



AUXLY CANNABIS GROUP INC.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

Dated November 21, 2019

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Financial Position

Expressed in thousands of Canadian Dollars

Unaudited

	September 30 2019	December 31 2018 <i>(Restated, Measurement Period Adjustment - see note 10)</i>
Assets		
Current assets		
Cash and cash equivalents (Note 4)	\$ 186,526	\$ 211,707
Short-term investments	349	3,349
Note receivable (Note 5)	16,343	2,946
Biological assets (Note 6)	2,505	2,158
Inventory (Note 7)	48,093	2,215
Research contract costs	1,732	1,843
Debt obligation receivable in product equivalents (Note 14)	-	14,912
Prepaid expenses	8,010	8,092
Other receivables	10,754	6,147
	274,312	253,369
Non-current assets		
Prepaid expenses	7,955	-
Long-term investments (Note 12)	20,236	27,223
Investment in joint venture (Note 13)	88,450	29,158
Property, plant and equipment (Note 8)	55,321	28,726
Intangible assets (Note 9)	87,722	88,422
Goodwill (Note 11)	34,094	33,920
	293,778	207,449
Total assets	\$ 568,090	\$ 460,818
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 49,755	\$ 20,330
Interest payable	1,626	2,756
Lease liability (Note 15)	1,656	-
Convertible debenture (Note 16)	97,244	-
Deferred revenue	4,381	3,984
	154,662	27,070
Non-current liabilities		
Convertible debenture (Note 16)	88,444	93,563
Lease liability (Note 15)	3,114	-
Deferred tax liability	14,153	18,445
Other non-current liabilities	1,755	588
	107,466	112,596
Total liabilities	262,128	139,666
Equity		
Share capital (Note 17)	364,293	350,647
Shares to be issued (Note 17)	-	9,523
Reserves (Note 17)	88,587	55,567
Accumulated other comprehensive income	(17,581)	(10,873)
Deficit	(131,582)	(86,729)
Total equity attributable to shareholders of the Company	303,717	318,135
Total equity attributable to non-controlling interest	2,245	3,017
Total equity	305,962	321,152
Total liabilities and equity	\$ 568,090	\$ 460,818

Commitments and Operating Segments are found in Notes 21 and 24, respectively

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

The condensed consolidated interim financial statements were approved by the Board of Directors on November 21, 2019 and were signed on its behalf by:

(s) Chuck Rifici

Chuck Rifici

(s) Genevieve Young

Genevieve Young

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

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

Unaudited

	Three months Ended September 30 2019	Three months Ended September 30 2018	Nine months Ended September 30 2019	Nine months Ended September 30 2018
Revenues				
Research contracts and other	\$ 1,502	\$ 818	\$ 4,345	818
Revenue from sales of cannabis products	115	-	851	-
Total Revenues	1,617	818	5,196	818
Costs of sales				
Research contracts and other	1,453	306	3,825	306
Costs of finished cannabis inventory sold	59	-	435	-
Impairment on inventory	1,074	-	1,074	-
Gross profit / (loss) excluding fair value items	(969)	512	(138)	512
Realized fair value gain / (loss) on inventory	(48)	-	(243)	-
Unrealized fair value gain / (loss) on biological transformation (Note 6)	(135)	3	(672)	3
Gross profit / (loss)	(1,152)	515	(1,053)	515
Other incomes				
Fair value gain / (loss) for financial instruments accounted under FVTPL (Note 12,14)	(5,778)	6,202	(6,208)	7,102
Interest income	858	1,360	3,837	2,770
Total other incomes	(4,920)	7,562	(2,371)	9,872
Expenses				
Selling, general, and administrative expenses (Note 22)	16,594	16,004	38,887	34,238
Depreciation and amortization (Note 8, 9)	1,527	200	4,002	390
Interest expense (Note 23)	2,520	2,814	7,951	7,775
Impairment of intangible assets (Note 9)	-	-	1,800	-
(Gain) / loss on settlement of financial assets and liabilities	1,413	(35)	1,288	4,156
Share of loss on investment in joint venture (Note 13)	838	173	1,390	173
Foreign exchange (gain) / loss	75	445	1,015	396
Total expenses	22,967	19,601	56,333	47,128
Net loss before income tax	(29,039)	(11,524)	(59,757)	(36,741)
Income tax recovery	11,524	1,644	14,247	4,178
Net loss	\$ (17,515)	\$ (9,880)	\$ (45,510)	\$ (32,563)
Net loss attributable to shareholders of the Company	\$ (17,255)	\$ (9,595)	\$ (44,853)	\$ (31,697)
Net loss attributable to non-controlling interest	(260)	(285)	(657)	(866)
Other comprehensive loss				
Fair value gain / (loss) on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 12)	(4,935)	5,812	(6,343)	3,881
Currency translation adjustment - subsequently reclassified to profit or loss	(111)	(524)	(480)	351
Total comprehensive loss	\$ (22,561)	\$ (4,592)	\$ (52,333)	\$ (28,331)
Total comprehensive loss attributable to shareholders of the Company	\$ (22,278)	\$ (3,487)	\$ (51,561)	\$ (27,816)
Total comprehensive loss attributable to non-controlling interest	(283)	(1,105)	(772)	(515)
Net loss per common share				
Basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.08)	\$ (0.07)
Weighted average number of shares outstanding				
Basic and diluted	594,591,824	544,626,362	590,718,186	459,488,849

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Cash Flows

Expressed in thousands of Canadian Dollars

Unaudited

	Three months Ended September 30 2019	Three months Ended September 30 2018	Nine months Ended September 30 2019	Nine months Ended September 30 2018
Operating activities				
Net loss for the period	\$ (17,515)	\$ (9,878)	\$ (45,510)	\$ (32,563)
Items not affecting cash:				
Impairment on inventory	1,074	-	1,074	-
Realized fair value gain / (loss) on inventory	48	-	243	-
Unrealized fair value gain / (loss) on biological transformation (Note 6)	135	(537)	672	(537)
Depreciation and amortization (Note 8, 9)	1,527	200	4,002	390
Share-based compensation (Note 17, 22)	5,433	8,939	11,147	14,500
Interest income	-	-	(1,295)	-
Interest expense (Note 23)	(200)	1,220	4,485	3,387
Share of loss on investment in joint venture (Note 13)	838	173	1,390	173
Fair value gain / (loss) for financial instruments accounted under FVTPL (Note 12,14)	5,778	(6,202)	6,208	(7,102)
Income tax recovery	(11,524)	(1,644)	(14,247)	(4,178)
Impairment of intangible assets (Note 9)	-	-	1,800	-
(Gain) / loss on settlement of financial assets and liabilities	258	(35)	133	4,156
Changes in non-cash working capital items:				
Other receivables	(4,424)	(4,516)	(4,607)	(5,297)
Prepaid expenses	6,293	(780)	(165)	(1,589)
Interest payable	(1,459)	(1,095)	(1,130)	937
Biological assets (Note 6)	(44,728)	(709)	(44,639)	(709)
Inventory (Note 7)	9,746	(890)	(3,608)	(1,247)
Research contract costs	(145)	(17)	111	(17)
Accounts payable and accrued liabilities	35,000	7,210	30,429	4,575
Deferred revenue	624	(470)	397	(470)
Net cash used in operating activities	\$ (13,241)	\$ (9,031)	\$ (53,110)	\$ (25,591)
Investing activities				
Issuance of notes receivable (Note 5)	\$ (1,812)	\$ (347)	\$ (14,186)	\$ (1,882)
Proceeds from repayment of promissory notes	-	17	400	17
Long-term deposits	(7,955)	-	(7,955)	-
Investment of debt obligation receivable in product equivalents (Note 14)	-	-	-	(7,000)
Proceeds from debt obligation receivable in product equivalents (Note 14)	-	-	9,514	-
Investment in long-term investments (Note 12)	-	(23,188)	(1,500)	(26,690)
Investment in intangible assets	-	(9,140)	-	(14,103)
Proceeds from sale of long-term investments (Note 12)	1,122	-	2,742	-
Proceeds from short-term investments	-	-	3,000	-
Investment in joint venture (Note 13)	(18,990)	(5,586)	(60,453)	(9,027)
Purchase of capital assets (Note 8)	(12,686)	(5,165)	(24,790)	(9,249)
Net cash used for business combinations (Note 10)	-	(8,763)	-	(7,373)
Net cash used in investing activities	\$ (40,321)	\$ (52,172)	\$ (93,228)	\$ (75,307)
Financing activities				
Proceeds from share, special warrant and unit issuances	\$ -	\$ -	\$ -	\$ 109,359
Net proceeds from convertible debenture (Note 16)	120,961	-	120,961	100,000
Repayment of convertible debenture	-	-	(140)	-
Proceeds from share options exercised (Note 17)	-	-	-	550
Proceeds from warrants exercised (Note 17)	-	977	336	91,597
Proceeds from broker warrant units exercised (Note 17)	-	1	-	3,420
Proceeds / (Repayment) on long-term debt	-	1,342	-	(562)
Net cash from financing activities	\$ 120,961	\$ 2,320	\$ 121,157	\$ 304,364
Net (decrease)/increase in cash and cash equivalents	\$ 67,399	\$ (58,883)	\$ (25,181)	\$ 203,466
Cash position, beginning of period	\$ 119,127	\$ 295,803	\$ 211,707	\$ 33,454
Cash position, end of period (Note 4)	\$ 186,526	\$ 236,920	\$ 186,526	\$ 236,920

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Changes in Equity

Expressed in thousands of Canadian Dollars

Unaudited

	Attributable to the shareholders of the Company										
	Share Capital			Reserves				Deficit	Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Equity
	Number of Shares	Share Capital	Shares to Be Issued	Warrants	Contributed Surplus	Convertible Debenture					
Balance December 31, 2018	573,532,247	\$ 350,647	\$ 9,523	\$ 33,618	\$ 17,873	\$ 4,076	\$ (86,729)	\$ (10,873)	\$ 3,017	\$ 321,152	
Shares issued for acquisition of Inverell	1,927,343	9,523	(9,523)	-	-	-	-	-	-	-	
Contingent shares on acquisition of Robinsons released from escrow (Note 17)	2,013,421	-	-	-	-	-	-	-	-	-	
Shares issued on exercise of warrants (Note 17)	14,387,301	336	-	-	-	-	-	-	-	336	
Fair value transfer on exercise of warrants (Note 17)	-	92	-	(92)	-	-	-	-	-	-	
Expiry of warrants (Note 17)	-	-	-	(3,063)	3,063	-	-	-	-	-	
Shares issued to settle financial liabilities	450,000	387	-	-	-	-	-	-	-	387	
Shares issued on conversion of convertible debt (Note 16)	32,258	51	-	-	-	(3)	-	-	-	48	
Share-based payments (Note 17)	-	-	-	-	7,890	-	-	-	-	7,890	
Equity component of Imperial convertible debenture	-	-	-	-	-	25,225	-	-	-	25,225	
Shares issued as employee awards	3,659,837	3,257	-	-	-	-	-	-	-	3,257	
Net Loss	-	-	-	-	-	-	(44,853)	-	(657)	(45,510)	
Changes in fair value of long-term investments	-	-	-	-	-	-	-	(6,343)	-	(6,343)	
Currency translation adjustment	-	-	-	-	-	-	-	(365)	(115)	(480)	
Balance September 30, 2019	596,002,407	\$ 364,293	\$ -	\$ 30,463	\$ 28,826	\$ 29,298	\$ (131,582)	\$ (17,581)	\$ 2,245	\$ 305,962	

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Changes in Equity

Expressed in thousands of Canadian Dollars

Unaudited

	Attributable to the shareholders of the Company									
	Share Capital		Reserves						Accumulated Other Comprehensive Income	Non- Controlling Interests
Number of Shares	Share Capital	Shares to Be Issued	Warrants	Contributed Surplus	Convertible Debtenture	Deficit				
Balance December 31, 2017	263,452,946	\$ 60,813	\$ -	\$ 12,002	\$ 4,870	\$ 1,334	\$ (19,741)	\$ 3,515	\$ -	\$ 62,793
Equity component of convertible debentures issued on private placement January 2018	-	-	-	3,195	-	6,765	-	-	-	9,960
Units issued on private placement May 2018	82,225,000	90,459	-	18,900	-	-	-	-	-	109,359
Contingent shares on acquisition of Kolab released from escrow	4,999,971	-	-	-	-	-	-	-	-	-
Shares issued on acquisition of Robinsons	5,369,126	9,889	-	-	-	-	-	-	-	9,889
Shares and warrants issued on acquisition of Dosecann	21,284,182	33,783	-	5,481	-	-	-	-	-	39,264
Shares issued on acquisition of KKG Science	4,132,231	4,092	-	-	-	-	-	-	-	4,092
Shares to be issued for acquisition of Inverell	-	-	10,373	-	-	-	-	-	-	10,373
Shares and warrants issued for Data Licencing Agreement	359,211	528	-	61	-	-	-	-	-	589
Shares issued to Province	303,030	436	-	-	-	-	-	-	-	436
Shares issued to Cannabis One-Five	429,507	326	-	-	-	-	-	-	-	326
Investment in Joint Venture	1,250,000	4,073	-	6,368	-	-	-	-	-	10,441
Shares issued on exercise of warrants	145,612,106	91,597	-	-	-	-	-	-	-	91,597
Fair value transfer on exercise of warrants	-	15,773	-	(15,773)	-	-	-	-	-	-
Shares and warrants issued on exercise of broker warrant units	3,419,549	1,858	-	3,061	(1,499)	-	-	-	-	3,420
Cancellation of warrants	-	-	-	(237)	237	-	-	-	-	-
Units issued on Investment in Inner Spirit Holdings Inc.	674,418	1,275	-	702	-	-	-	-	-	1,977
Shares issued for debt settlement	2,984,959	6,806	-	-	-	-	-	-	-	6,806
Shares issued on conversion of convertible debt	22,039,998	20,222	-	-	-	(1,409)	-	-	-	18,813
Share-based payments	-	-	-	-	8,469	-	-	-	-	8,469
Stock options issued to Good Leaf	-	-	-	-	433	-	-	-	-	433
Shares issued on exercise of stock options	550,000	550	-	-	-	-	-	-	-	550
Fair value transfer on exercise of stock options	-	378	-	-	(378)	-	-	-	-	-
Shares issued as employee awards	5,913,334	6,032	-	-	-	-	-	-	-	6,032
Deferred income tax	-	-	-	-	-	(2,773)	-	-	-	(2,773)
Non-controlling interest arising from acquisitions	-	-	-	-	-	-	-	-	3,308	3,308
Net loss	-	-	-	-	-	-	(31,697)	-	(866)	(32,563)
Changes in fair value of long-term investments	-	-	-	-	-	-	-	3,881	-	3,881
Currency translation adjustments	-	-	-	-	-	-	-	-	351	351
Balance September 30, 2018	564,999,568	\$ 348,890	\$ 10,373	\$ 33,760	\$ 12,132	\$ 3,917	\$ (51,438)	\$ 7,396	\$ 2,793	\$ 367,823

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

AUXLY CANNABIS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2019 and 2018

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

1. Nature of operations and going concern

Auxly Cannabis Group Inc. ("Auxly", "we", "our", or the "Company") is a publicly traded company listed on the TSX Venture Exchange under the symbol "XLY", and was incorporated in British Columbia, Canada. The principal business address is 777 Richmond Street West, Toronto, Ontario.

Description of the Company

Auxly is an international cannabis company dedicated to bringing innovative, effective, and high-quality cannabis products to the medical, wellness and adult-use markets. Auxly's experienced team of industry first-movers and enterprising visionaries have secured a diversified supply of raw cannabis, strong clinical, scientific and operating capabilities and leading research and development infrastructure in order to create trusted products and brands in an expanding global market.

2. Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these condensed consolidated interim financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 prepared in accordance with IFRS as issued by the IASB.

Certain comparative figures have been reclassified to conform to the current period's presentation. See Note 10 for more information.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 should be read together with the annual consolidated financial statements for the year ended December 31, 2018, which are available on SEDAR at www.sedar.com.

The preparation of condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements were authorized for issue by the Board of the Directors on November 21, 2019.

AUXLY CANNABIS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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Unaudited

3. Significant accounting policies

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and 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. The table below lists the Company's subsidiaries that are consolidated in these condensed consolidated interim financial statements and the ownership interest held by non-controlling interests, as at September 30, 2019.

Subsidiaries	Equity interests
Dosecann Inc. ("Dosecann")	100%
KGK Science Inc. ("KGK")	100%
Kolab Project Inc. ("Kolab")	100%
Robinson's Cannabis Inc. ("Robinsons")	100%
Robinson's Outdoor Grow Inc. ("Robinsons OG")	100%
Inverell S.A. ("Inverell")	80%

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. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

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.

IFRS 16 – Leases

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 line with IFRS 16 'Leases'.

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. 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.

AUXLY CANNABIS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

Unaudited

3. Significant accounting policies (continued)

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:

- i. the amount of the initial measurement of the lease liability;
- ii. any lease payments made at or before the commencement date, less any lease incentives;
- iii. 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:

- i. fixed payments, less any lease incentives receivable;
- ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- iii. amounts expected to be payable by the lessee under residual value guarantees;
- iv. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- v. 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:

- i. non-cancellable period of lease contracts;
- ii. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- iii. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Impact of transition to IFRS 16

Effective January 1, 2019, the Company has adopted IFRS 16 using the modified retrospective approach, with recognition of a right of use asset equal to the lease liability adjusted for prepaid or accrued lease payments immediately before the date of initial application.

AUXLY CANNABIS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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3. Significant accounting policies (continued)

In applying the modified retrospective approach, the Company has taken advantage of the following practical expedients:

- a) A single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- b) Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases even though the initial term from lease commencement have been more than twelve months.
- c) The company maintained the lease assessments made under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed after January 1, 2019.
- d) The Company recognized a right-of-use asset on the date of the application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The aggregate lease liability recognised in the statement of financial position at January 1, 2019 can be reconciled as follows:

Operating lease commitment as at December 31, 2018	\$6,401
Effect of discounting those leases commitments	<u>1,253</u>
	5,148

The weighted-average incremental borrowing rate used to measure lease liabilities at the date of initial application was 12%. A corresponding right-of-use asset of \$5,148 has been recognised in the condensed consolidated interim statement of financial position as at January 1, 2019 and has been classified as property and equipment.

4. Restricted Cash

Auxly has committed to pay for Sunens Farms Inc. ("Sunens") equipment purchases of \$21,855. Auxly has provided the vendor a Letter of Credit for the full amount of cash to be used for the equipment purchases. Further, Auxly has restricted the cash until December 31, 2019 as collateral in order to facilitate the issuance of the Letter of Credit. As at September 30, 2019, \$13,184 remains as restricted cash included in cash and cash equivalents.

Auxly has convertible debentures maturing January 17, 2020 and has restricted cash of \$98,690 to be used for the repayment.

5. Notes receivable

	September 30, 2019		December 31, 2018	
Curative principal value	\$	17,502	\$	3,086
Other loans principal value		135		535
Less: Allowance for credit losses and discounting using effective interest rate		(1,294)		(675)
Total notes receivable	\$	16,343	\$	2,946

AUXLY CANNABIS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2019 and 2018

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Unaudited

5. Notes receivable (continued)

On May 15, 2019, Auxly entered into a Supply Agreement with Curative Cannabis Inc. ("Curative") and was issued 25 common shares of Curative as additional consideration for committing to fund Curative's facility up to \$18,000. A value of \$151 was allocated to the common shares of Curative Cannabis based on the market prices of comparable companies and was recorded as a long-term investment. A value of \$1,144 was allocated to the supply agreement based on a discounted cash flow model of the cost savings and recorded as an intangible asset. Interest income of \$1,295 was recognized on the condensed consolidated interim statement of loss and comprehensive loss.

As at September 30, 2019, the Company had a principal note receivable balance of \$17,502 due from Curative, and interest is accrued on the outstanding value of the principal at 10% per annum. The expected credit loss reserve used to value the note was 10%. The carrying value of the note at September 30, 2019 is \$16,208 and the note is secured against all assets of Curative. The value of the security approximates the value of the note receivable. Curative is delinquent on the secured debts owed to Auxly, and as a result Auxly has commenced the foreclosure process.

6. Biological assets

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

	Cannabis	Hemp	Total
Balance at December 31, 2018	\$ 345	\$ 1,813	\$ 2,158
Changes in fair value less cost to sell due to biological transformation	(672)	-	(672)
Capitalized production costs	909	2,771	3,680
Transferred to inventory upon harvest	(426)	(2,163)	(2,589)
Biological Asset Write-off	-	(92)	(92)
Currency Translation Adjustment	-	20	20
Balance at September 30, 2019	\$ 156	\$ 2,349	\$ 2,505

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

- | | |
|--|---------------|
| (a) Selling price per gram; | Level 3 input |
| (b) Attrition rate; | Level 3 input |
| (c) Average yield per plant; | Level 3 input |
| (d) Standard cost per gram to compete production | Level 3 input |
| (e) Cumulative stage of completion in production process | Level 3 input |

As at September 30, 2019, the cannabis plants were on average 41% complete through their 14-week growing cycle while Hemp was harvested.

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6. Biological assets (continued)

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

Significant inputs & assumptions	Range of inputs	Sensitivity	Effect on Biological Asset Balance
Selling price per gram	\$1.5-\$16 dollar	Increase/decrease \$1.00/gram	Increase/decrease \$59
Average yield per plant	97 grams	Increase/decrease 10%	Increase/decrease \$16
Post-harvest cost per gram	\$0.25-\$2.26 dollar/gram	Increase/decrease \$0.5/gram	Decrease/increase \$32

7. Inventory

The following is a breakdown of inventory at September 30, 2019:

	Acquired through business combination	Capitalized costs	Fair Value Transferred from Biological Assets	Currency Translation Adjustment	Carrying Value
Dried Cannabis					
Work-in-process	\$ -	\$ 26,948	\$ (151)	-	\$ 26,797
Finished goods	-	321	48	-	369
Dried Hemp					
Work-in-process	607	3,063	-	6	3,676
Cannabis Oil					
Work-in-process	-	15,742	-	-	15,742
Finished goods	-	123	(4)	-	119
Merchandise Products	-	121	-	-	121
Packaging, Hardware, Consumables and Ingredients	-	1,269	-	-	1,269
Balance at September 30, 2019	\$ 607	\$ 47,587	\$ (107)	6	\$ 48,093

As of September 30, 2019, the Company recognized \$48,093 (December 31, 2018-\$2,215) of inventory on the condensed consolidated interim statements of financial position, including (\$107) (December 31, 2018- \$523) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest. The Company impaired \$1,074 of dried cannabis inventory associated with final Inverell biomass product qualification and grading and recognized a realized fair value loss of \$243 due to the costs capitalized exceeding the net realizable value of the inventory. The impairment loss has been included in the cost of goods sold in the condensed consolidated interim statement of loss and comprehensive loss.

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8. Property, plant and equipment

	Computers and Office Furniture	Leasehold Improvement	Equipment	Building	Construction in Progress	Land	Right of Use Assets	Total
Cost:								
December 31, 2018	\$ 1,854	\$ 1,013	\$ 2,689	\$ 4,361	\$ 18,823	\$ 675	\$ -	\$ 29,415
Reclassification on transition to IFRS 16	-	-	-	-	-	-	5,148	5,148
Additions	930	860	5,007	2,135	13,736	2,122	444	25,234
Transfers	-	-	-	12,382	(12,382)	-	-	-
Dispositions	-	-	-	-	(1,355)	-	-	(1,355)
September 30, 2019	\$ 2,784	\$ 1,873	\$ 7,696	\$ 18,878	\$ 18,822	\$ 2,797	\$ 5,592	\$ 58,442
Accumulated Depreciation:								
December 31, 2018	\$ 161	\$ 68	\$ 140	\$ 343	\$ -	\$ -	\$ -	\$ 712
Depreciation	283	86	473	464	-	-	1,029	2,335
September 30, 2019	\$ 444	\$ 154	\$ 613	\$ 807	\$ -	\$ -	\$ 1,029	\$ 3,047
Adjustments								
Currency Translation (2018)	\$ 4	\$ 4	\$ 8	\$ 7	\$ -	\$ -	\$ -	\$ 23
Currency Translation (2019)	\$ (6)	\$ -	\$ (44)	\$ (19)	\$ -	\$ (5)	\$ -	\$ (74)
Carrying amounts								
December 31, 2018	\$ 1,697	\$ 949	\$ 2,557	\$ 4,025	\$ 18,823	\$ 675	\$ -	\$ 28,726
September 30, 2019	\$ 2,334	\$ 1,719	\$ 7,039	\$ 18,052	\$ 18,822	\$ 2,792	\$ 4,563	\$ 55,321

	Computers and Office Furniture	Leasehold Improvement	Equipment	Building	Construction in Progress	Land	Right of Use Assets	Total
Cost:								
December 31, 2017	\$ 144	\$ 55	\$ 149	\$ 2,655	\$ 504	\$ -	\$ -	\$ 3,507
Additions from acquisitions	226	312	782	1,157	5,265	212	-	7,954
Additions	1,484	646	1,758	549	13,054	463	-	17,954
December 31, 2018	\$ 1,854	\$ 1,013	\$ 2,689	\$ 4,361	\$ 18,823	\$ 675	\$ -	\$ 29,415
Accumulated Depreciation:								
December 31, 2017	\$ 5	\$ 2	\$ 7	\$ 18	\$ -	\$ -	\$ -	\$ 32
Depreciation	156	66	133	325	-	-	-	680
December 31, 2018	\$ 161	\$ 68	\$ 140	\$ 343	\$ -	\$ -	\$ -	\$ 712
Adjustments								
Currency Translation	\$ 4	\$ 4	\$ 8	\$ 7	\$ -	\$ -	\$ -	\$ 23
Carrying amounts								
December 31, 2017	\$ 139	\$ 53	\$ 142	\$ 2,637	\$ 504	\$ -	\$ -	\$ 3,475
December 31, 2018	\$ 1,697	\$ 949	\$ 2,557	\$ 4,025	\$ 18,823	\$ 675	\$ -	\$ 28,726

Construction in progress includes \$1,302 (2018 - \$nil) of capitalized borrowing costs at an annualized capitalization rate of 10%.

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9. Intangible assets

	Cultivation Interests	Canadian Cultivation Licences	Processing Licences	International Cultivation Licences	Distribution Agreements	Others	Total
Cost:							
December 31, 2018							
<i>(Restated - see note 10)</i>	\$ 11,142	\$ 27,152	\$ 31,100	\$ 14,206	\$ 829	\$ 4,240	\$ 88,669
Additions	1,597	-	-	-	-	2,115	3,712
Dispositions	-	-	-	-	-	(603)	(603)
Impairment	(1,800)	-	-	-	-	-	(1,800)
September 30, 2019	\$ 10,939	\$ 27,152	\$ 31,100	\$ 14,206	\$ 829	\$ 5,752	\$ 89,978
Accumulated Amortization:							
December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,446	\$ 1,446
Dispositions	-	-	-	-	-	(151)	(151)
Amortization	742	-	-	-	42	907	1,691
September 30, 2019	\$ 742	\$ -	\$ -	\$ -	\$ 42	\$ 2,202	\$ 2,986
Adjustments							
Currency Translation (2018)	\$ -	\$ -	\$ -	\$ 1,199	\$ -	\$ -	\$ 1,199
Currency Translation (2019)	\$ -	\$ -	\$ -	\$ 730	\$ -	\$ -	\$ 730
Carrying amounts							
December 31, 2018	\$ 11,142	\$ 27,152	\$ 31,100	\$ 15,405	\$ 829	\$ 2,794	\$ 88,422
September 30, 2019	\$ 10,197	\$ 27,152	\$ 31,100	\$ 14,936	\$ 787	\$ 3,550	\$ 87,722

	Cultivation Interests	Canadian Cultivation Licences	Processing Licences	International Cultivation Licences	Distribution Agreements	Others	Total
Cost:							
December 31, 2017	\$ 10,800	\$ 16,963	\$ -	\$ -	\$ -	\$ 1,442	\$ 29,205
Additions	9,142	-	-	-	829	522	10,493
Additions from acquisitions <i>(Restated - see note 10)</i>	-	10,189	31,100	14,206	-	2,276	57,771
Impairment	(8,800)	-	-	-	-	-	(8,800)
December 31, 2018	\$ 11,142	\$ 27,152	\$ 31,100	\$ 14,206	\$ 829	\$ 4,240	\$ 88,669
Accumulated Amortization:							
December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization	-	-	-	-	-	1,446	1,446
December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,446	\$ 1,446
Adjustments							
Currency Translation (2018)	\$ -	\$ -	\$ -	\$ 1,199	\$ -	\$ -	\$ 1,199
Carrying amounts							
December 31, 2017	\$ 10,800	\$ 16,963	\$ -	\$ -	\$ -	\$ 1,442	\$ 29,205
December 31, 2018	\$ 11,142	\$ 27,152	\$ 31,100	\$ 15,405	\$ 829	\$ 2,794	\$ 88,422

a) Cultivation interests

On January 8, 2019, the Company and Green Relief Inc. ("Green Relief") mutually agreed to terminate their interim agreement, and Green Relief agreed to pay the Company a termination fee of \$1,500 through the issuance of 496,689 common shares of Green Relief and the execution of an offtake cultivation agreement. The value of \$1,047 was allocated to the common shares of Green Relief and recorded as a long-term investment. The residual value of \$453 was allocated to the cultivation

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9. Intangible assets (continued)

agreement and recorded as an intangible asset. A gain of \$1,047 was recorded in the statement of profit and loss on the termination of the interim agreement.

On February 7, 2019, the Company terminated the definitive agreement with FV Pharma Inc. ("FV") on the basis of contractual breaches relating to, among other things, FV's management and staffing obligations of the JV Facility, resulting in an impairment loss of \$1,800.

b) Others

On September 25, 2019, the Company and Imperial Brands PLC ("Imperial Brands") entered into 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 \$2,115 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.

10. Business combinations

The purchase price allocation for Dosecann was finalized during the period ended March 31, 2019. All net assets acquired, and consideration paid has been included at their respective fair values with no changes in the preliminary purchase price allocation.

The purchase price allocation for KGK was finalized during the period ended June 30, 2019. All net assets acquired, and consideration paid were included at their respective fair values. The Company has restated the comparative figures in the consolidated statement of financial position based on the measurement period adjustments. The following tables summarize the effects of the change described above on the line items of the consolidated statement of financial position for the year ended December 31, 2018:

For the year ended December 31, 2018	As previously reported	Adjustment	As restated
Intellectual property	89,327	(905)	88,422
Goodwill	33,015	905	33,920

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10. Business combinations (continued)

The purchase price allocations of business combinations that were preliminary as at December 31, 2018 have been included in the table below:

	2018	
	Dosecann Inc.	KGK Science Inc. <i>(restated)</i>
Cash and cash equivalents	\$ 4,062	\$ 445
Other receivables	748	817
Accounts receivable	-	693
Prepaid Expenses	-	68
Research contract costs	-	1,348
Property, plant and equipment	5,007	445
Licences and licences in progress	31,100	-
Non-competition agreements	-	-
Intellectual property	-	1,123
Goodwill	10,112	11,821
Accounts payable and accrued liabilities	(2,479)	(1,189)
Long-term loans	-	-
Deferred revenue	-	(2,950)
Deferred tax liabilities	(9,468)	-
Net assets acquired	\$ 39,082	\$ 12,621
Consideration paid in shares	\$ 33,783	\$ 4,092
Consideration paid in warrants	5,109	-
Consideration paid in cash	190	5,288
Fair value of future make-whole payment	-	1,082
Assumed loans	-	2,159
	\$ 39,082	\$ 12,621
Consideration paid in cash	\$ (190)	\$ (7,447)
Less: Cash and cash equivalents acquired	4,062	445
Net cash (outflow) / inflow	\$ 3,872	\$ (7,002)

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10. Business combinations (continued)

a) Dosecann Inc.

On May 15, 2018, the Company purchased 100% of the issued and outstanding shares of Dosecann. The transaction was accounted for as a business combination. The shareholders of Dosecann received aggregate consideration from the Company as follows:

- i. 5,253,955 common shares on closing of the acquisition;
- ii. 5,701,248 warrants of the Company on closing of the acquisition;
- iii. 9,609,594 common shares subject to lock-up agreements restricting their ability to transfer shares until a date that is up to 18 months following the closing date; and
- iv. 9,630,947 common shares issued in escrow payable as follows:
 - a. 3,021,474 shares payable 120 days after closing date;
 - b. 3,399,158 shares payable upon Dosecann receiving its dealer licence approval by Health Canada; the dealer's licence was issued during the year and the shares released from escrow;
 - c. 1,888,421 shares payable upon Dosecann's receipt of good manufacturing practice certification; and
 - d. 1,321,894 shares payable upon Dosecann's first commercial sale of a cannabis product.

The contingent consideration of shares (b, c, d above) has been classified as equity. Management assessed the probability of the issuance of the contingent shares to be highly probable.

The shares subject to lock-up agreements are discounted to present value based on the lock-up periods. The discount rates range from 21.6% to 32.6% depending on the lock-up period, calculating using the put-option pricing models.

The total fair value of the consideration is \$39,082.

Dosecann includes a facility purpose-built for the research, development, extraction, formulation, filling and packaging of cannabis-based products and is located in Charlottetown, Prince Edward Island. Dosecann will develop a range of value-added cannabis-based products for the Company which will ultimately be sold to medical cannabis patients and adult-use cannabis markets, anticipated to be in conjunction with Q4 2019 Health Canada regulations.

Goodwill arose in the acquisition of Dosecann, primarily due to the assembled work force of Dosecann. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill of \$10,112 arose due to the recognition of a deferred tax liability on the date of the acquisition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

b) KGK Science Inc.

On August 29, 2018, the Company purchased all the issued and outstanding shares of KGK. The transaction was accounted for as a business combination. The shareholders of KGK received aggregate consideration from the Company as follows:

- i. 4,132,231 common shares of the Company on closing of the acquisition;
- ii. \$5,288 in cash on closing of the acquisition;

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10. Business combinations (continued)

- iii. \$2,159 in a cash payment on closing to repay long term loans of KGK;
- iv. \$1,082 as a future make-whole payment, depending on the share price of the Company six months following the transaction date; and
- v. Additional payment of 30% of the purchase price received for the sale of the KGK patents, if the patents are sold by August 29, 2019 or a bona-fide cash offer received. Management has assessed that there is a low probability that the patents will be sold, and the fair value is a nominal amount.

The total fair value of the consideration is \$12,621.

The fair value of the make-whole payment is \$1,082 based on the following assumptions: Strike price - \$1.21, Share price – \$1.13, Annualized volatility – 78.18%; Risk-free interest rate – 2.23%. If the market value of the Company's shares is less than \$1.21 on February 28, 2019, Auxly shall make a payment to KGK shareholders that is equal to the difference between the market price of the Auxly shares on the final day of the Hold-up Period and \$1.21 per share, up to a maximum total payment of \$0.64 per share. On March 4, 2019, the Company completed the make-whole payment of \$1,776.

KGK is a leading health and wellness focused private contract research organization based in London, Ontario, and the Company expects to leverage KGK's expertise and research abilities to further the Company's product development efforts through collaboration with the Company's wholly owned subsidiary, Dosecann.

Goodwill of \$11,821 arose in the acquisition of KGK primarily due to the assembled work force of KGK. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

11. Goodwill

As at December 31, 2018 (<i>Restated - see note 10</i>)	\$ 33,920
Currency Translation Adjustment	174
As at September 30, 2019	\$ 34,094

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12. Long-term investments

Entity	Note	Instrument	Classification	Balance at December 31, 2018	Additions	FV Change	Disposals	Balance at September 30, 2019
VIVO Cannabis		Shares	FVTOCI	\$ 4,733	\$ -	\$ (1,727)	\$ (2,636)	\$ 370
CannTx Life Sciences		Shares	FVTOCI	971	-	(218)	-	753
Inner Spirit Holdings		Shares	FVTOCI	3,448	-	962	-	4,410
Inner Spirit Holdings		Warrants	FVTPL	248	-	(69)	-	179
Lotus Ventures Inc.		Shares	FVTOCI	1,198	-	(170)	(32)	996
Lotus Ventures Inc.		Warrants	FVTPL	48	-	(32)	-	16
Province Brands		Shares	FVTOCI	166	-	(37)	-	129
Cannabis OneFive Inc.		Shares	FVTOCI	110	-	(25)	-	85
Cannabis OneFive Inc.		Warrants	FVTPL	12	-	(7)	-	5
Delta 9 Cannabis		Shares	FVTOCI	7,209	-	(3,014)	-	4,195
FSD Pharma		Shares	FVTOCI	2,138	-	(1,538)	-	600
Good Leaf		Shares	FVTOCI	384	-	(86)	-	298
Good Leaf		Warrants	FVTPL	278	-	(73)	-	205
Ascent Industries Corp.		Shares	FVTOCI	711	-	(289)	(74)	348
Green Relief Inc.	9 (a)	Shares	FVTOCI	-	1,047	50	-	1,097
Curative Cannabis Inc.	5	Shares	FVTOCI	-	110	-	-	110
Inner Spirit Holdings		Convertible Debt	FVTPL	-	1,500	429	-	1,929
ICC International Cannabis Corp.		Convertible Debt	FVTPL	5,569	-	(1,058)	-	4,511
Total				\$ 27,223	\$ 2,657	\$ (6,902)	\$ (2,742)	\$ 20,236

13. Investment in Joint Ventures

On June 15, 2018, the Company signed a definitive joint venture agreement with Peter Quiring to develop, construct and operate a fully automated, state-of-the-art, purpose-built greenhouse for cannabis cultivation in Leamington, Ontario. The joint arrangement is structured through a separate legal entity, Sunens, and has been classified as a joint venture per IFRS 11.

On February 15, 2019, the Company and Sunens cancelled the issuance of 19,025,807 Class B non-voting shares and reclassified the \$19,026 investment as a convertible promissory note convertible into Class B non-voting shares, accounted for as fair value through profit and loss.

The Company made additional investments in the joint venture of \$60,453 up until September 17, 2019 through a secured loan to the joint venture, bearing of 1% per annum and convertible into Class B shares of Sunens.

On September 17, 2019, the Company converted \$50,000 of the convertible promissory note into 50,000,000 Class B shares of Sunens. The remaining convertible promissory note balance of \$29,478 was cancelled and reissued as a secured promissory note bearing interest at a rate of 6% per annum, compounded monthly, and maturing on July 1, 2026. The expected credit loss reserve was \$708, calculated using an expected credit loss rate of 5%, with a loss given default rate of 52.10%. The carrying value of the note at September 30, 2019 is \$28,770 and the note is secured against all assets of Sunens, subordinated to the Bank of Montreal, and the fair value of the assets approximates the fair value of the note.

On September 23, 2019, the Company provided Sunens with a guarantee over their \$33,000 revolving loan from the Bank of Montreal. The guarantee was valued at \$938 based on a 3.5% probability of

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13. Investment in Joint Ventures (continued)

default and a discount rate of 12% and recorded as an equity contribution to Sunens and as an other non-current liability.

There was a \$1,390 equity loss recorded for the nine months ended September 30, 2019 (2018 - \$173). For the nine months ended September 30, 2019, the joint venture reported a net loss of \$2,726, and the material assets in the joint venture were construction deposits of \$81,232, land and buildings valued at \$4,020, equipment valued at \$1,091.

The Company has joint control as decisions about operating activities require unanimous consent. The investment in the joint venture is made up as follows:

Class A Shares	\$	9,680
Class B Shares		50,000
Secured Promissory Note		28,770
As at September 30, 2019	\$	88,450

14. Debt obligation receivable in product equivalents

a) Beleave Inc.

The Company previously advanced \$5,000 to Beleave Inc. ("Beleave") and the instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. Due to collectability issues leading to Beleave defaulting under the terms of the note, the fair value of the promissory note was estimated to be \$nil at September 30, 2019 (2018 - \$6,730) and a fair value loss of \$5,708 was recorded on the condensed consolidated interim statement of loss and comprehensive loss for the nine months ended September 30, 2019 (2018 – gain of \$16). As at September 30, 2019, \$1,214 was received as repayment on the note, with \$595 received as at December 31, 2018. As at September 30, 2019, the company has commenced legal proceedings against Beleave.

b) Sundial Growers Inc.

On March 1, 2018, the Company announced that it had entered into a definitive agreement with Sundial Growers Inc. ("Sundial") whereby the Company advanced \$7,000 to Sundial by way of a promissory note. The note was subject to an interest rate of 24% per annum, with a minimum guaranteed interest of \$840. The Company extended the loan for an additional six months and as a result, the amount due on maturity increased to \$8,780.

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. On February 22, 2019, \$8,895 was received to fully settle the promissory note that included an extension charge of \$115. A fair value gain of \$310 was recorded on the condensed consolidated interim statement of loss and comprehensive loss for the nine months ended September 30, 2019 (2018 - \$1,199).

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15. Lease liability

	September 30, 2019
Maturity analysis - contractual undiscounted cash flows	
Less than one year	\$ 2,129
One to five years	\$ 3,195
Total undiscounted lease obligations	\$ 5,324
Current portion	1,656
Non-current portion	3,114
Discounted lease obligations included in the condensed interim statement of financial position	\$ 4,770

16. Convertible debenture

September 25, 2019 Issuance

On September 25, 2019, the Company issued unsecured convertible debentures units in the aggregate amount of \$122,851 to Imperial Brands as part of a collaborative partnership. The Company also received global licences to Imperial Brands' vaping technology for cannabis use and access to its vapor innovation business (see note 9).

The debentures bear interest at 4% per annum, payable annually and mature within 36 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of \$0.81 per share, at the option of the holder. The debenture was recorded at its fair value of \$88,444, discounted at a market interest rate of 16% and is net of debt issue costs. The effective interest rate used was 15.77%.

The residual value of the gross proceeds was allocated to the conversion feature, estimated at \$33,024.

On closing, the Company paid legal and advisory fees of \$1,890, of which \$1,383 were capitalized to the debt component and \$507 were capitalized to the conversion feature.

As part of the agreement, Imperial Brands will have top-up and pre-emptive rights to maintain its pro rata ownership in Auxly. The top-up right may be exercised on a quarterly basis, at a rate of \$0.81 per common share for shares issued in connection with existing convertible debentures or the Dosecann warrants, or \$0.91 with respect to other issuances, until September 25, 2020, after which the market rate of the shares will be used.

	Convertible debenture
BALANCE AT DECEMBER 31, 2018	\$ -
Face value of debt upon issuance	122,851
Less: Allocation to conversion feature	(33,024)
Less: Debt issue costs	(1,383)
BALANCE AT SEPTEMBER 30, 2019	\$ 88,444

January 17, 2018 Issuance

On January 17, 2018, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of \$100,000. Each convertible debenture unit consists of a \$1 principal amount of senior unsecured convertible debentures and 322 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months on January 17, 2020. The principal amount of the debentures will be convertible into common shares of the

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16. Convertible debenture (continued)

Company at a price of \$1.55 per share, at the option of the holder, for a term of three years. The debenture was recorded at its fair value of \$90,040, discounted at a market interest rate of 12% and is net of debt issue costs.

The accretion expense calculated using the effective interest method for the nine months ended September 30, 2019 was \$3,860 (2018 - \$3,299). The effective interest rate used was 11.6% and the coupon rate on the debt is 6.0%. Interest expense for the nine months ended September 30, 2019 for convertible debentures was \$4,488 (2018 - \$4,170).

	Convertible debenture
BALANCE AT DECEMBER 31, 2017	\$ -
Face value of debt upon issuance	100,000
Less: Allocation to warrants and conversion feature	(9,832)
Less: Debt issue costs	(128)
Fair value of debt on initial recognition	90,040
Accretion expense during the period	4,550
Less: Units converted during the period	(1,158)
BALANCE AT DECEMBER 31, 2018	\$ 93,432
Accretion expense during the period	3,860
Less: Units converted during the period	(48)
BALANCE AT SEPTEMBER 30, 2019	\$ 97,244

17. Share capital

a) Authorized

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

b) Issued and outstanding

At September 30, 2019, there were 596,002,407 issued and fully paid common shares and 14,329,505 shares held in escrow related to the contingent considerations in acquisitions and investments (September 30, 2018 had 564,999,568 issued and fully paid common shares, and 16,237,128 held in escrow).

During the nine months ended September 30, 2019, the Company issued 1,927,343 common shares on closing the Inverell S.A. acquisition, 14,419,559 common shares on exercise of warrants and conversion of convertible debt, 450,000 common shares to settle a lawsuit, 2,013,421 common shares to the previous shareholders of Robinsons on completion of contingent milestones, and 3,659,837 common shares to non-executive employees of the Company as compensation, as part of their employment agreements related to services performed in 2019. The fair value of the common shares issued for compensation is \$3,257 (2018 - \$6,032) and was recorded as share-based payments on the statement of loss and comprehensive loss.

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17. Share capital (continued)

c) Stock options

The Company has a stock award plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded is limited to 10% of the issued and outstanding shares, or 61,033,191 as at September 30, 2019.

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

	2019	2018
Risk-Free Annual Interest Rate	1.43% - 1.92%	1.72% - 2.52%
Expected Annual Dividend Yield	0%	0%
Expected Annualized Volatility	88.43% - 94.86%	93.17% - 108.60%
Expected Life of Options	5 - 10 years	5 - 10 years
Forfeiture rate	0%	0%

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

During the nine months ended September 30, 2019 and 2018, 7,415,000 and 17,083,468 options were granted, respectively.

The following table summarizes information about stock options outstanding as at September 30, 2019.

Options Granted	Number of options granted	Number of options exercised	Number of options modified	Number of options expired or forfeited	Ending balance	Average exercise price (\$)	Average remaining life (years)
Jan 1, 2019	41,052,053	-	(1,492,500)	(1,617,500)	37,942,053	0.846	6.50
2019 Q1	1,440,000	-	-	(50,000)	1,390,000	0.859	4.82
2019 Q2	5,150,000	-	-	(10,000)	5,140,000	0.976	4.80
2019 Q3	825,000	-	-	-	825,000	1.000	4.87
Sep 30, 2019	48,467,053	-	(1,492,500)	(1,677,500)	45,297,053	0.864	6.22

Options Granted	Number of options granted	Number of options exercised	Number of options modified	Number of options expired or forfeited	Ending balance	Average exercise price (\$)	Average remaining life (years)
Jan 1, 2018	19,861,085	(775,000)	-	(5,000)	19,081,085	0.356	4.97
2018 Q1	6,300,000	-	(2,590,000)	(257,500)	3,452,500	1.952	9.16
2018 Q2	4,703,468	-	-	(572,500)	4,130,968	1.271	9.47
2018 Q3	6,080,000	-	-	-	6,080,000	1.220	9.74
2018 Q4	8,307,500	-	-	-	8,307,500	1.240	9.07
Dec 31, 2018	45,252,053	(775,000)	(2,590,000)	(835,000)	41,052,053	0.889	7.31

Options issued to consultants prior to January 1, 2019 were measured based on the fair value of the equity instrument granted as the fair value of services could not be reliably measured.

As at September 30, 2019, stock options outstanding have a weighted average remaining life of 6.22 years. The total fair value of stock options granted during the nine months ended September 30, 2019 was \$4,411 (2018 – \$21,503).

For the nine months ended September 30, 2019, \$7,890 of share-based payments were recorded on the statements of loss and comprehensive loss relating to the vesting of the Company's stock options (2018 - \$8,468).

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17. Share capital (continued)

d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at September 30, 2019:

Warrants Granted	Number of warrants issued	Number of warrants exercised	Warrant expiries	Ending balance	Average exercise price (\$)	Average remaining life (years)
Jan 1, 2019	103,735,321	(14,387,301)	(3,419,500)	85,928,520	1.795	0.88
2019 Q1	-	-	-	-	-	-
2019 Q2	-	-	-	-	-	-
2019 Q3	-	-	-	-	-	-
Sep 30, 2019	103,735,321	(14,387,301)	(3,419,500)	85,928,520	1.795	0.88

Warrants Granted	Number of warrants issued	Number of warrants exercised	Warrant expiries	Ending balance	Average exercise price (\$)	Average remaining life (years)
Jan 1, 2018	160,647,124	(145,101,635)	(1,158,188)	14,387,301	0.023	0.18
2018 Q1	36,869,549	(49)	-	36,869,500	1.797	0.99
2018 Q2	56,183,748	(3,805,228)	-	52,378,520	1.775	1.99
2018 Q3	100,000	-	-	100,000	1.310	1.73
Dec 31, 2018	253,800,421	(148,906,912)	(1,158,188)	103,735,321	1.539	1.39

The weighted average exercise price of warrants outstanding during the nine months ended September 30, 2019 was \$1.795, with a weighted average remaining life of 0.88 years. Cash proceeds from warrants exercised during the nine months ended September 30, 2019 was \$336.

e) Earnings per share

The calculation of basic and diluted losses per share is based on the loss for the year divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potentially dilutive shares such as options, convertible debt and warrants have not been included as they would have the effect of decreasing the loss per share and they would, therefore be antidilutive.

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18. Related party balances and transactions

Key management and director compensation

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Short-term benefits	\$ 505	\$ 410	\$ 1,571	\$ 1,231
Long-term benefits	1,114	457	3,071	1,598
	\$ 1,619	\$ 867	\$ 4,642	\$ 2,829

Other related party transactions

Nesta Holding Co. Ltd., a company owned and controlled by the Chairman of the Company's Board of Directors and former Chief Executive Officer, provides travel and accommodation services to the Company on a month to month basis. For the nine months ended September 30, 2019, the Company incurred \$76 (2018 - \$23) in general expenses.

19. 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 condensed consolidated interim statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value of hierarchy has the following levels:

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

	Level 1	Level 2	Level 3	Total
Short-term Investments	\$ 349	\$ -	\$ -	\$ 349
Public Company Shares	10,919	-	-	10,919
Company Warrants	-	405	-	405
Convertible Debenture	-	-	6,440	6,440
Debt Obligations Receivable in Product Equivalents	-	-	-	-
Non-voting shares in joint venture	-	-	50,000	50,000
Private Company Shares	-	-	2,472	2,472
As at September 30, 2019	\$ 11,268	\$ 405	\$ 58,912	\$ 70,585

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19. Financial instruments and risk management (continued)

Instrument	Valuation Technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Non-voting shares in joint ventures	Asset based approach	- Fair value of net assets	- If the fair value of the net assets decreased by 1%, the fair value would decrease by \$500.
Investments in private companies	Market approach	- Investment index	- If the investment index fair value change increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by \$64 (\$64).
Investment in KBB Convertible debt	Monte Carlo Simulation	- volatility: 128.5% - discount rate: 19.8%	- If the volatility was lower (higher) by 10%, the fair value would increase (decrease) by \$36 (\$29) - If the estimated discount rate was lower (higher) by 2%, the fair value would increase (decrease) by \$149 (\$142)
Investment in Inner Spirit Convertible debt	Monte Carlo Simulation	- volatility: 94.59% - discount rate: 19.8%	- If the volatility was lower (higher) by 10%, the fair value would increase (decrease) by \$76 (\$73) - If the estimated discount rate was lower (higher) by 2%, the fair value would increase (decrease) by \$57 (\$61)

Level 3 Investments

Opening balance, January 1, 2019	\$ 41,138
Additions	33,631
Repayment	(9,514)
Change in Unrealized Gain / (Loss) - FVTPL	(6,027)
Change in Unrealized Gain / (Loss) - FVTOCI	(316)
Ending Balance - September 30, 2019	\$ 58,912

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, note and other receivables, long-term investments, debt obligation receivable in product equivalent, accounts payable and accrued liabilities, convertible debenture and long-term loans and interest payable on convertible debt. As at September 30, 2019, the carrying value of cash and cash equivalents is carried at fair value. Notes receivable and accounts payable and accrued liabilities, interest payable on convertible debenture approximate their fair value due to their short-term nature. The carrying value of notes receivable, convertible debentures, and long-term loans approximate their fair value due to their short-term nature and market rates for similar instruments.

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVTOCI and FVTPL. For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by \$6,380 before tax. An equal change in the opposite direction would have decreased equity by \$6,380 before tax.

The company is exposed to price risk of medical cannabis, which arises from the investment in Debt obligation receivable in product equivalent. The table in note (a) summarizes the impact of price changes.

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19. Financial instruments and risk management (continued)

d) Interest rate risk

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

e) Credit risk

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

Management has mitigated the risk by using tier 1 financial institutions for managing its cash, 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 1% increase / (decrease) in the exchange rate would increase / (decrease) net income by \$16 / (\$16).

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20. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include debt and shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

The Company is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management in the period.

21. Commitments

As at September 30, 2019, Auxly has entered into certain agreements which commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

Auxly has funding commitments related to construction as follows:

- Total funding of approximately \$98,500 to Sunens towards construction of the fully automated state-of-the-art, purpose-built greenhouse facility in Leamington, Ontario. Total costs of construction are approximately \$150,000, with the remainder to be funded through third party debt provided by a syndicate led by the Bank of Montreal. As at September 30, 2019, Auxly has provided approximately \$79,479 towards the construction costs, and has provided a Letter of Credit for \$13,184 to be used for equipment purchases. Both joint venture parties have agreed to fund any cost overruns on the construction of the facility;
- Funding of approximately \$18,000 to Curative towards construction of a cannabis cultivation facility, including \$2,230 for the provision of power to the site. As at September 30, 2019, Auxly has funded approximately \$17,502 of the total towards the construction costs;
- Funding of approximately \$6,000 as part of the Company's sponsorship of the development of a hemp farming co-operative, consisting of six individual hemp licence holders. As at September 30, 2019, the Company has funded \$4,500;
- Funding of \$7,000 to CannTx related to a phase II expansion of the Facility, subject to the completion of satisfactory due diligence and the parties agreeing to a construction budget and timeline for the phase II expansion;
- Funding of \$5,000 over two years to Kindred Partners Inc. ("Kindred") for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada.

Auxly has commitments in respect of leases relating to office spaces, equipment and land which will require payments within one year, but not included in the lease liability on the condensed consolidated interim statement of financial position for the nine months ended September 30, 2019, amounting to \$210.

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22. Selling, general, and administrative expenses

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

	Three months		Nine months	
	Ended September 30 2019	Ended September 30 2018	Ended September 30 2019	Ended September 30 2018
Wages and salaries	\$ 4,787	\$ 2,148	\$ 13,055	\$ 5,129
Office and administrative	2,859	881	6,086	3,310
Professional fees	2,441	2,605	5,306	5,276
Business development	1,011	1,208	3,082	5,800
Share-based compensation (Note 17)	5,433	8,939	11,147	14,500
Selling expenses	63	223	211	223
	\$ 16,594	\$ 16,004	\$ 38,887	\$ 34,238

23. Interest and accretion expenses

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

	Three months		Nine months	
	Ended September 30 2019	Ended September 30 2018	Ended September 30 2019	Ended September 30 2018
Cash interest expense on lease liabilities	\$ 146	\$ -	\$ 342	\$ -
Other cash interest expense	149	1,594	3,124	1,594
Non-cash interest expense	287	-	837	2,794
Accretion expense on convertible debt	1,346	1,132	3,868	3,299
Accretion expense on long-term loans	305	88	448	88
Accretion expense / (income) on long-term notes receivables	287	-	(668)	-
	\$ 2,520	\$ 2,814	\$ 7,951	\$ 7,775

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24. Operating segments

Management has determined the operating and geographic segments. The Executive Leadership Team evaluates and makes decisions on operating performance by segment. The Company has one reportable operating segment and two geographic segments.

Geographic Information

All the Company's revenue is from the Canadian operations. For the Company's geographically segmented non-current assets, the Company has allocated them based on the location of assets, as follows:

Long-term assets	September 30, 2019		December 31, 2018	
	Canada	Uruguay	Canada	Uruguay
Long-term investments	\$ 20,236	\$ -	\$ 27,223	\$ -
Investment in joint venture	88,450	-	29,158	-
Property, plant, and equipment	48,615	6,706	26,033	2,693
Intangible assets (<i>Restated - see note 10</i>)	72,727	14,995	72,859	15,563
Goodwill (<i>Restated - see note 10</i>)	30,393	3,701	30,393	3,527
Total	\$ 260,421	\$ 25,402	\$ 185,666	\$ 21,783

25. Subsequent events

- a) On October 18, 2019, the Company received approval to amend the conversion price of the January 2018 convertible debentures from \$1.55 per share to \$0.74 per share and provided notice to January 2018 debenture holders. The Company had the right to prepay holders that consented to the revised conversion price but failed to convert before October 28, 2019.

The Company issued 20,352,467 common shares on October 29, 2019 and 1,249,993 common shares on November 6, 2019, for a total of 21,602,460 common shares issued on the conversion of \$15,986 principal, repaid debentures with a total principal balance of \$79,999, and paid accrued interest of \$1,893 on the settlement of these debentures.