 25)	1,423	1,436
<b>Total assets</b>	<b>\$ 389,258</b>	<b>\$ 378,963</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 21,458	\$ 27,241
Interest payable	7,586	6,563
Lease liability (Note 13)	1,415	1,473
Short-term debt (Note 15)	3,371	3,276
Deferred revenue	5,336	5,659
	<b>39,166</b>	<b>44,212</b>
<b>Non-current liabilities</b>		
Lease liability (Note 13)	9,076	9,410
Convertible debenture (Note 14)	113,499	110,525
Deferred tax liability	21,424	21,463
Other non-current liabilities	1,041	1,024
	<b>145,040</b>	<b>142,422</b>
Liabilities held for sale (Note 25)	790	800
<b>Total liabilities</b>	<b>184,996</b>	<b>187,434</b>
<b>Equity</b>		
Share capital (Note 16)	410,491	394,574
Reserves (Note 16)	102,029	98,047
Accumulated other comprehensive loss	(18,674)	(21,952)
Deficit	(285,223)	(274,729)
Total equity attributable to shareholders of the Company	208,623	195,940
Total equity attributable to non-controlling interest	(4,361)	(4,411)
<b>Total equity</b>	<b>204,262</b>	<b>191,529</b>
<b>Total liabilities and equity</b>	<b>\$ 389,258</b>	<b>\$ 378,963</b>

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 May 27, 2021 and were signed on its behalf by:

(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 2021	March 31 2020
<b>Revenue</b>		
Revenue from sales of cannabis products	\$ 12,152	\$ 10,467
Research contracts and other	842	901
Excise taxes	(2,986)	(1,463)
<b>Total net revenue</b>	<b>10,008</b>	<b>9,905</b>
<b>Costs of sales</b>		
Costs of finished cannabis inventory sold	6,848	5,091
Research contracts and other	850	548
Inventory impairment (Note 7)	230	1,274
<b>Gross profit excluding fair value items</b>	<b>2,080</b>	<b>2,992</b>
Unrealized fair value gain/(loss) on biological transformation (Note 6)	255	(51)
Realized fair value gain/(loss) on inventory	1	(180)
<b>Gross profit / (loss)</b>	<b>2,336</b>	<b>2,761</b>
<b>Expenses</b>		
Selling, general, and administrative expenses (Note 21)	9,388	14,018
Depreciation and amortization (Notes 8, 9)	2,533	2,374
Interest expense (Note 22)	4,608	2,199
<b>Total expenses</b>	<b>16,529</b>	<b>18,591</b>
<b>Other income / (loss)</b>		
Fair value gain/(loss) for financial instruments accounted under FVTPL (Note 10)	116	(115)
Interest and other income	416	61
Gain/(loss) on settlement of assets and liabilities and other expenses	4,069	1,834
Share of loss on investment in joint venture (Note 11)	(459)	(785)
Foreign exchange gain/(loss)	(488)	1,644
<b>Total other incomes / losses</b>	<b>3,654</b>	<b>2,639</b>
<b>Net loss before income tax</b>	<b>(10,539)</b>	<b>(13,191)</b>
Income tax recovery	39	-
<b>Net loss</b>	<b>\$ (10,500)</b>	<b>\$ (13,191)</b>
<b>Net loss attributable to shareholders of the Company</b>	<b>\$ (10,494)</b>	<b>\$ (12,744)</b>
<b>Net loss attributable to non-controlling interest</b>	<b>\$ (6)</b>	<b>\$ (447)</b>
<b>Other comprehensive loss</b>		
Fair value gain/(loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 10)	3,056	(2,576)
Currency translation adjustment - subsequently reclassified to profit or loss	278	(1,278)
<b>Total comprehensive loss</b>	<b>\$ (7,166)</b>	<b>\$ (17,045)</b>
<b>Total comprehensive loss attributable to shareholders of the Company</b>	<b>\$ (7,116)</b>	<b>\$ (16,342)</b>
<b>Total comprehensive loss attributable to non-controlling interest</b>	<b>\$ (50)</b>	<b>\$ (703)</b>
<b>Net loss per common share</b>		
Basic and diluted	\$ (0.01)	\$ (0.02)
<b>Weighted average number of shares outstanding</b>		
Basic and diluted	714,041,130	625,242,335

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 2021	March 31 2020
<b>Operating activities</b>		
<b>Net loss for the period</b>	<b>\$ (10,500)</b>	<b>\$ (13,191)</b>
Items not affecting cash:		
Inventory (gain)/impairment (Note 7)	230	1,274
Realized fair value gain/(loss) on inventory	(1)	180
Unrealized fair value gain/(loss) on biological transformation (Note 6)	(255)	51
Depreciation and amortization (Notes 8, 9)	2,690	2,374
Share-based compensation (Note 21)	206	1,417
Interest expense (Note 22)	2,974	1,740
Interest income (Note 11)	(363)	-
Share of loss on investment in joint venture (Note 11)	459	785
Unrealized foreign exchange loss	222	-
Fair value gain/(loss) for financial instruments accounted under FVTPL (Note 10)	(116)	115
Income tax recovery	(39)	-
Gain/(loss) on settlement of assets and liabilities and other expenses	188	691
<b>Cash used in operating activities before net working capital adjustments</b>	<b>(4,305)</b>	<b>(4,564)</b>
Net change in non-cash working capital (Note 23)	(14,403)	(7,932)
<b>Cash used in operating activities</b>	<b>\$ (18,708)</b>	<b>\$ (12,496)</b>
<b>Investing activities</b>		
Proceeds from sale of long-term investments (Note 10)	637	1,633
Investment in joint venture	(900)	-
Purchase of capital assets (Note 8)	(1,208)	(7,713)
<b>Cash used in investing activities</b>	<b>\$ (1,471)</b>	<b>\$ (6,080)</b>
<b>Financing activities</b>		
Net proceeds from private placement (Note 16)	18,609	-
Repayment of convertible debenture (Note 14)	-	(2,705)
Proceeds from warrants exercised	1,084	-
Proceeds on short-term borrowings	95	-
Repayment on long-term debt	-	(950)
Payment on lease liabilities	(392)	(548)
<b>Cash provided by (used in) financing activities</b>	<b>\$ 19,396</b>	<b>\$ (4,203)</b>
<b>Decrease in cash and cash equivalents</b>	<b>\$ (783)</b>	<b>\$ (22,779)</b>
Cash position, beginning of period	\$ 21,214	\$ 44,134
<b>Cash and cash equivalents, end of period (Note 4)</b>	<b>\$ 20,431</b>	<b>\$ 21,355</b>

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# AUXLY CANNABIS GROUP INC.

## Interim Condensed Consolidated Statements of Changes in Equity

Expressed in thousands of Canadian Dollars

Unaudited

For the three months ended:	March 31, 2021	March 31, 2020
<b>Share capital</b>		
Balance - beginning of period	\$ 394,574	\$ 384,431
Shares issued on exercise of warrants	1,084	-
Shares issued on private placement (Note 16)	14,453	-
Fair value transfer on exercise of warrants	380	-
<b>Share capital - end of period</b>	<b>\$ 410,491</b>	<b>\$ 384,431</b>
<b>Reserves</b>		
<b>Convertible debentures</b>		
Balance - beginning of period	\$ 29,752	\$ 29,150
<b>Convertible debentures - end of period</b>	<b>\$ 29,752</b>	<b>\$ 29,150</b>
<b>Warrants</b>		
Balance - beginning of period	\$ 33,803	\$ 30,463
Warrants issued on private placement (Note 16)	4,156	-
Fair value transfer to shares upon conversion	(380)	-
<b>Warrants - end of period</b>	<b>\$ 37,579</b>	<b>\$ 30,463</b>
<b>Contributed surplus</b>		
Balance - beginning of period	\$ 34,492	\$ 30,231
Employee share options:		
Share based compensation	206	1,417
<b>Contributed surplus - end of period</b>	<b>\$ 34,698</b>	<b>\$ 31,648</b>
<b>Reserves - end of period</b>	<b>\$ 102,029</b>	<b>\$ 91,261</b>
<b>Accumulated other comprehensive loss</b>		
Balance - beginning of period	\$ (21,952)	\$ (20,718)
Fair value changes in long-term investments (Note 10)	3,056	(2,576)
Currency translation adjustment	222	(1,022)
<b>Accumulated other comprehensive loss - end of period</b>	<b>\$ (18,674)</b>	<b>\$ (24,316)</b>
<b>Deficit</b>		
<b>Attributable to the Company</b>		
Balance - beginning of period	\$ (274,729)	\$ (189,303)
Net loss attributable to the Company	(10,494)	(12,744)
Ending deficit attributable to the Company	(285,223)	(202,047)
<b>Attributable to non-controlling interests</b>		
Balance - beginning of period	\$ (4,411)	\$ (2,349)
Currency translation adjustment	56	(256)
Net loss attributable to non-controlling interests	(6)	(447)
Ending deficit attributable to non-controllable interests	(4,361)	(3,052)
<b>Deficit - end of period</b>	<b>\$ (289,584)</b>	<b>\$ (205,099)</b>
<b>Shareholders' equity - end of period</b>	<b>\$ 204,262</b>	<b>\$ 246,277</b>

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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

### 1. Nature of operations

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

#### Description of the Company

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

### 2. Basis of preparation

#### Statement of compliance

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the three months ended March 31, 2021 should be read together with the annual consolidated financial statements for the year ended December 31, 2020, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.auxly.com](http://www.auxly.com).

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on May 27, 2021.

#### 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

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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of whether indicators of impairment exist for its tangible and intangible assets, including goodwill and the credit risk of its counterparties.

### 2. Basis of preparation (continued)

Due to social distancing measures put in place in order to reduce the transmission of COVID-19, KGK Science Inc. ("KGK") was in the second quarter of 2020 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.

As of March 31, 2021, 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. The Company will continue to closely monitor the impact of the COVID-19 pandemic, including any such changes to estimates, judgments or assumptions that could have a material impact on the Company's financial position and results of operations.

### 3. Significant accounting policies

#### Subsidiaries

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

<b>Subsidiaries</b>	<b>Equity interests</b>
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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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### 3. Significant accounting policies (continued)

#### Future changes in accounting policies

*Amendments to IAS 1: Presentation of financial statements: classification of liabilities as current or non - current*

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non - current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and is currently assessing the impact of these amendments on its consolidated financial statements.

*Amendments to IFRS 9*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

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

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

### 4. Restricted cash

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



# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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### 5. Accounts receivables

Accounts receivables for cannabis sales are paid by most provinces in less than 60 days, with some provinces paying 60 - 70 days from receipt of goods. Research contract accounts receivables can extend beyond 90 days; however, have a historically high collection rate.

	As at		As at	
	March 31, 2021		December 31, 2020	
Less than 30 days past billing date	\$	5,841	\$	5,784
31 to 60 days past billing date		1,925		3,885
61 to 90 days past billing date		351		1,033
Over 90 days past billing date		1,257		427
	<b>\$</b>	<b>9,374</b>	<b>\$</b>	<b>11,129</b>
Sales provision		(874)		(445)
	<b>\$</b>	<b>8,500</b>	<b>\$</b>	<b>10,684</b>

### 6. Biological assets

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

	Cannabis		Hemp		Total	
<b>Balance as at December 31, 2020</b>	<b>\$</b>	<b>419</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>419</b>
Changes in fair value less cost to sell due to biological transformation		255		-		255
Capitalized production costs		427		-		427
Transferred to inventory upon harvest		(665)		-		(665)
<b>Balance as at March 31, 2021</b>	<b>\$</b>	<b>436</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>436</b>
	Cannabis		Hemp		Total	
<b>Balance as at December 31, 2019</b>	<b>\$</b>	<b>230</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>230</b>
Changes in fair value less cost to sell due to biological transformation		537		-		537
Capitalized production costs		2,225		777		3,002
Transferred to inventory upon harvest		(2,573)		-		(2,573)
Biological asset write-off		-		(777)		(777)
<b>Balance as at December 31, 2020</b>	<b>\$</b>	<b>419</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>419</b>

As at March 31, 2021, the Company's cannabis plants were on average 55% complete through their estimated 14-week growing cycle.

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

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

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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

Unaudited

### 6. Biological assets (continued)

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

Significant inputs and assumptions	Inputs	Sensitivity	Effect on biological asset balance
Selling price per gram	\$8.60/gram	Increase / (decrease) \$1.00/gram	Increase / (decrease) \$115
Average yield per plant	69 grams	Increase / (decrease) 10%	Increase / (decrease) \$70.7
Post-harvest cost per gram	\$1.76/gram	Increase / (decrease) \$0.5/gram	Increase / (decrease) \$52.5

### 7. Inventory

The following is a breakdown of inventory:

	As at March 31, 2021	As at December 31, 2020
Dried cannabis		
Work-in-process	\$ 6,814	\$ 3,722
Finished goods	1,303	428
Dried hemp		
Work-in-process	5,529	6,367
Cannabis oil		
Work-in-process	14,248	14,060
Generation 2 derivative products		
Work-in-process	605	1,311
Finished goods	8,023	6,703
Merchandise products	28	28
Packaging, hardware, consumables and ingredients	14,886	11,178
<b>Total</b>	<b>\$ 51,436</b>	<b>\$ 43,797</b>

As at March 31, 2021, the Company recognized \$51,436 (December 31, 2020 - \$43,797) of inventory on the interim condensed consolidated statements of financial position, including \$99 (December 31, 2020 - \$186) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest.

In the three months ended March 31, 2021, the Company recognized a loss of \$230 (2020 – \$1,274) on cannabis inventory due to the costs capitalised exceeding the net realizable value of the inventory. The impairment loss has been included in cost of goods sold in the interim condensed consolidated statements of loss and comprehensive loss.

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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

Unaudited

### 8. Property, plant and equipment

	Computers and office furniture	Leasehold improvement	Equipment	Buildings	Construction- in-progress	Land	Right of use assets	Total
<b>Cost:</b>								
<b>December 31, 2020</b>	\$ 3,162	\$ 30,088	\$ 17,653	\$ 25,663	\$ 16,005	\$ 4,809	\$ 8,820	\$ 106,200
Additions	59	16	971	162	-	-	-	1,208
Disposals	(4)	-	(34)	-	-	-	-	(38)
Transfers	-	-	-	18	(18)	-	-	-
<b>March 31, 2021</b>	\$ 3,217	\$ 30,104	\$ 18,590	\$ 25,843	\$ 15,987	\$ 4,809	\$ 8,820	\$ 107,370
<b>Accumulated depreciation:</b>								
<b>December 31, 2020</b>	\$ 1,198	\$ 791	\$ 2,392	\$ 2,148	\$ -	\$ 25	\$ 3,013	\$ 9,567
Depreciation	181	372	513	327	-	1	420	1,814
Disposals	(2)	-	(8)	-	-	-	-	(10)
Transfers	-	-	-	-	-	-	-	-
<b>March 31, 2021</b>	\$ 1,377	\$ 1,163	\$ 2,897	\$ 2,475	\$ -	\$ 26	\$ 3,433	\$ 11,371
<b>Adjustments</b>								
Currency translation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 2
Reclassification to assets held for sale (Note 25)	\$ (1)	\$ -	\$ -	\$ -	\$ -	\$ (1,264)	\$ (5)	\$ (1,270)
<b>Carrying amounts</b>								
<b>March 31, 2021</b>	\$ 1,839	\$ 28,941	\$ 15,693	\$ 23,368	\$ 15,987	\$ 3,519	\$ 5,384	\$ 94,731

  

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

# AUXLY CANNABIS GROUP INC.

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### 9. Intangible assets and goodwill

#### *Intangible Assets*

	Cultivation interests	Canadian cultivation licences	Processing licences	International cultivation licences	Distribution agreements	Others	Total
<b>Cost:</b>							
December 31, 2020	\$ 19,783	\$ 27,152	\$ 31,100	\$ -	\$ 850	\$ 2,619	\$ 81,504
Additions	-	-	-	-	-	-	-
March 31, 2021	\$ 19,783	\$ 27,152	\$ 31,100	\$ -	\$ 850	\$ 2,619	\$ 81,504
<b>Accumulated amortization:</b>							
December 31, 2020	\$ 5,886	\$ -	\$ -	\$ -	\$ 119	\$ 1,240	\$ 7,245
Amortization	656	-	-	-	15	205	876
March 31, 2021	\$ 6,542	\$ -	\$ -	\$ -	\$ 134	\$ 1,445	\$ 8,121
<b>Carrying amounts:</b>							
March 31, 2021	\$ 13,241	\$ 27,152	\$ 31,100	\$ -	\$ 716	\$ 1,174	\$ 73,383

	Cultivation interests	Canadian cultivation licences	Processing licences	International cultivation licences	Distribution agreements	Others	Total
<b>Cost:</b>							
December 31, 2019	\$ 19,783	\$ 27,152	\$ 31,100	\$ -	\$ 829	\$ 4,512	\$ 83,376
Additions	-	-	-	-	21	398	419
Disposals	-	-	-	-	-	(2,291)	(2,291)
December 31, 2020	\$ 19,783	\$ 27,152	\$ 31,100	\$ -	\$ 850	\$ 2,619	\$ 81,504
<b>Accumulated amortization:</b>							
December 31, 2019	\$ 3,260	\$ -	\$ -	\$ -	\$ 55	\$ 2,637	\$ 5,952
Amortization	2,626	-	-	-	64	921	3,611
Disposals	-	-	-	-	-	(2,318)	(2,318)
December 31, 2020	\$ 5,886	\$ -	\$ -	\$ -	\$ 119	\$ 1,240	\$ 7,245
<b>Carrying amounts:</b>							
December 31, 2020	\$ 13,897	\$ 27,152	\$ 31,100	\$ -	\$ 731	\$ 1,379	\$ 74,259

#### *Goodwill*

Balance, December 31, 2020	\$ 28,595
Impairment of goodwill	-
<b>Balance, March 31, 2021</b>	<b>\$ 28,595</b>

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### 10. Long-term investments

Entity	Instrument	Classification	Balance at December 31, 2020	FV Change	Purchases (Sales)	Balance at March 31, 2021
VIVO Cannabis	Shares	FVOCI	\$ 65	\$ 20	\$ -	\$ 85
CannTx Life Sciences	Shares	FVOCI	199	349	-	548
Inner Spirit Holdings	Shares	FVOCI	2,791	2,493	-	5,284
Inner Spirit Holdings	Options	FVTPL	93	117	-	210
Province Brands	Shares	FVOCI	153	99	-	252
Cannabis OneFive Inc.	Shares	FVOCI	109	-	-	109
Cannabis OneFive Inc.	Warrants	FVTPL	0	-	-	0
Delta 9 Cannabis	Shares	FVOCI	654	(5)	(562)	87
Good Leaf	Shares	FVOCI	535	-	-	535
Good Leaf	Warrants	FVTPL	376	(1)	-	375
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	51	100	-	151
<b>Total</b>			<b>\$ 5,026</b>	<b>\$ 3,172</b>	<b>\$ (562)</b>	<b>\$ 7,636</b>

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

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### 11. Investment in joint venture

	Class 1 common shares and Class V special shares	Class B special shares	Secured promissory notes	Total investment in joint venture
<b>Balance as at January 1, 2020</b>	\$ (1,301)	\$ 50,000	\$ 47,800	\$ 96,499
Expected credit loss	-	-	(993)	(993)
Loan guarantee contribution	86	-	-	86
Redemption of Class V special shares	1,004	-	-	1,004
Loss on debt modification	-	-	(8,668)	(8,668)
Accretion on promissory notes	-	-	769	769
Realization of interest income	-	-	789	789
Share of net loss of Sunens	(7,407)	-	-	(7,407)
<b>Balance as at December 31, 2020</b>	\$ (7,618)	\$ 50,000	\$ 39,697	\$ 82,079
Expected credit loss	-	-	(26)	(26)
Loan guarantee contribution	17	-	-	17
Investment in secured promissory notes	-	-	900	900
Loss on debt modification	-	-	(507)	(507)
Accretion on promissory notes	-	-	298	298
Realization of interest income	-	-	363	363
Share of net loss of Sunens	(459)	-	-	(459)
<b>Balance as at March 31, 2021</b>	\$ (8,060)	\$ 50,000	\$ 40,725	\$ 82,665

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

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

On April 16, 2021, Sunens received a notice of default from the lending syndicate led by BMO. Please refer to Note 26 – “Subsequent Events” for additional details.

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### 11. Investment in joint venture (continued)

The Company recorded a \$459 equity loss for the three months ended March 31, 2021 (2020 - \$785). The joint venture's statements of financial position and statements of loss and comprehensive loss are as follows:

	Three months ended March 31, 2021		Three months ended March 31, 2020	
Revenues		376		3
Loss before interest, taxation, depreciation and amortization	\$	(843)	\$	(1,359)
Interest expense		(852)		(119)
Depreciation and amortization		(936)		(62)
<b>Net loss and total comprehensive loss</b>	<b>\$</b>	<b>(2,631)</b>	<b>\$</b>	<b>(1,540)</b>

  

	As at March 31, 2021		As at December 31, 2020	
Current assets	\$	12,850	\$	5,771
Non-current assets		146,227		135,918
<b>Total assets</b>	<b>\$</b>	<b>159,077</b>	<b>\$</b>	<b>141,689</b>
Current liabilities	\$	33,420	\$	17,584
Non-current liabilities		97,492		80,036
<b>Total liabilities</b>	<b>\$</b>	<b>130,912</b>	<b>\$</b>	<b>97,620</b>
<b>Net assets</b>	<b>\$</b>	<b>28,165</b>	<b>\$</b>	<b>44,069</b>

### 12. Deposits

	Capital Assets		Inventory		Other		Total
Current portion	\$	6,342	\$	4,282	\$	84	\$ 10,708
Non-current portion		-		-		1,749	1,749
<b>As at March 31, 2021</b>	<b>\$</b>	<b>6,342</b>	<b>\$</b>	<b>4,282</b>	<b>\$</b>	<b>1,833</b>	<b>\$ 12,457</b>

  

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

### 13. Lease liability

As at:	March 31 2021		December 31 2020	
<b>Maturity analysis - contractual undiscounted cash flows</b>				
Less than one year	\$	1,844	\$	1,892
Two years and beyond		12,675		13,098
<b>Total undiscounted lease obligations</b>	<b>\$</b>	<b>14,519</b>	<b>\$</b>	<b>14,990</b>
Current portion	\$	1,418	\$	1,473
Non-current portion		9,076		9,413
Reclassification to liabilities held for sale (Note 25)		(3)		(3)
<b>Discounted lease obligations included in the consolidated statements of financial position</b>	<b>\$</b>	<b>10,491</b>	<b>\$</b>	<b>10,883</b>

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### 14. Convertible debenture

The convertible debentures balance consists of the following:

	As at March 31, 2021	As at December 31, 2020
September 25, 2019 issuance	\$ 103,633	\$ 100,887
Standby financing	9,866	9,638
<b>Total</b>	<b>\$ 113,499</b>	<b>\$ 110,525</b>

#### September 25, 2019 issuance

In September 2019, the Company issued unsecured convertible debentures units in the aggregate amount of \$122,851 to Imperial Brands PLC (“Imperial Brands”) as part of a collaborative partnership. The debentures bear interest at 4.0% per annum, payable annually and 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. As at March 31, 2021, the debenture’s carrying value was \$103,633 (December 31, 2020 - \$100,887).

The accretion expense associated with the debenture for the period ended March 31, 2021 was \$2,746 (2020 – \$2,243). 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, 2021 was \$1,213 (2020 – \$1,158). See Note 26 “Subsequent Events” regarding changes to the convertible debenture terms.

#### Convertible debenture standby financing

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

	As at March 31 2021	As at December 31, 2020
Balance, beginning of period	\$ 9,638	\$ -
Additions:		
Q2	-	7,537
Q3	-	1,648
Accretion expense	228	453
<b>Balance, end of period</b>	<b>\$ 9,866</b>	<b>\$ 9,638</b>

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



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		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Balance, January 1, 2021	\$	1,065	1,678	2,606	2,594	1,695
Accretion expense during the period	\$	31	37	61	60	39
<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>1,096</b>	<b>1,715</b>	<b>2,667</b>	<b>2,654</b>	<b>1,734</b>
Effective interest rate	%	20.37%	17.74%	17.89%	17.95%	18.08%
Coupon rate	%	7.50%	7.50%	7.50%	7.50%	7.50%
Interest expense (three-months)	\$	23	37	55	55	37

### 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 recognize the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as short-term debt. In December 2020, the Company and Trichome mutually agreed to lower the aggregate funding available under the facility to \$6,000.

### 16. Share capital

The share capital of the Company is summarized below:

	March 31 2021	December 31 2020
Number of units		
Issued shares	749,712,690	691,861,024
Escrowed shares	10,994,190	10,994,190
Outstanding shares	738,718,500	680,866,834
Exercisable securities		
Warrants	82,482,321	56,021,747
Convertible Debentures	188,089,377	188,089,377
Options	30,755,875	40,890,608

#### a) Authorized

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

#### b) Issued and outstanding

As at March 31, 2021, there were 749,712,690 issued and outstanding common shares, with 10,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2020 had 691,861,024 issued and outstanding common shares and 10,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

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### 16. Share capital (continued)

In February 2021, the Company closed a prospectus offering and distributed a total of 54,395,000 units for gross proceeds of \$20,100. Each unit consists of one share and one-half of one warrant, with each warrant entitling the holder to purchase one additional share at \$0.46 until February 2024. The Company recorded \$14,453 for the issuance of shares and \$4,156 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of \$18,609. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price - \$0.335, Annualized volatility – 90.18%; Risk-free interest rate – 0.50%; Dividend yield – 0%; and Expected life – 3 years.

In the three months ended March 31, 2021, 3,456,666 warrants with a strike price between \$0.30 and \$0.40 per unit were exercised, resulting in the issuance of the equivalent number of common shares.

#### c) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at March 31, 2021:

	Number of warrants	Average exercise price (\$)	Average remaining life (years)
<b>Opening Balance, January 1, 2020</b>	<b>85,928,520</b>	<b>1.795</b>	<b>0.63</b>
Warrants issued	46,021,747	0.381	2.33
Warrants expired	(75,928,520)	1.824	
<b>Closing Balance, December 31, 2020</b>	<b>56,021,747</b>	<b>0.593</b>	<b>2.35</b>
Warrants issued	29,917,240	0.452	2.86
Warrants exercised	(3,456,666)	0.350	
<b>Closing Balance, March 31, 2021</b>	<b>82,482,321</b>	<b>0.554</b>	<b>2.35</b>

#### d) Stock options

The Company has an equity incentive plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded is limited to 10% of the issued and outstanding shares, or 74,971,269 as at March 31, 2021.

During the three months ended March 31, 2021, no options were granted (2020 – 166,000).

The following table summarizes information about stock options outstanding as at March 31, 2021:

	Number of options	Average exercise price (\$)	Average remaining life (years)
<b>Opening Balance, January 1, 2020</b>	<b>45,649,553</b>	<b>0.865</b>	<b>6.09</b>
Options granted	6,680,692	0.331	4.65
Options exercised	(7,611,078)	0.025	
Options forfeited	(3,828,559)	1.163	
<b>Closing Balance, December 31, 2020</b>	<b>40,890,608</b>	<b>0.902</b>	<b>5.45</b>
Options forfeited	(10,134,733)	1.119	
<b>Closing Balance, March 31, 2021</b>	<b>30,755,875</b>	<b>0.887</b>	<b>4.62</b>

Total options exercisable at March 31, 2021 were 21,218,874 with a remaining average life of 4.6 years.

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### 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	
	March 31, 2021	March 31, 2020
Short-term benefits	\$ 503	\$ 336
Long-term benefits	83	467
<b>Total</b>	<b>\$ 586</b>	<b>\$ 803</b>

## 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.

Financial Instrument	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Non-voting shares in joint venture	Asset-based approach	- Fair value of net assets	- If the fair value of the net assets decreased by 1%, the fair value would decrease by \$500.
Investments in private companies	Market approach	- Investment index	- If the investment index fair value change increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by \$144 (\$144).

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

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

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 286	\$ -	\$ -	\$ 286
Public company shares	5,607	-	-	5,607
Company options and warrants	-	585	-	585
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	1,444	1,444
<b>Balance, March 31, 2021</b>	<b>\$ 5,893</b>	<b>\$ 585</b>	<b>\$ 51,444</b>	<b>\$ 57,922</b>
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 286	\$ -	\$ -	\$ 286
Public company shares	3,561	-	-	3,561
Company options and warrants	-	469	-	469
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	996	996
<b>Balance, December 31, 2020</b>	<b>\$ 3,847</b>	<b>\$ 469</b>	<b>\$ 50,996</b>	<b>\$ 55,312</b>

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

Level 3 investments	
Balance, January 1, 2020	\$ 57,320
Change in unrealized gain/(loss) - FVTPL	(4,668)
Change in unrealized gain/(loss) - FVOCI	72
Net loss on sale of convertible debentures	(1,728)
Balance, December 31, 2020	\$ 50,996
Change in unrealized gain/(loss) - FVOCI	448
<b>Balance, March 31, 2021</b>	<b>\$ 51,444</b>

#### 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, accounts payable and accrued liabilities, short-term debt, and convertible debentures. As at March 31, 2021, the carrying value of cash and cash equivalents and short-term investments are measured at fair value. Accounts receivable and accounts payable and accrued liabilities and short-term debt, approximate their fair value due to their short-term nature. The carrying value of 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 \$144 before tax. An equal change in the opposite direction would have decreased equity by \$144 before tax.

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

#### d) Interest rate risk

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

#### e) Credit risk

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

Management has mitigated the risk by using tier 1 financial institutions for managing its cash and has established communication channels with the counterparties of the receivables for ongoing monitoring of their financial performance. The Company mitigates credit risk on notes receivable by securing the notes and monitoring the financial performance of the partners.

#### f) Liquidity risk

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

#### g) Foreign exchange risk

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

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

### 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.

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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

### 20. Commitments and contingencies

#### Commitments

As at March 31, 2021, 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 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 \$3,150 from March 31, 2021 to December 31, 2021 to Kindred Partners Inc. ("Kindred") for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada. Further, during the period 2022 to 2024, the Company has committed to a fixed/variable structure whereby the fixed amount will be \$3,600 annually;
- Annual payments of \$300 USD for five years to June 2025 to Natures Crops International for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 products;
- Payment of \$375 USD in June 2021 and a payment of \$1,000 USD in 2022 to Capsugel Manufacturing, LLC, as part of a multi-year licensing arrangement with Lonza Group Ltd.; and
- Payments of an aggregate of €1,150 from April 1, 2021 to December 31, 2021 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities.

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

(000's)	Remaining 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Thereafter	Total
Lease obligations	\$ 1,409	\$ 1,399	\$ 1,193	\$ 721	\$ 582	\$ 9,215	\$ 14,519
Long-term debt obligations	11,924	138,175	-	-	-	-	150,099
<b>Total</b>	<b>\$ 13,333</b>	<b>\$ 139,574</b>	<b>\$ 1,193</b>	<b>\$ 721</b>	<b>\$ 582</b>	<b>\$ 9,215</b>	<b>\$ 164,618</b>

#### Contingencies

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

# AUXLY CANNABIS GROUP INC.

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### 21. Selling, general, and administrative expenses

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Wages and salaries	\$ 4,311	\$ 6,487
Office and administrative	3,088	2,601
Professional fees	464	1,446
Business development	8	769
Share-based compensation	206	1,417
Selling expenses	1,311	1,298
<b>Total</b>	<b>\$ 9,388</b>	<b>\$ 14,018</b>

### 22. Interest and accretion expenses

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash interest expense on lease liabilities	\$ 120	\$ 172
Other interest expense	1,514	287
Non-cash interest expense	2,974	1,740
<b>Total</b>	<b>\$ 4,608</b>	<b>\$ 2,199</b>

### 23. Changes in working capital

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Accounts receivable	\$ 2,184	\$ (6,972)
Other receivables	124	5,923
Prepaid expenses	(4,057)	1,731
Interest payable	1,023	1,081
Biological assets (Note 6)	238	(105)
Inventory (Note 7)	(7,868)	(3,294)
Research contract costs	13	(673)
Accounts payable and accrued liabilities	(5,737)	(6,787)
Deferred revenue	(323)	1,164
<b>Total</b>	<b>\$ (14,403)</b>	<b>\$ (7,932)</b>

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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### 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 Science Inc. ("KGK") in Canada.

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

All the Company's revenue is from the Canadian operations. For the Company's geographically segmented non-current assets, the Company has allocated \$1,423 of assets held for sale and \$790 of liabilities held for sale, under the South American cannabis cash-generating unit ("CGU"). As at March 31, 2021, the South American cannabis CGU contained \$1,270 of property, plant, and equipment. Refer to note 25 for more information.

### 25. Assets and liabilities held for sale

As at March 31, 2021, Inverell S.A. was classified as a disposal group held for sale. The following assets and liabilities were reclassified as held for sale in relation to the South American Cannabis CGU:

	As at	
	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 3	\$ 3
Other receivables	125	127
Prepaid expenses	25	23
Property, plant and equipment (Note 8)	1,270	1,283
<b>Total assets held for sale</b>	<b>\$ 1,423</b>	<b>\$ 1,436</b>
Accounts payable and accrued liabilities	\$ 787	\$ 797
Lease liability (Note 13)	3	3
<b>Total liabilities held for sale</b>	<b>\$ 790</b>	<b>\$ 800</b>



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### 26. Subsequent events

- a) On April 16, 2021, the Company announced that it had received final approval from the TSX to graduate from the TSX Venture Exchange (“TSXV”) and list its common shares on the TSX. Auxly’s common shares commenced trading on the TSX at market open on Tuesday, April 20, 2021 under its existing symbol “XLY”. In connection with listing on the TSX, the last day of trading on the TSXV was April 19, 2021 and the Company’s shares were delisted from the TSXV upon commencement of trading on the TSX. The Company’s shares continue to trade on the OTCQX market under the symbol “CBWTF.”
- b) On April 16, 2021, Sunens received a notice of default from BMO in its capacity as lender, administrative agent and syndication agent under the credit facility with respect to Sunens’ failure to satisfy recently established revenue milestones for the first quarter of 2021. Although the lenders have reserved their rights under the credit agreement, they advanced another \$1 million pursuant to a borrowing request made pursuant to the credit facility and BMO has granted a one-month deferral of the equipment loan payment due in May 2021 in the amount of approximately \$0.2 million which will be used to fund day-to-day operations. In May 2021, the Company has begun further supporting Sunens through purchases of cannabis as production from the Sunens facility increases. In addition, Sunens may require additional funding for working capital until production and revenue from sales reach expected levels. Discussions with the lenders with respect to a formal credit amendment and/or forbearance agreement are continuing, although there can be no assurance that an agreement with the lenders will be reached. As part of such financing provided by the syndicate, the Company has guaranteed payments up to \$33 million in the event of default.
- c) On April 19, 2021, the Company announced an agreement with its strategic partner, Imperial Brands to amend certain provisions of its previously issued \$123 million debenture (the “Debenture”) and investor rights agreement (the “Investor Rights Agreement”) dated September 25, 2019 (collectively, the “Amendments”).

Pursuant to the Amendments, Imperial Brands and Auxly have agreed to extend the maturity date of the Debenture by 24 months from September 25, 2022 to September 25, 2024. The Amendments will also provide Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the Debenture then outstanding into common shares (the “Interest Conversion Election”), at a conversion price equal to the five-day volume weighted average trading price of the common shares on the date that Interest Conversion Election is made. Auxly and Imperial Brands have also agreed that the interest rate under the Debenture, which currently accrues at a rate of 4% per annum and is payable annually, will remain unchanged but will be payable on maturity of the Debenture. The Debentures are convertible into common shares at a price of \$0.81 per share at any time prior to the close of business on the business day immediately preceding maturity. Lastly, the Amendments provide for the re-instatement of certain approval rights of Imperial Brands under the Investor Rights Agreement.

# AUXLY CANNABIS GROUP INC.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

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### 26. Subsequent events (continued)

The implementation of the Amendments is subject to the satisfaction of a number of conditions, including, among other things, the approval of the TSX Venture Exchange, and minority shareholder approval of the Amendments in accordance with Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions*.

- d) On May 13, 2021, the Company announced that an institutional investor had agreed to purchase, on a private placement basis, 23,880,597 units of the Company at a price of \$0.335 per unit for aggregate gross proceeds of approximately \$8.0 million. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant of the Company. Each warrant entitles the institutional investor to purchase one common share at an exercise price of \$0.42 at any time up to 36 months from closing. This transaction closed on May 20, 2021.
- e) On May 27, 2021, the Company entered into a definitive agreement with Myconic Capital Corp. ("Myconic") to sell all the issued and outstanding shares of KGK for consideration of up to \$16,500 as follows:
  - a. \$12,500 purchase price in the form of:
    - i. \$1,500 in cash payable on the closing date of the transaction;
    - ii. \$1,000 in cash payable six months after the closing date of the transaction; and
    - iii. \$10,000 in common shares of Myconic at a price per share of \$1.55 (being 6,451,612 shares) all to be issued on the closing date of the transaction, with equal tranches becoming freely tradeable on the four, six, nine and 12 month anniversaries of the closing date of the transaction;
  - b. \$1,500 milestone payment, payable in cash or Myconic shares, at the option of Myconic, if KGK achieves gross revenues of \$8,000 in any 12-month period during the two years following the closing date of the transaction; and
  - c. \$2,500 credit against future KGK services, reflected in a 10-year service agreement between Auxly and KGK.

The transaction is expected to close on or around the week of June 7, 2021 and is subject to customary closing conditions and regulatory approvals, including the approval of the NEO Exchange.