AUXLY CANNABIS GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Dated March 30, 2022

Independent auditor's report

To the Shareholders of
Auxly Cannabis Group Inc.

Opinion

We have audited the consolidated financial statements of **Auxly Cannabis Group Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment test for goodwill and indefinite-life intangible assets	
As at December 31, 2021, the total carrying value of goodwill and indefinite life intangible assets related to the Cannabis cash generating unit ["CGU"] were $24.1 million and $60.1 million, respectively. Management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of these assets. The Group performs their annual impairment test as of December 31 and estimates the recoverable amount of the cash generating unit to which goodwill and indefinite life intangible assets have been allocated using a discounted cash flow model. The Group discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in note 9 to the consolidated financial statements. Auditing management's annual goodwill and indefinite life intangible assets impairment test was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the Cannabis CGU. Significant assumptions included revenue growth rates, earnings margins and the discount rate, which are affected by expectations about future market and economic conditions.	To test the estimated recoverable amount of the Cannabis CGU, our audit procedures included, among others: • We evaluated the historical accuracy of management's estimates on revenue growth rates and earnings margins by comparing management's past projections to actual performance; • We compared management's estimated revenue growth rates and the earnings margins to current industry, market, historical performance and economic trends; • With the assistance of our valuation specialists, we assessed the Group's impairment model, valuation methodology, and certain significant assumptions, including the discount rate, and compared the aggregate recoverable amount of the CGU to the Group's market capitalization; • With the assistance of our valuation specialists, we assessed the selection and application of the discount rate by comparing the risk-free rate and risk premiums to comparable market data; • With the assistance of our valuation specialists, we performed a sensitivity analysis on significant assumptions, including revenue growth rates, earnings margins and the discount rate, to evaluate changes in the recoverable amount of the CGU that would result from changes in the assumptions; and • We assessed the adequacy of the Group's disclosures included in note 9 of the accompanying consolidated financial statements in relation to this matter.

Key audit matter	How our audit addressed the key audit matter
Valuation of cannabis inventory	
As at December 31, 2021, the Group held inventory of $52.1 million. The Group discloses its accounting policies with relation to inventory in note 3, and the significant components of inventory in note 7 to the consolidated financial statements. Auditing management's inventory costing is complex due to the nature of the process to calculate the ongoing cost of inventory and the use of complex models [the "model"] used to calculate ongoing cost of inventory. There are a variety of inputs and source data used within the model that increase the extent of audit effort, including suitable portions of related production overheads, based on normal operating capacity and expenditures directly related to the manufacturing process.	To test the valuation of cannabis inventory, our audit procedures included, among others: • We evaluated the incorporation of the source data into the models, and on a sample basis tested the formulas used and the computational accuracy; • We tested management's calculation of production costs and allocation of indirect costs by assessing the appropriateness of the allocation method, assessing the appropriateness of utilization and normal operating capacity, and recalculating the allocations; • We tested the production quantities used in the model by physically observing and verifying inventory quantities on a sample basis; and • We assessed the adequacy of the Group's disclosures included in note 7 of the accompanying consolidated financial statements in relation to this matter.

Other information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kwan-Ho Song.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 30, 2022

Consolidated Statements of Financial Position
Expressed in thousands of Canadian dollars

As at:	December 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	**$ 14,754**	$ 20,657
Restricted cash (Note 4)	**1,561**	557
Short-term investments	**140**	286
Accounts receivable (Note 5)	**27,039**	10,684
Biological assets (Note 6)	**6,563**	419
Inventory (Note 7)	**52,378**	43,797
Research contract costs	**-**	2,931
Prepaid expenses	**7,050**	873
Deposits (Note 13)	**4,888**	7,444
Other receivables	**4,170**	2,785
	$ 118,543	$ 90,433
Non-current assets		
Property, plant and equipment, net (Note 8)	**$ 226,476**	$ 95,354
Intangible assets, net (Note 9)	**74,203**	74,259
Goodwill (Note 9)	**24,290**	28,595
Long-term investments (Note 11)	**3,897**	5,026
Investment in joint venture (Note 10, 12)	**-**	82,079
Long-term deposits (Note 13)	**1,582**	1,781
	$ 330,448	$ 287,094
Assets held for sale (Note 30)	**1,431**	1,436
Total assets	**$ 450,422**	$ 378,963
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 30,569**	$ 27,241
Interest payable	**-**	6,563
Lease liability (Note 15)	**4,043**	1,473
Convertible debentures (Note 16)	**10,627**	-
Loans payable (Note 18)	**5,450**	-
Promissory notes (Note 19)	**1,370**	-
Short-term debt (Note 17)	**-**	3,276
Contingent consideration payable (Note 14)	**500**	-
Deferred revenue	**295**	5,659
	$ 52,854	$ 44,212
Non-current liabilities		
Interest payable	**2,504**	-
Lease liability (Note 15)	**17,252**	9,410
Convertible debentures (Note 16)	**95,198**	110,525
Loans payable (Note 18)	**51,347**	-
Promissory notes (Note 19)	**4,817**	-
Deferred tax liability (Note 27)	**17,540**	21,463
Other non-current liabilities (Note 10)	**-**	1,024
	$ 188,658	$ 142,422
Liabilities held for sale (Note 30)	**797**	800
Total liabilities	**$ 242,309**	$ 187,434
Equity		
Share capital (Note 20)	**$ 436,508**	$ 394,574
Reserves (Note 20)	**110,958**	98,047
Accumulated other comprehensive loss	**(26,478)**	(21,952)
Deficit	**(308,468)**	(274,729)
Total equity attributable to shareholders of the Company	**$ 212,520**	$ 195,940
Total equity attributable to non-controlling interest	**(4,407)**	(4,411)
Total equity	**$ 208,113**	$ 191,529
Total liabilities and equity	**$ 450,422**	$ 378,963

Commitments and contingencies (Note 24)

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

The consolidated financial statements were approved by the Board of Directors on March 30, 2022 and were signed on its behalf by:

(s) Genevieve Young

Genevieve Young

AUXLY CANNABIS GROUP INC.

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

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

For the years ended December 31:

	2021	2020
CONTINUING OPERATIONS		
Revenue		
Revenue from sales of cannabis products	$ 120,824	$ 57,182
Other revenue	-	70
Excise taxes	(36,995)	(10,533)
Total net revenue	83,829	46,719
Cost of sales		
Cost of finished cannabis inventory sold	62,754	33,858
Inventory impairment (Note 7)	3,264	3,393
Gross profit excluding fair value items	17,811	9,468
Unrealized fair value gain/(loss) on biological transformation (Note 6)	2,384	537
Realized fair value gain/(loss) on inventory	(905)	(193)
Gross profit	19,290	9,812
Expenses		
Selling, general, and administrative expenses (Note 25)	45,721	46,629
Depreciation and amortization (Notes 8, 9)	12,507	8,981
Interest and accretion expense (Note 26)	17,668	12,984
Total expenses	75,896	68,594
Other income/(loss)		
Fair value gain/(loss) for financial instruments accounted under fair value through profit or loss (Note 11)	6	(4,408)
Interest and other income	1,591	477
Impairment of long-term assets (Note 8)	(11,426)	(6,146)
Gain/(loss) on settlement of assets and liabilities and other expenses	20,289	(9,682)
Gain on disposal of subsidiary (Note 32)	1,355	-
Share of loss on investment in joint venture (Note 12)	(4,661)	(7,407)
Foreign exchange gain/(loss)	(788)	(627)
Total other income/(loss)	6,366	(27,793)
Net income/(loss) before income tax	(50,240)	(86,575)
Income tax recovery (Note 27)	4,330	681
Net income/(loss) from continuing operations	$ (45,910)	$ (85,894)
Net income/(loss) from discontinued operations (Note 31)	12,156	(1,537)
Net income/(loss)	$ (33,754)	$ (87,431)
Net loss attributable to shareholders of the Company	$ (33,739)	$ (85,426)
Net loss attributable to non-controlling interest	$ (15)	$ (2,005)
Other comprehensive income/(loss)		
Fair value gain/(loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (Note 11)	$ (4,603)	$ (1,004)
Currency translation adjustment - subsequently reclassified to profit or loss	96	(287)
Total comprehensive income/(loss)	$ (38,261)	$ (88,722)
Total comprehensive income/(loss) attributable to shareholders of the Company	$ (38,242)	$ (86,646)
Total comprehensive income/(loss) attributable to non-controlling interest	$ (19)	$ (2,076)
Net income/(loss) per common share		
From continuing operations	$ (0.06)	$ (0.14)
From discontinued operations	0.02	(0.00)
Net income/(loss) per common share - basic and diluted	$ (0.04)	$ (0.14)
Weighted average number of shares outstanding		
Basic and diluted	783,379,798	631,528,750

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

AUXLY CANNABIS GROUP INC.

Consolidated Statements of Cash Flows
Expressed in thousands of Canadian dollars

For the years ended December 31:

		2021		2020
Operating activities				
Net loss for the year from continuing operations	**$**	**(45,910)**	$	(85,894)
Items not affecting cash:				
Inventory impairment (Note 7)		**3,264**		3,393
Realized fair value loss/(gain) on inventory		**905**		193
Unrealized fair value loss/(gain) on biological transformation (Note 6)		**(2,384)**		(537)
Depreciation and amortization (Notes 8, 9)		**14,273**		9,006
Share-based compensation (Note 25)		**1,433**		4,349
Interest expense (Note 26)		**15,806**		8,354
Interest income (Note 12)		**(1,396)**		-
Share of loss on investment in joint venture (Note 12)		**4,661**		7,407
Unrealized foreign exchange loss		**207**		290
Fair value loss/(gain) for financial instruments accounted under fair value through profit or loss (Note 11)		**(6)**		4,408
Income tax recovery (Note 27)		**(4,330)**		(681)
Impairment of long-term assets (Note 8)		**11,426**		6,146
Loss/(gain) on settlement of assets and liabilities and other expenses		**(15,885)**		9,831
Gain on disposal of subsidiary (Note 32)		**(1,355)**		-
Assets held for sale (Note 30)		**-**		(3)
Cash used in operating activities before net working capital	**$**	**(19,291)**	$	(33,738)
Net change in non-cash working capital (Note 28)		**(29,657)**		290
Cash used in operating activities from continuing operations	**$**	**(48,948)**	$	(33,448)
Net cash flows attributable to discontinued operations		**(681)**		320
Net cash used in operating activities	**$**	**(49,629)**	$	(33,128)
Investing activities				
Net proceeds from sale (purchase) of long-term investments (Note 11)	**$**	**10,239**	$	6,015
Proceeds on sale of subsidiary (Notes 31, 32)		**8,307**		-
Investment in joint venture (Note 12)		**(900)**		-
Proceeds from sale of assets (Note 8)		**-**		184
Purchase of property, plant, and equipment (Note 8)		**(378)**		(20,566)
Net cash from business combination (Note 10)		**61**		-
Cash provided by (used) in investing activities from continuing operations	**$**	**17,329**	$	(14,367)
Net cash flows attributable to discontinued operations		**(3)**		(163)
Net cash provided by (used in) investing activities	**$**	**17,326**	$	(14,530)
Financing activities				
Net proceeds from convertible debentures (Note 16)	**$**	**-**	$	10,664
Net proceeds from financings (Note 20)		**44,938**		12,719
Net proceeds from loans payable (Note 18)		**3,321**		-
Payment on promissory notes (Note 19)		**(100)**		-
Proceeds from warrants exercised (Note 20)		**1,084**		-
Proceeds from options exercised (Note 20)		**129**		190
Repayment of convertible debentures (Note 16)		**-**		(2,705)
Repayment of loans payable (Note 18)		**(15,173)**		-
Repayment of short-term borrowings (Note 17)		**(3,276)**		3,276
Repayment on long-term debt		**-**		(950)
Proceeds from new lessor of Dosecann property		**-**		5,010
Payment on lease liabilities		**(4,326)**		(3,115)
Cash provided by financing activities from continuing operations	**$**	**26,597**	$	25,089
Net cash flows attributable to discontinued operations		**(197)**		(351)
Net cash provided by financing activities	**$**	**26,400**	$	24,738
Cash used in continuing operations	**$**	**(5,022)**	$	(22,726)
Net cash flows attributable to discontinued operations		**(881)**		(194)
Increase/(decrease) in cash and cash equivalents during the year	**$**	**(5,903)**	$	(22,920)
Cash and cash equivalents, beginning of period		**20,657**		43,577
Cash and cash equivalents, end of year	**$**	**14,754**	$	20,657

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

AUXLY CANNABIS GROUP INC.

Consolidated Statements of Changes in Equity
Expressed in thousands of Canadian dollars

For the years ended December 31:		2021		2020
Share capital				
Balance - beginning of year	**$**	**394,574**	$	384,431
Shares issued on exercise of warrants		**1,084**		-
Shares issued on exercise of options		**129**		190
Shares issued on settlement of liabilities (Note 10)		**924**		-
Shares issued as at-the-market offerings (Note 20)		**2,973**		-
Shares issued on financings, net of taxes (Note 20)		**33,452**		9,865
Shares issued as employee awards		**832**		-
Shares retired as part of Sunens acquisition		**(158)**		-
Fair value transfer on exercise of warrants		**380**		-
Fair value transfer on exercise of options		**2,318**		88
Share capital - end of year	**$**	**436,508**	$	394,574
Reserves				
Convertible debentures				
Balance - beginning of year	**$**	**29,752**	$	29,150
Equity component of convertible debentures		**-**		602
Convertible debentures - end of year	**$**	**29,752**	$	29,752
Warrants				
Balance - beginning of year	**$**	**33,803**	$	30,463
Equity component of convertible debentures		**-**		485
Warrants issued on financings (Note 20)		**9,432**		2,855
Warrants retired as part of Sunens acquisition		**(1,274)**		-
Fair value transfer to shares upon conversion		**(380)**		-
Warrants - end of year	**$**	**41,581**	$	33,803
Contributed surplus				
Balance - beginning of year	**$**	**34,492**	$	30,231
Equity component of Imperial convertible debenture, net of taxes		**5,418**		-
Shares and warrants retired as part of Sunens acquisition		**1,432**		-
Employee share options:				
Share-based compensation		**601**		4,349
Fair value transfer of exercise of options		**(2,318)**		(88)
Contributed surplus - end of year	**$**	**39,625**	$	34,492
Reserves - end of year	**$**	**110,958**	$	98,047
Accumulated other comprehensive loss				
Balance - beginning of year	**$**	**(21,952)**	$	(20,718)
Fair value changes in long-term investments (Note 11)		**(4,603)**		(1,004)
Currency translation adjustment		**77**		(230)
Accumulated other comprehensive loss - end of year	**$**	**(26,478)**	$	(21,952)
Deficit				
Attributable to the Company				
Balance - beginning of year	**$**	**(274,729)**	$	(189,303)
Net loss attributable to the Company		**(33,739)**		(85,426)
Ending deficit attributable to the Company		**(308,468)**		(274,729)
Attributable to non-controlling interests				
Balance - beginning of year	**$**	**(4,411)**	$	(2,349)
Currency translation adjustment		**19**		(57)
Net loss attributable to non-controlling interests		**(15)**		(2,005)
Ending deficit attributable to non-controlling interests		**(4,407)**		(4,411)
Deficit - end of year	**$**	**(312,875)**	$	(279,140)
Equity - end of year	**$**	**208,113**	$	191,529

The accompanying notes are an integral part of these 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 (“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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on March 30, 2022.

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

Basis of measurement

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of consolidated financial statements in accordance with International Accounting Standards (“IAS”) 1, *Presentation of Financial Statements* (“IAS 1”), requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current year ended December 31, 2021.

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets, long-term investments, certain long-term liabilities and derivatives, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

2. Basis of preparation (continued)

Basis of consolidation

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 be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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 consolidated financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets, including goodwill and the credit risk of its counterparties.

As at December 31, 2021, the Company has determined that no significant revisions to estimates, judgments or assumptions were required for its operating segments; however, the continuing uncertainty associated with the COVID-19 pandemic may require changes in future periods. The Company will continue to closely monitor the impact of the COVID-19 pandemic, including any such changes to estimates, judgments or assumptions that could have a material impact on the Company's consolidated financial position and consolidated results of operations.

Subsidiaries

These 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 consolidated statements of financial position.

2. Basis of preparation (continued)

The consolidated financial statements of the Company include:

Subsidiaries	Equity interests
Auxly Charlottetown Inc. (formerly Dosecann LD Inc.)	100%
Auxly Ottawa Inc. (formerly Kolab Project Inc.)	100%
Auxly Annapolis Inc. (formerly Robinson’s Cannabis Inc.)	100%
Auxly Annapolis OG Inc. (formerly Robinson’s Outdoor Grow Inc.)	100%
Auxly Leamington Inc. (formerly Sunens Farms Inc.)	100%
Inverell S.A.	80%

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquired business, less the net recognized amount of the identifiable assets and liabilities assumed, all measured at acquisition date fair value. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition dates.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred and included in selling, general, and administrative expenses.

The Company determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue to producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to producing outputs. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and for pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). After the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2. Basis of preparation (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGUs") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint venture arrangements that involve the creation of a separate entity in which each party has an interest are referred to as jointly controlled entities. The Company accounts for its interests in a joint venture using the equity method.

3. Significant accounting policies

a) Functional currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity within the consolidated financial statements determines its own functional currency and items included in the consolidated financial statements of each entity are remeasured using the functional currency. The functional currency of all subsidiaries is the Canadian dollar, except for Inverell S.A. ("Inverell") which has a U.S. dollar functional currency.

Within each entity, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in the consolidated statements of loss and comprehensive loss. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The consolidated financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the end of the reporting period for assets and liabilities and the average exchange rates for the year for revenue, expenses and cash flows. Foreign exchange differences arising on translation are recognized in other comprehensive loss and in accumulated other comprehensive loss in shareholders' equity.

b) Biological assets

The Company's biological assets consist of cannabis plants, which are valued at fair value less cost to sell. The fair value was determined using the income approach.

Production costs include all direct and indirect costs relating to biological transformation, which are capitalized to biological assets as they were incurred on the consolidated statements loss and comprehensive loss.

3. Significant accounting policies (continued)

The direct and indirect costs include the following:

- Direct materials consumed in the growing process such as soil, chemicals, fertilizers and other supplies
- Direct labour for individuals who work in the cultivation department
- Indirect labour for other personnel's time spent related to the cultivation process
- Indirect materials consumed related to the cultivation process
- Utility related to the cultivation process
- Depreciation and maintenance of production equipment
- Quality assurance on the plants

The Company measures and adjusts the biological assets to the fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the year are included as a separate line in the gross profit calculation on the consolidated statements of loss and comprehensive loss.

c) Inventory

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest which becomes the initial cost. Inventories of harvested plants are transferred from biological assets at their carrying amount upon harvest which becomes the initial cost. Any subsequent post-harvest costs, either direct or indirect, are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value on the consolidated statements of financial position. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to net realizable value.

The post-harvest direct and indirect costs include the following:

- Direct materials such as packages, labels and bottles
- Direct labour for individuals who work in the processing department
- Indirect labour for other personnel's time spent related to the production process
- Indirect materials consumed related to the production process
- Utility related to the post-harvest process
- Depreciation and maintenance on dried cannabis processing and packaging equipment
- Quality assurance for the final product

The post-harvest costs capitalized in finished cannabis products and costs of other resale products are subsequently recorded in cost of goods sold on the consolidated statements of loss and comprehensive loss when they are sold. The realized initial costs upon sales, transferred from biological assets measured at fair value less cost to sell at harvest are presented as a separate line in the gross profit calculation on the consolidated statements of loss and comprehensive loss.

3. Significant accounting policies (continued)

d) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Gains and losses on disposal are determined by comparing the proceeds from disposal and the carrying amount of the asset and are recognized in the consolidated statements of loss and comprehensive loss.

Depreciation is calculated using the straight-line method over the useful life of each asset as follows:

• Land and assets not available for use	Not depreciated
• Computer equipment	3–5 years
• Office furniture	5–10 years
• Leasehold improvements	Over term of the lease
• Right-of-use assets	Over term of the lease
• Equipment	5–10 years
• Buildings	20 years

Depreciation methods, useful lives, and estimated residual values are reviewed at the end of each financial year.

e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period which they are incurred.

f) Finite-lived and indefinite-lived intangible assets

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis from when the asset is available for use, over the following terms:

• Cultivation interests	Over the term of the agreement
• Canadian cultivation licences	Indefinite life
• Processing licences	Indefinite life
• International cultivation licences	Indefinite life
• Distribution agreements	15 years

Others:

• Contractual rights agreements	5 years
• Non-competition agreements	Over the term of the agreement
• Other licences	Over the term of the agreement

3. Significant accounting policies (continued)

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives consist of acquired product rights, which are carried at cost less accumulated impairment losses.

Intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite-life intangible assets are reviewed for impairment annually or at any time if an indicator of impairment exists.

g) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

h) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the CGU or CGUs to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of CGUs, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

i) Leased assets

The Company is a party to lease contracts for, among others: a) office space; b) machinery and equipment; and c) land. Leases are recognized, measured and presented in accordance with IFRS 16, *Leases* ("IFRS 16").

The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Company elected to apply exemptions for short-term leases and for leases for which the underlying asset is of low value.

3. Significant accounting policies (continued)

The Company has also elected to apply the practical expedient to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Lease payments made at or before the commencement date, less any lease incentives; and
- Any initial direct costs incurred by the lessee.

After the commencement date, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right of-use asset from the commencement date to the end of the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, which comprises:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease term determined by the Company comprises:

- Non-cancellable period of lease contracts;
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

3. Significant accounting policies (continued)

j) Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income/(loss).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payments of principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments that the Company has not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income/(loss) instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVOCI are initially measured at fair value and changes therein are recognized in other comprehensive income/(loss).

3. Significant accounting policies (continued)

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit or loss or other comprehensive income/(loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income/(loss).

Summary of the Company's classification and measurements of financial assets and liabilities

	IFRS 9	
	Classification	**Measurement**
Cash and cash equivalents	FVTPL	Fair value
Short-term investments	FVTPL	Fair value
Other receivables	Amortized cost	Amortized cost
Long-term investments	FVOCI and FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Promissory note	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Interest payable on convertible debentures	Amortized cost	Amortized cost
Contingent consideration payable	Amortized cost	Amortized cost

3. Significant accounting policies (continued)

k) Compound financial instruments

Compound financial instruments issued by the Company comprises convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. On conversion or upon expiration, the carrying value of the equity portion is transferred to common shares or contributed surplus.

l) Revenue recognition

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

The Company follows the five-step model in IFRS 15, *Revenue from Contracts with Customers*, to recognize revenue:

1) Identify the contract with a customer
2) Identify the performance obligations in the contract
3) Determine the transaction price
4) Allocate the transaction price to performance obligations in the contract
5) Recognize revenue when the Company satisfies a performance obligation

Revenue from the sale of cannabis to customers is recognized when the Company transfers control of the good to the customer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

Revenue is also generated from providing research services for customers who are conducting human clinical trials. Billing or payments received from customers in advance of revenue recognition are recorded as deferred revenue on the consolidated statements of financial position, and costs incurred for fulfilling the contract are recorded as research contract cost on the consolidated statements of financial position.

3. Significant accounting policies (continued)

Costs to obtain or fulfil contracts with customers

The Company capitalizes the incremental costs incurred to obtain the contracts and direct costs incurred to fulfil the contracts and records them as research contract costs on the consolidated statements of financial position. Incremental costs are those costs the Company incurs to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

Expenditures that do not meet the above criteria are expensed when incurred.

The Company amortizes the research contract costs on a systematic basis that is consistent with the transfer of research services and periodically compares the carrying amount to the remaining amount of consideration that the Company expects to receive in exchange for the services to which the asset relates less the costs that relate directly to provide the services that have not been recognized as expenses (the recoverable amount). If the carrying amount of the asset is greater than the recoverable amount, an impairment loss will be recorded.

m) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is also recognized directly in shareholders' equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the dates of the consolidated statements of financial position and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered.

Deferred tax assets and liabilities are presented as non-current.

n) Share capital and share-based compensation

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus. When options are exercised, the amount received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital. The impact of a revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

3. Significant accounting policies (continued)

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Contributed surplus includes amounts in connection with conversion options embedded in compound financial instruments, stock-based compensation and the value of expired options and warrants. Deficit includes all current and in period income and losses.

o) Earnings/(loss) per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common 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 and share options issued.

For the years presented, all options, conversion features and warrants were anti-dilutive.

p) Business combinations

The Company has applied the acquisition method in accounting for business combinations.

The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with IFRS 9*, Financial Instruments* (“IFRS 9”), with the corresponding gain or loss being recognized in profit or loss.

Transaction costs that the Company incurs in connection with a business combination, such as finders’ fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the year as incurred and included in selling, general, and administrative expenses.

Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the fair value analysis and related purchase price allocation. Until such time, the fair value and purchase price allocation are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

3. Significant accounting policies (continued)

q) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Business combinations

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Impairment of goodwill and intangible assets

The carrying value of goodwill and intangible assets is reviewed annually for impairment or more frequently when there are indicators that impairment may have occurred. The Company’s impairment tests for goodwill and intangible assets are based on the comparison of the carrying amount of the CGU and the recoverable amount, which is the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost of disposal. The determination of the Company’s CGUs are based on management’s judgment.

The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company’s budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost of disposal is based on assessment of comparable company multiples and precedent transactions.

3. Significant accounting policies (continued)

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 6.

Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating the fair value of Level 2 investments, the Company uses key inputs including the share price of underlying securities, annualized volatility, the risk-free interest rate, the dividend yield, and the expected life of the security. In estimating the fair value of Level 3 investments, the Company uses market-observable data to the extent it is available.

Inputs when using Black-Scholes valuation model

The estimates used in determining the stock option and warrant fair values, utilizes estimates made by management in determining the appropriate input variables in the Black-Scholes valuation model. Inputs subject to estimates include volatility, forfeiture rates, estimated lives and market rates.

Discount rates

The discount rates used to calculate the purchase price allocation, impairment analysis, net present value of notes receivable, the convertible debentures and the notes payable are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels.

Changes in the general economic environment could result in significant changes to this estimate.

3. Significant accounting policies (continued)

Convertible instruments

Convertible debentures are compound financial instruments that are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

r) Future changes in accounting policies

The Company monitors the potential changes proposed by the IASB and analyzes the effect that changes in standards may have on the Company's operations and consolidated financial statements. Standards issued but not effective up to the date of issuance of the Company's consolidated financial statements are described below. The Company will adopt these standards when they become effective.

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 did not early adopt these amendments and no material impact is expected on its consolidated financial statements.

Amendments to IAS 8, Definition of Accounting Estimates

In February 2021, IASB issued amendments to IAS 8 to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is assessing the impact of adopting these amendments on its consolidated financial statements.

3. Significant accounting policies (continued)

Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, IASB issued amendments to IAS 12 to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IFRS 9, Financial Instruments

As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. The Company did not early adopt these amendments and no material impact is expected 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 did not early adopt these amendments and no material impact is expected on its 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 December 31, 2021, Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of $557 (2020 – $557) on behalf of Auxly Leamington Inc. (formerly Sunens Farms Inc.) ("Auxly Leamington") in order to supply power to the facility.

In December 2021, Auxly entered into an arrangement with a leasing company to finance a piece of equipment. As at December 31, 2021, $1,004 (2020 – $nil) of the proceeds from financing was held in escrow to be released to the equipment supplier once the equipment is commissioned at Auxly's site during the first quarter of 2022. Refer to Note 18 for more information.

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

5. Accounts receivable

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

		As at December 31, 2021		As at December 31, 2020
Less than 30 days past billing date	$	24,624	$	5,784
31 to 60 days past billing date		1,771		3,885
61 to 90 days past billing date		523		1,033
Over 90 days past billing date		150		427
	$	27,068	$	11,129
Sales provision		(29)		(445)
	$	27,039	$	10,684

6. Biological assets

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

		Cannabis		Hemp		Total
Balance as at December 31, 2020	$	419	$	-	$	419
Acquired on business combination		5,361		-		5,361
Changes in fair value less cost to sell due to biological transformation		2,384		-		2,384
Capitalized production costs		4,068		-		4,068
Transferred to inventory upon harvest		(5,669)		-		(5,669)
Balance as at December 31, 2021	$	6,563	$	-	$	6,563

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

As at December 31, 2021, the Company's cannabis plants were on average 48% 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.

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

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:

As at December 31, 2021			
Significant inputs and assumptions	**Inputs**	**Sensitivity**	**Effect on biological asset balance**
Weighted average selling price per gram	$5.02/gram	Increase/(decrease) $1.00/gram	Increase/(decrease) $10,791
Average yield per plant	61–114 grams	Increase/(decrease) 10%	Increase/(decrease) $1,086
Post-harvest cost per gram	$0.05–$1.54/gram	Increase/(decrease) $0.5/gram	Increase/(decrease) $5,265

As at December 31, 2020			
Significant inputs and assumptions	**Inputs**	**Sensitivity**	**Effect on biological asset balance**
Weighted average selling price per gram	$8.60/gram	Increase/(decrease) $1.00/gram	Increase/(decrease) $89
Average yield per plant	70 grams	Increase/(decrease) 10%	Increase/(decrease) $51
Post-harvest cost per gram	$0.92/gram	Increase/(decrease) $0.5/gram	Increase/(decrease) $95

7. Inventory

The following is a breakdown of inventory:

	As at December 31, 2021	As at December 31, 2020
Dried cannabis		
Work-in-process	**$ 13,638**	$ 3,722
Finished goods	**640**	428
Dried hemp		
Work-in-process	**3,836**	6,367
Cannabis oil		
Work-in-process	**11,726**	14,060
Generation 2 derivative products		
Work-in-process	**1,208**	1,311
Finished goods	**6,188**	6,703
Merchandise products	**199**	28
Packaging, hardware, consumables and ingredients	**14,943**	11,178
Total	**$ 52,378**	$ 43,797

As at December 31, 2021, the Company recognized $52,378 (2020 – $43,797) of inventory on the consolidated statements of financial position, including $220 non-cash income (2020 – $186 non-cash expense) relating to the fair value less cost to sell transferred to inventory upon harvest. During the year ended December 31, 2021, inventory expensed to cost of sales was $60,640 (2020 – $32,575).

In 2021, the Company recognized a loss of $3,264 (2020 – $2,236) cannabis inventory due to the costs capitalised exceeding the net realizable value of the inventory. The Company also wrote off $nil (2020 – $1,157) of dried hemp inventory due to the costs capitalized exceeding the recoverable amount. The impairment loss has been included in the cost of goods sold in the consolidated statements of loss and comprehensive loss.

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

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, 2020	$ 3,162	$ 30,088	$ 17,653	$ 25,663	$ 16,005	$ 4,809	$ 8,820	**$ 106,200**
Additions	854	126	17,496	122,253	294	4,100	15,074	**160,197**
Disposals	(223)	(361)	(1,247)	(200)	(4,620)	(844)	(772)	**(8,267)**
Transfers	-	-	-	18	(18)	-	-	**-**
Impairment of long-term assets	-	-	(112)	-	(11,366)	-	-	**(11,478)**
December 31, 2021	**$ 3,793**	**$ 29,853**	**$ 33,790**	**$ 147,734**	**$ 295**	**$ 8,065**	**$ 23,122**	**$ 246,652**
Accumulated depreciation:								
December 31, 2020	$ 1,198	$ 791	$ 2,392	$ 2,148	$ -	$ 25	$ 3,013	**$ 9,567**
Depreciation	675	1,465	1,896	1,995	-	2	4,793	**10,826**
Disposals	(134)	(276)	(328)	(67)	-	-	(643)	**(1,448)**
Impairment of long-term assets	-	-	(52)	-	-	-	-	**(52)**
December 31, 2021	**$ 1,739**	**$ 1,980**	**$ 3,908**	**$ 4,076**	**$ -**	**$ 27**	**$ 7,163**	**$ 18,893**
Adjustments:								
Currency translation	$ 12	$ (19)	$ (42)	$ 69	$ -	$ (25)	$ 1	**$ (4)**
Reclassification to assets held for sale (Note 30)	(1)	-	-	-	-	(1,275)	(3)	**(1,279)**
Carrying amounts								
December 31, 2021	**$ 2,065**	**$ 27,854**	**$ 29,840**	**$ 143,727**	**$ 295**	**$ 6,738**	**$ 15,957**	**$ 226,476**

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

Property, plant and equipment associated with KGK have been recorded as disposals in the continuity schedule and the associated depreciation has been presented within discontinued operations. The depreciation for KGK for the 12 months ended December 31, 2021 and December 31, 2020 was $254 and $622, respectively. Refer to Note 31 for more information.

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

8. Property, plant and equipment (continued)

Property, plant and equipment additions includes a $4,476 (2020 – $3,132) non-cash recognition of right-of-use assets.

On July 6, 2021, the Company completed the sale of its interest in 2368523 Ontario Limited (d/b/a Curative Cannabis) to a private purchaser for total proceeds to the Company of $6,000. During the second quarter of 2021, the property, plant and equipment related to Curative Cannabis was written down to its recoverable amount of $6,000, resulting in an impairment loss of $11,366. During the third quarter of 2021, as a result of the sale, the property, plant and equipment related to Curative Cannabis was written down to $nil and is reflected in disposals within the continuity schedule above. Refer to Note 32 for more information.

On November 22, 2021, the Company completed the acquisition of Auxly Leamington. Property, plant and equipment additions include property, plant and equipment with a fair value of $155,339 acquired on acquisition, of which $10,598 were right-of-use assets. Refer to Note 10 for more information.

9. Intangible assets and goodwill

Intangible assets

	Cultivation interests	Canadian cultivation licences	Processing licences	Distribution agreements	Others	Total
Cost:						
December 31, 2020	$ 19,783	$ 27,152	$ 31,100	$ 850	$ 2,619	**$ 81,504**
Additions	-	1,694	-	-	2,860	**4,554**
Disposals	(2,000)	-	-	-	(622)	**(2,622)**
Impairment of intangible assets	-	-	-	-	-	**-**
December 31, 2021	**$ 17,783**	**$ 28,846**	**$ 31,100**	**$ 850**	**$ 4,857**	**$ 83,436**
Accumulated amortization:						
December 31, 2020	$ 5,886	$ -	$ -	$ 119	$ 1,240	**$ 7,245**
Amortization	2,947	-	-	61	693	**3,701**
Disposals	(1,091)	-	-	-	(622)	**(1,713)**
December 31, 2021	**$ 7,742**	**$ -**	**$ -**	**$ 180**	**$ 1,311**	**$ 9,233**
Carrying amounts:						
December 31, 2021	**$ 10,041**	**$ 28,846**	**$ 31,100**	**$ 670**	**$ 3,546**	**$ 74,203**

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

9. Intangible assets and goodwill (continued)

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

a) Cultivation interests

The Company's cultivation interests represent its access to raw cannabis, including a wholly owned subsidiary (previously a joint venture), offtake agreements, and streaming partners. As at December 31, 2021, the carrying value of cultivation interests was $10,041, consisting of three partners, Lotus Cannabis Co., Delta 9 Cannabis Inc. and Auxly Leamington.

On November 1, 2021, Entourage Health Corp. ("Entourage") acquired all of the issued and outstanding shares of CannTx Life Sciences Inc. ("CannTx"). The Company's streaming agreement with CannTx, with a carrying value of $909 prior to the acquisition, was terminated as a result of the acquisition and Entourage Shares were received as consideration. Refer to Note 11 for more information.

b) Canadian cultivation licences

As part of the acquisition of Auxly Leamington, the Company recognized a cultivation licence with a fair value of $1,694. Based on the Company's accounting policy, Canadian cultivation licences have an indefinite life. The Company performs annual impairment tests on the indefinite-life intangible assets and goodwill by comparing the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts, in accordance with IAS 36*, Impairment of Assets*.

c) Distribution agreements

The Company has formed a strategic alliance with Inner Spirit Holdings Ltd. ("Inner Spirit") which includes certain supply and marketing rights subject to applicable provincial laws for each applicable jurisdiction in which Inner Spirit operates retail cannabis stores. The distribution agreement intangible asset represents the premium paid by the Company over and above the fair market value of the shares on the date of the initial agreement.

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

9. Intangible assets and goodwill (continued)

d) Others

The Company and Imperial Brands PLC ("Imperial Brands") have a collaborative partnership whereby the Company was granted global licences to Imperial Brands' vaping technology for cannabis use and access to its vapor innovation business. A value of $1,603 was attributed to this right based on the cash flow savings expected to be derived from the licences, compared to the market rate for royalties of similar technology. A discount rate of 30% was used. As at December 31, 2021, the carrying value of this right was $400 (2020 – $934).

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete the Transfer (as defined and further described in Note 10). The consideration provided 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%, consistent with the Amended and Restated Credit Facility with the Bank of Montreal interest rate, the Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860. Refer to Note 10 for more information.

Goodwill

Annual impairment of CGUs

As at December 31, 2021, the Company performed its annual impairment test on the indefinite-life intangible assets and goodwill.

Balance, December 31, 2020	$	28,595
Business combination (Note 10)		649
Change in goodwill due to sale of subsidiary (Note 31)		(4,954)
Balance, December 31, 2021	**$**	**24,290**

Canadian Cannabis CGU

The Company's Canadian Cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis and cannabis 2.0 products within Canada. In assessing goodwill and indefinite-life intangible assets for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts.

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

The carrying value of the Canadian Cannabis CGU goodwill as at December 31, 2021 was $24,290. The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of the future trends in the industry and have been based on historical data from both external and internal resources.

Pre-tax discount rate	16.0%
Terminal growth rate	3.0%
Budgeted earnings growth rate (average of next five years)	144.1%

9. Intangible assets and goodwill (continued)

The estimated recoverable amount of the CGU exceeded its carrying amount and as such, there was no impairment recorded as at December 31, 2021.

Sensitivity to changes in assumptions

Management has performed an assessment to determine whether an impairment would have been recognized if there was a change in any of the key assumptions identified above. An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the terminal growth rate, or a decrease of 50 basis points in the earnings growth rate, each used in isolation to perform the goodwill impairment tests, would not have resulted in an impairment charge being recognized for the year ended December 31, 2021.

South American Cannabis CGU

The Company's South American Cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within South America. Management determined that a liquidation approach was most appropriate in determination of the recoverable amount of the CGU due to the curtailing of Inverell's operations. Management reviewed the carrying amounts of the CGU's assets at the impairment date and wrote them down to the recoverable amount. Management recognized an impairment of $nil (2020 – $6,146) on long-term assets including property, plant and equipment (Note 8).

10. Business combinations

On November 22, 2021, the Company entered into a share purchase agreement with Peter Quiring, the majority shareholder of Auxly Leamington (formerly Sunens Farms Inc.), to acquire all the issued and outstanding securities of Auxly Leamington not already owned by the Company, resulting in the Company having 100% ownership and control of Auxly Leamington. Pursuant to the share purchase agreement, the Company completed the acquisition for consideration consisting of:

- $500 in cash;
- An unsecured promissory note in the principal amount of $3,400, which bears interest at a rate of 6.00% per annum and is payable by the Company over 30 months in equal monthly instalments, with the first payment due on the first anniversary of the closing date;
- An unsecured promissory note in the principal amount of $2,745, which does not bear interest, is unsecured and due on demand. The Company and Peter Quiring agreed to set off the promissory note owing by the Company from the purchase consideration against an existing debt of $2,745 owing by Peter Quiring to the Company, resulting in both debts being paid in full and cancelled;
- Issuance of $1,100 worth of common shares in the capital of the Company with a value of $924, as calculated using the five-day volume-weighted average trading price of the Company's shares on the TSX on the trading day immediately preceding the date of the acquisition of $0.23 per common share at 4,017,531 common shares as consideration for the assignment of the Company of a $1,100 loan owing from Auxly Leamington to Peter Quiring; and
- $500 of contingent consideration payable by Auxly Leamington to Fresh Energy Inc. ("Fresh Energy") upon the completion of the Transfer (as hereinafter defined).

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

10. Business combinations (continued)

Previously held interest in Auxly Leamington, as an investment in joint venture, consisted of:

- $5,437 of Class 1 common shares in the capital of Auxly Leamington;
- $32,351 of Class B special shares in the capital of Auxly Leamington;
- $42,553 of Auxly Leamington's debt, due to the Company; and
- The settlement of $219 of Auxly Leamington's trade payables due to the Company; partially offset by:
- The settlement of $1,091 of financial guarantee on Auxly Leamington's credit facility in the event of default.

The purchase price allocation of the Auxly Leamington acquisition has been included in the table below. All net assets acquired, and consideration paid have been included at their respective fair value.

		As at November 22, 2021
Cash and cash equivalents	$	561
Biological assets		5,361
Inventory		4,219
Due from 2633867 Ontario Inc.		2,745
Prepaid expenses		700
Property, plant and equipment, net		155,339
Fresh Energy Inc. intangible asset		2,860
Intangible asset		1,694
Goodwill		649
Total assets	**$**	**174,128**
Accounts payable and accruals	$	(4,845)
Deferred revenue		(322)
Obligations under capital leases		(10,598)
Loans payable		(67,516)
Promissory note		(2,860)
Deferred tax liability		(449)
Total liabilities	**$**	**(86,590)**
Fair value of net assets acquired	**$**	**87,538**

		As at November 22, 2021
Cash	$	500
Promissory note issued to Quiring Trust		3,400
Note payable to QuiringCo		2,745
Auxly common shares issued		924
Payable to Fresh Energy Inc. upon completion of the load facility transfer (Note 14)		500
Fair value of previously held equity interest before acquisition (Class 1)		5,437
Fair value of previously held equity interest before acquisition (Class B)		32,351
Fair value of pre-existing balances effectively settled on the acquisition		42,553
Settlement of pre-existing trade balance		219
Settlement of pre-existing financial guarantee		(1,091)
Fair value of consideration paid	**$**	**87,538**

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

10. Business combinations (continued)

Net cash from the business combination is presented in the investing section of the consolidated statements of cash flows as $61, which represents cash and cash equivalents acquired on acquisition of $561, less cash consideration of $500 paid.

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea RD 9 PH 5 (the "Transfer") for which Auxly Leamington shall pay Fresh Energy consideration of:

- An unsecured promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months. Refer to Note 19 for more information; and
- Contingent consideration payable of $500 upon the completion of effecting such Transfer, included in the consideration paid for the acquisition of Auxly Leamington. Refer to Note 14 for more information

The Company has funding commitments of an aggregate of €19,820 from 2022 to 2024 to Van der Knapp Group of Companies related to the lease of an organic growing concept. As part of this acquisition of Auxly Leamington, the Company agreed to continue to temporarily lease the organic growing concept until it can be transferred to Peter Quiring, upon which, the Company's commitments to the Van der Knapp Group of Companies related to the organic growing concept will be extinguished. Such transfer is anticipated to occur in the second fiscal quarter of 2022.

Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the fair value analysis and related purchase price allocation. Until such time, the fair value and purchase price allocation are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

11. Long-term investments

Entity	Instrument	Classification	Balance as at December 31, 2020	FV change	Purchases (sales)	Balance as at December 31, 2021
VIVO Cannabis	Shares	FVOCI	$ 65	$ (25)	$ -	$ 40
CannTx Life Sciences Inc.	Shares	FVOCI	199	316	(515)	-
Entourage Health Corp.	Shares	FVOCI	-	(800)	800	-
Inner Spirit Holdings	Shares	FVOCI	2,791	4,862	(7,653)	-
Inner Spirit Holdings	Options	FVTPL	93	182	(275)	-
Province Brands of Canada	Shares	FVOCI	153	(153)	-	-
Cannabis OneFive Inc.	Shares	FVOCI	109	1,593	-	1,702
Cannabis OneFive Inc.	Warrants	FVTPL	-	200	(200)	-
Delta 9 Cannabis	Shares	FVOCI	654	(31)	(623)	-
Goodleaf Company	Shares	FVOCI	535	(535)	-	-
Goodleaf Company	Warrants	FVTPL	376	(376)	-	-
Wellbeing Digital Sciences Inc.	Shares	FVOCI	-	(9,787)	11,891	2,104
Sundial Growers Inc.	Shares	FVOCI	-	(43)	43	-
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	51	-	-	51
Total			**$ 5,026**	**$ (4,597)**	**$ 3,468**	**$ 3,897**

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

11. Long-term investments (continued)

Entity	Instrument	Classification	Balance as at December 31, 2019	FV Change	Purchases (Sales)	Balance as at December 31, 2020
VIVO Cannabis	Shares	FVOCI	$ 205	$ 39	$ (179)	$ 65
CannTx Life Sciences Inc.	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 of Canada	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)	-
Gooodleaf Company	Shares	FVOCI	225	310	-	535
Gooodleaf Company	Warrants	FVTPL	112	264	-	376
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	348	(297)	-	51
Inner Spirit Holdings	Convertible Debt	FVTPL	1,638	90	(1,728)	-
ICC International Cannabis Corp.	Convertible Debt	FVTPL	4,758	(4,758)	-	-
Total			**$ 16,239**	**$ (5,412)**	**$ (5,801)**	**$ 5,026**

CannTx Life Sciences Inc. and Entourage Health Corp.

On November 1, 2021, Entourage acquired all the issued and outstanding shares of CannTx in an all-stock transaction. Upon closing of the acquisition, Entourage issued an aggregate of 57,352,488 Entourage common shares (“Entourage Shares”) to CannTx shareholders. As a shareholder of CannTx, and in consideration for the termination of its streaming agreement with CannTx, the Company received total consideration of 14,742,479 Entourage Shares and $175 cash receivable as a result of the acquisition. A net gain of $962 was recognized in the consolidated statements of loss and comprehensive loss as a result of this transaction. Subsequent to acquisition, the Company disposed of its interest in Entourage for net proceeds of $1,411.

Wellbeing Digital Sciences Inc. (formerly KetamineOne)

On June 2, 2021, the Company closed a transaction with Wellbeing Digital Sciences Inc. (formerly KetamineOne Capital Limited) (“Wellbeing”) to sell all of the issued and outstanding shares of KGK. The consideration includes 6,451,612 common shares of Wellbeing shares issued on the closing date of the transaction for $11,936, with equal tranches being freely tradeable on the 4-, 6-, 9- and 12-month anniversaries of the closing date of the transaction. Refer to Note 31 for more information.

Inner Spirit Holdings Ltd.

For the year ended December 31, 2020, the Inner Spirit warrants were cancelled in favour of an amended commercial rights agreement, resulting in a $21 disposal within long-term investments and a corresponding $21 addition in distribution intangible assets. Further, Inner Spirit issued options to the Company to purchase shares during the year ended December 31, 2020, valued at $56 when received. The Company recorded an adjustment of $90 towards Inner Spirit convertible debentures on receipt of the scheduled June interest payment.

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

11. Long–term investments (continued)

In the year ended December 31, 2020, the Inner Spirit convertible debenture units were sold for net proceeds of $1,728 and a loss on sale of $482 was recorded in the consolidated statements of loss and comprehensive loss.

On May 5, 2021, Sundial Growers Inc. ("Sundial") announced that it had entered into an arrangement agreement with Inner Spirit to acquire all of the issued and outstanding common shares of Inner Spirit ("Inner Spirit Shares") for consideration per Inner Spirit Share consisting of (i) $0.30 in cash and (ii) 0.0835 of a common share of Sundial, which acquisition was subsequently completed on July 20, 2021. As an early investor and strategic partner of Inner Spirit, at the time of the acquisition, the Company held a 9.8% share ownership position in Inner Spirit, resulting in total proceeds of $7,927 to the Company from the acquisition during the third quarter of 2021.

Goodleaf Company and Province Brands of Canada

For the year ended December 31, 2021, the Company recorded a loss on investment of Goodleaf Company shares and warrants, and Province Brands of Canada shares for a total of $1,064 in the consolidated statements of loss and comprehensive loss.

12. Investment in joint venture

	Class 1 common shares and Class V special shares	Class B special shares	Secured promissory notes	Total investment in joint venture
Balance as at January 1, 2020	**$ (1,301)**	**$ 50,000**	**$ 47,800**	**$ 96,499**
Expected credit loss	-	-	(993)	(993)
Loan guarantee contribution	86	-	-	86
Redemption of Class V special shares	1,004	-	-	1,004
Loss on debt modification	-	-	(8,668)	(8,668)
Accretion on promissory notes	-	-	769	769
Realization of interest income	-	-	789	789
Share of net loss of Sunens Farm Inc.	(7,407)	-	-	(7,407)
Balance as at December 31, 2020	**$ (7,618)**	**$ 50,000**	**$ 39,697**	**$ 82,079**
Expected credit loss	$ -	$ -	$ (75)	$ (75)
Loan guarantee contribution	67	-	-	67
Investment in secured promissory notes	-	-	900	900
Loss on debt modification	-	-	(507)	(507)
Accretion on promissory notes	-	-	1,142	1,142
Realization of interest income	-	-	1,396	1,396
Share of net loss of Sunens Farm Inc.	(4,661)	-	-	(4,661)
Elimination of investment in joint venture on business combination (Note 10)	12,212	(50,000)	(42,553)	(80,341)
Balance as at December 31, 2021	**$ -**	**$ -**	**$ -**	**$ -**

The Company had 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 held 45% voting shares in Auxly Leamington through 4,500,000 Class 1 common shares.

12. Investment in joint venture (continued)

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 consolidated statements 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.

Funding for the initial Auxly Leamington project budget was provided by the Company in the form of an equity contribution and a subordinated promissory note totalling approximately $98,500 provided prior to 2020, and a $84,000 secured credit facility underwritten by a syndicate of lenders led by the Bank of Montreal ("BMO"). The Company's contribution along with the credit facility comprised the required expenditures for the initial budgeted construction of the facility. Concurrently with the Auxly Leamington acquisition, the Company and Auxly Leamington amended and restated the secured credit facility with BMO and the same syndicate of lenders thereby remedying the defaults noted by BMO on April 16, 2021. Under the Amended and Restated Secured Credit Facility, Auxly made a $15,000 cash payment towards the outstanding principal balance of the credit facility and the maturity date of the credit facility was extended by a year to September 30, 2023, with an option for Auxly Leamington to extend for an additional year by making a further principal repayment of $5,000 by December 31, 2022. The obligations of Auxly Leamington under the credit facility also continue to be supported by an unsecured $33,000 limited resource guarantee provided by the Company. The principal owing under the credit facility at December 31, 2021 was approximately $62,500.

On November 22, 2021, the Company acquired all the remaining issued and outstanding securities of Auxly Leamington, securing 100% ownership of Auxly Leamington. The transaction has been accounted as a business combination, using the acquisition method. As at December 31, 2021, the Company's investment in Auxly Leamington is recognized as an investment in subsidiary per IFRS 10, *Consolidated Financial Statements*. Refer to Note 10 for more information.

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

The Company recorded an equity loss of $4,661 for the year ended December 31, 2021 (2020 – $7,407), representing the Company's 45% ownership of the former joint venture. The equity loss for the year ended December 31, 2021 includes an adjustment of $33 for the elimination of upstream loss (2020 – $nil).

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

12. Investment in joint venture (continued)

The joint venture's statements of financial position and statements of loss and comprehensive loss, prior to the business combination, are as follows:

	Period ended November 21, 2021	Year ended December 30, 2020
Revenue	**$ 19,741**	$ 9
Loss before interest, taxation, depreciation and amortization	**$ (3,988)**	$ (10,904)
Interest expense	**(3,247)**	(1,685)
Depreciation and amortization	**(3,196)**	(2,125)
Net loss and total comprehensive loss	**$ (10,431)**	$ (14,714)

	As at November 21, 2021	As at December 30, 2020
Current assets	**$ 10,623**	$ 7,843
Non-current assets	**145,242**	147,694
Total assets	**$ 155,865**	$ 155,537
Current liabilities	**$ 40,451**	$ 76,248
Non-current liabilities	**94,887**	48,494
Total liabilities	**$ 135,338**	$ 124,742
Net assets	**$ 20,527**	$ 30,795

13. Deposits

	Capital assets	**Inventory**	**Other**	**Total**
Current portion	$ 3,784	$ 1,066	$ 38	**$ 4,888**
Non-current portion	-	-	1,582	**1,582**
As at December 31, 2021	**$ 3,784**	**$ 1,066**	**$ 1,620**	**$ 6,470**

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

As at December 31, 2021, the Company has made deposits towards specialized equipment to be utilized for extraction, product formulation, and packaging, and vape cartridge purchases and raw material cannabis purchases.

14. Contingent consideration payable

As at December 31, 2021, the Company recorded a contingent consideration payable by Auxly Leamington to Fresh Energy of $500 (2020 – $nil) upon the completion of the Transfer. Refer to Note 10 for more information.

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

15. Lease liability

		As at December 31, 2021		As at December 31, 2020
Maturity analysis - contractual undiscounted cash flows				
Less than one year	**$**	**4,949**	$	1,892
Two years and beyond		**21,762**		13,098
Total undiscounted lease obligations	**$**	**26,711**	$	14,990
Current portion	**$**	**4,046**	$	1,473
Long-term portion		**17,252**		9,413
Reclassification to liabilities held for sale (Note 30)		**(3)**		(3)
Discounted lease obligations included in the consolidated statements of financial position	**$**	**21,295**	$	10,883

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 2 and 21 years, while production and other equipment generally have lease terms between 3 and 5 years.

On November 27, 2020, the Company entered into a new long-term lease for its Auxly Charlottetown facility. Under the terms of the new lease, Auxly Charlottetown has the option to purchase the real property for the amortized lease amount of $8,000 (plus 4% interest) at any time throughout the 21-year term. Prior to this new lease, Auxly Charlottetown was in the process of purchasing the real property from the original landlord; however, a new purchaser (and now landlord) agreed to purchase the property and fulfill conditions precedent thereby allowing Auxly Charlottetown to be refunded $2,000 and to save an additional $6,000 in capital expenditures, thereby effectively providing the Company with $8,000 in proceeds. The lease was accounted for as a modification under IFRS 16. Using an incremental borrowing rate of 4.03%, the Company recognized a right-of-use asset of $2,872 and a corresponding lease liability of $7,973.

Lease liability includes $10,598 of lease obligations acquired on the acquisition of Auxly Leamington. Refer to Note 10 for more information.

16. Convertible debentures

The convertible debentures balance consists of the following:

		As at December 31, 2021		As at December 31, 2020
September 2019 issuance and April 2021 amendment	**$**	**95,198**	$	100,887
Standby financing		**10,627**		9,638
Total	**$**	**105,825**	$	110,525
Less: current portion		**(10,627)**		-
Long-term portion	**$**	**95,198**	$	110,525

16. Convertible debentures (continued)

September 2019 issuance and April 2021 amendment

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

In April 2021, the Company announced an agreement with Imperial Brands to amend the debentures to extend the maturity date by 24 months from September 25, 2022 to September 25, 2024. The amendment also provides Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the 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 at a 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 amendments also provide for the reinstatement of certain approval rights of Imperial Brands under the investor rights agreement dated September 25, 2019 between the Company and Imperial Brands. These amendments were subject to shareholder approval that was obtained at the Company’s annual general and special meeting of shareholders on June 28, 2021.

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

The accretion expense associated with the debentures for the year ended December 31, 2021 was $9,720 (2020 – $10,005). Interest expense for the year ended December 31, 2021 was $4,941 (2020 – $4,928).

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.

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

16. Convertible debentures (continued)

Details of the five tranches are as follows:

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

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

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

The continuity schedule of the debentures is presented below:

	As at December 31, 2021	As at December 31, 2020
Balance, beginning of year	**$ 9,638**	$ -
Additions:		
Q2	**$ -**	$ 7,537
Q3	**-**	1,648
Accretion expense	**989**	453
Balance, end of year	**$ 10,627**	$ 9,638

The accretion expense on the convertible debentures was calculated using the effective interest method for the year ended December 31, 2021. The details of the accretion expense associated with the five tranches are as follows:

		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Balance, January 1, 2021		$ 1,065	$ 1,678	$ 2,606	$ 2,594	$ 1,695
Accretion expense during the year		135	161	262	261	170
Balance, December 31, 2021		**$ 1,200**	**$ 1,839**	**$ 2,868**	**$ 2,855**	**$ 1,865**
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 (12 months)	$	94	150	225	225	150

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

17. Short-term debt

The Company and several of its subsidiaries entered into a receivables purchase facility with Trichome Financial Cannabis Private Credit LP ("Trichome") for an aggregate available amount of up to $8,000. Under this arrangement, several of Auxly's subsidiaries may finance accounts receivable 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 consolidated statements of financial position. The amount repayable under the factoring agreement is presented as short-term debt. In December 2020, the Company and Trichome mutually agreed to lower the aggregate funding available under the facility to $6,000. The factoring arrangement with Trichome was subsequently terminated effective August 12, 2021 and all amounts owing under the facility have been repaid.

18. Loans payable

The loans payable balance consists of the following:

	As at December 31, 2021	As at December 31, 2020
Equipment loans payable	**$ 4,452**	$ -
Amended and Restated Credit Facility	**52,000**	-
Loan payable to SNAP Premium Finance Corp.	**345**	-
Total	**$ 56,797**	$ -
Less: current portion	**5,450**	-
Long-term portion	**$ 51,347**	$ -

Equipment loans payable

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

On December 22, 2021, the Company entered into an arrangement to finance the deposit on packaging equipment for net proceeds of $2,382, of which $1,004 was held in escrow as at December 31, 2021. The amount held in escrow will be released to the equipment supplier once the equipment is commissioned at Auxly's site during the first quarter of 2022. The term of the loan is three years and bears interest at 11.80% per annum.

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

18. Loans payable (continued)

The continuity schedule of the equipment loans is presented below:

		As at December 31, 2021		As at December 31, 2020
Balance, beginning of year	$	-	$	-
Additions	$	4,799	$	-
Payments		(474)		-
Interest expense		127		-
Balance, end of year	$	4,452	$	-
Current portion	$	1,255	$	-
Long-term portion		3,197		-
Total	$	4,452	$	-

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 prime or the banker's acceptance rate, plus the applicable margin in effect. The credit facility consists of a $28,500 revolving credit facility and a $38,500 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 presented as repayment of loans payable in the financing section of the consolidated statements of cash flows. As part of the Amended and Restated Credit Facility, the maturity date of the revolving credit facility has been extended by a year to September 30, 2023, with an option by the Company to extend for an additional year by making a further principal repayment of $5,000 by December 31, 2022. The term credit is repayable in 40 equal principal instalments commencing the first business day of each calendar quarter following the repayment start date of January 2022. The amendment was treated as a debt modification under IFRS 9 as the terms were not substantially different given 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 of the original financial liability. Under the amended agreement, the obligations of Auxly Leamington continues to be supported by an unsecured $33,000 limited resource guarantee provided by the Company.

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

		As at December 31, 2021		As at December 31, 2020
Balance, beginning of year	$	-	$	-
Additions	$	67,000	$	-
Payments		(15,000)		-
Interest expense		-		-
Balance, end of year	$	52,000	$	-
Current portion	$	3,850	$	-
Long-term portion		48,150		-
Total	$	52,000	$	-

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

18. Loans payable (continued)

Loan payable to SNAP Premium Finance Corp.

The loan payable to SNAP Premium Finance Corp. was part of the net assets acquired on the acquisition of Auxly Leamington. The loan bears interest at 4.75% per annum, maturing March 2022. The continuity schedule of the loan payable to SNAP Premium Finance Corp. is presented below:

	As at December 31, 2021	As at December 31, 2020
Balance, beginning of year	**$ -**	$ -
Additions	**$ 516**	$ -
Payments	**(173)**	-
Interest expense	**2**	-
Balance, end of year	**$ 345**	$ -

19. Promissory notes

The promissory note balance consists of the following:

	As at December 31, 2021	As at December 31, 2020
Due to Peter Quiring	**$ 3,421**	$ -
Fresh Energy Agreement	**2,766**	-
Total	**$ 6,187**	$ -
Less: current portion	**1,370**	-
Long-term portion	**$ 4,817**	$ -

An unsecured promissory note of $3,400 was issued to Peter Quiring as part of the consideration for the acquisition of Auxly Leamington. The promissory note bears interest of 6.00% per annum and is payable in monthly instalments of $210 for 18 months, starting December 2022. Please refer to Note 10 for more information.

Concurrent with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete 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%, consistent with the Amended and Restated Credit Facility with the Bank of Montreal interest rate, the Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860. Refer to Note 10 for more information.

The continuity schedule of the promissory notes is presented below:

	As at December 31, 2021	As at December 31, 2020
Balance, beginning of year	**$ -**	$ -
Additions	**$ 6,260**	$ -
Payments	**(100)**	-
Interest expense	**27**	-
Balance, end of year	**$ 6,187**	$ -
Current portion	**$ 1,370**	$ -
Long-term portion	**4,817**	-
Total	**$ 6,187**	$ -

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

20. Share capital

The share capital of the Company is summarized below:

	December 31, 2021	December 31, 2020
Issued and outstanding shares		
Issued shares	**850,732,172**	691,861,024
Escrowed shares	**6,994,190**	10,994,190
Outstanding shares	**843,737,982**	680,866,834

	December 31, 2021	December 31, 2020
Exercisable securities		
Warrants	**122,542,280**	56,021,747
Convertible debentures	**188,089,377**	188,089,377
Options	**28,920,509**	40,890,608

a) Authorized

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

b) Issued and outstanding

As at December 31, 2021, there were 850,732,172 issued and outstanding common shares, with 6,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (2020 had 691,861,024 issued and outstanding common shares, and 10,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

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

In February 2021, the Company closed a prospectus offering and distributed a total of 54,395,000 units for gross proceeds of $20,126. Each unit consists of one share and one-half of one warrant, with each warrant entitling the holder to purchase one additional share at $0.46 until February 2024. The Company recorded $14,453 for the issuance of shares and $4,156 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of $18,609. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price – $0.335; Annualized volatility – 90.18%; Risk-free interest rate – 0.50%; Dividend yield – 0%; and Expected life – three years. As part of the prospectus offering, the Company issued 2,719,750 warrants to the broker at $0.37 per unit.

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

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

In May 2021, 4,846 common shares were issued on the exercise of 4,846 stock options for net proceeds of $1.

20. Share capital (continued)

In June 2021, the Company closed a bought deal prospectus offering and distributed a total of 54,763,000 units for gross proceeds of $17,250. Each unit consists of one share and one-half of one warrant, with each warrant entitling the holder to purchase one additional share at $0.38 until June 2024. The Company recorded $12,406 for the issuance of shares and $3,617 for the issuance of warrants based on a relative fair value calculation, across the net proceeds of $16,023. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price – $0.255; Annualized volatility – 97.00%; Risk-free interest rate – 0.50%; Dividend yield – 0%; and Expected life – three years. As part of the prospectus offering, the Company issued 2,738,150 warrants to the broker at $0.315 per unit.

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

In November 2021, the Company issued 4,017,531 common shares with a value of $924 as part of the consideration paid to acquire the remaining issued and outstanding securities of Auxly Leamington not already owned by the Company. The value of the common shares is calculated using the five-day volume-weighted average trading price of common shares of Auxly on the TSX on the trading day immediately preceding the closing date of the acquisition of $0.23 per common share. Refer to Note 10 for more information.

As part of the joint venture agreement signed in June 2018 with Peter Quiring, 5,250,000 common shares were issued to the Peter Quiring Family Business Trust with 1,250,000 common shares issued upon the closing of the transaction, and the remainder to be held in escrow and released in tranches corresponding to the achievement of certain operational and performance milestones of Auxly Leamington. In November 2021, 3,000,000 of the escrowed shares were released and 1,000,000 were cancelled as the related operational and performance milestone for the release of those shares was not met at the time of the acquisition of Auxly Leamington.

In December 2021, 5,105,007 common shares were issued on the exercise of 5,105,007 stock options for net proceeds of $128.

The Company has issued common shares under its at-the-market equity program (“ATM Program”). The ATM Program was established in March 2021 and allows the Company to issue and sell up to $30,000 of common shares of the Company from treasury to the public, from time to time, at the Company’s discretion. The common shares sold through the ATM Program will be sold through the TSX or any other marketplace on which the common shares are listed, quoted, or otherwise traded, at the prevailing market price at the time of sale. As at December 31, 2021, $187 of the net proceeds have not been received and was recorded in Other receivables on the consolidated statements of financial position.

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

20. Share capital (continued)

For the years ended December 31:		2021		2020
Gross proceeds	$	3,047	$	-
Commission	$	74	$	-
Net proceeds	$	2,973	$	-
Average gross price	$	0.274	$	-
Number of shares issued		11,108,500		-

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 December 31, 2021:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2020	**85,928,520**	**1.795**	**0.63**
Warrants issued	46,021,747	0.381	2.33
Warrants expired	(75,928,520)	1.824	
Closing balance, December 31, 2020	**56,021,747**	**0.593**	**2.35**
Warrants issued	71,977,199	0.414	2.30
Warrants exercised	(3,456,666)	3.140	
Warrants cancelled	(2,000,000)	1.570	
Closing balance, December 31, 2021	**122,542,280**	**0.480**	**1.89**

As part of the joint venture agreement signed in June 2018 with Peter Quiring, 10,000,000 warrants were issued to the Peter Quiring Family Business Trust, where 2,000,000 warrants vested immediately, with the remainder to be vested in tranches corresponding to the achievement of certain operational and performance milestones of Auxly Leamington. In November 2021, 8,000,000 of the warrants have vested and become exercisable and 2,000,000 of the warrants were cancelled as the related operational and performance milestone was not met at the time of the Auxly Leamington acquisition.

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 85,073,217 as at December 31, 2021.

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

For the years ended December 31:	2021	2020
Risk-free annual interest rate	0.65%	0.33%–1.35%
Expected annual dividend yield	0%	0%
Expected annualized volatility	93.55%	66.32%–92.64%
Expected life of options	5–10 years	5–10 years

The expected annualized volatility was estimated based on the Company's historical stock returns. During the year ended December 31, 2021, 7,645,000 (2020 – 6,680,692) options were granted, at an exercise price range of $0.27 to $0.29 per share, exercisable in five years to employees, officers and directors.

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

20. Share capital (continued)

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

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2020	**45,649,553**	**0.865**	**6.09**
Options granted	6,680,692	0.331	4.65
Options exercised	(7,611,078)	0.025	
Options cancelled/forfeited	(3,828,559)	1.163	
Closing balance, December 31, 2020	**40,890,608**	**0.902**	**5.45**
Options granted	7,645,000	0.271	4.50
Options exercised	(5,109,853)	0.025	
Options cancelled/forfeited	(14,505,246)	1.081	
Closing balance, December 31, 2021	**28,920,509**	**0.801**	**4.63**

Total options exercisable at December 31, 2021 were 16,265,341 (2020 – 26,351,665) with a remaining average life of 5.04 years (2020 – 5.68 years).

e) Earnings/(loss) per share

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

21. Related party balances and transactions

Key management and director compensation

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

For the years ended December 31:		2021		2020
Short-term benefits	**$**	**2,149**	$	2,058
Long-term benefits		**337**		1,377
Total	**$**	**2,486**	$	3,435

Other related party transactions

Terrene Ltd. provides strategic planning and advisory services to the Company on a periodic basis. Vikram Bawa, an independent Board Director, is the Managing Partner of Terrene Ltd. For the year ended December 31, 2021, the Company has incurred $50 (2020 – $nil) in expenses.

Global Public Affairs Inc. provides government relations and strategic counsel to the Company on a periodic basis. Genevieve Young, Chair of the Company's Board of Directors, is the President and Chief Operating Officer of Global Public Affairs Inc. For the year ended December 31, 2021, the Company has incurred $23 (2020 – $nil) in expenses.

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

22. 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 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.

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 \$170/(\$170) (2020 – \$100/(\$100)).

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

	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 140	$ -	$ -	$ 140
Biological assets	-	-	6,563	6,563
Public company shares	2,195	-	-	2,195
Private company shares	-	-	1,702	1,702
Balance, December 31, 2021	**$ 2,335**	**$ -**	**$ 8,265**	**$ 10,600**

	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 286	$ -	$ -	$ 286
Biological assets	-	-	419	419
Public company shares	3,561	-	-	3,561
Company options and warrants	-	469	-	469
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	996	996
Balance, December 31, 2020	**$ 3,847**	**$ 469**	**$ 51,415**	**$ 55,731**

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

22. Financial instruments and risk management (continued)

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

Level 3 investments		
Balance, January 1, 2020	$	57,550
Change in unrealized gain/(loss) – FVTPL		(4,668)
Change in unrealized gain/(loss) – FVOCI		72
Change in biogloical assets		189
Net loss on sale of convertible debentures		(1,728)
Balance, December 31, 2020	$	51,415
Change in unrealized gain/(loss) – FVOCI		1,221
Net proceeds on sale		(515)
Change in biogloical assets		6,144
Elimination of investment in joint venture on business combination (Note 12)		(50,000)
Balance, December 31, 2021	**$**	**8,265**

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, other receivables, long-term investments, accounts payable and accrued liabilities, short-term debt, loans payable and convertible debentures. As at December 31, 2021, the carrying value of cash and cash equivalents and short-term investments is measured at fair value. Accounts receivable and accounts payable and accrued liabilities and short-term debt, approximate their fair value due to their short-term nature. The carrying value of loans payable, promissory notes, and convertible debentures is discounted at the effective interest rate, which approximates their fair value.

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVOCI and FVTPL. For such investments classified as at FVOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $170 before tax (2020 – $100). An equal change in the opposite direction would have decreased equity by $170 before tax (2020 – $100).

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 receivable, other receivables, and notes receivable.

22. Financial instruments and risk management (continued)

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 $141/($141) (2020 – $9/(9)).

23. 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, 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 year.

24. Commitments and contingencies

Commitments

As at December 31, 2021, Auxly has entered into certain agreements that commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

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

24. Commitments and contingencies (continued)

Auxly has funding commitments as follows:

- As part of the $62,500 in debt financing provided by a syndicate led by 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;
- During the period 2022 to 2024, the Company has committed to a fixed/variable structure with Kindred Partners Inc. ("Kindred") for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada. The fixed amount of the fixed/variable structure will be $3,600 annually;
- Annual payments of $300 USD for five years to June 2025 to Natures Crops International for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 products;
- Payment of $1,000 USD in 2022 to Capsugel Manufacturing, LLC, as part of a multi-year licensing arrangement with Lonza Group Ltd.;
- Payments of an aggregate of €1,881 in 2022 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities;
- Annual payment of $100 for minimum annual volume requirement with Union Gas, with agreement ending August 1, 2029; and
- Annual payment of $73 until 2024 for guaranteed minimum purchase of bulk carbon dioxide with Air Liquide.

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:

	2022	2023	2024	2025	Thereafter	Total
Lease obligations	$ 4,949	$ 3,386	$ 2,895	$ 2,749	$ 12,732	**$ 26,711**
Loans payable obligations	5,881	34,282	5,308	4,096	23,100	**72,667**
Promissory note obligations	1,410	3,718	1,549	-	-	**6,677**
Convertible debenture obligations	11,648	-	147,408	-	-	**159,056**
Total	**$ 23,888**	**$ 41,386**	**$ 157,160**	**$ 6,845**	**$ 35,832**	**$ 265,111**

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 consolidated financial statements.

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

25. Selling, general, and administrative expenses

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

For the years ended December 31:		2021		2020
CONTINUING OPERATIONS				
Wages and salaries	**$**	**17,828**	$	21,246
Office and administrative		**13,634**		11,997
Professional fees		**2,932**		2,904
Business development		**298**		524
Share-based compensation		**1,433**		4,349
Selling expenses		**9,596**		5,609
Total	**$**	**45,721**	$	46,629

26. Interest and accretion expenses

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

For the years ended December 31:		2021		2020
Interest expense from continuing operations	**$**	**17,668**	$	12,984
Interest expense from discontinued operations		**10**		49
Total interest expense	**$**	**17,678**	$	13,033
Less non-cash interest on Imperial Brands convertible debentures		**(4,941)**		-
Less non-cash accretion expense on convertible debentures		**(10,709)**		(8,354)
Less non-cash interest on loans payable		**(129)**		-
Less non-cash interest on promissory note		**(27)**		-
Total cash interest	**$**	**1,872**	$	4,679

27. Income taxes

The reconciliation of income tax computed at the statutory tax rates to income tax recovery as is follows:

For the years ended December 31:		2021		2020
Net loss from continuing operations before income tax	**$**	**(50,240)**	$	(86,575)
Combined federal and provincial tax rate		**26.50%**		26.50%
Expected tax recovery		**(13,314)**		(22,942)
Non-deductible expenses		**4,049**		784
Tax rate differentials		**(1,021)**		(1,020)
Effect of change in tax rates		**-**		(204)
Changes in deferred tax assets not recognized		**5,956**		22,724
Other		**-**		(23)
Income tax recovery	**$**	**(4,330)**	$	(681)

The Company operates in multiple jurisdictions with differing tax rates. The Company's effective tax rates are dependent on the jurisdiction to which income relates.

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

27. Income taxes (continued)

Deferred taxes are a result of temporary differences that arise due to the differences between the carrying amount of assets and liabilities and the tax values. The movements of the deferred tax assets (liabilities) consist of the following:

	Balance December 31, 2020	Recovered through (charged to) statement of loss	Recovered through (charged to) equity	Assumed from business combinations and other	Balance December 31, 2021
Deferred tax assets					
Non-capital losses	$ 8,484	$ 1,966	$ -	$ 6,576	$ 17,026
Financing and share issuance costs	1,501	(1,035)	732	(62)	1,136
Total deferred tax assets	$ 9,985	$ 931	$ 732	$ 6,514	$ 18,162
Deferred tax liabilities					
Convertible debentures and other debt	$ (6,178)	$ 636	$ (1,953)	$ -	$ (7,495)
Intangible assets	(17,644)	523	-	(501)	(17,622)
Property, plant and equipment	(7,626)	2,240	-	(5,199)	(10,585)
Total deferred tax liabilities	$ (31,448)	$ 3,399	$ (1,953)	$ (5,700)	$ (35,702)
Net deferred tax assets (liabilities)	**$ (21,463)**	**$ 4,330**	**$ (1,221)**	**$ 814**	**$ (17,540)**

Deferred tax assets have not been recognized with respect of the deductible temporary differences:

For the years ended December 31:	2021	2020
Non-capital losses carried forward	**$ 159,468**	$ 107,973
Deductible temporary differences	**90,463**	75,842
Total	**$ 249,931**	$ 183,815

The Company has an income tax loss carry forward balance of approximately $221,724 (2020 – $138,342) which are predominately from Canada and if unused, will expire between 2034 to 2041.

28. Changes in non-cash working capital

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

For the years ended December 31:	2021	2020
CONTINUING OPERATIONS		
Short-term investments	**$ 146**	$ 20
Accounts receivable	**(16,654)**	(8,928)
Other receivables	**(1,195)**	8,333
Prepaid expenses	**(4,810)**	9,875
Interest payable	**(397)**	5,179
Biological assets (Note 6)	**1,601**	359
Inventory (Note 7)	**(8,531)**	(19,848)
Accounts payable and accrued liabilities	**210**	5,300
Deferred revenue	**(27)**	-
Total	**$ (29,657)**	$ 290

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

29. Operating segments

Management has determined the operating and geographic segments. The Executive Leadership Team evaluates and makes decisions on the operating performance by segment. In June 2021, the Company removed its previously reported research options operating segment, as a result of the sale of KGK. Refer to Note 31 for more information.

The Company's business activities are conducted through two operating segments as follows:

Canadian Cannabis operations – The Company's Canadian Cannabis operations are dedicated to the cultivation and sale of cannabis products within Canada, and include subsidiaries Auxly Charlottetown Inc., Auxly Ottawa Inc., Auxly Annapolis Inc., Auxly Annapolis OG Inc., and Auxly Leamington Inc. In July 2021, Curative Cannabis was sold to a private purchaser. Refer to Note 32 for more information.

South American Cannabis operations – The Company's South American Cannabis operations was 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 $1,431 of assets held for sale and $797 of liabilities held for sale, under the South American cannabis CGU. As at December 31, 2021, the South American cannabis CGU contained $1,279 of property, plant and equipment. Refer to Note 30 for more information.

30. Assets and liabilities held for sale

As at December 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 December 31, 2021		As at December 31, 2020
Cash and cash equivalents	**$**	**3**	$	3
Other receivables		**126**		127
Prepaid expenses		**23**		23
Property, plant and equipment, net (Note 8)		**1,279**		1,283
Total assets held for sale	**$**	**1,431**	$	1,436
Accounts payable and accrued liabilities	**$**	**794**	$	797
Lease liability (Note 15)		**3**		3
Total liabilities held for sale	**$**	**797**	$	800

31. Sale of KGK Science Inc.

Transaction overview

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

- $12,500 purchase price in the form of:
    i. $1,500 in cash payable on the closing date of the transaction;

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

31. Sale of KGK Science Inc. (continued)

ii. $1,000 in cash payable six months after the closing date of the transaction; and
iii. $10,000 in common shares of Wellbeing 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 4-, 6-, 9- and 12-month anniversaries of the closing date of the transaction;

- $1,500 milestone payment, payable in cash or Wellbeing shares, at the option of Wellbeing, 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
- $2,500 credit against future KGK services, reflected in a 10-year service agreement between Auxly and KGK.

Financial performance

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

For the years ended December 31:		2021		2020
Revenue	**$**	**2,214**	$	4,077
Cost of sales		**2,109**		2,750
Gross profit	**$**	**105**	$	1,327
Operating expenses, net of government subsidies		**90**		2,864
Gain on disposal, before tax		**12,141**		-
Net income/(loss) before tax from discontinued operations	**$**	**12,156**	$	(1,537)
Income tax recovery		**-**		-
Net income/(loss) from discontinued operations	**$**	**12,156**	$	(1,537)

Details of the sale of the subsidiary

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

At the time of the sale, June 2, 2021, the $1,500 milestone payment and the $2,500 credit against future KGK services was not determined to be consideration as the realization of income from the asset is uncertain.

The proceeds on sale of the subsidiary are presented in the investing section of the consolidated statements of cash flows as $2,307, which represents the cash received on closing of $1,500, the cash received six months after the closing date of the transaction of $1,000, less the cash retained by KGK of $193.

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

31. Sale of KGK Science Inc. (continued)

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

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

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

Transaction overview

On July 5, 2021, the Company completed the sale of its interest in 2368523 Ontario Limited (d/b/a Curative Cannabis) to a private purchaser for total proceeds to the Company of $6,000. The Company acquired substantially all the shares and assets of Curative Cannabis pursuant to a foreclosure order issued on November 27, 2019, of which assets included a cannabis cultivation facility located in Chatham-Kent, Ontario. The facility remained non-operational from the time of the foreclosure and while exploring all possible options with respect to the use, commercialization and/or sale of the asset the Company determined such asset was not essential to the Company's operations and strategy.

Details of the sale of the subsidiary

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

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

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

The proceeds on sale of the subsidiary are presented in the investing section of the consolidated statements of cash flows as $6,000. The carrying amounts of assets and liabilities as at the date of sale were:

		As at July 5, 2021
Other receivables	$	6
Property, plant and equipment, net		6,000
Total assets	**$**	**6,006**
Accounts payable and accruals	$	(98)
Deferred tax liability		(1,263)
Total liabilities	**$**	**(1,361)**
Net assets	**$**	**4,645**

33. Subsequent events

On February 7, 2022, the Company announced that it had ceased operations at the Auxly Annapolis Inc. ("Auxly Annapolis") and Auxly Annapolis OG Inc. ("Auxly Annapolis OG") facilities and that it intends to divest of the non-core assets and apply the proceeds from any such sale to support its ongoing operations. The closure is treated as a non-adjusting event after the reporting date under IAS 10, *Events After the Reporting Period*.

The Company is in the process of determining the fair market value of the assets at Auxly Annapolis and Auxly Annapolis OG. As at December 31, 2021, the carrying value of assets related to Auxly Annapolis and Auxly Annapolis OG were:

		As at December 31, 2021
Cash and cash equivalents	$	137
Accounts receivable		32
Prepaid expenses		55
Other receivables		123
Biological assets		602
Inventory		7,010
Property, plant and equipment, net		21,409
Intangible assets, net		10,189
Goodwill		4,271
Total	**$**	**43,828**