AUXLY CANNABIS GROUP INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

Dated November 11, 2022

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Financial Position
Expressed in thousands of Canadian dollars
Unaudited

As at:	September 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 16,019	$ 14,754
Restricted cash (Note 4)	557	1,561
Short-term investments	142	140
Accounts receivable (Note 5)	14,466	27,039
Biological assets (Note 6)	7,844	6,563
Inventory (Note 7)	56,304	52,378
Prepaid expenses	1,034	7,050
Deposits (Note 12)	4,755	4,888
Other receivables	710	4,170
	$ 101,831	$ 118,543
Non-current assets		
Property, plant and equipment, net (Note 8)	$ 193,819	$ 226,476
Intangible assets, net (Note 9)	46,580	74,203
Goodwill (Note 9)	-	24,290
Long-term investments (Note 11)	1,196	3,897
Long-term deposits (Note 12)	87	1,582
	$ 241,682	$ 330,448
Assets held for sale (Note 27)	1,547	1,431
Total assets	$ 345,060	$ 450,422
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 30,287	$ 30,569
Interest payable	71	-
Lease liability (Note 14)	4,253	4,043
Convertible debentures (Note 15)	-	10,627
Loans payable (Note 16)	50,799	5,450
Promissory notes (Note 17)	3,072	1,370
Contingent consideration payable (Note 13)	500	500
Deferred revenue	54	295
	$ 89,036	$ 52,854
Non-current liabilities		
Interest payable	$ 6,180	$ 2,504
Lease liability (Note 14)	15,580	17,252
Convertible debentures (Note 15)	108,188	95,198
Loans payable (Note 16)	9,191	51,347
Promissory notes (Note 17)	2,439	4,817
Deferred tax liability	12,475	17,540
	$ 154,053	$ 188,658
Liabilities held for sale (Note 27)	862	797
Total liabilities	$ 243,951	$ 242,309
Equity		
Share capital (Note 18)	$ 444,673	$ 436,508
Reserves (Note 18)	114,518	110,958
Accumulated other comprehensive loss	(30,598)	(26,478)
Deficit	(422,705)	(308,468)
Total equity attributable to shareholders of the Company	$ 105,888	$ 212,520
Total equity attributable to non-controlling interest	(4,779)	(4,407)
Total equity	$ 101,109	$ 208,113
Total liabilities and equity	$ 345,060	$ 450,422

Going concern (Note 2); Commitments and contingencies (Note 22)

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

The interim condensed consolidated financial statements were approved by the Board of Directors on November 11, 2022, and were signed on its behalf by:

(s) Genevieve Young
Genevieve Young

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

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

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
CONTINUING OPERATIONS				
Revenue				
Revenue from sales of cannabis products	**$ 29,138**	$ 35,817	**$ 102,430**	$ 77,520
Excise taxes	**(9,308)**	(11,324)	**(32,639)**	(23,009)
Total net revenue	**$ 19,830**	$ 24,493	**$ 69,791**	$ 54,511
Cost of sales				
Cost of finished cannabis inventory sold	**$ 14,921**	$ 19,471	**$ 53,017**	$ 39,380
Biological asset impairment (Note 6)	**-**	-	**704**	-
Inventory impairment (Note 7)	**2,014**	716	**8,670**	1,070
Gross profit/(loss) excluding fair value items	**$ 2,895**	$ 4,306	**$ 7,400**	$ 14,061
Unrealized fair value gain/(loss) on biological transformation (Note 6)	**$ 7,496**	$ 352	**$ 25,704**	$ 922
Realized fair value gain/(loss) on inventory	**(8,175)**	(1)	**(17,398)**	(1)
Gross profit	**$ 2,216**	$ 4,657	**$ 15,706**	$ 14,982
Expenses				
Selling, general and administrative expenses (Note 23)	**$ 11,559**	$ 11,507	**$ 37,134**	$ 31,612
Equity-based compensation (Note 18)	**475**	55	**3,594**	1,221
Depreciation and amortization (Notes 8, 9)	**3,525**	2,223	**12,025**	6,829
Interest and accretion expense (Note 24)	**5,507**	3,932	**15,923**	13,320
Total expenses	**$ 21,066**	$ 17,717	**$ 68,676**	$ 52,982
Other income/(loss)				
Fair value gain/(loss) for financial instruments accounted under fair value through profit or loss (Note 11)	**$ -**	$ 223	**$ -**	$ 414
Interest and other income	**105**	436	**274**	1,283
Impairment of long-term assets (Note 8)	**(4,809)**	(60)	**(17,693)**	(11,426)
Impairment of intangible assets and goodwill (Note 9)	**(38,022)**	-	**(48,811)**	-
Gain/(loss) on settlement of assets and liabilities and other expenses	**(1,574)**	41	**(1,411)**	21,104
Gain on disposal of subsidiary	**-**	1,355	**-**	1,355
Share of loss on investment in joint venture	**-**	(3,095)	**-**	(6,048)
Foreign exchange gain/(loss)	**938**	633	**1,224**	(546)
Total other income/(loss)	**$ (43,362)**	$ (467)	**$ (66,417)**	$ 6,136
Net income/(loss) before income tax	**$ (62,212)**	$ (13,527)	**$ (119,387)**	$ (31,864)
Income tax recovery	**2,110**	-	**5,150**	4,330
Net income/(loss) from continuing operations	**$ (60,102)**	$ (13,527)	**$ (114,237)**	$ (27,534)
Net income/(loss) from discontinued operations	**-**	-	**-**	12,156
Net income/(loss)	**$ (60,102)**	$ (13,527)	**$ (114,237)**	$ (15,378)
Net loss attributable to shareholders of the Company	**$ (60,102)**	$ (13,527)	**$ (114,237)**	$ (15,363)
Net loss attributable to non-controlling interest	**$ -**	$ -	**$ -**	$ (15)
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)	**$ (455)**	$ (3,944)	**$ (2,630)**	$ (608)
Currency translation adjustment - subsequently reclassified to profit or loss	**(1,450)**	(613)	**(1,862)**	(16)
Total comprehensive income/(loss)	**$ (62,007)**	$ (18,084)	**$ (118,729)**	$ (16,002)
Total comprehensive income/(loss) attributable to shareholders of the Company	**$ (62,434)**	$ (18,206)	**$ (119,101)**	$ (16,002)
Total comprehensive income/(loss) attributable to non-controlling interest	**$ 427**	122	**$ 372**	$ -
Net income/(loss) per common share				
From continuing operations	**$ (0.07)**	$ (0.02)	**$ (0.13)**	$ (0.04)
From discontinued operations	**-**	-	**-**	0.02
Net income/(loss) per common share - basic and diluted	**$ (0.07)**	$ (0.02)	**$ (0.13)**	$ (0.02)
Weighted average number of shares outstanding				
Basic and diluted	**901,521,265**	825,612,944	**884,496,806**	767,844,307

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

AUXLY CANNABIS GROUP INC.

Interim Condensed Consolidated Statements of Cash Flows
Expressed in thousands of Canadian dollars
Unaudited

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
Operating activities				
Net loss for the period from continuing operations	**$ (60,102)**	$ (13,527)	**$ (114,237)**	$ (27,534)
Items not affecting cash:				
Biological asset impairment (Note 6)	**-**	-	**704**	-
Inventory impairment (Note 7)	**2,014**	716	**8,670**	1,070
Realized fair value loss/(gain) on inventory	**8,175**	1	**17,398**	1
Unrealized fair value loss/(gain) on biological transformation (Note 6)	**(7,496)**	(352)	**(25,704)**	(922)
Depreciation and amortization (Notes 8, 9)	**5,175**	2,592	**17,153**	7,750
Equity-based compensation (Note 18)	**475**	55	**3,594**	1,221
Interest expense (Note 24)	**3,717**	3,549	**11,075**	12,088
Interest income	**-**	(385)	**-**	(1,138)
Share of loss on investment in joint venture	**-**	3,095	**-**	6,048
Unrealized foreign exchange loss	**(1,053)**	546	**(1,537)**	1,947
Fair value loss/(gain) for financial instruments accounted under fair value through profit or loss (Note 11)	**-**	(223)	**-**	(414)
Income tax recovery	**(2,110)**	-	**(5,150)**	(4,330)
Impairment of long-term assets (Note 8)	**4,809**	60	**17,693**	11,426
Impairment of intangible assets and goodwill (Note 9)	**38,022**	-	**48,811**	-
Loss/(gain) on settlement of assets and liabilities and other expenses	**1,574**	(2)	**1,411**	(16,705)
Gain on disposal of subsidiary	**-**	(1,355)	**-**	(1,355)
Assets held for sale (Note 27)	**4**	-	**-**	-
Cash provided by (used in) operating activities before net working capital	**$ (6,796)**	$ (5,230)	**$ (20,119)**	$ (10,847)
Net change in non-cash working capital (Note 25)	**3,930**	(2,620)	**11,889**	(24,950)
Cash provided by (used in) operating activities from continuing operations	**$ (2,866)**	$ (7,850)	**$ (8,230)**	$ (35,797)
Net cash flows attributable to discontinued operations	**-**	-	**-**	(681)
Net cash provided by (used in) operating activities	**$ (2,866)**	$ (7,850)	**$ (8,230)**	$ (36,478)
Investing activities				
Net proceeds from sale (purchase) of long-term investments (Note 11)	**$ 71**	$ 8,196	**$ 71**	$ 8,833
Proceeds on sale of subsidiary	**-**	6,000	**-**	7,307
Investment in joint venture	**-**	-	**-**	(900)
Proceeds from sale of assets (Note 8)	**4,300**	-	**10,300**	-
Purchase of property, plant, and equipment (Note 8)	**(2,564)**	(487)	**(4,373)**	(5,755)
Cash provided by (used in) investing activities from continuing operations	**$ 1,807**	$ 13,709	**$ 5,998**	$ 9,485
Net cash flows attributable to discontinued operations	**-**	-	**-**	(3)
Net cash provided by (used in) investing activities	**$ 1,807**	$ 13,709	**$ 5,998**	$ 9,482
Financing activities				
Net proceeds from financings (Note 18)	**$ 320**	$ -	**$ 7,852**	$ 43,975
Repayment of convertible debentures (Note 15)	**(1,250)**	-	**(3,750)**	-
Repayment of loans payable (Note 16)	**(1,810)**	-	**(4,901)**	-
Proceeds from loans payable (Note 16)	**388**	2,246	**7,571**	2,246
Proceeds from short-term borrowings	**-**	(2,345)	**-**	(3,276)
Proceeds from warrants exercised (Note 18)	**-**	-	**-**	1,084
Proceeds from options exercised (Note 18)	**-**	-	**-**	1
Payment on promissory notes (Note 17)	**(300)**	-	**(900)**	-
Payment on lease liabilities	**(664)**	(280)	**(2,375)**	(836)
Cash provided by (used in) financing activities from continuing operations	**$ (3,316)**	$ (379)	**$ 3,497**	$ 43,194
Net cash flows attributable to discontinued operations	**-**	-	**-**	(197)
Net cash provided by (used in) financing activities	**$ (3,316)**	$ (379)	**$ 3,497**	$ 42,997
Cash provided by (used in) continuing operations	**$ (4,375)**	$ 5,480	**$ 1,265**	$ 16,882
Net cash flows attributable to discontinued operations	**-**	-	**-**	(881)
Increase/(decrease) in cash and cash equivalents during the period	**$ (4,375)**	$ 5,480	**$ 1,265**	$ 16,001
Cash and cash equivalents, beginning of period	**20,394**	31,178	**14,754**	20,657
Cash and cash equivalents, end of period	**$ 16,019**	$ 36,658	**$ 16,019**	$ 36,658

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

AUXLY CANNABIS GROUP INC.

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

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
Share capital				
Balance - beginning of period	**$ 444,402**	$ 432,147	**$ 436,508**	$ 394,574
Shares issued on exercise of warrants	**-**	-	**-**	1,084
Shares issued on amendment of convertible debenture (Note 15)	**-**	-	**500**	-
Shares issued on exercise of options	**-**	-	**-**	2
Shares issued as at-the-market offerings (Note 18)	**271**	-	**7,665**	1,823
Shares issued on financings, net of taxes (Note 18)	**-**	-	**-**	33,452
Shares issued as employee awards	**-**	-	**-**	832
Fair value transfer on exercise of warrants	**-**	-	**-**	380
Share capital - end of period	**$ 444,673**	$ 432,147	**$ 444,673**	$ 432,147
Reserves				
Convertible debentures				
Balance - beginning of period	**$ 34,306**	$ 29,752	**$ 35,170**	$ 29,752
Equity component of Imperial convertible debenture, net of taxes (Note 15)	**-**	-	**-**	5,418
Equity component of Standby financing convertible debenture, net of taxes (Note 15)	**-**	-	**(864)**	-
Convertible debentures - end of period	**$ 34,306**	$ 29,752	**$ 34,306**	$ 35,170
Warrants				
Balance - beginning of period	**$ 42,411**	$ 42,855	**$ 41,581**	$ 33,803
Warrants issued on Standby financing (Note 15)	**-**	-	**830**	-
Warrants issued on financings (Note 18)	**-**	-	**-**	9,432
Fair value transfer to shares upon conversion	**-**	-	**-**	(380)
Warrants - end of period	**$ 42,411**	$ 42,855	**$ 42,411**	$ 42,855
Contributed surplus				
Balance - beginning of period	**$ 37,326**	$ 40,243	**$ 34,207**	$ 34,492
Employee share options:				
Stock options	**-**	55	**457**	389
Restricted share units	**475**	-	**3,137**	-
Fair value transfer of exercise of options	**-**	-	**-**	(1)
Contributed surplus - end of period	**$ 37,801**	$ 40,298	**$ 37,801**	$ 34,880
Reserves - end of period	**$ 114,518**	$ 112,905	**$ 114,518**	$ 112,905
Accumulated other comprehensive loss				
Balance - beginning of period	**$ (29,120)**	$ (18,138)	**$ (26,478)**	$ (21,952)
Fair value changes in long-term investments (Note 11)	**(455)**	(3,944)	**(2,630)**	(608)
Currency translation adjustment	**(1,023)**	(491)	**(1,490)**	(13)
Accumulated other comprehensive loss - end of period	**$ (30,598)**	$ (22,573)	**$ (30,598)**	$ (22,573)
Deficit				
Attributable to the Company				
Balance - beginning of period	**$ (362,603)**	$ (276,565)	**$ (308,468)**	$ (274,729)
Net loss attributable to the Company	**(60,102)**	(13,527)	**(114,237)**	(15,363)
Ending deficit attributable to the Company	**(422,705)**	(290,092)	**(422,705)**	(290,092)
Attributable to non-controlling interests				
Balance - beginning of period	**$ (4,352)**	$ (4,307)	**$ (4,407)**	$ (4,411)
Currency translation adjustment	**(427)**	(122)	**(372)**	(3)
Net loss attributable to non-controlling interests	**-**	-	**-**	(15)
Ending deficit attributable to non-controlling interests	**(4,779)**	(4,429)	**(4,779)**	(4,429)
Deficit - end of period	**$ (427,484)**	$ (294,521)	**$ (427,484)**	$ (294,521)
Equity - end of period	**$ 101,109**	$ 227,958	**$ 101,109**	$ 227,958

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

1. Nature of operations

Auxly Cannabis Group Inc. ("Auxly", "we", "our", or the "Company") is a publicly traded company listed on the Toronto Stock Exchange ("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 its consumers.

2. Basis of preparation

Going concern uncertainty

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

On September 30, 2022, the Company had total cash and cash equivalents of $16,019, working capital of $12,795, and negative cash flow from operating activities of $8,230 for the nine months ended September 30, 2022. The Company currently has insufficient cash to fund its operations for the next twelve months if the Company's sales materially decline and/or the Auxly Leamington credit facility matures on September 23, 2023, without extension or refinancing. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following September 30, 2022. To address its financing requirements, the Company will seek financing through debt and equity financings (which may include use of its ATM Program and/or rights offerings to existing shareholders) and non-core asset sales. The Company will also seek to improve its sales and cash flows by prioritizing certain products and projects with a greater expected return and reducing operating costs by streamlining its operations and support functions. While the Company has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Company's ability to raise capital may be adversely impacted by: market conditions that have resulted in a lack of normally available financing in the cannabis industry; the Company's ongoing litigation matters; increased competition and price compression across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market; and overall negative investor sentiment in light of inflation, global conflict and negative macroeconomic impacts from the ongoing COVID-19 pandemic.

2. Basis of preparation (continued)

Accordingly, there can be no assurance that the Company will achieve profitability, or secure financing on terms favourable to the Company or at all.

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

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34"). The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements as at and for the year ended December 31, 2021.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual consolidated financial statements as at and for the year ended December 31, 2021, which are available on SEDAR at www.sedar.com and on the Company's website at www.auxly.com.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the notes to the annual consolidated financial statements as at and for the year ended December 31, 2021. These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on November 11, 2022.

COVID-19 Uncertainty

As at September 30, 2022, 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 interim condensed consolidated financial position and interim condensed consolidated results of operations.

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

3. Significant accounting policies

Subsidiaries

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

Subsidiaries	Equity interests
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.

Adoption of new accounting pronouncements

Amendments to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-current ("IAS 1")

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. Effective January 1, 2022, the Company adopted the amendments to IAS 1 with no impact to the Company's interim condensed consolidated financial statements.

Amendments to IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018–2020 annual improvements to the IFRS 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.

3. Significant accounting policies (continued)

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. Effective January 1, 2022, the Company adopted the amendments to IFRS 9 with no impact to the Company's interim condensed consolidated financial statements.

Amendments to IAS 37, Onerous Contracts and the Cost of Fulfilling a Contract ("IAS 37")

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. Effective January 1, 2022, the Company adopted the amendments to IAS 37 with no impact to the Company's interim condensed consolidated financial statements.

Future changes in accounting policies

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

Amendments to IAS 8, Definition of Accounting Estimates ("IAS 8")

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 expects no material impact on its interim condensed consolidated financial statements.

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

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 expects no material impact on its interim condensed consolidated financial statements.

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

4. Restricted cash

Auxly has restricted cash as collateral in order to facilitate an issuance of a letter of credit. As at September 30, 2022, Auxly has provided Enbridge Gas Inc., operating as Union Gas, a letter of credit in the amount of $557 (December 31, 2021 – $557) on behalf of Auxly Leamington 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. The proceeds from financing of $1,004 held in escrow as at December 31, 2021 was released during the first quarter of 2022.

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 September 30, 2022	As at December 31, 2021
Less than 30 days past billing date	**$ 14,489**	$ 24,624
31 to 60 days past billing date	**178**	1,771
61 to 90 days past billing date	**2**	523
Over 90 days past billing date	**4**	150
	$ 14,673	$ 27,068
Sales provision	**(207)**	(29)
	$ 14,466	$ 27,039

6. Biological assets

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

Balance, December 31, 2020	**$ 419**
Acquired on business combination (Note 10)	5,361
Changes in fair value less cost to sell due to biological transformation	2,384
Capitalized production costs	4,068
Transferred to inventory upon harvest	(5,669)
Balance, as at December 31, 2021	**$ 6,563**
Changes in fair value less cost to sell due to biological transformation	25,704
Capitalized production costs	14,292
Transferred to inventory upon harvest	(38,011)
Impairment of biological assets (Note 27)	(704)
Balance as at September 30, 2022	**$ 7,844**

During the first quarter of 2022, the biological assets at Auxly Annapolis Inc. ("Auxly Annapolis") were written off and an impairment loss of $704 has been included in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

As at September 30, 2022, the Company's cannabis plants were on average 48% complete through their estimated 14-week growing cycle.

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

6. Biological assets (continued)

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.

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 September 30, 2022			
Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$0.3–$1.3/gram	Increase/decrease $0.30/gram	Increase/decrease $3,686
Average yield per plant	114 grams	Increase/decrease 10%	Increase/decrease $1,063
Post-harvest cost per gram	$0.03 dollar/gram	Increase/decrease $0.03/gram	Increase/decrease $369

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

7. Inventory

The following is a breakdown of inventory:

	As at September 30, 2022	As at December 31, 2021
Dried cannabis		
Work-in-process	$ **23,224**	$ 13,638
Finished goods	**1,923**	640
Dried hemp		
Work-in-process	**193**	3,836
Cannabis oil		
Work-in-process	**9,259**	11,726
Generation 2 derivative products		
Work-in-process	**694**	1,208
Finished goods	**5,212**	6,188
Merchandise products	**600**	199
Packaging, hardware, consumables and ingredients	**15,199**	14,943
Total	$ **56,304**	$ 52,378

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

7. Inventory (continued)

As at September 30, 2022, the Company recognized $56,304 (December 31, 2021 – $52,378) of inventory on the interim condensed consolidated statements of financial position, including $6,782 non-cash income (December 31, 2021 – $220) relating to the fair value less cost to sell transferred to inventory upon harvest. During the three and nine months ended September 30, 2022, inventory expensed to cost of sales was $14,462 (2021 – $19,017) and $51,553 (2021 – $37,996).

In the three and nine months ended September 30, 2022, the Company recognized a loss of $2,014 (2021 – $716) and $8,670 (2021 – $1,070) on cannabis inventory due to the costs capitalised exceeding the net realizable value of the inventory. The impairment loss for the three and nine months ended September 30, 2022 includes $nil (2021 – $nil) and $4,323 (2021 – $nil) related to Auxly Annapolis. The impairment loss has been included in the cost of sales in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

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, 2021	$ 3,793	$ 29,853	$ 33,790	$ 147,734	$ 295	$ 8,065	$ 23,122	**$ 246,652**
Additions	78	4	3,020	95	1,895	-	195	**5,287**
Disposals	(15)	-	(405)	(8,045)	-	(2,626)	-	**(11,091)**
Transfers	63	-	447	14	(524)	-	-	**-**
Impairment of long-term assets	(296)	-	(2,318)	(15,079)	-	-	-	**(17,693)**
September 30, 2022	**$ 3,623**	**$ 29,857**	**$ 34,534**	**$ 124,719**	**$ 1,666**	**$ 5,439**	**$ 23,317**	**$ 223,155**
Accumulated depreciation:								
December 31, 2021	$ 1,739	$ 1,980	$ 3,908	$ 4,076	$ -	$ 27	$ 7,163	**$ 18,893**
Depreciation	493	1,087	3,072	4,359	-	-	2,944	**11,955**
Disposals	(5)	-	(119)	(2,671)	-	-	-	**(2,795)**
September 30, 2022	**$ 2,227**	**$ 3,067**	**$ 6,861**	**$ 5,764**	**$ -**	**$ 27**	**$ 10,107**	**$ 28,053**
Adjustments:								
Currency translation	$ 12	$ (19)	$ (42)	$ 69	$ -	$ 79	$ 1	**$ 100**
Reclassification to assets held for sale (Note 27)	(1)	-	-	-	-	(1,379)	(3)	**(1,383)**
Carrying amounts								
September 30, 2022	**$ 1,407**	**$ 26,771**	**$ 27,631**	**$ 119,024**	**$ 1,666**	**$ 4,112**	**$ 13,208**	**$ 193,819**

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

8. Property, plant and equipment (continued)

	Computers and office furniture	Leasehold improvements	Equipment	Buildings	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 27)	(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**

Property, plant and equipment additions for the nine months ended September 30, 2022 includes a $914 (2021 – $81) non-cash recognition of right-of-use asset, including $719 in construction-in-progress for equipment that has not been installed as at September 30, 2022.

On February 7, 2022, the Company announced that it had ceased operations at its Auxly Annapolis and Auxly Annapolis OG Inc. ("Auxly Annapolis OG") cultivation facilities. The property, plant and equipment related to Auxly Annapolis and Auxly Annapolis OG was written down to its recoverable amount, resulting in an impairment loss of $12,884. During the second quarter of 2022, the Company completed the sale of the Auxly Annapolis indoor cultivation facility to a private purchaser for total proceeds to the Company of $6,000 and recorded a gain on sale of $1,500. During the third quarter of 2022, the Company completed the sale of the Auxly Annapolis OG outdoor cultivation facility to a private purchaser for total proceeds of $4,150, resulting in a gain on sale of $650. The impairment loss and the gain on sale have been included in the interim condensed consolidated statements of income/(loss) and comprehensive gain/(loss). The proceeds from the sale of Auxly Annapolis and Auxly Annapolis OG facilities have been included in the cash provided by investing activities in the interim condensed consolidated statements of cash flows.

During the third quarter of 2022, the Company recorded an impairment loss of $4,809 on property, plant and equipment as a result of the impairment test performed on the Canadian cannabis cash generating unit ("CGU"). Please refer to Note 9 for more information.

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

9. Intangible assets and goodwill

Intangible assets

	September 30, 2022	December 31, 2021
Cost:		
Opening balance	**$ 83,436**	$ 81,504
Disposals	**-**	(2,622)
Transfers from deposits	**988**	-
Impairment	**(23,413)**	-
Closing balance	**$ 61,011**	$ 83,436
Accumulated amortization:		
Opening balance	**$ 9,233**	$ 7,245
Amortization	**5,198**	3,701
Disposals	**-**	(1,713)
Closing balance	**$ 14,431**	$ 9,233
Carrying amounts:		
Closing balance	**$ 46,580**	$ 74,203

Goodwill

Balance, December 31, 2020	**$ 28,595**
Business combination (Note 10)	649
Change in goodwill due to sale of subsidiary	(4,954)
Balance, December 31, 2021	**$ 24,290**
Change in purchase price allocation from business combination (Note 10)	1,108
Impairment of goodwill	(25,398)
Balance, September 30, 2022	**$ -**

During the first quarter of 2022, the Company recorded an impairment loss of $10,189 for the Canadian cultivation license and $600 of goodwill as a result of the decision to cease operations at Auxly Annapolis and Auxly Annapolis OG.

During the third quarter of 2022, the Company recorded an increase in goodwill of $1,108 resulting from a change in the purchase price allocation from the acquisition of Auxly Leamington in 2021. Please refer to Note 10 for more information.

Canadian Cannabis CGU

The Company's Canadian cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within Canada. As at September 30, 2022, the Company identified potential impairment indicators related to the Canadian cannabis CGU and performed impairment testing in accordance with IAS 36, *Impairment of Assets*. 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.

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

9. Intangible assets and goodwill (continued)

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 September 30, 2022 was $24,798, prior to impairment. 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	18.5%
Terminal growth rate	2.5%
Budgeted earnings growth rate (average of next five years)	50.6%

The Company determined that the carrying value of the Canadian Cannabis CGU exceeds its recoverable amount and wrote down the assets of the CGU to its recoverable amount. The following is a breakdown of the impairment loss recorded during the third quarter of 2022:

Other receivables	$ 2,169
Property, plant and equipment, net (Note 8)	4,809
Intangible assets	13,224
Goodwill	24,798
Deferred tax liability	(2,110)
Total	**$ 42,890**

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 $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

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

10. Business combinations (continued)

- $500 of contingent consideration payable by Auxly Leamington to Fresh Energy Inc. ("Fresh Energy") upon the completion of the Transfer (as hereinafter defined). Please see note 13 for more information.

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	Change in purchase price allocation	As at November 22, 2021 (Adjusted)
Cash and cash equivalents	$ 561	$ -	$ 561
Biological assets	5,361	-	5,361
Inventory	4,219	-	4,219
Due from 2633867 Ontario Inc.	2,745	-	2,745
Prepaid expenses	700	-	700
Property, plant and equipment, net	155,339	-	155,339
Fresh Energy Inc. intangible asset	2,860	-	2,860
Intangible asset	1,694	-	1,694
Goodwill	649	1,108	1,757
Total assets	**$ 174,128**	**$ 1,108**	**$ 175,236**
Accounts payable and accruals	$ (4,845)	$ (1,108)	$ (5,953)
Deferred revenue	(322)	-	(322)
Obligations under capital leases	(10,598)	-	(10,598)
Loans payable	(67,516)	-	(67,516)
Promissory note	(2,860)	-	(2,860)
Deferred tax liability	(449)	-	(449)
Total liabilities	**$ (86,590)**	**$ (1,108)**	**$ (87,698)**
Fair value of net assets acquired	**$ 87,538**	**$ -**	**$ 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 13)	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**

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. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

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

10. Business combinations (continued)

During the third quarter of 2022, Auxly Leamington received supplemental property tax bills from the Municipality of Leamington, covering 2020 to 2022. The property tax related to tax incurred prior to the Company's acquisition of Auxly Leamington has been adjusted through an increase in accounts payable and accrued liabilities of $1,108, and a corresponding increase in goodwill. No further changes to the fair values and purchase price allocation are expected in connection with the acquisition of Auxly Leamington.

11. Long-term investments

Entity	Instrument	Classification	Balance as at December 31, 2021	FV change	Purchases (sales)	Balance as at September 30, 2022
VIVO Cannabis	Shares	FVOCI	$ 40	$ (27)	$ -	$ 13
Cannabis OneFive Inc.	Shares	FVOCI	1,702	(658)	-	1,044
Wellbeing Digital Sciences Inc.	Shares	FVOCI	2,104	(1,928)	(71)	105
Luff Enterprises Ltd. (Ascent)	Shares	FVOCI	51	(17)	-	34
Total			**$ 3,897**	**$ (2,630)**	**$ (71)**	**$ 1,196**

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**

12. Deposits

	Capital assets	Inventory	Other	Total
Current portion	$ 4,215	$ 450	$ 90	**$ 4,755**
Non-current portion	-	-	87	**87**
As at September 30, 2022	**$ 4,215**	**$ 450**	**$ 177**	**$ 4,842**

	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**

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

12. Deposits (continued)

As at September 30, 2022, the Company has made deposits towards specialized equipment to be utilized for pre-roll manufacturing and packaging, packaging material and raw material cannabis purchases.

13. Contingent consideration payable

As part of the acquisition of Auxly Leamington in 2021, the Company recorded a contingent consideration payable by Auxly Leamington to Fresh Energy of $500 (December 31, 2021 – $500) upon the completion of the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea RD 9 PH 5 (the “Transfer”).

14. Lease liability

		As at September 30, 2022		As at December 31, 2021
Maturity analysis - contractual undiscounted cash flows				
Less than one year	**$**	**5,125**	$	4,949
Two years and beyond		**19,488**		21,762
Total undiscounted lease obligations	**$**	**24,613**	$	26,711
Current portion	**$**	**4,257**	$	4,046
Long-term portion		**15,580**		17,252
Reclassification to liabilities held for sale (Note 27)		**(4)**		(3)
Discounted lease obligations included in the consolidated statements of financial position	**$**	**19,833**	$	21,295

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.

15. Convertible debentures

The convertible debentures balance consists of the following:

		As at September 30, 2022		As at December 31, 2021
September 2019 issuance and April 2021 amendment	**$**	**101,746**	$	95,198
2020 Standby financing and 2022 amendment		**6,442**		10,627
Total	**$**	**108,188**	$	105,825
Less: current portion		**-**		(10,627)
Long-term portion	**$**	**108,188**	$	95,198

15. 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 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 interim condensed consolidated statements of income/(loss) and comprehensive income/(loss).

The associated accretion expense for the three and nine months ended September 30, 2022 was $2,283 and $6,548, respectively (2021 – $2,029 for the three months ended and $7,663 for the nine months ended). Interest expense for the three and nine months ended September 30, 2022 was $1,238 and $3,675, respectively (2021 – $1,265 for the three months ended and $3,702 for the nine months ended).

15. Convertible debentures (continued)

2020 Standby financing and 2022 amendment

On April 28, 2020, Auxly entered into an investment agreement with an institutional investor as a standby facility to provide it with access to additional capital. This investment agreement provided the Corporation with the opportunity to sell, on a private placement basis, unsecured convertible debentures of Auxly in the principal amount of up to $25,000. During 2020, Auxly closed five tranches of convertible debentures for total net proceeds of $10,664, in which $484 was allocated to the accompanying warrants and $995 was allocated to the conversion feature. Each tranche had a maturity date of 24 months from the date of issuance.

In June 2022, the Company entered into an agreement to amend the unsecured convertible debentures to extend the maturity date of the remaining outstanding debentures to August 15, 2024. As at September 30, 2022, the Company has repaid $3,750 of principal owing under the original standby financing convertible debenture, with $7,500 owing on the maturity date. The interest rate of 7.5% per annum will remain unchanged and will be payable semi-annually.

The debentures are convertible into common shares at a price of $0.1380 per share at any time prior to the close on the business day immediately prior to the maturity date. The amendment includes certain repayment conditions should the Company raise additional capital prior to the maturity date.

As consideration for the amendments, the Company paid the investor an amendment fee of $500 through the issuance of 4,347,826 common shares and issued the investor warrants to purchase 20,000,000 common shares, which each warrant being exercisable until June 22, 2025 at a price per share of $0.1495.

The amendment was treated as a debt extinguishment under IFRS 9 as the terms are substantially different and the discounted present value of the cash flows under the new terms is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. The amendment fee of $500, paid through issuance of Auxly common shares, was assumed to be equally split between the debt extinguishment and the issuance of the new debentures. The Company derecognized the debentures' carrying value of $8,620 and the conversion feature's carrying value of $994. The gross proceeds were allocated to the new debentures and the new warrants based on their relative fair value, in which $7,670 was allocated to the debentures and $830 was allocated to the warrants. The financial liability under the amended terms of the debentures were recorded at fair value of $7,557, discounted at an estimated market interest rate of 18.5%, and the residual value of $113 was allocated to the equity conversion feature. The relative fair value of the conversion features and warrants were derived based on the following assumptions: Share price – $0.11; Annualized volatility – 90.57%; Risk-free interest rate – 3.29%; Dividend yield – 0%; and Expected life – 2.15 years for the conversion feature and 3 years for the warrant.

During the second quarter of 2022, the net impact of the debt extinguishment and the recognition of the amended debt resulted in a gain of $512 recorded in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss). The net impact of extinguishment of the conversion feature, the recognition of the amended conversion feature and the issuance of the warrants resulted in a decrease in reserves, net of taxes, of $34, recorded in the interim condensed consolidated statements of changes in equity.

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

15. Convertible debentures (continued)

The continuity schedule of the standby financing debentures is presented below:

	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	$ 10,627	$ 9,638
Accretion expense	$ 628	$ 989
Principal payment	(3,750)	-
Change in fair value	(1,063)	-
Balance, end of period	$ 6,442	$ 10,627

The accretion expense associated with the debentures for the three and nine months ended September 30, 2022 was $123 and $628, respectively (2021 – $255 for the three months ended and $723 for the nine months ended). Interest expense for the three and nine months ended September 30, 2022 was $156 and $576, respectively (2021 – $212 for the three months ended and $630 for the nine months ended).

16. Loans payable

The loans payable balance consists of the following:

	As at September 30, 2022	As at December 31, 2021
Equipment loans payable	$ 4,230	$ 4,452
Amended and Restated Credit Facility	49,112	52,000
Receivables financing loan	6,648	-
Insurance loan payable	-	345
Total	$ 59,990	$ 56,797
Less: current portion	50,799	5,450
Long-term portion	$ 9,191	$ 51,347

Equipment loans payable

The Company entered into arrangements with a leasing company to finance several pieces of equipment used in its operations. The equipment loans generally have terms between 2 and 3 years, with interest ranging from 9.47% to 12.16% per annum. The continuity schedule of the equipment loans is presented below:

	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	$ 4,452	$ -
Additions	$ 382	$ 4,799
Payments	(763)	(474)
Interest expense	159	127
Balance, end of period	$ 4,230	$ 4,452
Current portion	$ 1,687	$ 1,255
Long-term portion	2,543	3,197
Total	$ 4,230	$ 4,452

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

16. Loans payable (continued)

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 (the "Term Credit"), for an aggregate fair value of $67,000 on acquisition. An immediate cash payment of $15,000 was applied to the outstanding principal balance of the revolving credit facility. As part of the amended agreement, the maturity date of the credit facility 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 quarterly principal payment on the Term Credit is $963, commencing the first business day of each calendar quarter following the repayment start date of January 2022.

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 continue 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 September 30, 2022		As at December 31, 2021
Balance, beginning of period	$	52,000	$	-
Additions	$	-	$	67,000
Payments		(2,888)		(15,000)
Balance, end of period	$	49,112	$	52,000
Current portion	$	49,112	$	3,850
Long-term portion		-		48,150
Total	$	49,112	$	52,000

Interest expense for the three and nine months ended September 30, 2022 was $903 and $2,305, respectively (2021 – $nil for the three and nine months ended).

Receivables financing loan

On January 21, 2022, the Company and several of its subsidiaries entered into a receivables financing agreement with Savent Financial Canada Corp. ("Savent"), where Savent made a non-revolving loan to the Company in the principal amount of $5,000 United States dollars, which includes an origination fee of $150 United States dollars. Obligations of the Company and its subsidiaries under this arrangement are secured by a first-priority security interest in all of its cannabis receivables and is guaranteed by the Company. The Company has retained late payment and credit risk, therefore continues to recognize the transferred assets in their entirety in its interim condensed consolidated statements of financial position. The amount payable under the receivables financing agreement is presented as non-current loans with an extendable maturity date. The loan payable bears interest at 18% per annum with interest payable on a monthly basis. Interest expense for the three and nine months ended September 30, 2022 was $297 and $791, respectively (2021 – $nil for the three and nine months ended).

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

16. Loans payable (continued)

Insurance loan payable

The insurance loan payable was acquired on the acquisition of Auxly Leamington. The loan bore interest at 4.75% per annum and was fully paid during the first quarter of 2022. During the second quarter of 2022, the Company entered into a six-month insurance finance agreement, which bears interest at 8.27% per annum. The continuity schedule of the insurance loan payable is presented below:

	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	**$ 345**	$ -
Additions	**$ 1,064**	$ 516
Payments	**(1,431)**	(173)
Interest expense	**22**	2
Balance, end of period	**$ -**	$ 345

17. Promissory notes

The promissory note balance consists of the following:

	As at September 30, 2022	As at December 31, 2021
Due to Peter Quiring	**$ 3,575**	$ 3,421
Fresh Energy Agreement	**1,936**	2,766
Total	**$ 5,511**	$ 6,187
Less: current portion	**3,072**	1,370
Long-term portion	**$ 2,439**	$ 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.

Concurrently 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%, the Company recognized a promissory note of $2,860 and a corresponding intangible asset of $2,860.

The continuity schedule of the promissory notes is presented below:

	As at September 30, 2022	As at December 31, 2021
Balance, beginning of period	**$ 6,187**	$ -
Additions	**$ -**	$ 6,260
Payments	**(900)**	(100)
Interest expense	**224**	27
Balance, end of period	**$ 5,511**	$ 6,187
Current portion	**$ 3,072**	$ 1,370
Long-term portion	**2,439**	4,817
Total	**$ 5,511**	$ 6,187

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

18. Share capital

The share capital of the Company is summarized below:

	September 30, 2022	December 31, 2021
Issued and outstanding shares		
Issued shares	**911,241,498**	850,732,172
Escrowed shares	**6,994,190**	6,994,190
Outstanding shares	**904,247,308**	843,737,982

	September 30, 2022	December 31, 2021
Exercisable securities		
Warrants	**122,510,533**	122,542,280
Convertible debentures	**206,015,844**	188,089,377
Options	**25,692,861**	28,920,509
Restricted share units	**62,520,108**	-

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

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
Stock options	**$ -**	$ 55	**$ 457**	$ 1,221
Restricted share units	**475**	-	**3,137**	-
Total equity-based compensation	**$ 475**	$ 55	**$ 3,594**	$ 1,221

a) Authorized

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

b) Issued and outstanding

As at September 30, 2022, there were 911,241,498 issued and outstanding common shares, with 6,994,190 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2021 had 850,732,172 issued and outstanding common shares, and 6,994,190 shares held in escrow related to contingent considerations in acquisitions and investments).

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.

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
Gross proceeds	**$ 283**	$ -	**$ 7,867**	$ 1,865
Commission	**$ 12**	$ -	**$ 202**	$ 42
Net proceeds	**$ 271**	$ -	**$ 7,665**	$ 1,823
Average gross price	**$ 0.059**	$ -	**$ 0.140**	$ 0.365
Number of shares issued	**4,763,000**	-	**56,161,500**	5,106,000

In the three and nine months ended September 30, 2022, net proceeds of $49 and $187 related to transactions from prior periods were received, resulting in net proceeds from financing of $320 and $7,852, respectively, as presented in the interim condensed consolidated statements of cash flows. Net proceeds receivable from financing was recorded in other receivables on the interim condensed consolidated statements of financial position.

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

18. Share capital (continued)

c) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at September 30, 2022:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2021	**56,021,747**	**0.593**	**2.35**
Warrants issued	71,977,199	0.414	2.30
Warrants exercised	(3,456,666)	0.149	
Warrants expired	(2,000,000)	1.570	
Closing balance, December 31, 2021	**122,542,280**	**0.480**	**1.89**
Warrants issued	20,000,000	0.150	2.98
Warrants expired	(20,031,747)	0.372	
Closing balance, September 30, 2022	**122,510,533**	**0.444**	**1.62**

As part of the 2022 standby financing amendment, the Company issued the investor warrants to purchase 20,000,000 common shares, which each warrant being exercisable until June 22, 2025 at a price per share of $0.1495. Refer to note 15 for more information.

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 91,124,150 as at September 30, 2022.

The following table summarizes information about stock options outstanding as at September 30, 2022:

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening balance, January 1, 2021	**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**
Options cancelled/forfeited	(3,227,648)	0.893	
Closing balance, September 30, 2022	**25,692,861**	**0.393**	**3.93**

Total options exercisable at September 30, 2022, were 18,156,402 (2021 – 22,102,507) with a remaining average life of 4.15 years (2021 – 4.13 years). During the three months and nine months ended September 30, 2022, the Company recorded equity-based compensation of $nil and $457, respectively, for stock options (2021 – $55 for the three months ended and $1,221 for the nine months ended).

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

18. Share capital (continued)

e) Restricted share units

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

The following table summarizes information about RSUs outstanding as at September 30, 2022:

	Number of RSU	Weighted average issue price ($)	Average remaining life (years)
Closing balance, December 31, 2021	**-**		
RSUs issued	62,887,695	0.091	2.51
RSUs forfeited	(367,587)	0.091	
Closing balance, September 30, 2022	**62,520,108**	**0.091**	**2.51**

During the three months and nine months ended September 30, 2022, the Company recorded equity-based compensation of $475 and $3,137 (2021 – $nil for the three and nine months ended) of expense for RSUs granted and vested during the period. This expense is included in equity-based compensation in the interim condensed consolidated statements of income/(loss) and comprehensive income/(loss). As a September 30, 2022, the unrecognized equity-based compensation related to the issued RSUs was $1,666 (2021 – $nil) which will be recognized over the remaining life as the RSUs vest.

f) Earnings/(loss) per share

The calculation of basic and diluted income/(loss) per share is based on the income/(loss) for the period attributable to the shareholders divided by the weighted average number of shares in circulation during the period. 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.

19. 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 includes members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, equity-based awards or post-employment benefits.

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

19. Related party balances and transactions (continued)

Compensation provided to current and key management are as follows:

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
Short-term benefits	**$ 498**	$ 505	**$ 1,601**	$ 1,645
Long-term benefits	**627**	104	**2,385**	230
Total	**$ 1,125**	$ 609	**$ 3,986**	$ 1,875

20. Financial instruments and risk management

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

a) Financial instrument classification and measurement

Financial instruments that are recorded at fair value on the interim condensed consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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 $104/($104) (2021 – $141/($141)).

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

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 142	$ -	$ -	$ 142
Biological assets	-	-	7,844	7,844
Public company shares	152	-	-	152
Private company shares	-	-	1,044	1,044
Balance, September 30, 2022	**$ 294**	**$ -**	**$ 8,888**	**$ 9,182**

	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**

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

20. 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, 2021	$	51,415
Change in unrealized gain/(loss) – FVOCI		1,221
Net proceeds on sale		(515)
Change in biological assets		6,144
Elimination of investment in joint venture on business combination		(50,000)
Balance, December 31, 2021	**$**	**8,265**
Change in unrealized gain/(loss) – FVOCI		(658)
Change in biological assets		1,281
Balance, September 30, 2022	**$**	**8,888**

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, loans payable and convertible debentures. As at September 30, 2022, 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, 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 $104 before tax (2021 – $141). An equal change in the opposite direction would have decreased equity by $104 before tax (2021 – $141).

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 and other receivables.

Management has mitigated the risk by using tier 1 financial institutions for managing its cash and has established communication channels with the counterparties of the receivables for ongoing monitoring of their financial performance.

20. Financial instruments and risk management (continued)

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 $440/($440) (2021 – $449/($449)).

21. 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.

22. Commitments and contingencies

Commitments

As at September 30, 2022, Auxly has entered into certain agreements that commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable. Auxly has funding commitments as follows:

- As part of the debt financing provided by a syndicate led by 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; subsequent to quarter end, the brokerage agreement with Kindred was terminated;

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

22. Commitments and contingencies (continued)

- 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 €1,361 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:

	Remaining 2022	Fiscal year 2023	Fiscal year 2024	Fiscal year 2025	Fiscal year 2026	Thereafter	Total
Lease obligations	$ 2,286	$ 3,727	$ 3,119	$ 2,749	$ 2,728	$ 10,004	**$ 24,613**
Loans payable obligations	1,498	50,291	1,563	738	-	6,648	**60,738**
Promissory note obligations	510	3,718	1,549	-	-	-	**5,777**
Convertible debenture obligations	213	563	155,258	-	-	-	**156,034**
Total	**$ 4,507**	**$ 58,299**	**$ 161,489**	**$ 3,487**	**$ 2,728**	**$ 16,652**	**$ 247,162**

Contingencies

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

23. Selling, general and administrative expenses

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

For the periods ended:	Three months September 30, 2022	2021	Nine months September 30, 2022	2021
CONTINUING OPERATIONS				
Wages and benefits	**$ 4,838**	$ 3,994	**$ 15,572**	$ 12,933
Office and administrative	**2,380**	3,310	**8,536**	9,984
Professional fees	**664**	780	**2,203**	1,881
Business development	**66**	128	**223**	160
Selling expenses	**3,611**	3,295	**10,600**	6,654
Total	**$ 11,559**	$ 11,507	**$ 37,134**	$ 31,612

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

24. Interest and accretion expenses

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

For the periods ended:	Three months September 30,		Nine months September 30,	
	2022	2021	**2022**	2021
Interest expense from continuing operations	**$ 5,507**	$ 3,932	**$ 15,923**	$ 13,320
Interest expense from discontinued operations	**-**	-	**-**	10
Total interest expense	**$ 5,507**	$ 3,932	**$ 15,923**	$ 13,330
Less non-cash interest on Imperial Brands convertible debentures	**(1,238)**	(1,265)	**(3,675)**	(3,702)
Less non-cash accretion expense on convertible debentures	**(2,406)**	(2,284)	**(7,176)**	(8,386)
Less non-cash interest on promissory note	**(73)**	-	**(224)**	-
Total cash interest	**$ 1,790**	$ 383	**$ 4,848**	$ 1,242

25. Changes in non-cash working capital

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

For the periods ended:	Three months September 30,		Nine months September 30,	
	2022	2021	**2022**	2021
CONTINUING OPERATIONS				
Short-term investments	**$ (2)**	$ 146	**$ (2)**	$ 146
Accounts receivable	**5,516**	(3,883)	**12,573**	(9,592)
Other receivables	**273**	(83)	**342**	493
Prepaid expenses	**3,479**	(5,332)	**6,470**	(8,872)
Interest payable	**(253)**	(205)	**72**	(183)
Biological assets (Note 6)	**9,343**	336	**23,719**	743
Inventory (Note 7)	**(11,558)**	(2,740)	**(29,994)**	(10,024)
Accounts payable and accrued liabilities	**(2,788)**	9,141	**(1,050)**	2,339
Deferred revenue	**(80)**	-	**(241)**	-
Total	**$ 3,930**	$ (2,620)	**$ 11,889**	$ (24,950)

26. 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. 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. All the Company's revenues are from its Canadian operations.

In February 2022, the Company ceased operations at Auxly Annapolis and Auxly Annapolis OG. The Company completed the sales of the Auxly Annapolis indoor cultivation facility and the Auxly Annapolis OG outdoor cultivation facility in June and August 2022, respectively.

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

26. Operating segments (continued)

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.

For the Company's geographically segmented non-current assets, the Company has allocated $1,547 of assets held for sale and $862 of liabilities held for sale, under the South American cannabis CGU. As at September 30, 2022, the South American cannabis CGU contained $1,383 of property, plant and equipment. Refer to Note 27 for more information.

27. Assets and liabilities held for sale

As at September 30, 2022, 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 September 30, 2022	As at December 31, 2021
Cash and cash equivalents	**$ 4**	$ 3
Other receivables	**136**	126
Prepaid expenses	**24**	23
Property, plant and equipment, net (Note 8)	**1,383**	1,279
Total assets held for sale	**$ 1,547**	**$ 1,431**
Accounts payable and accrued liabilities	**$ 858**	$ 794
Lease liability (Note 14)	**4**	3
Total liabilities held for sale	**$ 862**	**$ 797**

On February 7, 2022, the Company announced that it had ceased operations at the Auxly Annapolis and Auxly Annapolis OG facilities and that it intended to divest of the non-core assets and apply the proceeds from any such sale to support its ongoing operations. The Company wrote down the assets of Auxly Annapolis and Auxly Annapolis OG to its recoverable amount, resulting in an impairment loss of $25,745. The following is a breakdown of the impairment loss recorded during the first quarter of 2022:

Biological assets (Note 6)	$ 704
Inventory (Note 7)	4,323
Property, plant and equipment, net (Note 8)	12,884
Intangible asset (Note 9)	10,189
Goodwill (Note 9)	600
Deferred tax liability	(2,955)
Total	**$ 25,745**

The Company completed the sale of Auxly Annapolis' indoor cultivation facility and Auxly Annapolis OG's outdoor cultivation facility in June and August 2022, respectively, for total proceeds of $10,150.