AUXLY CANNABIS GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Dated April 29, 2020

Independent auditor's report

To the Shareholders of
Auxly Cannabis Group Inc.

Opinion

We have audited the consolidated financial statements of **Auxly Cannabis Group Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

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

Other matter

The consolidated financial statements of the Group for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 28, 2019.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 29, 2020

Consolidated Statements of Financial Position

Expressed in thousands of Canadian Dollars

As at		December 31, 2019		December 31, 2018 (Restated, Measurement Period Adjustment - see note 9)
Assets				
Current assets				
Cash and cash equivalents (Note 4)	**$**	**44,134**	$	211,707
Short-term investments		**306**		3,349
Note receivable		**135**		2,946
Biological assets (Note 5)		**230**		2,158
Inventory (Note 6)		**26,827**		2,215
Research contract costs		**1,538**		1,843
Debt obligation receivable in product equivalents (Note 13)		**-**		14,912
Prepaid expenses		**2,957**		8,092
Other receivables		**15,471**		6,147
		91,598		253,369
Non-current assets				
Long-term deposits (Note 14)		**15,649**		-
Long-term investments (Note 11)		**16,239**		27,223
Investment in joint venture (Note 12)		**96,499**		29,158
Property, plant and equipment, net (Note 7)		**85,178**		28,726
Intangible assets, net (Note 8)		**77,424**		88,422
Goodwill (Note 10)		**29,005**		33,920
		319,994		207,449
Total assets	**$**	**411,592**	$	460,818
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**20,235**	$	20,330
Interest payable		**1,384**		2,756
Lease liability (Note 15)		**1,243**		-
Convertible debenture (Note 16)		**2,705**		-
Deferred revenue		**4,332**		3,984
		29,899		27,070
Non-current liabilities				
Convertible debenture (Note 16)		**90,882**		93,563
Lease liability (Note 15)		**4,893**		-
Deferred tax liability (Note 25)		**22,162**		18,445
Other non-current liabilities		**1,851**		588
		119,788		112,596
Total liabilities		**149,687**		139,666
Equity				
Share capital (Note 18)		**384,431**		350,647
Shares to be issued (Note 18)		**-**		9,523
Reserves (Note 18)		**89,844**		55,567
Accumulated other comprehensive loss		**(20,718)**		(10,873)
Deficit		**(189,303)**		(86,729)
Total equity attributable to shareholders of the Company		**264,254**		318,135
Total equity attributable to non-controlling interest		**(2,349)**		3,017
Total equity		**261,905**		321,152
Total liabilities and equity	**$**	**411,592**	$	460,818

Commitments are found in Note 22

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

The consolidated financial statements were approved by the Board of Directors on April 29, 2020 and were signed on its behalf by:

(s) Chuck Rifici — Chuck Rifici

(s) Genevieve Young — Genevieve Young

Consolidated Statements of Loss and Comprehensive Loss

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

For the years ended:		December 31, 2019		December 31, 2018
Revenues				
Research contracts and other	**$**	**6,262**		747
Revenue from sales of cannabis products		**2,287**		-
Excise taxes		**(197)**		-
Total net revenues		**8,352**		747
Costs of sales				
Research contracts and other		**5,743**		1,078
Costs of finished cannabis inventory sold		**2,162**		-
Impairment on inventory (Note 6)		**3,244**		-
Gross loss excluding fair value items		**(2,797)**		(331)
Realized fair value loss on inventory		**(153)**		-
Unrealized fair value gain / (loss) on biological transformation (Note 5)		**(761)**		143
Gross loss		**(3,711)**		(188)
Expenses				
Selling, general, and administrative expenses (Note 23)		**50,291**		48,373
Depreciation and amortization (Notes 7, 8)		**8,574**		2,063
Interest expense (Note 24)		**12,121**		11,473
Total expenses		**70,986**		61,909
Other incomes / (losses)				
Fair value gain / (loss) for financial instruments accounted under FVTPL (Notes 11, 13)		**(6,482)**		2,654
Interest income		**3,612**		4,000
Impairment of long-term assets (Note 8)		**(5,283)**		-
Impairment of intangible assets and goodwill (Notes 8, 10)		**(29,631)**		(8,800)
Loss on settlement of financial assets and liabilities (Note 9)		**(3,550)**		(5,516)
Share of loss on investment in joint venture (Note 12)		**(2,081)**		(309)
Foreign exchange gain / (loss)		**(1,484)**		546
Total other losses		**(44,899)**		(7,425)
Net loss before income tax		**(119,596)**		(69,522)
Income tax recovery (Note 25)		**10,978**		2,313
Net loss	**$**	**(108,618)**	$	(67,209)
Net loss attributable to shareholders of the Company	**$**	**(102,574)**	$	(66,988)
Net loss attributable to non-controlling interest	**$**	**(6,044)**	$	(221)
Other comprehensive loss				
Fair value loss on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 11)		**(9,704)**		(15,299)
Currency translation adjustment - subsequently reclassified to profit or loss		**(187)**		1,138
Total comprehensive loss	**$**	**(118,509)**	$	(81,370)
Total comprehensive loss attributable to shareholders of the Company	**$**	**(112,419)**	$	(81,377)
Total comprehensive loss attributable to non-controlling interest	**$**	**(6,090)**		7
Net loss per common share				
Basic and diluted	**$**	**(0.17)**	$	(0.14)
Weighted average number of shares outstanding				
Basic and diluted		**596,409,703**		489,505,013

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

Consolidated Statements of Cash Flows

Expressed in thousands of Canadian Dollars

For the years ended:		December 31, 2019		December 31, 2018
Operating activities				
Net loss for the year	**$**	**(108,618)**	$	(67,209)
Items not affecting cash:				
Impairment on inventory (Note 6)		**3,244**		-
Realized fair value loss on inventory		**153**		-
Unrealized fair value gain / (loss) on biological transformation (Note 5)		**761**		(143)
Depreciation and amortization (Notes 7, 8)		**8,574**		2,063
Share-based compensation (Note 23)		**12,552**		20,412
Interest expense (Note 24)		**6,370**		5,716
Share of loss on investment in joint venture (Note 12)		**2,081**		309
Fair value gain / (loss) for financial instruments accounted under FVTPL (Notes 11, 13)		**6,482**		(2,654)
Income tax recovery (Note 25)		**(10,978)**		(2,313)
Impairment of long-term assets		**5,283**		
Impairment of intangible assets and goodwill (Notes 8, 10)		**29,631**		8,800
Loss on settlement of financial assets and liabilities (Note 9)		**2,182**		4,156
Changes in non-cash working capital items:				
Other receivables		**(8,904)**		(2,182)
Prepaid expenses		**(2,363)**		(7,719)
Interest payable		**(1,372)**		2,102
Biological assets (Note 5)		**(2,480)**		(1,609)
Inventory (Note 6)		**(24,395)**		(2,014)
Research contract costs		**305**		(1,843)
Accounts payable and accrued liabilities		**2,025**		(1,110)
Deferred revenue		**348**		1,524
Cash used in operating activities	**$**	**(79,119)**	$	(43,714)
Investing activities				
Issuance of notes receivable (Note 9)	**$**	**(16,700)**	$	(3,463)
Proceeds from repayment of promissory notes		**400**		500
Long-term deposits (Note 14)		**(15,649)**		-
Investment of debt obligation receivable in product equivalents (Note 13)		**-**		(7,000)
Proceeds from debt obligation receivable in product equivalents (Note 13)		**9,514**		595
Proceeds from (investment in) short-term investments		**3,043**		(3,349)
Investment in long-term investments (Note 11)		**(1,500)**		(29,090)
Proceeds from sale of long-term investments (Note 11)		**2,742**		328
Investment in joint venture (Note 12)		**(79,482)**		(19,026)
Purchase of capital assets (Note 7)		**(37,802)**		(17,954)
Net cash used for business combinations (Note 9)		**616**		(4,324)
Cash used in investing activities	**$**	**(134,818)**	$	(82,783)
Financing activities				
Proceeds from share, special warrant and unit issuances (Note 16)	**$**	**5,207**	$	109,359
Net proceeds from convertible debenture (Note 16)		**120,961**		100,000
Repayment of convertible debenture		**(80,140)**		-
Proceeds from share options exercised (Note 18)		**-**		775
Proceeds from warrants exercised (Note 18)		**336**		91,696
Proceeds from broker warrant units exercised (Note 18)		**-**		3,420
Proceeds / (Repayment) on long-term debt		**-**		(500)
Cash from financing activities	**$**	**46,364**	$	304,750
(Decrease)/increase in cash and cash equivalents	**$**	**(167,573)**	$	178,253
Cash position, beginning of year	**$**	**211,707**	$	33,454
Cash and cash equivalents, end of year (Note 4)	**$**	**44,134**	$	211,707

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

AUXLY CANNABIS GROUP INC.

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

	Attributable to the shareholders of the Company									
	Share Capital		Reserves							
	Number of shares	Share capital	Shares to be issued	Warrants	Contributed surplus	Convertible debenture	Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total equity
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 18)	2,013,421	-	-	-	-	-	-	-	-	-
Contingent shares on acquisition of Dosecann released from escrow (Note 18)	1,321,894	-	-	-	-	-	-	-	-	-
Shares issued on exercise of warrants (Note 18)	14,387,301	336	-	-	-	-	-	-	-	336
Fair value transfer on exercise of warrants (Note 18)	-	92	-	(92)	-	-	-	-	-	-
Expiry of warrants (Note 18)	-	-	-	(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
Shares issued on settlement of convertible debt (Note 16)	21,602,460	14,931	-	-	-	-	-	-	-	14,931
Share-based payments (Note 18)	-	-	-	-	9,295	-	-	-	-	9,295
Equity component of Imperial convertible debenture	-	-	-	-	-	25,077	-	-	-	25,077
Shares issued as employee awards	3,659,837	3,257	-	-	-	-	-	-	-	3,257
Shares issued to Imperial for top-up rights (Note 16)	6,315,574	5,207	-	-	-	-	-	-	-	5,207
Net loss	-	-	-	-	-	-	(102,574)	-	(6,044)	(108,618)
Non-controlling interest arising from acquisitions	-	-	-	-	-	-	-	-	724	724
Changes in fair value of long-term investments	-	-	-	-	-	-	-	(9,704)	-	(9,704)
Currency translation adjustment	-	-	-	-	-	-	-	(141)	(46)	(187)
Balance December 31, 2019	**625,242,335**	**$ 384,431**	**$ -**	**$ 30,463**	**$ 30,231**	**$ 29,150**	**$ (189,303)**	**$ (20,718)**	**$ (2,349)**	**$ 261,905**

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

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

	Attributable to the shareholders of the Company									
	Share Capital		Reserves							
	Number of shares	Share capital	Shares to be issued	Warrants	Contributed surplus	Convertible debenture	Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total equity
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	9,999,942	-	-	-	-	-	-	-	-	-
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	-	5,109	-	-	-	-	-	38,892
Shares issued on acquisition of KGK Science	4,132,231	4,092	-	-	-	-	-	-	-	4,092
Shares to be issued for acquisition of Inverell	-	-	9,523	-	-	-	-	-	-	9,523
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	148,906,911	91,696	-	-	-	-	-	-	-	91,696
Fair value transfer on exercise of warrants	-	15,545	-	(15,545)	-	-	-	-	-	-
Shares and warrants issued on exercise of broker warrant units	3,419,549	1,858	-	3,063	(1,501)	-	-	-	-	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	22,052,901	20,242	-	-	-	(4,023)	-	-	-	16,219
Share-based payments	-	-	-	-	14,381	-	-	-	-	14,381
Stock options issued to Good Leaf	-	-	-	-	433	-	-	-	-	433
Shares issued on exercise of stock options	775,000	775	-	-	-	-	-	-	-	775
Fair value transfer on exercise of stock options	-	547	-	-	(547)	-	-	-	-	-
Shares issued as employee awards	5,913,334	6,032	-	-	-	-	-	-	-	6,032
Share issuance costs	-	1,472	-	-	-	-	-	-	-	1,472
Non-controlling interest arising from acquisitions	-	-	-	-	-	-	-	-	3,011	3,011
Net loss	-	-	-	-	-	-	(66,988)	-	(221)	(67,209)
Changes in fair value of long-term investments	-	-	-	-	-	-	-	(15,299)	-	(15,299)
Currency translation adjustments	-	-	-	-	-	-	-	911	227	1,138
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**

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

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 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

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

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on April 29, 2020.

Basis of measurement

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of consolidated financial statements in accordance with ***International Accounting Standards (“IAS”) 1, Presentation of Financial Statements*** requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted for the current period ended December 31, 2019.

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

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2. Basis of preparation (continued)

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.

Subsidiaries

These 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 consolidated statements of financial position. The consolidated financial statements of the Company include:

Subsidiaries	Equity interests
Dosecann Inc.	100%
KGK Science Inc.	100%
Kolab Project Inc.	100%
Robinson's Cannabis Inc.	100%
Robinson's Outdoor Grow Inc.	100%
2368523 Ontario Ltd. (dba Curative Cannabis)	96%
Inverell S.A.	80%

Business combinations

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

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

2. Basis of preparation (continued)

Joint ventures

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

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

3. Significant accounting policies

a) Functional currency

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

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

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

b) Biological assets

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

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

3. Significant accounting policies (continued)

The direct and indirect costs include the following:

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

The Company measures and adjusts the biological assets to the fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are included as a separate line in the gross profit calculation on the consolidated statements of loss and comprehensive loss.

c) Inventory

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

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

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

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

3. Significant accounting policies (continued)

d) Property, plant and equipment

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

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

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

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

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.

e) Finite-lived and indefinite-lived intangible assets

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

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

Others:

• Patient referral agreements	3 years
• Contractual rights agreements	5 years
• Patents	17 years
• Non-competition agreements	Over the term of the agreement
• Other licenses	Over the term of the agreement

3. Significant accounting policies (continued)

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

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

f) Impairment of long-lived assets

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

g) Goodwill

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

h) Leased assets

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

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; and
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; and
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.

i. The lease term determined by the Company comprises:
ii. non-cancellable period of lease contracts;
iii. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
iv. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

3. Significant accounting policies (continued)

i) Financial instruments

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

Classification

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

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

Amortized cost

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

Fair value through profit or loss

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

Financial assets at fair value through other comprehensive income

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

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial

3. Significant accounting policies (continued)

assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

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

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

	IFRS 9	
	Classification	**Measurement**
Cash and cash equivalents	FVTPL	Fair value
Short-term investments	FVTPL	Fair value
Other receivables	Amortized cost	Amortized cost
Note receivable	Amortized cost	Amortized cost
Long-term investments	FVOCI and FVTPL	Fair value
Debt obligation receivable in product equivalent	FVTPL	Fair Value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible debenture	Amortized cost	Amortized cost
Long-term loans payable	Amortized cost	Amortized cost
Interest payable on convertible debenture	Amortized cost	Amortized cost

j) Compound financial instruments

Compound financial instruments issued by the Company comprises convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity

3. Significant accounting policies (continued)

conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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

k) Revenue recognition

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

The Company follows the five-step model in the Standard to recognize revenue

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

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

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

<u>Costs to obtain or fulfil contracts with customers</u>

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

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

3. Significant accounting policies (continued)

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

l) Income taxes

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

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

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

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

m) Share capital and share-based compensation

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

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

n) Earnings (loss) per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants and share options issued.

3. Significant accounting policies (continued)

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

o) Business combinations

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

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

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

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

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the period as incurred.

p) Use of estimates and judgments

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

Business combinations

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

3. Significant accounting policies (continued)

Impairment of goodwill and intangible assets

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

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

Control, joint control or level of influence

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 4.

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

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

Share-based compensation

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

3. Significant accounting policies (continued)

Valuation of the debt obligation receivable in product equivalents

In determining the valuation of the fair value of the debt obligation receivable in product equivalents, management estimates were used such as an appropriate discount rate, estimate of future selling prices and estimate of future production abilities.

Fair value measurements

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

Inputs when using Black-Scholes valuation model

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

Discount rates

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

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

Convertible instruments

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

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

q) Adoption of new accounting standards

IFRS 16, Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. The standard consolidates the majority of lease contracts for lessees under one definition, based on the former finance lease classification. The Company has implemented IFRS 16 as of January 1, 2019 using the modified retrospective approach. Under this

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

3. Significant accounting policies (continued)

approach, the Company did not restate its comparative figures but recognized the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings.

The Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, Leases were not reassessed for whether a lease exists. The Company reviewed all existing lease agreements as of December 31, 2018 and reclassified certain leases as per the new standard, resulting in the recognition of right-of-use assets at January 1, 2019 of $5,148, lease liabilities of $5,148, and a change in retained earnings of $Nil. The estimated lease liability is based on the present value of remaining lease payments as of January 1, 2019, discounted using the Company's incremental borrowing rate as of this date. The right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to such leases recognized in the statement of financial position as of December 31, 2018.

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 International Financial Reporting Interpretations Committee ("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	1,253
	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 consolidated statement of financial position as at January 1, 2019 and has been classified as property and equipment.

r) Future accounting pronouncements

The Company monitors the potential changes proposed by the IASB and analyses the effect that changes in the standards may have on operations.

3. Significant accounting policies (continued)

The interpretations of standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below and include standards that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Amendments to IFRS 3, Business Combinations – Definition of a Business ("IFRS 3")

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. The amendments are effective January 1, 2020, with early adoption permitted. The amendments are applied prospectively to transactions or other events that occur on or after the date of first application and are not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Estimates and Errors – Definition of Material ("IAS 8")

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." These amendments are effective January 1, 2020. The amendments to the definition of material are not expected to have a significant impact on the Company's consolidated financial statements.

Amendment to IAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. Management is currently assessing the impact of this amendment.

4. Restricted cash

As at December 31, 2019, Auxly has provided Union Gas a Letter of Credit in the amount of $557 on behalf of Sunens Farms Inc. ("Sunens") in order to supply power to the facility in Chatham, Ontario. Auxly has restricted the cash as collateral in order to facilitate the issuance of the Letter of Credit.

As at December 31, 2019, Auxly has convertible debentures maturing January 17, 2020 and has restricted cash of $3,480 to be used for the repayment.

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

5. Biological assets

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

	Cannabis	Hemp	Total
Balance at December 31, 2017	$ -	$ -	$ -
Additions from business combinations	-	1	1
Changes in fair value less cost to sell due to biological transformation	868	-	868
Capitalized production costs	-	1,812	1,812
Transferred to inventory upon harvest	(523)	-	(523)
Balance at December 31, 2018	**$ 345**	**$ 1,813**	**$ 2,158**
Changes in fair value less cost to sell due to biological transformation	(761)	-	(761)
Capitalized production costs	1,494	3,420	4,914
Transferred to inventory upon harvest	(848)	(2,800)	(3,648)
Biological Asset Write-off	-	(2,383)	(2,383)
Currency Translation Adjustment	-	(50)	(50)
Balance at December 31, 2019	**$ 230**	**$ (0)**	**$ 230**

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

As at December 31, 2019, the cannabis plants were on average 39% complete through their estimated 14-week growing cycle.

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

Significant inputs and assumptions	**Range of inputs**	**Sensitivity**	**Effect on biological asset balance**
Selling price per gram	$1.50-$16.00 dollars	Increase/decrease $1.00/gram	Increase/decrease $50
Average yield per plant	83 - 96 grams	Increase/decrease 10%	Increase/decrease $26
Post-harvest cost per gram	$0.36-$2.07 dollar/gram	Increase/decrease $0.50/gram	Decrease/increase $37

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

6. Inventory

The following is a breakdown of inventory at December 31, 2018:

	Acquired through business combination	Capitalized costs	Fair Value Transferred from Biological Assets	Currency Translation Adjustment	Carrying Value
Dried Cannabis					
Work-in-process	$ -	$ 865	$ 498	$ -	$ 1,363
Finished goods	-	119	25	-	144
Dried Hemp					
Work-in-process	607	-	-	37	644
Merchandise Products	-	38	-	-	38
Packaging, Hardware, Consumables and Ingredients	-	26	-	-	26
Balance at December 31, 2018	**$ 607**	**$ 1,048**	**$ 523**	**$ 37**	**$ 2,215**

The following is a breakdown of inventory at December 31, 2019:

	Acquired through business combination	Capitalized costs	Fair Value Transferred from Biological Assets	Currency Translation Adjustment	Carrying Value
Dried Cannabis					
Work-in-process	$ -	$ 4,437	$ 21	-	$ 4,458
Finished goods	-	189	52	-	241
Dried Hemp		-	-		
Work-in-process	-	233	-	-	233
Cannabis Oil					
Work-in-process	-	14,290	-	-	14,290
Finished goods	-	1,387	-	-	1,387
Generation 2 Derivative Products					
Work-in-process	-	735	-	-	735
Finished goods	-	447	-	-	447
Merchandise Products	-	54	-	-	54
Packaging, Hardware, Consumables and Ingredients	-	4,982	-	-	4,982
Balance at December 31, 2019	**$ -**	**$ 26,754**	**$ 73**	**$ -**	**$ 26,827**

As of December 31, 2019, the Company recognized $26,827 (2018-$2,215) of inventory on the consolidated statements of financial position, including $73 (2018- $523) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest. The Company wrote off $1,851 of dried hemp inventory due to the costs capitalized exceeding net realizable value. The Company also impaired $1,393 cannabis inventory due to the costs capitalised exceeding the net realizable value of the inventory. The impairment loss has been included in the cost of goods sold in the consolidated statement of loss and comprehensive loss.

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

7. Property, plant and equipment

	Computers and Office Furniture	Leasehold Improvement	Equipment	Buildings	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 from foreclosure (Note 9)	5			148	16,598	844	-	**17,595**
Additions	2,507	937	6,876	3,131	20,652	3,699	1,954	**39,756**
Transfers	-	(3)	2,090	17,342	(19,429)	-	-	**-**
Dispositions	-	-	-	-	(169)	-	-	**(169)**
Impairment of long-term assets	(117)	(675)	(951)	(227)				**(1,970)**
December 31, 2019	**$ 4,249**	**$ 1,272**	**$ 10,704**	**$ 24,755**	**$ 36,475**	**$ 5,218**	**$ 7,102**	**$ 89,775**
Accumulated Depreciation:								
December 31, 2018	$ 161	$ 68	$ 140	$ 343	$ -	$ -	$ -	**$ 712**
Depreciation	538	360	980	1,072	-	-	967	**3,917**
Impairment of long-term assets	(11)	(75)	(74)	(11)				
December 31, 2019	**$ 688**	**$ 353**	**$ 1,046**	**$ 1,404**	**$ -**	**$ -**	**$ 967**	**$ 4,458**
Adjustments								
Currency Translation (2018)	$ 4	$ 4	$ 8	$ 7	$ -	$ -	$ -	**$ 23**
Currency Translation (2019)	**$ (9)**	**$ (19)**	**$ (72)**	**$ (31)**	**$ -**	**$ (8)**	**$ -**	**$ (139)**
Carrying amounts								
December 31, 2018	**$ 1,697**	**$ 949**	**$ 2,557**	**$ 4,025**	**$ 18,823**	**$ 675**	**$ -**	**$ 28,726**
December 31, 2019	**$ 3,552**	**$ 900**	**$ 9,586**	**$ 23,320**	**$ 36,475**	**$ 5,210**	**$ 6,135**	**$ 85,178**

	Computers and Office Furniture	Leasehold Improvement	Equipment	Buildings	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, 2018	**$ 1,697**	**$ 949**	**$ 2,557**	**$ 4,025**	**$ 18,823**	**$ 675**	**$ -**	**$ 28,726**

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

8. Intangible assets

	Cultivation Interests	Canadian Cultivation Licences	Processing Licences	International Cultivation Licences	Distribution Agreements	Others	Total
Cost:							
December 31, 2018 *(Restated - see note 9)*	$ 11,142	$ 27,152	$ 31,100	$ 14,206	$ 829	$ 4,240	**$ 88,669**
Additions	1,597	-	-	-	-	1,603	**3,200**
Dispositions	-	-	-	-	-	(603)	**(603)**
Reclassification *(see note 12)*	10,441	-	-	-	-	-	**10,441**
Impairment	(3,397)	-	-	(14,936)	-	(728)	**(19,061)**
December 31, 2019	**$ 19,783**	**$ 27,152**	**$ 31,100**	**$ (730)**	**$ 829**	**$ 4,512**	**$ 82,646**
Accumulated Amortization:							
December 31, 2018	$ -	$ -	$ -	$ -	$ -	$ 1,446	**$ 1,446**
Dispositions	-	-	-	-	-	(151)	**$ (151)**
Amortization	3,260	-	-	-	55	1,342	**4,657**
December 31, 2019	**$ 3,260**	**$ -**	**$ -**	**$ -**	**$ 55**	**$ 2,637**	**$ 5,952**
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**
December 31, 2019	**$ 16,523**	**$ 27,152**	**$ 31,100**	**$ -**	**$ 774**	**$ 1,875**	**$ 77,424**

	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 (*Restated - see note 9)*	-	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, 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 agreement and recorded as an intangible asset. A gain of $1,047 was recorded in the consolidated statement of profit and loss on the termination of the interim agreement. As at December 31, 2019 the Company recorded an impairment loss of $453 towards the Green Relief offtake cultivation agreement.

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

8. Intangible assets (continued)

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.

On May 15, 2019, Auxly entered into a Supply Agreement with Curative. $1,144 was allocated to the supply agreement based on a discounted cash flow model of the cost savings. On November 27, 2019, Auxly foreclosed on the shares of the Curative, resulting in an impairment loss pertaining to the supply agreement with Curative of $1,144. See Note 9 for more information.

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 $1,603 was attributed to this right based on the cash flow savings expected to be derived from the licences, compared to the market rate for royalties of similar technology. A discount rate of 30% was used.

Annual Impairment of CGUs

As at December 31, 2019, the Company performed its annual impairment test on the indefinite life intangible assets and goodwill.

Canadian Cannabis CGU

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

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

The key assumptions used in the estimation of the recoverable amount are set 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	20.0%
Terminal growth rate	2.0%
Earnings growth rate	10.0% to 17.0%

The estimated recoverable amount of the CGU exceeded its carrying amount and as such, there was no impairment recorded as at December 31, 2019.

Sensitivity to changes in assumptions

Management has performed an assessment to determine whether an impairment would have been recognized if there was a change in any of the key assumptions identified above.

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

8. Intangible assets (continued)

An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the terminal growth rate, or a decrease of 50 points in the earnings growth rate, each used in isolation to perform the goodwill impairment tests, would not have resulted in an impairment charge being recognized for the year ended December 31, 2019.

Research CGU

The Company's Research CGU represents its operations dedicated to providing research services for customers who are conducting human clinical trials. In assessing goodwill and indefinite-life intangible assets for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts.

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

The key assumptions used in the estimation of the recoverable amount are set 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	20.0%
Terminal growth rate	0.0%
Earnings growth rate	13.5% to 18.5%

The impairment test concluded that the carrying value was higher than the recoverable amount by $7,597. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management allocated $728 of impairment losses towards the patent intangible asset, with the remaining $6,868 impairment being allocated to the goodwill of the CGU.

Sensitivity to changes in assumptions

Management has performed an assessment to determine whether an impairment would have been recognized if there was a change in any of the key assumptions identified above.

An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the terminal growth rate, or a decrease of 50 points in the earnings growth rate, each used in isolation to perform the goodwill impairment tests, would not have resulted in a material change in the impairment charge being recognized for the year ended December 31, 2019.

South American Cannabis CGU

The Company's South America Cannabis CGU represents its operations dedicated to the cultivation and sale of cannabis products within South America. Management determined that a liquidation approach was most appropriate in determination of the recoverable amount of the CGU due to regulatory delays causing uncertainty in the timing of sales, and lack of cannabis product sales data in the industry. The impairment test concluded that the carrying value was higher than the recoverable amount by $23,921. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management allocated $14,936 of impairment losses towards the indefinite life

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

8. Intangible assets (continued)

licence intangible asset, $5,283 of impairment losses towards long-term assets, including property, plant and equipment (Note 7), and $3,702 of the impairment losses towards goodwill (Note 10).

Management will continue to closely evaluate each CGU going forward.

9. Business combinations

The purchase price allocations of all business combinations during the year ended December 31, 2019 and December 31, 2018 have been included in the table below. All net assets acquired, and consideration paid within the table below have been included at their respective fair value. For accounting purposes, the consideration transferred for any acquired businesses includes a discount on the value of the common shares to reflect the trading restrictions placed the respective share consideration.

	2019	2018			
	Curative Cannabis	**Inverell S.A**	**Robinsons Cannabis Inc.**	**Dosecann Inc.**	**KGK Science Inc.** *(restated)*
Cash and cash equivalents	$ 616	$ 44	$ 545	$ 4,062	$ 445
Other receivables	693	79	243	748	817
Accounts receivable	-	-	-	-	693
Prepaid expenses	9	209	34	-	68
Inventory and biological assets		607	-	-	-
Research contract costs	-			-	1,348
Property, plant and equipment	17,595	299	2,204	5,007	445
Licences and licences in progress	-	14,206	10,189	31,100	-
Non-competition agreements	-	531	622	-	-
Intellectual property	-	-	-	-	1,123
Goodwill	4,867	3,527	3,960	10,112	11,821
Accounts payable and accrued liabilities	(811)	(71)	(891)	(2,479)	(1,189)
Long-term loans	-	-	(1,088)	-	-
Deferred revenue	-	-	-	-	(2,950)
Deferred tax liabilities	(4,867)	(3,527)	(2,848)	(9,468)	-
Non-controlling interests	(724)	(3,011)	-	-	-
Net assets acquired	$ 17,378	$ 12,893	$ 12,970	$ 39,082	$ 12,621
Loan settled through foreclosure	$ 13,757	$ -	$ -	$ -	$ -
Consideration paid in shares	-	9,523	9,889	33,783	4,092
Consideration paid in warrants	-	-	-	5,109	-
Value of existing investments in acquisition	3,621	-	1,298	-	-
Consideration paid in cash	-	-	-	190	5,288
Consideration to be paid in cash		2,524	-	-	-
Fair value of future make-whole payment	-	-	-	-	1,082
Fair value of future payment		126	-	-	-
Assumed loans	-	720	1,783	-	2,159
	$ 17,378	$ 12,893	$ 12,970	$ 39,082	$ 12,621
Consideration paid in cash	$ -	$ -	$ (1,783)	$ (190)	$ (7,447)
Less: Cash and cash equivalents acquired	616	44	545	4,062	445
Net cash (outflow) / inflow	$ 616	$ 44	$ (1,238)	$ 3,872	$ (7,002)

9. Business combinations (continued)

a) Curative Cannabis Inc.

On May 15, 2019, Auxly entered into a Supply Agreement with Curative Cannabis Inc. and was issued 25 common shares of Curative, or 20%, as additional consideration for committing to fund Curative's facility. A value of $151 was allocated to the common shares of Curative 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. The Company's construction funding was secured against the 76% share ownership of the Curative shareholders.

On November 27, 2019, Auxly foreclosed on the shares of the Curative shareholders and took ownership over 76% of Curative's shares, bringing total ownership up to 96%.

The note and interest receivable prior to the foreclosure was $18,995, of which $16,700 was funded during the 12 months ended December 31, 2019. The foreclosure resulted in a loss of $893 due to the fair value of Curative's net assets being insufficient to cover Auxly's obligation due from the company. The loss was recorded in the consolidated statement of profit and loss. A non-controlling interest was recorded on foreclosure of $724.

For the period ended December 31, 2019, Curative accounted for $43 in net losses since November 27, 2019, of which $41 in net losses was attributable to shareholders and $2 in net losses was attributable to non-controlling interests.

b) Inverell S.A.

On April 10, 2018, the Company obtained control over Inverell by entering into an agreement to purchase 80% of the issued and outstanding shares. The Company has recorded a 20% non-controlling interest at its fair value and consolidated the results of Inverell from this date onwards. On January 8, 2019, the Company obtained regulatory approval and announced the closing of the acquisition. Inverell is a federally licensed cannabis operator based in Montevideo, Uruguay. Inverell's license allows it to cultivate and harvest its proprietary hemp strain.

The shareholders of Inverell received aggregate consideration as follows:

i. USD $2,000 in cash on closing of the transaction;
ii. 1,927,343 common shares of the Company on closing of the transaction;
iii. 1,521,587 common shares of the Company to be paid when a stable cannabis strain having a CBD level of greater than 6.0% and a THC level of lower than 0.6% is registered;
iv. 1,521,587 common shares of the Company to be paid on the successful export of 350 kg of CBD oil over 12 consecutive months;
v. 2,062,595 common shares of the Company to be paid on the successful export of 12,000 kg of CBD oil over 12 consecutive months;
vi. USD $500 payment in cash upon repayment of intercompany loans; and
vii. $720 assumed loan on acquisition.

The contingent consideration of shares has been classified as equity, as the number of shares to be issued has been fixed based on the Company's share price. 1,927,343 shares were issued on the closing of the transaction. Management assessed the probability of the issuance of the contingent shares to be highly probable. The total fair value of the consideration is $12,893.

9. Business combinations (continued)

Goodwill arose in the acquisition of Inverell, primarily due to the assembled work force of Inverell. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill of $3,527 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.

c) Robinson's Cannabis Inc.

On February 1, 2018, the Company purchased 10% of the outstanding common shares of Robinson's Cannabis Inc. ("Robinsons"), a licensed producer applicant located in Kentville, Nova Scotia, for consideration of $1,500. On April 30, 2018 the Company purchased the remaining 90% of the issued and outstanding shares of Robinsons. A revaluation loss of $202 was recorded in other comprehensive loss on April 30, 2018 relating to the original 10% ownership. The transaction was accounted for as a business combination. The shareholders of Robinsons received aggregate consideration from the Company as follows:

i. 5,369,126 common shares of the Company on closing of the acquisition;
ii. 2,013,421 common shares of the Company to be paid within ten business days of Robinson's receiving its Cultivation License from Health Canada;
iii. 2,013,421 common shares of the Company to be paid within 10 business days of Robinson's receiving its sales license from Health Canada; and
iv. $1,783 cash payment on closing to repay long term loans of Robinsons.

The total fair value of the consideration is $12,970. Goodwill arose in the acquisition of Robinsons, primarily due to the assembled work force of Robinsons. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill of $3,960 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.

d) 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. 5,071,248 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 dealers licence was issued during the year ended December 31, 2018, 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.

9. Business combinations (continued)

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 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 were sold to the adult-use cannabis markets in Q4 2019.

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.

e) KGK Science Inc.

On August 29, 2018, the Company purchased all the issued and outstanding shares of KGK Science Inc. ("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;
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 was $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 was 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.

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

10. Goodwill

Balance, January 1, 2018	$	4,500
Business Combination - Inverell S.A.		3,527
Business Combination - Robinsons Cannabis Inc.		3,960
Business Combination - Dosecann Inc.		10,112
Business Combination - KGK Science Inc. *(restated - see note 9)*		11,821
Balance, December 31, 2018	$	33,920
Business Combination - Curative		4,867
Deferred tax adjustment		614
Impairment of Goodwill		(10,570)
Currency Translation Adjustment		174
Balance, December 31, 2019	**$**	**29,005**

For the purposes of the goodwill and indefinite life intangible impairment test, the Company considered three cash generating units, being the Canadian Cannabis CGU, Research CGU, and the South American Cannabis CGU.

For more information, refer to Note 8.

11. Long-term investments

Entity	Instrument	Classification	Balance at December 31, 2018	Additions	FV Change	Disposals	Balance at December 31, 2019
VIVO Cannabis	Shares	FVOCI	$ 4,733	$ -	$ (1,892)	$ (2,636)	$ 205
CannTx Life Sciences	Shares	FVOCI	971	-	(448)	-	523
Inner Spirit Holdings	Shares	FVOCI	3,448	-	(465)	-	2,983
Inner Spirit Holdings	Warrants	FVTPL	248	-	(193)	-	55
Lotus Ventures Inc.	Shares	FVOCI	1,198	-	(359)	(32)	807
Lotus Ventures Inc.	Warrants	FVTPL	48	-	(42)	-	6
Province Brands	Shares	FVOCI	166	-	(40)	-	126
Cannabis OneFive Inc.	Shares	FVOCI	110	-	(60)	-	50
Cannabis OneFive Inc.	Warrants	FVTPL	12	-	(11)	-	1
Delta 9 Cannabis	Shares	FVOCI	7,209	-	(3,073)	-	4,136
FSD Pharma	Shares	FVOCI	2,138	-	(1,872)	-	266
Good Leaf	Shares	FVOCI	384	-	(159)	-	225
Good Leaf	Warrants	FVTPL	278	-	(166)	-	112
Ascent Industries Corp.	Shares	FVOCI	711	-	(289)	(74)	348
Green Relief Inc.	Shares	FVOCI	-	1,047	(1,047)		-
Inner Spirit Holdings	Convertible Debt	FVTPL	-	1,500	138	-	1,638
ICC International Cannabis Corp.	Convertible Debt	FVTPL	5,569	-	(811)	-	4,758
Total			**$ 27,223**	**$ 2,547**	**$ (10,789)**	**$ (2,742)**	**$ 16,239**

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

12. Investment in joint venture

The investment in Sunens joint venture is comprised of:

	Class 1 common shares and Class V special shares	Class B special shares	Convertible promissory notes	Secured promissory notes	Total investment in joint venture
Balance: January 1, 2018	$ -	$ -	$ -	$ -	-
Investment in Class B special shares	-	19,026	-	-	19,026
Share of net loss on Sunens	(309)	-	-	-	(309)
Balance: December 31, 2018	**$ (309)**	**$ 19,026**	**$ -**	**$ -**	**$ 18,717**
Class B special shares exchanged for convertible promissory notes	$ -	$ (19,026)	$ 19,026	$ -	-
Investment in convertible promissory notes	-	-	60,453	-	60,453
Convertible promissory notes converted into class B special shares	-	50,000	(50,000)	-	-
Convertible promissory notes exchanged for secured promissory notes	-	-	(29,479)	29,479	-
Investment in secured promissory notes	-	-	-	19,029	19,029
Expected credit loss	-	-	-	(708)	(708)
Loan guarantee contribution	938	-	-	-	938
Share of net loss of Sunens	(1,930)	-	-	-	(1,930)
Balance: December 31, 2019	**$ (1,301)**	**$ 50,000**	**$ -**	**$ 47,800**	**$ 96,499**

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. The Company holds 51% voting shares in Sunens though 4,500,000 class 1 common shares and 1,224,490 class V shares special shares providing the Company with 51% ownership. The Company does not control Sunens as decisions regarding all relevant activities require the unanimous consent of both shareholders resulting in joint control over Sunens.

In connection with the joint venture agreement, Peter Quiring also entered into a non-compete agreement with Auxly. In exchange for the non-compete agreement, the Company issued 5,250,000 common shares to The Peter Quiring Family Business Trust at a price of $1.13 per share, with 1,250,000 common shares issued immediately, and the remainder held in escrow and to be released in tranches corresponding to the achievement of certain operational and performance milestones of Sunens. In addition, the Company also issued 10,000,000 common share purchase warrants, where 2,000,000 warrants which were vested immediately, and the remainder will vest in tranches corresponding to the achievement of certain operational and performance milestones of Sunens. The warrants are exercisable at a price of $1.57 per share and have a term of five years from issuance. The acquisition of non-compete agreement was measured in accordance with IFRS 2 based on the fair value of the share and warrants issued. The total fair value of the shares and warrants issued was $4,073 and $6,368, respectively, resulting in recognition of non-compete intangible asset of $10,441.

The fair value of the common shares issued to Peter Quiring is $4,073 and the fair value of the common share purchase warrants issued to Peter Quiring is $6,368.

The fair value of the common shares was determined based on the probability of the issuance of the contingent shares which was determined to be highly probable and discounted the share value to present value for the lock-up periods. The discount rates range from 25.07% to 43.58% depending on the lock-up period, calculated using the put-option pricing models.

12. Investment in joint venture (continued)

The fair value of the warrants was calculated using the Binomial Option Pricing Model and valued based on a probability weighted discounted cash flow of the vesting performance conditions and based on the following assumptions: Share price – $1.13, Annualized volatility – 92.73%; Risk-free interest rate – 2.03%; Dividend yield – 0%; and Expected life – 5 years.

For the year ended December 31, 2018, the Company made additional investment of $19,026 in the joint venture through purchase of 19,025,807 class B special shares of Sunens which are non-voting. The class B special shares form part of the Company's net investment in the joint venture but was measured at fair value through other comprehensive income as they are non-voting. There was no change in fair value of the class B special shares as at December 31, 2018 as Sunens was under construction.

On February 15, 2019, 19,025,807 class B special shares were exchanged for investment in $19,026 convertible promissory notes of Sunens. The convertible promissory notes were convertible into class B special shares of Sunens at an exercise price of $1 per class B special shares and carried a coupon rate of 1%. The convertible promissory notes were accounted for at fair value through profit or loss. The Company acquired additional $60,453 convertible debentures of Sunens from February 15, 2019 to September 17, 2019.

On September 17, 2019, the Company converted $50,000 of the convertible promissory notes into 50,000,000 Class B special shares of Sunens and the remaining convertible promissory notes of $29,479 were exchanged for secured promissory notes bearing interest at a rate of 6% per annum, compounded monthly, and maturing on July 1, 2026. The secured promissory notes are repayable in equal monthly installments of principal and accrued interest starting July 1, 2021. The Company acquired additional $19,029 of secured promissory notes from September 18, 2019 to December 31, 2019 resulting in total investment in secured promissory notes of $48,508. The secured promissory notes are secured against all assets of Sunens, subordinated to the Bank of Montreal loan. Class B special shares are measured at fair value through other comprehensive income and secured promissory notes are measured at amortized cost. The fair value of the secured promissory note and the class B special shares as at December 31, 2019 was equivalent to the respective carrying amounts as Sunens is under construction.

On September 23, 2019, the Company provided Bank of Montreal with a guarantee over Sunens $33,000 revolving loan from the Bank of Montreal. The guarantee was valued at $938 based on a 3.5% probability of default and a discount rate of 12% and was recognized as an other non-current liability with debit being recorded as an equity contribution to Sunens. The guarantee liability is measured at amortized cost.

As at December 31, 2019, the material statement of financial position balances of Sunens were receivables of $3,644, property, plant and equipment of $112,979, trade and other payables of $4,151, and third party long-term debt of $20,157.

13. 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. 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 December 31, 2019 (2018 - $6,327) and a fair value loss of $5,708 was recorded on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019 (2018 – 51). As at December 31, 2019, $1,214 was received as repayment on the note, with $595 received as at December 31, 2018. As at December 31, 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. The fair value of the promissory note was estimated to be $8,585 at December 31, 2018. 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 consolidated statement of loss and comprehensive loss for the year ended December 31, 2019 (2018 - $1,585).

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

14. Long-term deposits

	Sponsorship	Capital Assets	Inventory	Other	Total
Balance:					
December 31, 2018	$ -	$ -	$ -	$ -	**$ -**
Additions	6,202	5,743	2,406	1,298	**15,649**
December 31, 2019	**$ 6,202**	**$ 5,743**	**$ 2,406**	**$ 1,298**	**$ 15,649**

a) Sponsorship deposits

The Company has sponsored the development of a hemp farming co-operative, consisting of six individual hemp licence holders. As at December 31, 2019, the Company had funded $6,202 by way of a deposit towards the biomass and maintains the right of first refusal to offtake the biomass produced.

b) Capital assets

As at December 31, 2019, the Company has made certain deposits towards the purchase of specialized equipment to be utilized for extraction and product formulation.

c) Inventory

As at December 31, 2019, $1,649 was deposited towards vape cartridge purchases and $757 was deposited towards raw material cannabis purchases.

15. Lease liability

		December 31, 2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	$	1,959
One to five years	$	5,308
Total undiscounted lease obligations	**$**	**7,267**
Current portion		1,243
Non-current portion		4,893
Discounted lease obligations included in the consolidated statement of financial position	**$**	**6,136**

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

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 8).

The debentures bear interest at 4.0% per annum, payable annually and mature within 36 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of $0.81 per share, at the option of the holder. The debenture was recorded at its fair value of $88,444, discounted at a market interest rate of 16.0% and is net of debt issue costs.

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. On December 17, 2019, Imperial Brands exercised their top-up rights to subscribe for 6,315,574 shares for consideration of $5,207.

The accretion expense calculated using the effective interest method for the fiscal year ended December 31, 2019 was $2,438. The effective interest rate used was 15.8% and the coupon rate on the debt is 4.0%. Interest expense for the year ended December 31, 2019 for convertible debentures was $1,306.

		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)
Fair value of debt on initial recognition		88,444
Accretion expense during the period		2,438
Balance at December 31, 2019	**$**	**90,882**

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 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 year ended December 31, 2019 was $4,347 (2018 - $4,550). The effective interest rate used was 11.6% and the

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

16. Convertible debenture (continued)

coupon rate on the debt is 6.0%. Interest expense for the fiscal year ended December 31, 2019 for convertible debentures was $4,823 (2018 – $5,721).

On October 18, 2019, the Company received approval to amend the conversion price from $1.55 per share to $0.74 per share. Notice was provided to all debenture holders of the right to amend their conversion price and that 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 (discounted book value of $15,826, market value $14,931), repaid debentures with a total principal balance of $79,999 (discounted book value of $79,200), and paid accrued interest of $1,893 on the settlement of these debentures. A gain of $96 was recorded on the settlement of convertible debt.

		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		4,347
Less: Units converted during the period		(48)
Less: Units settled during the period		(95,026)
Balance at December 31, 2019	**$**	**2,705**

June 29, 2017 Issuance

On June 29, 2017, the Company completed a brokered private placement of unsecured convertible debenture units for an aggregate amount of $30,000. The debentures bear interest at 6% per annum and mature within 24 months.

		Convertible debenture
Balance at December 31, 2017	$	17,738
Accretion expense during the period		66
Less: Units converted during the period		(17,673)
Balance at December 31, 2018	$	131
Accretion expense during the period		9
Less: Repayment		(140)
Balance at December 31, 2019	**$**	**-**

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

17. Debt settlement

On January 29, 2018, the Company settled long-term loans and accounts payable balances with a carrying amount of $2,657 in consideration for the issuance of an aggregate of 2,984,959 common shares. The shares were negotiated at a price between $0.65 and $1.59 of debt for every unit share in November 2017. Due to the timing of the payment, the fair value of the common shares at the time of issuance was $2.28 based on the closing price on grant date. The fair value of the consideration was estimated to be $6,806 and a non-recurring non-cash loss on the settlement of debt of $4,156 was recorded in the consolidated statement of loss and comprehensive loss in 2018.

18. Share capital

a) Authorized

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

b) Issued and outstanding

At December 31, 2019, there were 625,242,335 issued and outstanding common shares and 13,007,611 shares held in escrow related to the contingent considerations in acquisitions and investments (December 31, 2018 had 584,769,404 issued and fully paid common shares, 11,237,157 held in escrow, and 7,033,114 shares were to be issued for the acquisition of Inverell, of which 1,921,343 were issued in 2019, with the remainder escrowed for contingent release).

During the year ended December 31, 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, 1,321,894 common shares to the previous shareholders of Dosecann on completion of contingent milestones, 21,602,460 common shares on the settlement of convertible debt (see note 15), 6,315,574 common shares to Imperial Brands on exercise of their top-up rights (see note 15), 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.

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 63,824,994 as at December 31, 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	1.42% - 1.92%	1.72% - 2.52%
Expected annual dividend yield	0%	0%
Expected annualized volatility	87.27% - 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 year ended December 31, 2019 and 2018, 7,980,000 and 25,390,968 options were granted, respectively.

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

18. Share capital (continued)

The following table summarizes information about stock options outstanding as at December 31, 2019:

	Number of options	Average exercise price ($)	Average remaining life (years)
Opening Balance, December 31, 2017	**19,861,085**	**0.381**	**4.00**
Options granted	25,390,968	1.409	8.26
Options exercised	(775,000)	1.000	
Options modified	(2,590,000)	1.869	
Options expired or forfeited	(835,000)	1.466	
Closing Balance, December 31, 2018	**41,052,053**	**0.846**	**6.50**
Options granted	7,980,000	0.959	5.40
Options exercised	-	-	
Options expired or forfeited	(3,382,500)	1.385	
Closing Balance, December 31, 2019	**45,649,553**	**0.865**	**6.09**

Total options exercisable at December 31, 2019 were 27,887,935 with a remaining average life of 6.09 years.

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.

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 December 31, 2019:

	Number of warrants	Average exercise price ($)	Average remaining life (years)
Opening Balance, December 31, 2017	**160,647,124**	**0.561**	**1.40**
Warrants issued	93,153,297	1.750	1.55
Warrants exercised	(148,906,912)	0.617	
Warrants expired	(1,158,188)	1.500	
Closing Balance, December 31, 2018	**103,735,321**	**1.539**	**1.39**
Warrants issued	-	-	-
Warrants exercised	(14,387,301)	0.023	
Warrants expired	(3,419,500)	1.500	
Closing Balance, December 31, 2019	**85,928,520**	**1.795**	**0.63**

e) Earnings per share

The calculation of basic and diluted loss 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.

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

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 include members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, stock options or post-employment benefits. Compensation provided to current and key management are as follows:

	For the year ended December 31, 2019	2018
Short-term benefits	**$ 2,028**	$ 1,722
Long-term benefits	**3,753**	3,873
	$ 5,781	$ 5,595

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 year ended December 31, 2019, the Company incurred $85 (2018 - $123) in general expenses.

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

The fair value of hierarchy has the following levels:

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

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 306	$ -	$ -	$ 306
Public company shares	8,745	-	-	8,745
Company warrants	-	174	-	174
Convertible debenture	-	-	6,396	6,396
Non-voting shares in joint venture	-	-	50,000	50,000
Private company shares	-	-	924	924
As at December 31, 2019	**$ 9,051**	**$ 174**	**$ 57,320**	**$ 66,545**

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

20. 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 venture	Asset based approach	- Fair value of net assets	- if the fair value of the net assets decreased by 1%, the fair value would decrease by $500.
Investments in private companies	Market approach	- Investment index	- If the investment index fair value change increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by $267 ($267).
Investment in ICC International Cannabis Corp.	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		
Balance, January 1, 2018	$	9,378
Additions		32,505
Change in unrealized loss - FVTPL		(2,848)
Change in unrealized gain - FVOCI		2,103
Balance, December 31, 2018	**$**	**41,138**
Additions		33,631
Repayment		(9,514)
Change in unrealized loss - FVTPL		(6,181)
Change in unrealized loss - FVOCI		(1,754)
Balance - December 31, 2019	**$**	**57,320**

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 December 31, 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 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 $666 before tax. An equal change in the opposite direction would have decreased equity by $666 before tax.

20. 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).

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 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.

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

22. Commitments

As at December 31, 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:

- As part of the $84,000 in debt financing provided by a syndicate led by BMO towards the construction of the Sunens purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments to $33,000 in the event of default. In addition, both joint venture parties have agreed to fund any cost overruns on the construction of the facility;
- Funding of $7,000 to CannTx Life Sciences Inc. 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; and
- Funding of $6,000 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 long-term debt obligations and leases relating to office spaces, equipment and land which will require payments as follows:

000's	2020	2021	2022	2023	2024	Thereafter	Total
Lease obligations	$ 1,959	$ 4,048	$ 655	$ 465	$ 140	$ -	**$ 7,267**
Long-term debt obligations	7,628	4,914	126,432	-	-	-	**138,974**
Total	**$ 9,587**	**$ 8,962**	**$ 127,087**	**$ 465**	**$ 140**	**$ -**	**$ 146,241**

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

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

23. Selling, general, and administrative expenses

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

	For the year Ended	
	December 31 2019	December 31 2018
Wages and salaries	**$ 17,939**	$ 9,059
Office and administrative	**7,982**	4,305
Professional fees	**6,741**	7,146
Business development	**4,803**	7,053
Share-based compensation (Note 18)	**12,552**	20,412
Selling expenses	**274**	398
	$ 50,291	$ 48,373

24. Interest and accretion expenses

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

	For the year Ended	
	December 31 2019	December 31 2018
Cash interest expense on lease liabilities	**$ 626**	$ -
Other cash interest expense	**5,125**	5,757
Non-cash interest expense	**837**	1,074
Accretion expense	**5,533**	4,642
	$ 12,121	$ 11,473

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

25. Income taxes

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

For the year ended December 31,	2019	2018
Loss before income tax	(119,596)	(69,522)
Combined federal and provincial tax rate	26.5%	26.5%
Expected tax recovery	(31,693)	(18,423)
Non-deductible expenses	4,366	3,291
Tax rate differentials	(339)	-
Changes in deferred tax assets not recognized	16,040	14,377
Other	648	(1,558)
Income tax recovery	(10,978)	(2,313)

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

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

	Balance, December 31, 2018	Recovered through (charged to) statement of loss	Recovered through (charged to) other comprehensive income	Recovered through (charged to) equity	Assumed from business combinations & Others	**Balance December 31, 2019**
Deferred tax assets						
Non-capital losses	4,790	4,043	(48)	-	(614)	**8,171**
Financing and share issuance costs	2,179	(622)	-	501	-	**2,058**
Total deferred tax assets	6,969	3,421	(48)	501	(614)	**10,229**
Deferred tax liabilities						
Inventory	(244)	242	2	-	-	**-**
Convertible debentures and other debt	(4,213)	4,562	-	(9,118)	-	**(8,769)**
Intangible assets	(21,014)	2,966	(129)	(424)	-	**(18,601)**
Property, plant and equipment	57	(213)	2	-	(4,867)	**(5,021)**
Total deferred tax liabilities	(25,414)	7,557	(125)	(9,542)	(4,867)	**(32,391)**
Net deferred tax liabilities	**(18,445)**	**10,978**	**(173)**	**(9,041)**	**(5,481)**	**(22,162)**

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

	2019	2018
Non-capital losses carried forward	72,299	37,876
Deductible temporary differences	45,960	36,156
	118,259	74,032

The Company has income tax loss carryforwards of approximately $103,264 (2018 – $37,876) which are predominately from Canada and if unused, will expire between 2034 to 2039.

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

26. 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:

	December 31, 2019		December 31, 2018	
Long-term assets	**Canada**	**Uruguay**	**Canada**	**Uruguay**
Long-term deposits	$ 15,649	$ -	$ -	$ -
Long-term investments	16,239	-	27,223	-
Investment in joint venture	96,499	-	29,158	-
Property, plant, and equipment	78,748	6,430	26,033	2,693
Intangible assets *(Restated - see note 9)*	77,424	-	72,859	15,563
Goodwill *(Restated - see note 9)*	29,005	-	30,393	3,527
Total	**$ 313,564**	**$ 6,430**	**$ 185,666**	**$ 21,783**

27. Subsequent events

a) On January 17, 2020, Auxly repaid the remaining $2,705 of 6% unsecured convertible debentures. In addition, 32,200,000 warrants associated with the debenture offering with a strike price of $1.80 expired.
b) On January 25, 2020, the 1,266,020 Dosecann warrants with a strike price of $0.962 expired.
c) On February 6, 2020, the 1,250,000 warrants issued to Inner Spirit with a strike price of $2.530 expired.
d) On April 28, 2020, Auxly entered into an unsecured convertible debenture (the "Convertible Debenture") in the principal amount of up to $25,000 (the "Offering"). The Offering will be completed in tranches with each having a maturity date of 24 months from the date of issue and will bear guaranteed interest from the date of issue at 7.5% per annum, payable semi-annually on June 30 and December 31 of each year. In addition, Common Share purchase warrants of the Company (the "Warrants") will be issued equal to 55% of the number of Common Shares into which the Convertible Debenture is convertible based on the applicable conversion price. The conversion price is based on the closing price of the common shares on the TSXV on the trading date immediately prior to the closing date for such tranche. Each Warrant will be exercisable to purchase one Common Share for a period of 24 months from the date of issuance at an exercise price equal to 120% of the applicable Conversion Price.

   In addition to an initial tranche of $1.25 million, the Company may request that the investor subscribe for subsequent tranches of Convertible Debentures at an amount per Convertible Debenture mutually agreeable to the Company and the investor. The initial gross proceeds of $1,250 at a conversion price of $0.435 per Common Share, and issued the Warrants to acquire up

27. Subsequent events (continued)

to 1,580,460 Common Shares until April 29, 2022 at an exercise price of $0.522 per Common Share.

The Company may require the investor, at any point after four months and one day after the date of issuance of a Convertible Debenture, to convert:

a) up to 50% of the principal amount of such Convertible Debenture if for any five consecutive trading days the volume weighted average price (the "VWAP") of the Common Shares on the TSXV is greater than 112% of the Conversion Price; or
b) up to 100% of the principal amount of such Convertible Debenture if for any five consecutive trading days the VWAP of the Common Shares on the TSXV is greater than 120% of the Conversion Price; and/or
c) 100% of the principal amount of such Convertible Debenture at any time by paying a mutually agreeable make-whole payment to the investor, plus in each case interest on the principal amount of such Convertible Debenture.

In connection with the completion of the Initial Tranche, the Company has agreed to indemnify (the "Indemnity") certain of its directors and officers for any and all losses not otherwise recoverable from the collateral provided by the investor for the Common Shares provided by such directors and officers to the investor pursuant to the terms of the Agreement. The Indemnity may constitute a related party transaction under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101") but is otherwise exempt from the formal valuation and minority approval requirements of MI 61-101. The Indemnity has been approved by the independent directors of the Company. No special committee was established in connection with the Offering, the completion of the Initial Tranche or the granting of the Indemnity, and no materially contrary view or abstention was expressed or made by any director of the Company in relation thereto.

e) Since December 31, 2019, the outbreak of the novel strain of coronavirus ("COVID-19") and the ongoing pandemic, has resulted in governments worldwide enacting various emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, border shutdowns between Canada and the United States, self-imposed quarantine periods, closing of non-essential businesses and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. In addition, global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

   To date, the COVID-19 pandemic has not had a material negative impact on the Company's results of operations. The Company's primary distribution channels include a number of retailers that continue to operate during this period. However, the duration and severity of the COVID-19 pandemic is unknown at this time and the Company is unable to predict the effect should the situation continue for a prolonged period.