AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2025 AND 2024

Dated May 14, 2025

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

Interim Condensed Consolidated Statements of Financial Position

Expressed in thousands of Canadian dollars
Unaudited

As at:	March 31, 2025	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	**$ 17,112**	$ 18,356
Restricted cash (Note 4)	**557**	557
Short-term investments	**144**	143
Accounts receivable (Note 5)	**21,650**	21,751
Biological assets (Note 6)	**11,277**	8,286
Inventory (Note 7)	**29,956**	25,713
Prepaid expenses	**752**	577
Deposits (Note 11)	**601**	411
Other receivables	**939**	814
	$ 82,988	$ 76,608
Non-current assets		
Property, plant and equipment, net (Note 8)	**$ 148,420**	$ 150,808
Intangible assets, net (Note 9)	**29,371**	29,758
Long-term investments (Note 10)	**261**	594
Long-term deposits (Note 11)	**3,780**	3,762
	$ 181,832	$ 184,922
Total assets	**$ 264,820**	$ 261,530
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 45,939**	$ 44,898
Interest payable (Note 13)	**20,636**	20,626
Lease liability (Note 12)	**2,463**	2,423
Loans payable (Note 14)	**48,054**	50,668
Promissory notes (Note 15)	**1,053**	929
Other current liabilities (Notes 16, 23)	**4,681**	3,750
	$ 122,826	$ 123,294
Non-current liabilities		
Lease liability (Note 12)	**10,741**	11,369
Convertible debentures (Note 13)	**732**	697
Promissory notes (Note 15)	**2,252**	2,389
Deferred tax liability (Note 9)	**-**	8,125
	$ 13,725	$ 22,580
Total liabilities	**$ 136,551**	$ 145,874
Equity		
Share capital (Note 16)	**$ 543,036**	$ 542,632
Reserves (Note 16)	**103,275**	102,844
Accumulated other comprehensive income/(loss)	**(30,533)**	(30,200)
Retained earnings/(deficit)	**(487,509)**	(499,620)
Total equity	**$ 128,269**	$ 115,656
Total liabilities and equity	**$ 264,820**	$ 261,530

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 May 14, 2025, and were signed on its behalf by:

(s) Genevieve Young
Genevieve Young

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

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

For the three months ended March 31:		2025		2024
Revenue				
Revenue from sales of cannabis products	**$**	**49,212**	$	38,357
Excise taxes		**(16,543)**		(13,116)
Total net revenue	**$**	**32,669**	$	25,241
Cost of sales				
Cost of finished cannabis inventory sold	**$**	**16,838**	$	15,672
Inventory impairment (Note 7)		**123**		456
Gross profit/(loss) excluding fair value items	**$**	**15,708**	$	9,113
Unrealized fair value gain/(loss) on biological transformation (Note 6)	**$**	**12,312**	$	2,773
Realized fair value gain/(loss) on inventory		**(9,337)**		(2,435)
Gross profit/(loss)	**$**	**18,683**	$	9,451
Expenses				
Selling, general and administrative expenses (Note 21)	**$**	**9,672**	$	8,621
Equity-based compensation (Notes 16, 23)		**1,505**		1,927
Depreciation and amortization (Notes 7, 8, 9)		**1,296**		1,230
Interest and accretion expenses (Note 22)		**2,147**		6,868
Total expenses	**$**	**14,620**	$	18,646
Other income/(loss)				
Interest and other income	**$**	**47**	$	19
Gain/(loss) on settlement of assets and liabilities and other expenses (Note 20)		**39**		(634)
Foreign exchange gain/(loss)		**(163)**		(210)
Total other income/(loss)	**$**	**(77)**	$	(825)
Net income/(loss) before income tax	**$**	**3,986**	$	(10,020)
Income tax recovery/(expense) (Notes 9, 13)		**8,125**		(15,992)
Net income/(loss)	**$**	**12,111**	$	(26,012)
Other comprehensive income/(loss)				
Fair value gain/(loss) on fair value through other comprehensive income investments – not subsequently reclassified to profit or loss (Note 10)	**$**	**(333)**	$	(288)
Total comprehensive income/(loss)	**$**	**11,778**	$	(26,300)
Net income/(loss) per common share ($)				
Net income/(loss) per common share ($) - basic and diluted (Note 16)	**$**	**0.01**	$	(0.03)
Weighted average number of shares outstanding (Note 16)				
Basic		**1,310,291,543**		1,016,839,478
Diluted		**1,365,880,272**		1,016,839,478

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

For the three months ended March 31:		2025		2024
Operating activities				
Net income/(loss) for the period	**$**	**12,111**	$	(26,012)
Items not affecting cash:				
Inventory impairment (Note 7)		**123**		456
Unrealized fair value loss/(gain) on biological transformation (Note 6)		**(12,312)**		(2,773)
Realized fair value loss/(gain) on inventory		**9,337**		2,435
Depreciation and amortization (Notes 7, 8, 9)		**2,570**		2,522
Interest and accretion expenses (Note 22)		**348**		4,586
Equity-based compensation (Notes 16, 23)		**1,465**		1,927
Unrealized foreign exchange loss/(gain)		**(4)**		121
Income tax expense/(recovery) (Notes 9, 13)		**(8,125)**		15,992
Loss/(gain) on settlement of assets and liabilities and other expenses (Note 20)		**-**		634
Cash provided by/(used in) operating activities before net non-cash working capital adjustments	**$**	**5,513**	$	(112)
Net change in non-cash working capital (Note 24)		**(3,544)**		(2,122)
Net cash provided by/(used in) operating activities	**$**	**1,969**	$	(2,234)
Investing activities				
Net proceeds from sale of long-term investments (Note 10)	**$**	**-**	$	100
Proceeds from sale of assets		**-**		194
Purchase of property, plant and equipment (Note 8)		**(67)**		(305)
Net cash provided by/(used in) investing activities	**$**	**(67)**	$	(11)
Financing activities				
Repayment of loans payable (Note 14)	**$**	**(2,709)**	$	(1,512)
Proceeds from loans payable (Note 14)		**-**		2,500
Deferred financing fees (Note 14)		**-**		(409)
Proceeds from warrants exercised (Note 16)		**301**		90
Payment on promissory notes (Note 15)		**(150)**		(100)
Payment on lease liability, net (Note 12)		**(588)**		(703)
Change in restricted cash		**-**		(150)
Net cash provided by/(used in) financing activities	**$**	**(3,146)**	$	(284)
Increase/(decrease) in cash and cash equivalents during the period	**$**	**(1,244)**	$	(2,529)
Cash and cash equivalents, beginning of period		**18,356**		15,608
Cash and cash equivalents, end of period	**$**	**17,112**	$	13,079

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

For the three months ended March 31:		2025		2024
Share capital				
Balance, beginning of period	**$**	**542,632**	$	446,555
Shares issued on exercise of Imperial Brands convertible debentures (Note 13)		**-**		93,319
Fair value transfer on exercise of warrants (Note 16)		**404**		118
Share capital, end of period	**$**	**543,036**	$	539,992
Reserves				
Convertible debentures				
Balance, beginning of period	**$**	**20,052**	$	34,311
Fair value transfer to shares upon conversion, net of taxes (Note 13)		**-**		(14,259)
Convertible debentures, end of period	**$**	**20,052**	$	20,052
Warrants				
Balance, beginning of period	**$**	**43,285**	$	43,752
Fair value transfer to shares upon conversion (Note 16)		**(103)**		(28)
Warrants, end of period	**$**	**43,182**	$	43,724
Contributed surplus				
Balance, beginning of period	**$**	**39,507**	$	39,500
Employee share options:				
Stock options (Notes 16, 23)		**24**		63
Restricted share units (Notes 16, 23)		**510**		118
Contributed surplus, end of period	**$**	**40,041**	$	39,681
Reserves, end of period	**$**	**103,275**	$	103,457
Accumulated other comprehensive income/(loss)				
Balance, beginning of period	**$**	**(30,200)**	$	(29,799)
Fair value changes in long-term investments (Note 10)		**(333)**		(288)
Accumulated other comprehensive income/(loss), end of period	**$**	**(30,533)**	$	(30,087)
Retained earnings/(deficit)				
Attributable to the Company				
Balance, beginning of period	**$**	**(499,620)**	$	(483,272)
Net income/(loss)		**12,111**		(26,012)
Retained earnings/(deficit), end of period	**$**	**(487,509)**	$	(509,284)
Equity, end of period	**$**	**128,269**	$	104,078

The accompanying notes are an integral part of these interim condensed 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 Toronto Stock Exchange under the symbol “XLY”. The Company has continued under the laws of the Province of Ontario and the principal business address is 777 Richmond Street West, Toronto, Ontario.

Description of the Company

Auxly is a Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada.

2. Basis of preparation

Going concern uncertainty

The Company’s interim condensed consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The 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 March 31, 2025, the Company had total cash and cash equivalents of $17,112, negative working capital of $39,838 and cash flow provided by operating activities of $1,969 for the three months ended March 31, 2025. The Company will have insufficient cash to fund its operations for the next 12 months if the Company’s sales do not improve or if they decline; if the Company’s margins do not improve or if they decline; if the Company’s selling, general and administrative expenses increase; and/or debt obligations due within 12 months mature without extension or refinancing. The Company’s ability to sustain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future including, but not limited to, all relevant information available about the 12-month period following March 31, 2025. While the Company has made improvements to its operating cash flow, the Company will continue to seek to improve its sales and cash flow by prioritizing certain products and projects with greater expected return and reduce operating costs by streamlining its operations and support function. In the event of negative cash flows from operations, the Company may seek additional financing through debt and equity financings (which may include use of an at-the-market offering program and/or rights offerings to existing shareholders) and non-core asset sales. The Company’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, increased competition and price compression across the industry, and the industry’s inability to quickly eliminate Canada’s large illicit cannabis market.

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 interim condensed consolidated financial statements should such events impair the Company’s ability to continue as a going concern.

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

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* ("IAS 34"). 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 as at and for the year ended December 31, 2024.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual consolidated financial statements as at and for the year ended December 31, 2024, 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 interim condensed consolidated financial statements, are consistent with those disclosed in the notes to the annual consolidated financial statements as at and for the year ended December 31, 2024. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on May 14, 2025.

Subsidiaries

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

The interim condensed consolidated financial of the Company include:

Subsidiaries	Equity interests
Auxly Inc. (formerly Auxly Ottawa Inc.)	100%
Auxly Charlottetown Inc.	100%
Auxly Leamington Inc.	100%

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

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

3. Material accounting information

Future changes in accounting policies

The Company monitors the potential accounting policy changes proposed by the IASB and analyzes the impact of those changes on the Company's interim condensed consolidated financial statements.

Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures

In May 2024, amendments to IFRS 9, *Financial Instruments,* and IFRS 7, *Financial Instruments: Disclosures*, were issued. The amendments clarify the timing of recognition and derecognition for a financial asset or a financial liability, including clarifying that a financial liability is derecognized on the settlement date. Additional disclosures are required for financial instruments with contingent features and investments in equity instruments classified at fair value through other comprehensive income. These amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early adoption is permitted, with an option to only early adopt the amendments to the classification of financial assets. The adoption is not expected to have a material impact on the Company's interim condensed consolidated financial statements.

IFRS 18, Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* ("IFRS 18") to replace IAS 1, *Presentation of Financial Statements* ("IAS 1"). IFRS 18 impacts the presentation of the financial statements and notes, primarily the statements of income/loss and comprehensive income/(loss) where companies will be required to present separate categories of income and expenses for operating, investing and financing activities with subtotals for each new category. IFRS 18 will require management-defined performance measures to be defined and included in a separate note within the interim condensed consolidated financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and require retrospective application. The Company is currently assessing the impact of the new standard on its interim condensed consolidated financial statements.

4. Restricted cash

As at March 31, 2025, Auxly provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of $557 (December 31, 2024 – $557) as collateral on behalf of Auxly Leamington Inc. ("Auxly Leamington") in order to supply power to the facility.

5. Accounts receivable

Accounts receivable comprise the following:

	As at March 31, 2025	As at December 31, 2024
Less than 30 days past billing date	**$ 14,299**	$ 15,395
31 to 60 days past billing date	**6,677**	5,446
61 to 90 days past billing date	**674**	883
Over 90 days past billing date	**-**	27
	$ 21,650	$ 21,751

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

6. Biological assets

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

Balance, December 31, 2023	**$**	**5,334**
Changes in fair value less cost to sell due to biological transformation		32,627
Capitalized production costs		19,875
Transferred to inventory upon harvest		(49,550)
Balance, December 31, 2024	**$**	**8,286**
Changes in fair value less cost to sell due to biological transformation		12,312
Capitalized production costs		5,291
Transferred to inventory upon harvest		(14,612)
Balance, March 31, 2025	**$**	**11,277**

As at March 31, 2025, the Company's cannabis plants were on average 52% (December 31, 2024 – 53%) complete in their estimated 70-day 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) Expected product mix;
(e) Standard cost per gram to complete production; and
(f) Cumulative stage of completion in production process.

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

As at March 31, 2025			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$0.13–$1.31 dollars	Increase/decrease $0.10/gram	Increase/decrease $1,938
Average yield per plant	124 grams	Increase/decrease 10%	Increase/decrease $1,411
Post-harvest cost per gram	$0.07 dollars	Increase/decrease $0.01/gram	Decrease/increase $194

As at December 31, 2024			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$0.14–$1.13 dollars	Increase/decrease $0.10/gram	Increase/decrease $1,786
Average yield per plant	113 grams	Increase/decrease 10%	Increase/decrease $1,122
Post-harvest cost per gram	$0.06 dollars	Increase/decrease $0.01/gram	Decrease/increase $179

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

7. Inventory

The following is a breakdown of inventory:

		As at March 31, 2025		As at December 31, 2024
Dried cannabis				
Work-in-process	**$**	**12,580**	$	12,972
Finished goods		**2,610**		2,341
Cannabis oil				
Work-in-process		**2,367**		2,286
Generation 2 derivative products				
Work-in-process		**136**		133
Finished goods		**3,763**		3,173
Merchandise products		**140**		140
Packaging, hardware, consumables and ingredients		**8,360**		4,668
Total	**$**	**29,956**	$	25,713

As at March 31, 2025, the Company recognized $29,956 (December 31, 2024 – $25,713) of inventory on the interim condensed consolidated statements of financial position, including $6,265 non-cash income (December 31, 2024 – $6,302) relating to the fair value less cost to sell transferred to inventory upon harvest. During the three months ended March 31, 2025, inventory expensed to cost of sales was $16,389 (2024 – $15,257).

Depreciation capitalized into inventory during the three months ended March 31, 2025 was $1,546 (2024 – $1,375). Cost of sales for the three months ended March 31, 2025 included $1,274 (2024 – $1,292) of depreciation.

During the three months ended March 31, 2025, the Company recognized a loss of $123 (2024 – $456) on cannabis inventory due to the costs capitalized exceeding the net realizable value of the inventory.

8. Property, plant and equipment

	Computers and office furniture	**Leasehold improvements**	**Equipment**	**Buildings**	**Construction-in-progress**	**Land**	**Right-of-use assets**	**Total**
Cost:								
December 31, 2024	$ 3,613	$ 21,571	$ 31,010	$ 122,938	$ -	$ 4,127	$ 21,890	**$ 205,149**
Additions	-	-	57	-	10	-	-	**67**
March 31, 2025	**$ 3,613**	**$ 21,571**	**$ 31,067**	**$ 122,938**	**$ 10**	**$ 4,127**	**$ 21,890**	**$ 205,216**
Accumulated depreciation:								
December 31, 2024	$ 3,029	$ 5,863	$ 15,397	$ 15,964	$ -	$ 27	$ 14,061	**$ 54,341**
Depreciation	52	246	733	1,114	-	-	310	**2,455**
March 31, 2025	**$ 3,081**	**$ 6,109**	**$ 16,130**	**$ 17,078**	**$ -**	**$ 27**	**$ 14,371**	**$ 56,796**
Carrying amounts								
March 31, 2025	**$ 532**	**$ 15,462**	**$ 14,937**	**$ 105,860**	**$ 10**	**$ 4,100**	**$ 7,519**	**$ 148,420**

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

8. Property, plant and equipment (continued)

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	Land	Right-of-use assets	Total
Cost:							
December 31, 2023	$ 3,527	$ 21,571	$ 31,049	$ 124,804	$ 4,127	$ 20,349	**$ 205,427**
Additions	86	-	824	134	-	1,541	**2,585**
Disposals	-	-	(863)	(2,000)	-	-	**(2,863)**
December 31, 2024	**$ 3,613**	**$ 21,571**	**$ 31,010**	**$ 122,938**	**$ 4,127**	**$ 21,890**	**$ 205,149**
Accumulated depreciation:							
December 31, 2023	$ 2,780	$ 4,878	$ 12,627	$ 11,506	$ 27	$ 12,647	**$ 44,465**
Depreciation	249	985	3,122	4,458	-	1,414	**10,228**
Disposals	-	-	(352)	-	-	-	**(352)**
December 31, 2024	**$ 3,029**	**$ 5,863**	**$ 15,397**	**$ 15,964**	**$ 27**	**$ 14,061**	**$ 54,341**
Carrying amounts							
December 31, 2024	**$ 584**	**$ 15,708**	**$ 15,613**	**$ 106,974**	**$ 4,100**	**$ 7,829**	**$ 150,808**

Property, plant and equipment additions for the three months ended March 31, 2025 include a $nil (2024 – $1,384) non-cash recognition of right-of-use asset. Property, plant and equipment as at March 31, 2025 included $223 (December 31, 2024 – $223) of equipment to be settled on deferred payment terms.

9. Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Other	Total
Cost:						
December 31, 2024 and March 31, 2025	$ 14,016	$ 10,340	$ 17,371	$ 284	$ 4,199	**$ 46,210**
Accumulated amortization:						
December 31, 2024	$ 14,016	$ -	$ -	$ 284	$ 2,152	**$ 16,452**
Amortization	-	101	256	-	30	**387**
March 31, 2025	**$ 14,016**	**$ 101**	**$ 256**	**$ 284**	**$ 2,182**	**$ 16,839**
Carrying amounts						
March 31, 2025	**$ -**	**$ 10,239**	**$ 17,115**	**$ -**	**$ 2,017**	**$ 29,371**

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Other	Total
Cost:						
December 31, 2023 and December 31, 2024	$ 14,016	$ 10,340	$ 17,371	$ 284	$ 4,199	**$ 46,210**
Accumulated amortization:						
December 31, 2023	$ 14,016	$ -	$ -	$ 284	$ 2,032	**$ 16,332**
Amortization	-	-	-	-	120	**120**
December 31, 2024	**$ 14,016**	**$ -**	**$ -**	**$ 284**	**$ 2,152**	**$ 16,452**
Carrying amounts						
December 31, 2024	**$ -**	**$ 10,340**	**$ 17,371**	**$ -**	**$ 2,047**	**$ 29,758**

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

9. Intangible assets (continued)

Effective January 1, 2025, the Company determined the estimated useful life of its Canadian cultivation licenses and processing licenses to align to the remaining estimated useful life of the facilities the licenses operate under. Previously, the Company's Canadian cultivation licenses and processing licenses were treated as indefinite life intangible assets. The change in accounting estimate has been made to reflect recent market conditions and the relationship between cannabis licenses and the facilities the licenses operate under. This change is classified as a change in accounting estimate under IAS 8, *Change in Accounting Estimates*, which is required to be accounted for prospectively in the financial statements. The change in estimated useful life is expected to increase annual depreciation and amortization expense by $1,427. As a result of this change, the Company also recorded a deferred tax recovery of $8,125, with a corresponding reduction to deferred tax liability.

10. Long-term investments

Entity	Instrument	Classification	As at December 31, 2024	Fair value change	Purchases/ (sales)	As at March 31, 2025
Cannabis OneFive Inc.	**Shares**	**FVOCI**	**$ 594**	**$ (333)**	**$ -**	**$ 261**

Entity	Instrument	Classification	As at December 31, 2023	Fair value change	Purchases/ (sales)	As at December 31, 2024
Cannabis OneFive Inc.	Shares	FVOCI	$ 1,095	$ (401)	$ (100)	$ 594

11. Deposits

	Capital assets	Inventory	Other	Total
Current portion	$ -	$ 598	$ 3	**$ 601**
Non-current portion	-	-	3,780	**3,780**
As at March 31, 2025	**$ -**	**$ 598**	**$ 3,783**	**$ 4,381**

	Capital assets	Inventory	Other	Total
Current portion	$ -	$ 369	$ 42	**$ 411**
Non-current portion	32	-	3,730	**3,762**
As at December 31, 2024	**$ 32**	**$ 369**	**$ 3,772**	**$ 4,173**

As at March 31, 2025, the Company has made deposits towards excise bonds, vape cartridge purchases, cannabis extracts, and raw material cannabis purchases.

12. Lease liability

	As at March 31, 2025	As at December 31, 2024
Balance, beginning of period	**$ 13,792**	$ 16,308
Additions	**-**	1,541
Payments	**(784)**	(3,530)
Interest expense	**196**	813
Transfer to accounts payable and accrued liabilities	**-**	(1,340)
Balance, end of period	**$ 13,204**	$ 13,792

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

12. Lease liability (continued)

		As at March 31, 2025		As at December 31, 2024
Maturity analysis – contractual undiscounted cash flows				
Less than one year	**$**	**3,162**	$	3,160
Two years and beyond		**13,542**		14,329
Total undiscounted lease obligations	**$**	**16,704**	$	17,489
Current portion	**$**	**2,463**	$	2,423
Long-term portion		**10,741**		11,369
Discounted lease obligations included in the interim condensed consolidated statements of financial position	**$**	**13,204**	$	13,792

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

13. Convertible debentures

Imperial Brands

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

In April 2021, the Company announced an agreement with Imperial to amend the debentures to extend the maturity date by 24 months from September 25, 2022 to September 25, 2024. The amendment also provides Imperial with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the debentures into common shares at a conversion price equal to the five-day volume weighted average trading price of the common shares on the date that the interest conversion election is made. The interest rate of 4% per annum will remain unchanged but will be payable on the maturity of the debentures. The debentures are convertible into common shares at a price of $0.81 per share at any time prior to the close of business on the business day immediately preceding maturity. The amendment also provides for the reinstatement of certain approval rights of Imperial under the investor rights agreement dated September 25, 2019 between the Company and Imperial. These amendments were subject to shareholder approval that was obtained at the Company’s annual general and special meeting of shareholders on June 28, 2021.

In April 2023, the Company and Imperial amended the debentures to extend the maturity of the debentures by 24 months from September 25, 2024 to September 25, 2026. The amended debentures are convertible into common shares at a price of $0.81 per share at any time prior to the close of business on the business day immediately preceding maturity.

During the first quarter of 2024, Imperial, through its wholly owned subsidiary, provided the Company with notice of its election to convert (i) $121,851 of the principal amount outstanding under the $122,851 unsecured convertible debentures and (ii) $1,565 of accrued interest under the unsecured convertible debentures (together defined as “Imperial Debt Conversion”).

13. Convertible debentures (continued)

In March 2024, the Company completed the conversion of the $121,851 principal amount into 150,433,450 common shares at the exercise price of $0.81 per share and the conversion of $1,565 of accrued interest into 90,882,667 common shares at a price of $0.017 per share.

Following the Imperial Debt Conversion, (i) a principal amount of $1,000 remains outstanding under the unsecured convertible debentures convertible at $0.81 per share and due on September 25, 2026; (ii) $20,596 of accrued interest due on September 25, 2026 remains outstanding, and will not accrue further interest thereon; and (iii) Imperial owns approximately 19.8% of the Company's common shares.

Imperial and Auxly also amended the existing amended and restated investor rights agreement between the parties to, among other things, remove the existing requirement that Imperial will use the Company as its exclusive cannabis partner.

The Imperial Debt Conversion resulted in a reclassification of $63,068 from liabilities to equity and a reclassification of $30,251 from reserves to share capital in the interim condensed consolidated statements of financial position. The Company recorded a deferred tax expense of $15,992, with a corresponding release from reserves.

As at March 31, 2025, the Company recognized $732 (December 31, 2024 – $697) of non-current Imperial convertible debenture on the interim condensed consolidated statements of financial position. The associated accretion expense for the three months ended March 31, 2025 was $35 (2024 – $2,959).

Interest expense for the three months ended March 31, 2025 was $10 (2024 – $1,225). As a result of the amendments to IAS 1, effective January 1, 2024, the accrued interest of $20,636 as at March 31, 2025 (December 31, 2024 – $20,626) was classified as current interest payable in the interim condensed consolidated statements of financial position. Imperial may elect to convert all or part of the accrued interest into common shares prior to the date of maturity.

Standby financing

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

In June 2022, the Company entered into an agreement to amend the unsecured convertible debentures to extend the maturity date of the remaining outstanding debentures to August 15, 2024. The interest rate of 7.5% per annum will remain unchanged and will be payable semi-annually. The debentures are convertible into common shares at a price of $0.1380 per share at any time prior to the close on the business day immediately prior to the maturity date. The amendment includes certain repayment conditions should the Company raise additional capital prior to the maturity date. As consideration for the amendments, the Company paid the investor an amendment fee of $500 through the issuance of 4,347,826 common shares and issued the investor warrants to purchase 20,000,000 common shares, with each warrant being exercisable until June 22, 2025 at a price per share of $0.1495.

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

13. Convertible debentures (continued)

The accretion expense associated with the debentures for the three months ended March 31, 2025 was $nil (2024 – $118). Interest expense for the three months ended March 31, 2025 was $nil (2024 – $117). During the third quarter of 2024, the Company repaid the remaining $6,244 principal owing under the original standby financing convertible debenture.

14. Loans payable

		As at March 31, 2025		As at December 31, 2024
Amended and Restated Credit Facility	$	**36,159**	$	38,254
Equipment loans payable		**476**		701
Receivables financing loan		**6,504**		6,835
Inventory financing loan		**4,915**		4,878
Total	$	**48,054**	$	50,668

As at March 31, 2025 and December 31, 2024, the full balance of the loans payable was classified as current liabilities.

Amended and Restated Credit Facility

Concurrent with the acquisition of Auxly Leamington, the Company entered into an Amended and Restated Credit Facility with the Bank of Montreal. The credit facility bears interest at the Canadian Overnight Repo Rate Average plus the applicable margin in effect. The amendment includes certain financial covenants that the Company shall maintain at all times. Upon filing the Company's audited consolidated financial statements for the year ended December 31, 2024, the Company was in breach of certain reporting covenants under the Amended and Restated Credit Facility due to the inclusion of going concern qualifications. The Company has received a waiver from the syndicate of lenders for such breach.

The credit facility consisted of a $28,500 revolving credit facility and a $38,500 term credit (the "Term Credit"), for an aggregate fair value of $67,000 on acquisition. An immediate cash payment of $15,000 was applied to the outstanding principal balance of the revolving credit facility. As part of the amended agreement, the maturity date of the credit facility was extended by a year to September 30, 2023. The quarterly principal payment on the Term Credit is $963, commencing the first business day of each calendar quarter following the repayment start date of January 2022.

Between September 2023 and December 2023, the Company received three interim extensions of the maturity date of the Amended and Restated Credit Facility from September 30, 2023 to January 31, 2024, as the Company and the lenders worked towards a formal credit amendment. On January 31, 2024, the Company, Auxly Leamington and the Bank of Montreal signed a definitive agreement (the "Amendment Agreement") to amend and restate the Amended and Restated Credit Facility.

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

14. Loans payable (continued)

The maturity date of the Amended and Restated Credit Facility was extended by two years until December 31, 2025, and includes an option by the Company to extend the maturity date for an additional year, to December 31, 2026, by making a further $2,500 principal repayment by December 31, 2025. The Amendment Agreement includes updated financial and operational covenants that the Company shall maintain at all times. The quarterly principal payments on the Term Credit have been revised with increased quarterly principal payments throughout the term. Under the Amendment Agreement, the obligations of Auxly Leamington continue to be secured by collateral and supported by an unsecured $33,000 limited recourse guarantee provided by the Company.

The interim extensions and the Amendment Agreement were treated as debt modifications under IFRS 9 as the terms were not substantially different and the discounted present value of cash flows under the extension is less than 10% different from the discounted present value of the remaining cash flow of the original financial liability. The Company incurred $552 of deferred financing charges on the Amended Amendment and the interim extensions. As at March 31, 2025, the Company had a balance of $204 (December 31, 2024 – $271) in its interim condensed consolidated statements of financial position.

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

		As at March 31, 2025		As at December 31, 2024
Balance, beginning of period	**$**	**38,254**	$	44,129
Deferred financing fees additions		**-**		(361)
Deferred financing fees amortization		**67**		261
Payments		**(2,162)**		(5,775)
Balance, end of period	**$**	**36,159**	$	38,254

As at March 31, 2025, the Amended and Restated Credit Facility was classified as current liabilities. Interest expense on the Amended and Restated Credit Facility for the three months ended March 31, 2025 was $701 (2024 – $1,160).

Equipment loans payable

The Company entered into arrangements with a leasing company to finance several pieces of equipment used in its operations. The equipment loans generally have terms between one and three years, with interest ranging from 9.47% to 16.54% per annum.

The continuity schedule of the equipment loans is presented below:

		As at March 31, 2025		As at December 31, 2024
Balance, beginning of period	**$**	**701**	$	2,145
Payments		**(246)**		(1,626)
Interest expense		**21**		182
Balance, end of period	**$**	**476**	$	701

14. Loans payable (continued)

Receivables financing loan

In January 2022, the Company and several of its subsidiaries entered into a receivables financing agreement with Savent Financial Canada Corp. ("Savent"), where Savent made a non-revolving loan to the Company in the principal amount of $5,000 USD, which includes an origination fee of $150 USD. Obligations of the Company and its subsidiaries under this arrangement are secured by a first-priority security interest in all of its cannabis receivables and are guaranteed by the Company. The Company has retained late payment and credit risk, and therefore continues to recognize the transferred assets in their entirety in its interim condensed consolidated statements of financial position.

In January 2024, the Company entered into an agreement with Savent to extend the maturity date of the receivables financing agreement by six months from January 21 to July 21, 2024. The Company recorded deferred financing charges of $101 and the balance was amortized over the extension period.

In June 2024, the Company entered into an amendment agreement with Savent to further extend the maturity date of the receivables financing agreement to July 21, 2025. Under the amended agreement, $700 USD of the principal amount will be repaid over 11 monthly instalments starting August 2024, with the remaining principal outstanding due on the maturity date. Both amendments were treated as a debt modification under IFRS 9 as the terms were not substantially different and the discounted present value of the cash flows under the amended terms is less than 10% different from the discounted present value of the remaining cash flows from the original financial liabilities.

As at March 31, 2025, the Company repaid $475 USD (December 31, 2024 – $250 USD), equivalent to $668 (December 31, 2024 – $346), of the principal amount outstanding.

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three months ended March 31, 2025 was $297 (2024 – $304).

Inventory financing loan

In October 2023, Auxly Inc. and Auxly Charlottetown Inc. ("Auxly Charlottetown"), as borrowers, entered into an inventory financing agreement with GrassHopper Capital Inc. ("GrassHopper") whereby GrassHopper agreed to loan an aggregate principal amount of $5,000 that matures in 12 months from the advance date. As of March 31, 2025, the principal amount has been fully advanced, including the second tranche of $2,500, which was advanced during the first quarter of 2024 upon the satisfaction of certain conditions. Obligations of the borrowers under the agreement are secured by a first-priority security interest in all cannabis inventory and are guaranteed by the Company. The Company will retain the risk of inventory impairment, and therefore will continue to recognize the transferred assets in their entirety in its interim condensed consolidated statements of financial position.

In October 2024, the Company and GrassHopper entered into an amended agreement to extend the maturity date of the inventory financing agreement to October 25, 2025. The Company agreed to pay an extension fee of $150 on the closing date of the amended agreement. All other terms related to the amendment remain materially unchanged. The amendment was treated as a debt modification under IFRS 9 as the terms were not substantially different and the discounted present value of the cash flows under the amended terms is less than 10% different from the discounted present value of the remaining cash flows from the original financial liability. As at March 31, 2025, the Company had a deferred financing charge balance of $85 (December 31, 2024 – $122).

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

14. Loans payable (continued)

The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three months ended March 31, 2025 was $222 (2024 – $178).

15. Promissory notes

The promissory notes balance consists of the following:

		As at March 31, 2025		As at December 31, 2024
Fresh Energy Agreement	**$**	**386**	$	516
Due to Peter Quiring		**2,919**		2,802
Total	**$**	**3,305**	$	3,318
Less: current portion		**1,053**		929
Long-term portion	**$**	**2,252**	$	2,389

Fresh Energy Agreement

Concurrently with the acquisition of Auxly Leamington in 2021, Auxly Leamington and Fresh Energy Inc. (“Fresh Energy”) agreed to the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea Rd 9 PH 5 (the “Transfer”). The consideration for the Transfer includes an unsecured, non-interest-bearing promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months, starting December 2021. Using a discount rate of 3.8%, the Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860. The Company recorded a contingent consideration payable of $500 upon the completion of the Transfer. The Transfer of the load facility from Fresh Energy to the Company was completed in April 2023.

Due to Peter Quiring

An unsecured promissory note of $3,400 was issued to Peter Quiring as part of the consideration for the acquisition of Auxly Leamington in 2021. Such unsecured promissory note bears interest of 6.0% per annum and was originally payable in monthly instalments of $210 for 18 months, starting December 2022.

June 2023 Amendments

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

The $3,400 unsecured promissory note issued to Peter Quiring was also amended to require the Company to pay monthly instalments of $100 for 36 months, starting November 2024 and maturing in November 2027. The unsecured promissory note bears interest of 6.0% per annum, with interest accrual starting October 15, 2024.

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

15. Promissory notes (continued)

April 2024 Amendments

In April 2024, the Company entered into a second amendment agreement to amend the Fresh Energy promissory note to revise the payment schedule for the remaining principal outstanding. Under the revised payment plan, the monthly instalments were reduced to $25 for 12 months beginning March 15, 2024 and resume to $100 until the outstanding amount is repaid. The maturity date of the amended Fresh Energy promissory note is July 15, 2025.

In April 2024, the unsecured note owing to Peter Quiring was amended for a second time, such that the Company will be required to pay monthly instalments of $100, starting in August 2025 and maturing in November 2028, and a one-time payment of $72 on the maturity date of the note. The unsecured promissory note bears interest of 8.0% per annum between November 2024 and August 2025, and 6.0% per annum starting August 2025.

Both amendment agreements with Peter Quiring and Fresh Energy were treated as debt modifications under IFRS 9 as the terms were not substantially different and the discounted present value of cash flows under the extension is less than 10% different from the discounted present value of the remaining cash flow of the original financial liability.

The continuity schedule of the promissory notes is presented below:

		As at March 31, 2025		As at December 31, 2024
Balance, beginning of period	**$**	**3,318**	$	3,488
Payments		**(150)**		(450)
Interest and accretion expense		**137**		497
Change in fair value		**-**		(217)
Balance, end of period	**$**	**3,305**	$	3,318

16. Share capital

The share capital of the Company is summarized below:

	March 31, 2025	December 31, 2024
Issued and outstanding shares		
Issued shares	**1,314,937,075**	1,308,255,933
Escrowed shares	**1,888,421**	1,888,421
Outstanding shares	**1,313,048,654**	1,306,367,512

	March 31, 2025	December 31, 2024
Outstanding securities		
Warrants	**103,289,000**	109,970,142
Convertible debentures	**1,234,568**	1,234,568
Options	**18,321,581**	19,286,581
Restricted share units	**84,913,751**	84,913,751

a) Authorized

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

b) Issued and outstanding

As at March 31, 2025, there were 1,314,937,075 issued and outstanding common shares, with 1,888,421 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2024 had 1,308,255,933 issued and outstanding common shares, and 1,888,421 shares held in escrow related to contingent considerations in acquisitions and investments).

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

16. Share capital (continued)

c) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at March 31, 2025:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2024	**187,977,199**	**0.149**	**2.67**
Warrants exercised	(33,411,358)	0.045	-
Warrants expired	(44,595,699)	0.435	-
Closing balance, December 31, 2024	**109,970,142**	**0.064**	**2.23**
Warrants exercised	(6,681,142)	0.045	-
Closing balance, March 31, 2025	**103,289,000**	**0.065**	**1.92**

During the three months ended March 31, 2025, 6,588,642 warrants from the February 2023 private placement and 92,500 warrants from the June 2021 bought deal were exercised. Under both transactions, each warrant entitled the investor to purchase one common share at the price of $0.045 per common share. For the three months ended March 31, 2025, the Company recorded net proceeds of $301 in the interim condensed consolidated statements of cash flows for warrants exercised.

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 131,493,708 as at March 31, 2025.

The following table summarizes information about stock options outstanding as at March 31, 2025:

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2024	**19,721,837**	**0.713**	**2.95**
Options granted	2,000,000	0.025	4.05
Options expired	(1,935,000)	0.989	-
Options forfeited	(500,256)	0.348	-
Closing balance, December 31, 2024	**19,286,581**	**0.623**	**2.45**
Options forfeited	(965,000)	0.530	-
Closing balance, March 31, 2025	**18,321,581**	**0.628**	**2.27**

During the first quarter of 2025, the Company did not grant new stock options (2024 – 2,000,000). Total options exercisable as at March 31, 2025 were 15,722,315 (December 31, 2024 – 16,674,815) with a remaining average life of 2.24 years (December 31, 2024 – 2.42 years). During the three months ended March 31, 2025, the Company recorded equity-based compensation of $24 for stock options (2024 – $63). Refer to Note 23 for more information

e) Restricted share units

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

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

16. Share capital (continued)

The following table summarizes information about the RSUs outstanding as at March 31, 2025:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
Opening balance, January 1, 2024	**51,286,687**	**0.091**	**1.00**
RSUs issuance	86,142,609	0.045	1.51
RSUs settled	(51,488,311)	0.091	-
RSUs forfeited	(1,027,234)	0.091	-
Closing balance, December 31, 2024	**84,913,751**	**0.045**	**1.51**
Closing balance, March 31, 2025	**84,913,751**	**0.045**	**1.26**

As at March 31, 2025, the unrecognized equity-based compensation related to issued RSU was $1,396 (December 31, 2024 – $1,749), which will be recognized over the remaining life as the RSUs vest. Refer to Note 23 for more information.

f) Net income/(loss) per share

Basic net income/(loss) per share is calculated by dividing the net income/(loss) for the period attributable to the shareholders by the weighted average number of shares in circulation during the period. Diluted net income/(loss) per share is determined by adjusting the net income/(loss) attributable to its shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants, stock options and restricted share units issued.

For the three months ended March 31:	2025	2024
Net income/(loss)	**$ 12,111**	$ (26,012)
Weighted average number of shares outstanding for basic earnings per share	**1,310,291,543**	1,016,839,478
Dilutive impact of assumed exercise or conversion of:		
Restricted share units	31,383,077	-
Warrants	23,009,802	-
Stock options	1,195,850	-
Weighted average number of shares outstanding for diluted earnings per share	**1,365,880,272**	1,016,839,478
Income/(loss) per common share – basic and diluted ($)	**$ 0.01**	$ (0.03)

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

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, equity-based awards or post-employment benefits.

Compensation provided to key management personnel is as follows:

For the three months ended March 31:	**2025**	2024
Short-term benefits	**$ 1,049**	$ 436
Long-term benefits	**1,238**	1,280
Total	**$ 2,287**	$ 1,716

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 hierarchy has the following levels:

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

The table below presents the fair value of the Company's financial instruments. The carrying values of the Company's financial instruments approximate their fair values.

	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 144	$ -	$ -	$ 144
Biological assets	-	-	11,277	11,277
Private company shares	-	-	261	261
Balance, March 31, 2025	**$ 144**	**$ -**	**$ 11,538**	**$ 11,682**

	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 143	$ -	$ -	$ 143
Biological assets	-	-	8,286	8,286
Private company shares	-	-	594	594
Balance, December 31, 2024	**$ 143**	**$ -**	**$ 8,880**	**$ 9,023**

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

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, restricted cash, short-term investments, accounts receivable, other receivables, deposits, long-term investments, accounts payable and accrued liabilities, other current liabilities, promissory notes, loans payable and convertible debentures.

As at March 31, 2025, the carrying values of cash and cash equivalents, restricted cash and short-term investments are measured at fair value. The carrying values of accounts receivable, accounts payable and accrued liabilities, and other receivables approximate their fair values due to their short-term nature. The carrying values of loans payable, promissory notes and convertible debentures are discounted at the effective interest rate and approximate their fair values. The carrying values of Cash Settled RSUs recorded in other current liabilities are measured at their fair value at each reporting period, based on the closing price of the Company's common shares on the reporting period.

c) Market risk

Market risk is the risk that changes in market prices will affect the Company's net income/(loss) or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from investments measured at fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase/(decrease) in the share price would have increased/(decreased) equity for the three months ended March 31, 2025 by $26/($26) before tax (December 31, 2024 – $59/($59)).

Financial instrument	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investments in private companies	Market approach	Investment index	If the investment index fair value change increased/(decreased) by 10%, the estimated fair value of the long-term investment would increase/(decrease) by $26/($26) (December 31, 2024 – $59/($59)).

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. All of the Company's financial debt is on fixed interest rates, with the exception of the Amended and Restated Credit Facility with the Bank of Montreal. For financial debt on fixed interest rates, a change in interest rates will not impact the Company's income or cash flows during the contract term. For the Amended and Restated Credit Facility, the impact of a 10% increase/(decrease) in interest rate would increase/(decrease) interest expense by $32/($32) for the three months ended March 31, 2025 (2024 – $70/($70)).

18. Financial instruments and risk management (continued)

e) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The financial instruments that are exposed to such risk include cash and cash equivalents, accounts receivable and other receivables. Management has mitigated the risk by using Tier 1 financial institutions for managing its cash and has established communication channels with the counterparties of the receivables for ongoing monitoring of their financial performance.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities. The Company maintains financial covenants on its debt obligations and does not anticipate being in breach of any of its financial covenants. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

As at March 31, 2025, the Company has insufficient cash to fund its operations for the next 12 months if the Company's sales materially decline and/or the debt obligations mature without extension or refinancing. Refer to Note 2 for more information.

g) Foreign exchange risk

The interim condensed consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity within the consolidated group determines its own functional currency. The Company is exposed to certain foreign currency risk in that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. Management has mitigated the risk by holding sufficient cash in US dollars. A 10% increase/(decrease) in the exchange rate would increase/(decrease) net income/(loss) by $43/($43) (December 31, 2024 – $33/($33)).

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

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

20. Commitments and contingencies

Commitments

As at March 31, 2025, Auxly has entered into certain agreements that commit the Company to future funding following a mutually agreed-upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable. Auxly has funding commitments as follows:

- As part of the debt financing provided by a syndicate led by the Bank of Montreal towards the construction of the Auxly Leamington purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments to $33,000 in the event of default; and
- Payments of €189 in 2025 for the currently operational automated pre-roll manufacturing and packaging equipment.

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:

	Remaining 2025	Fiscal year 2026	Fiscal year 2027	Fiscal year 2028	Thereafter	Total
Lease obligations	$ 2,375	$ 3,181	$ 2,397	$ 1,071	$ 7,680	**$ 16,704**
Loans payable obligations	48,359	-	-	-	-	**48,359**
Promissory note obligations	900	1,200	1,200	1,157	-	**4,457**
Convertible debenture obligations	-	21,696	-	-	-	**21,696**
Total	**$ 51,634**	**$ 26,077**	**$ 3,597**	**$ 2,228**	**$ 7,680**	**$ 91,216**

Contingencies

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

The Company entered into a brokerage agreement with Kindred Partners Inc. ("Kindred") to act as the Company's strategic sales agent in September 2019. In October 2022, the brokerage agreement with Kindred was terminated. In January 2023, Kindred commenced arbitration against the Company for an aggregate claim of $3,442 and the Company filed its defence and counterclaim against Kindred. During the second quarter of 2024, the Company reached a settlement of $2,200 payable to Kindred. The first payment of $400 was made in September 2024, followed by 12 monthly instalments of $150 starting in October 2024.

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

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 March 31:		2025		2024
Wages and benefits	**$**	**4,647**	$	4,277
Office and administrative		**1,545**		1,362
Professional fees		**335**		455
Business development		**33**		135
Selling expenses		**3,112**		2,392
Total	**$**	**9,672**	$	8,621

22. Interest and accretion expenses

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

For the three months ended March 31:		2025		2024
Total interest expense	**$**	**2,147**	$	6,868
Less non-cash interest on Imperial Brands convertible debentures		**(10)**		(1,225)
Less non-cash accretion expense on convertible debentures		**(35)**		(3,077)
Less non-cash interest and accretion expense on promissory notes		**(137)**		(130)
Less deferred financing fees amortization		**(104)**		(154)
Less accretion on other liabilities		**(62)**		-
Total cash interest	**$**	**1,799**	$	2,282

23. Equity-based compensation

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

For the three months ended March 31:		2025		2024
Stock options	**$**	**24**	$	63
Restricted share units		**510**		118
Cash Settled restricted share units		**971**		1,746
Total equity-based compensation	**$**	**1,505**	$	1,927

Cash Settled restricted share units

During 2023, the Company issued RSUs to eligible employees and directors; such RSUs will be settled for their cash equivalent on the applicable settlement date, subject to a maximum settlement amount equal to two times the fair value of the RSUs ("Cash Settled RSUs"). For Cash Settled RSUs, the fair value of the RSUs is recognized as an equity-based compensation expense in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss), with a corresponding increase in liabilities over the vesting period. The amount recognized as expense is based on the estimated number of RSUs expected to vest. Cash Settled RSUs are measured at their fair value at each reporting period, based on the closing price of the Company's common share on the reporting period.

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

23. Equity-based compensation (continued)

As at March 31, 2025, the Company recorded $4,681 as other current liabilities (December 31, 2024 – $3,710) in the interim condensed consolidated statements of financial position related to Cash Settled RSUs.

The following table summarizes information about the Cash Settled RSUs:

	Number of RSUs	Weighted average issue price ($)	Average remaining life (years)
Opening balance, January 1, 2024	**176,178,062**	**0.018**	**1.46**
RSUs settled	(365,057)	0.018	-
RSUs forfeited	(5,326,874)	0.018	-
Closing balance, December 31, 2024	**170,486,131**	**0.018**	**0.66**
RSUs forfeited	(865,057)	0.018	-
Closing balance, March 31, 2025	**169,621,074**	**0.018**	**0.49**

24. Changes in non-cash working capital

The following table reconciles the changes in non-cash working capital as presented in the Company's interim condensed consolidated statements of cash flows:

For the three months ended March 31:	**2025**	2024
Short-term investments	**$ (1)**	$ (2)
Accounts receivable	**101**	(2,887)
Other receivables	**(125)**	76
Prepaid expenses	**(383)**	(405)
Interest payable	**-**	(118)
Biological assets and inventory (Notes 6 and 7)	**(4,110)**	1,026
Accounts payable and accrued liabilities	**974**	188
Total	**$ (3,544)**	$ (2,122)

25. Operating segments

Management evaluates and makes decisions on the operating performance by segment. The Company currently has one operating segment. The Company's Canadian cannabis operations are dedicated to the cultivation and sale of cannabis products within Canada, and include Auxly Charlottetown, Auxly Inc. and Auxly Leamington. All the Company's revenues are from its Canadian operations.