



**AUXLY CANNABIS GROUP INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**YEAR ENDED DECEMBER 31, 2018**

**Dated March 28, 2019**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") was prepared as of March 28, 2019 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("Auxly", "we", "our", or the "Company"). All amounts are stated in thousands of Canadian dollars except common shares ("Shares") and per Share amounts. This MD&A should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2018.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information speaks only of the date it is provided, is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "Forward Looking Statements" in this MD&A.

## **DESCRIPTION OF BUSINESS**

### **Our Business**

We are a vertically integrated cannabis company with diverse operations across Canada and Uruguay and a platform spanning the entire cannabis value chain. We rely upon our diversified cannabis cultivation platform, our leading research and development infrastructure, our domestic and international distribution platform and our experienced team of industry leaders and strategic partners in order to serve an evolving global cannabis market.

## **VISION AND STRATEGY**

Since our inception, we have worked closely with our partners to develop a secure, cost-efficient and diversified source of cannabis. To accelerate market participation in the medical cannabis market, and prior to the legalization and creation of the adult-use cannabis markets in Canada in October 2018, we invested in cultivation opportunities, more commonly referred to as "streaming" transactions, with the goal of supply diversification and efficient use of capital. These cultivation partners remain important to our predictable supply of diverse, cost efficient raw cannabis.

During 2018, as Canada moved forward with plans to legalize the adult-use cannabis market, and with our cultivation platform largely in place, we turned our focus to securing the infrastructure and expertise necessary to participate in the derivative products segment of the cannabis market. Our state-of-the-art processing facility at our wholly owned subsidiary Dosecann Inc. ("Dosecann") and its highly-skilled team give us the ability to turn raw cannabis into derivative cannabis products. Further, our acquisition of KGK Science Inc. ("KGK") provides additional depth to Dosecann's ability to develop and produce safe, effective and high-quality cannabis products.

We continue to develop strategic distribution channels to expand our exposure to new and existing markets, including health care providers, provincial boards and retailers, and our wholly-owned retail outlet with province-wide e-commerce capabilities in Saskatchewan.

We have also invested in hemp cultivation and extraction in Uruguay through our 80% ownership of Inverell S.A. ("Inverell") and our 100% ownership of its sister company Zeratul S.A., and are consistently evaluating other international cultivation and distribution opportunities.

## ***Cultivation***

At December 31, 2018, we had multiple partners and subsidiaries engaged in the cultivation of cannabis. Each was expected to be, or in the process of completing, their facility build-outs with cultivation of cannabis in due course. In January 2019, we received our first shipments of cannabis from several partners with delivery and production expected to increase steadily throughout the year. Substantially all cannabis received or produced to date will be held in inventory or processed further during the year in support of Dosecann's activities, with the remainder intended for distribution as dried cannabis flower through Kolab Project Inc. ("Kolab") to its registered patients.

Construction of the Sunens Farms Inc. ("Sunens", formerly referred to by the Company as GreenhouseCo) fully-automated, purpose-built greenhouse for cannabis cultivation is underway in Leamington, Ontario. Completion of the first phase of the project is expected to deliver approximately 100,000 kgs of cannabis, commencing in 2020.

## ***Product Development***

We believe we are well on our way to creating world-class operations that will allow us to participate in the anticipated market for derivative cannabis products. Through Dosecann, we will develop and manufacture value-added derivative cannabis products to position us to benefit from changing industry legislation. Following regulatory approval, Dosecann will supply products for the medical and adult-use cannabis markets.

## ***Distribution***

Given the current provincial legislative framework in Canada, we are pursuing a multifaceted strategy to gain access to Canadian consumers. This includes wholly-owned retail stores, retail joint ventures, in-store development and ownership, investment in independent retailers and supply agreements with provincial boards. In the medical sector, we have formed key relationships in the areas of health care providers, employee groups, and are able to sell to registered patients of Kolab.

## ***International Operations***

The Company, through Inverell, is a cultivation leader in Uruguay which was the first country to legalize recreational cannabis in 2013. Our Uruguayan operations are led by the renowned Dr. Raul Urbina, the founder of Stevia One, which became one of the largest and lowest cost producers of stevia in the world. Inverell has approximately 190 hectares (approximately 20 million square feet) of hemp currently planted and is expecting to harvest this crop in the second quarter of 2019. We are currently evaluating our distribution strategy for our Uruguayan operations.

We are also focused on additional opportunities in the LATAM region, Europe, and North America through strategic partnerships, joint ventures and supply arrangements including leveraging our existing relationships with Inverell, Aphria Inc. ("Aphria"), and ICC International Cannabis Corp.

## OUTLOOK

In 2019, we expect to sell raw cannabis into the dry cannabis market and participate in the market for derivative products with an increasing part of our business dedicated to derivative cannabis product development, manufacturing and distribution as the industry evolves. We expect, therefore, that material revenue generation will coincide with the legalization and regulatory approvals for derivative cannabis products and our sale of such products to the market. Over the long-term, we believe shareholders will benefit from the higher profitability and anticipated strong growth of the derivative cannabis product market.

Our priorities for 2019 are as follows:

- complete product R&D, formulation and manufacturing activities at the Dosecann facility in preparation for the legalization of derivative cannabis products;
- complete construction of all ongoing cultivation assets, while continuing to work with our joint venture partner Sunens' as it completes the state-of-the-art greenhouse facility in 2019, with expected supply of over 100,000 kg of cannabis in 2020;
- continue to support the rollout of Kolab and Robinsons and build brand awareness; and
- opportunistically expand our footprint in international markets to facilitate the sale of CBD, derived from our large-scale hemp cultivation operation in Uruguay.

## RECENT DEVELOPMENTS: 2018 AND 2019 TO DATE

### *Kolab*

On January 15, 2018, the Company launched Kolab its wholly-owned cultivation facility and proprietary cannabis brand.

On July 23, 2018, Kolab received its cannabis sales license from Health Canada. The sales license authorizes Kolab to sell dried cannabis to registered Canadian medical patients across the country and Kolab commenced sales of medical cannabis products in February 2019.

### *The Company Exercises Warrant Rights*

January 16, 2018, the Company exercised its right under the warrants issued in June 2017 to accelerate the expiry date of the warrants to February 15, 2018.

### *Convertible Debentures*

On January 17, 2018, the Company issued 100,000 convertible debenture units for aggregate gross proceeds of \$100,000. Each convertible debenture unit consists of \$1 principal amount of senior unsecured convertible debentures and 322 Share purchase warrants of the Company. The convertible debentures bear interest at 6.0% per annum, calculated semi-annually on June 30 and December 31 of each year and mature 24 months from the date of closing. MMCAP International Inc. SPC and its affiliates subscribed for \$85,000 of the aggregate principal amount of convertible debenture units.

### *Shares for Debt Settlement*

On January 29, 2018, the Company settled \$2,650 of debt in consideration for the issuance of an aggregate of 2,984,959 Shares of the Company. The Shares were negotiated based on the market price in November 2017, at a price ranging between \$0.65 and \$1.59 of debt for every Share. Due to the timing of the payment, the fair value of the Shares at the time of issuance was \$2.28 based on the closing price on the issuance date. These Shares were subject to a four-month lock-up period restriction on trading. 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 statement of profit and loss.

### *Inner Spirit*

On February 6, 2018, the Company completed a strategic investment in Inner Spirit Holdings Ltd. ("Inner Spirit"), a market leader in the franchising of retail cannabis stores in jurisdictions in Canada where the private distribution of recreational cannabis is legalized. The Company acquired 15,000,000 common shares of Inner Spirit in exchange for a cash payment of \$350; 674,418 Shares of the Company; and 1,250,000 Share purchase warrants of the Company.

Pursuant to the investment agreement entered into by the Company and Inner Spirit, the Company also exercised its pre-emptive rights by acquiring an additional 10,941,177 shares and 4,191,177 warrants for \$1,513. The Inner Spirit share purchase warrants are exercisable at \$0.30.

As a result, the Company maintained its ownership of approximately 15% of the total issued and outstanding common shares of Inner Spirit.

On August 1, 2018, Inner Spirit received all of the necessary exchange and regulatory approvals in order to commence trading publicly on the Canadian Securities Exchange under the symbol "ISH".

Pursuant to a definitive agreement, the Company formed a strategic alliance with Inner Spirit which includes certain supply and marketing rights subject to applicable provincial laws for each applicable jurisdiction in which Inner Spirit operates retail cannabis stores.

### *Lotus*

On February 8, 2018, the Company subscribed for 1,818,181 common shares and 909,090 common share purchase warrants of Lotus Ventures Inc. ("Lotus") for the subscription price of \$1,000.

On September 10, 2018, the Company subscribed for 3,755,868 common shares of Lotus for gross proceeds \$4,000. Of this, \$1,333 is a deposit for future purchases of cannabis that has been recorded as prepaid expenses on the statement of financial position. The Company will be granted the right to purchase or otherwise direct the sale of 50% of the facility's total production. In addition, the Company will have the right of first refusal to finance a prescribed portion of the first expansion to the facility and all or a portion of any further expansions, in order to obtain the right of first offer to purchase 50% of cultivation output on the expansion.

On March 8, 2019, Lotus was granted cultivation and medical sales licenses pursuant to the *Cannabis Act*. These licenses give Lotus the ability to commence cannabis cultivation and certain cannabis sales.

### *Sunens*

On February 16, 2018, the Company entered into an interim joint venture agreement with Peter Quiring, one of Canada's largest greenhouse builders and operators, to develop, construct and operate a state-of-the-art purpose-built greenhouse for cannabis cultivation in Leamington, Ontario. Mr. Quiring has over 25 years of experience designing, fabricating, building and operating greenhouses across North America, has developed over 2,000 acres of greenhouses and currently owns and operates 175 acres of computer-controlled, state-of-the-art greenhouses with over 600 employees in Southern Ontario.

On June 15, 2018, the Company entered into a definitive joint venture agreement to develop, construct and operate Sunens.

### *Sundial*

On March 1, 2018, the Company entered into a definitive agreement with Sundial Growers Inc. ("Sundial") whereby the Company advanced \$7,000 to Sundial by way of a promissory note for a period of 6 months. Sundial was to repay the promissory note either by a cash payment, through the delivery of an agreed upon volume of dried cannabis produced by Sundial or through a combination of cash and dried cannabis. The Company extended the loan for an additional six months and as a result, the amount due on maturity to \$8,780.

On February 22, 2019, \$8,895 was received to fully settle the Sundial promissory note.

### *FSD Pharma*

On March 5, 2018, the Company entered into a definitive agreement with FV Pharma Inc. ("FV"), a licensed producer of cannabis, to finance the construction of a portion of an indoor cultivation facility in Cobourg, Ontario. In return, the Company was entitled to a 49.9% of the cannabis cultivation yield produced at the jointly developed portion of the facility (the "JV Facility") in perpetuity.

On September 19, 2018 the Company subscribed for 7,500,000 shares of FV's publicly traded parent corporation FSD Pharma Inc. ("FSD") for \$7,500. The fair value of the long-term investment was valued at \$5,700 based on the market price of \$0.76/share, and the Company allocated the residual \$1,800 of the investment as an intangible asset. Proceeds from the financing were to be used to fund the construction of the JV Facility.

On February 7, 2019, the Company terminated the definitive agreement with FV on the basis of contractual breaches relating to, among other things, FV's management and staffing obligations of the JV Facility.

### *Province Brands of Canada*

On March 15, 2018, the Company entered into a strategic alliance agreement with Ontario-based research and development firm Province Brands of Canada ("Province"). The Company will assist Province with the licensing of a cannabis facility focused on the research, development and commercialization of cannabis-based beverages. In consideration, the Company received 2,068,284 preferred shares in the capital of Province, representing a 10% equity ownership interest in Province, and the Company issued 303,030 Shares of the Company to Province.

### *Inverell*

On April 10, 2018, the Company entered into a share purchase agreement with Inverell, a federally licensed cannabis operator based in Montevideo, Uruguay to purchase 80% of the issued and outstanding common shares of Inverell on a fully diluted basis and 100% ownership of its sister company Zeratul S.A. On the closing of the transaction, the shareholders of Inverell received aggregate consideration of USD \$2,000 in cash; 1,927,343 Shares of the Company and 5,105,769 Shares of the Company to be received upon the achievement of certain milestones, including the successful registration of Inverell's cannabis genetics and the successful exportation of CBD products.

Inverell is a federally licensed cannabis operator based in Montevideo, Uruguay. Inverell's license allows it to cultivate and harvest certain approved hemp cultivars. Inverell is a large-scale outdoor producer of hemp plants for CBD extraction operating on an initial footprint of approximately 300 hectares. Inverell has recently commenced planting on approximately 190 hectares which it expects to complete by early December and harvest in mid-April of 2019.

On October 3, 2018, the Company received approval from the Secretaría Nacional para la Lucha contra el Lavado de Activos y el Financiamiento del Terrorismo ("SENACLAFT"), the government body overseeing foreign direct investments in Uruguay, for the closing of the Inverell acquisition.

On January 8, 2019, the Company closed the acquisition of Inverell S.A. and Zeratul S.A. and issued 7,033,112 Shares to the previous shareholders of which 5,105,769 Shares shall be received upon the achievement of certain milestones, including the successful registration of Inverell's cannabis genetics and the successful exportation of CBD products.

### *Robinsons*

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. The shareholders of Robinsons received an aggregate consideration of 9,395,968 Shares of the Company with 5,369,126 Shares distributed on the closing of the acquisition; 2,013,421 Shares to be paid within ten business days of Robinsons receiving a cannabis cultivation license from Health Canada; and 2,013,421 Shares to be paid within 10 business days of Robinsons receiving a cannabis sales license from Health Canada. Robinsons has substantially completed the licensing process and expects to receive its cultivation license in the beginning of Q2 of 2019.

### *Dixie*

On May 7, 2018, the Company entered into a definitive licensing agreement with Dixie. As part of the Dixie agreement, the Company paid \$4,963 for the exclusive license to Dixie's intellectual property, product branding and formulation methodologies related to over 100 cannabinoid-infused products.

In the first quarter of 2019, the Company received approximately \$4,280 back due to mainly regulatory milestone events.



### *Dosecann*

On May 15, 2018 the Company purchased 100% of the issued and outstanding shares of Dosecann. The shareholders of Dosecann are entitled to receive aggregate consideration of the Company of 5,253,955 Shares on the closing of the acquisition; 9,609,594 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; 9,630,947 Shares issued in escrow subject to Dosecann achieving certain milestones; and 5,701,248 replacement warrants.

On August 9, 2018, Dosecann, obtained a Dealer's License for Controlled Drugs and Substances from Health Canada pursuant to the *Narcotics Control Regulations* for Dosecann's purpose-built 42,000 square foot facility located in Charlottetown, PEI.

On September 7, 2018 Dosecann entered into a definitive supply agreement with Aphria pursuant to which Dosecann will have the option to purchase cannabis, including dried flower and cannabis oil, for distribution to certain international markets, including Mexico, Portugal, and Serbia, as well as a limited amount for distribution into the Canadian market.

On December 21, 2018, Dosecann's Dealer's license was transitioned to a "Standard Processing License" pursuant to the *Cannabis Act*.

On January 11, 2019, as part of the transition to the *Cannabis Act*, Dosecann also received an Analytical Testing License.

### *BMO Capital Markets Bought Deal*

On May 24, 2018, the Company entered into an agreement with a syndicate of underwriters, led by BMO Capital Markets, on a bought deal basis, to issue and sell 82,225,000 units of the Company at a price of \$1.40 per unit, representing aggregate gross proceeds to the Company of approximately \$115,115. Each unit consisted of one Share and one-half of one Share purchase warrant, with each Share purchase warrant entitling the holder to purchase one Share at a price of \$1.85 per Share for a period of 24 months following the closing date.

### *CannTx*

On July 17, 2018, CannTx Life Sciences Inc. ("CannTx") was granted a cultivation license for its production facility in Puslinch, Ontario.

In March 2019, the Company and CannTx completed the first bulk sale and transfer of raw cannabis to Dosecann in accordance with the provisions of the long-term purchase and sale agreement between the Company and CannTx.

### *Cannabis OneFive*

On August 13, 2018, the Company entered into a strategic partnership with Cannabis OneFive, Inc. ("C15"), a provider of quality management and document control software systems for the cannabis industry. Dosecann will become a lead subscriber of C15's software, and the Company expects the C15 software to be deployed at other facilities across the Company's platform.

In connection with the strategic partnership, the Company entered into a share exchange agreement with C15. Pursuant to the agreement, the Company issued 429,507 Shares to C15 and made a cash payment of \$50, and the Company received 9,000,000 common shares in the capital of C15 and a common share purchase warrant entitling the Company to purchase 4,250,500 common shares of C15 at an exercise price of \$0.075 per common share, representing a 30% ownership interest in C15 on a fully-diluted basis.

#### *KGK Science*

On August 29, 2018 the Company purchased all the issued and outstanding shares of KGK. The shareholders of KGK received aggregate consideration of 4,132,231 Shares of the Company on closing of the acquisition; \$5,288 in cash on closing of the acquisition; \$2,159 in a cash payment to repay long term loans of KGK; \$1,082 as a future make-whole payment, depending on the share price of the Company 6 months following the transaction date.

On March 5, 2019 the Company completed the make-whole payment of \$1,776 and has therefore completed all of its obligations pursuant to the business combination.

#### *Delta 9*

On September 5, 2018, the Company subscribed for 5,909,090 shares in the capital of Delta 9 Cannabis Inc. ("Delta 9") for consideration of \$16,250. The fair value of the long-term investment was valued at \$10,636 based on the market price of \$1.80 per Share on September 5, 2018, and the Company allocated the residual \$5,614 of the investment as an intangible asset. Delta 9, through its wholly-owned subsidiaries, is a licensed cannabis producer that operates an 80,000 square foot production facility in Winnipeg, Manitoba. Delta 9 has entered into a wholesale supply agreement with the Company, providing for the purchase of cannabis products cultivated by Delta 9. Dosecann and Delta 9 are currently negotiating a supply agreement for the creation and supply of certain value-added cannabis products from Dosecann.

#### *ICC International Cannabis Corp.*

On September 17, 2018, the Company subscribed for \$5,000 of convertible debentures of Kaneh Bosm BioTechnology Inc. ("KBB"). The convertible debentures bear interest at 8% and have a maturity date of September 17, 2021 and can be converted into units at the option of the Company, at a price of \$0.53 per unit. Each unit consists of one common share of KBB and one common share purchase warrant, exercisable at a price of \$1.06 per share for a period of three years.

In addition to the subscription of convertible debentures, the Company and KBB entered into a 10 year preferred partner commercial rights agreement whereby the Company acquired certain rights of first refusal relating to supplying KBB's international distribution channels, any sale or off-take agreements in which KBB intends to sell or distribute cannabis products, purchasing any of KBB's assets or the licensing of any intellectual property owned or developed by KBB.

KBB subsequently changed its name to ICC International Cannabis Corp.

#### *Atlantic Cultivation*

On October 12, 2018, the Company entered into a binding interim agreement with Atlantic Cultivation Inc. ("Atlantic"), a licensed producer applicant. Pursuant to the agreement, the parties will collaborate on the development of a 110,000 square foot indoor cultivation facility in St. John's, Newfoundland and Labrador and on the development of retail locations in the province.

The Company will invest \$2,500 into Atlantic in exchange for a 50% equity stake and a long term right to purchase up to 30% of the dried cannabis and cannabis trim produced at the Atlantic facility. The Company and Atlantic plan to work collaboratively with the Government of Newfoundland and Labrador to obtain all required regulatory approvals to open and operate up to five cannabis retail locations in the province, one of which is expected to be located onsite at the Atlantic facility. In connection with such retail locations, the parties expect to enter into a management services agreement pursuant to which the Company will oversee the operation of the retail stores.

### *Green Relief*

On January 8, 2019, the Company and Green Relief Inc. (“Green Relief”) mutually terminated their interim agreement. As consideration for the termination, the Company received 496,689 common shares of Green Relief, representing approximately 0.5% of Green Relief on a non-diluted basis; and entered into a cannabis sales framework agreement pursuant to which the Company is entitled to purchase up to 3,000,000 grams of dried cannabis from Green Relief at a purchase price of \$1.50 per gram (subject to CPI adjustment) over a three year period commencing no later than Q3 2019.

### *Vivo*

The Company entered into the following agreements with Vivo Cannabis Inc. (“Vivo”) and ABCann Medicinals Inc.: (i) a confidential interim agreement dated May 29, 2017; (ii) a subscription agreement dated July 9, 2017; and (iii) an amending agreement to the interim agreement and subscription agreement dated March 19, 2018 (collectively the “Vivo Agreements”).

On January 2, 2019, the Company commenced a confidential arbitration under the Vivo Agreements, which process is ongoing.

## **2018 HIGHLIGHTS**

(000's)	December 31, 2018	December 31, 2017	Change	Percentage Change
Total revenues	\$ 747	\$ -	\$ 747	N/A
Net Losses *	(66,988)	(18,177)	(48,811)	269%
Cash and equivalents	211,707	33,454	178,253	533%
Total Assets	460,818	92,579	368,239	398%
Debt	\$ 94,151	\$ 18,650	\$ 75,501	405%
Average Shares outstanding	489,505,013	168,556,699	320,948,314	190%

\*attributable to shareholders of the company

2018 was an important year for the Company as it made substantial progress towards its objectives to become a vertically integrated cannabis company by: building a diverse and robust cultivation pipeline; adding value through the research and development of derivative cannabis products being developed through Dosecann; and expanding the distribution channels through which the Company will bring its products to the medical and adult-use markets in Canada. The Company successfully completed financing activities with proceeds of approximately \$300,000 as a result of a convertible debt and Share offerings and proceeds from warrants with a cash and cash equivalents balance of \$211,707 remaining at December 31, 2018. Total assets increased by \$367,519 over December 31, 2017 to \$460,818 at December 31, 2018 due to financing activities as well as the inclusion of additional assets associated with the completion of four acquisitions throughout 2018, building upon its existing cultivation relationships entering 2018.

The Company added key strategic assets and partnerships to solidify its Canadian structure while critically evaluating, and in some cases terminating, previous cultivation partnerships where management felt that insufficient progress had been made or there had been significant contractual breaches. While disappointing, management believes that focusing our resources on the best opportunities will allow Auxly to achieve its goals in a more timely, effective and efficient manner.

## RESULTS OF OPERATIONS

(000's)	December 31, 2018	December 31, 2017
<b>Revenues</b>		
Research contracts and other	\$ 747	\$ -
<b>Total Revenues</b>	<b>747</b>	<b>-</b>
<b>Cost of sales</b>		
Research contracts	1,078	-
<b>Gross loss excluding fair value items</b>	<b>(331)</b>	<b>-</b>
Unrealized fair value gain on biological transformation	143	-
<b>Gross loss</b>	<b>(188)</b>	<b>-</b>
<b>Other incomes</b>		
Fair value gain for financial instruments accounted under FVTPL	2,654	1,378
Interest income	4,000	167
<b>Total other incomes</b>	<b>6,654</b>	<b>1,545</b>
<b>Selling, general and administrative expenses</b>		
Wages and salaries	9,059	1,672
Office and administrative	4,305	1,543
Professional fees	7,146	2,937
Business development	7,053	8,449
Selling expenses	398	-
<b>Total selling, general, and administrative expenses</b>	<b>27,961</b>	<b>14,601</b>
<b>Other expenses</b>		
Share-based payments	20,412	3,330
Depreciation and amortization	2,063	32
Interest Expense		
Interest expense	6,831	877
Accretion expense	4,642	1,487
Share of loss on equity investments	309	-
Impairment of intangible assets	8,800	-
Loss on settlement of financial liabilities	5,516	-
Foreign exchange (gain)/loss	(546)	67
<b>Total expenses</b>	<b>75,988</b>	<b>20,394</b>
<b>Net loss before income tax</b>	<b>(69,522)</b>	<b>(18,849)</b>
Income tax recovery	2,313	672
<b>Net loss</b>	<b>\$ (67,209)</b>	<b>\$ (18,177)</b>
<b>Net loss attributable to shareholders of the Company</b>	<b>(66,988)</b>	<b>(18,177)</b>
<b>Net loss attributable to non-controlling interest</b>	<b>(221)</b>	<b>-</b>
<b>Net loss per common share (Basic and diluted)</b>	<b>\$ (0.14)</b>	<b>\$ (0.11)</b>
<b>Weighted average shares outstanding (Basic and diluted)</b>	<b>489,505,013</b>	<b>168,556,699</b>

## **Revenue**

For the year ended December 31, 2018, Auxly recognized \$747 of research revenues from the recently completed acquisition of KGK in the third quarter of 2018. KGK revenues are deferred and only recognized as performance criteria are met. KGK is a critical component in Auxly's overall strategy to develop safe and effective consumer cannabis products while continuing to conduct leading edge research for third party clients.

## **Gross loss**

Auxly realized a gross loss of \$188 in 2018 comprised of revenues less KGK expenses of \$1,078 in support of third-party research contracts which can fluctuate significantly during the contract and related performance milestones. In addition, a \$143 fair value gain on biological transformations was recognized during the period as Kolab cultivation progressed towards harvest.

## **Other incomes**

Total other incomes of \$6,654 is comprised of a fair value gain of \$2,654 from changes in securities held and interest income of \$4,000 primarily earned on cash and cash equivalents held during 2018.

## **Selling, general and administrative expenses**

Wages and benefits were \$9,059 during the year ended December 31, 2018 an increase of \$7,387 over the same period of 2017, primarily due to an increase in Auxly employees to support the scaling of the business of \$5,525 and workforce costs associated with the four acquisitions completed in 2018.

Office and administrative expenses were \$4,305 in 2018 as compared to \$1,543 in 2017. The increase of \$2,762 is comprised of \$940 in rent expense, \$850 in fees associated with financing activities and several other smaller expenditure items.

Professional fees were \$7,146 during the year ended December 31, 2018. This compares to \$2,937 during the year ended December 31, 2017. The increase in professional fees are attributable to ongoing services related to Auxly's investment opportunities, due diligence and costs associated with four acquisitions, including legal fees of \$2,950, and consulting fees of \$2,730.

Business development fees were \$7,053 during the year ended December 31, 2018, decreased by \$1,396 over the same period in 2017. Expenses in 2018 consist of marketing and stakeholder communications of approximately \$4,300 and \$2,750 in business development activities. The overall reduction in expenses is also attributable to the expiry of certain contracts in 2018, which were originated in prior periods.

## ***Other Expenses***

Auxly recorded share-based expenses of \$20,412 during the year ended December 31, 2018, an increase of \$17,082, over 2017. During 2018, 25,390,968 options were issued, resulting in a current year expense of approximately \$12,900, of which, \$7,114 was a result of immediate vesting or grant modification. In addition, an expense of \$6,032 associated with the issuance of 5,913,334 restricted Shares to non-executives as compensation for services performed in 2018 was fully recognized. Options outstanding prior to 2018 had a current year impact of \$1,480.

Depreciation and amortization expenses of \$2,063 in 2018 reflect the impact of approximately \$1,446 of intangible amortization primarily associated with acquisition related non-competition features and property, plant and equipment depreciation of \$680 related to buildings and equipment.

Interest and accretion expenses of \$11,473 in 2018 increased by \$9,109 primarily due to interest of 6% on the convertible debentures and the non-cash accretion of placement and other related fees being recognized over 24 months.

Under the Vivo Agreements, the Company subscribed for 6,666,666 shares of Vivo (then ABCann Global Corporation) for \$15,000. The fair value of the long-term investment was valued at \$6,200 for the shares and the Company allocated the residual \$8,800 of the investment as a streaming interest intangible asset. The Company and Vivo are currently engaged in confidential arbitration with respect to the Vivo Agreements. As a result of this development, management has written off the \$8,800 intangible asset related to the streaming interest.

The loss on other items of \$5,516 in 2018 is comprised of the non-cash fair value adjustment on settlement of debt of \$4,156 and \$1,360 on settlement of a lawsuit. Auxly 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 Shares in November 2017. Due to the timing of the payment, the fair value of the Shares at the time of issuance was \$2.28 based on the closing price on the grant date. The fair value of the consideration was estimated to be \$6,806 resulting in a non-cash loss on the settlement of debt of \$4,156.

## ***Net Losses***

For the year ended December 31, 2018, Auxly reported a net loss attributable to shareholders of \$66,988 with net loss of \$0.14 per Share on a basic and diluted basis. This compares to a net loss of \$18,177 for the year ended December 31, 2017 with net loss of \$0.11 per Share on a basic and diluted basis. The decrease in net income was primarily driven by an increase in expenses, compounded by non-cash expenses and losses during the period, partially offset by increased income tax recoveries of \$1,641.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes comparative quarterly results for the last eight quarters.

(000's)	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Total revenues	\$ 647	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Losses *	(34,861)	(9,727)	(11,880)	(10,520)	(9,205)	(5,903)	(1,584)	(1,485)
Average Shares outstanding (000's)	571,156	544,626	466,769	365,099	237,870	199,583	162,927	53,401
Per Share								
Basic & diluted loss	\$ (0.06)	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.04)	\$ (0.03)	\$ (0.01)	\$ (0.03)

\*attributable to shareholders of the company

Auxly's current revenues are primarily as a result of the acquisition of KGK in Q3 2018. As Auxly, prepares for cannabis sales beyond 2018, expenses have increased since Q2 2017 due to the build out of the business through acquisitions (employees, professional fees), additional employees in the corporate offices and share compensation expenses. Increases in average outstanding Shares reflect financing and acquisition related activities (issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures).

## FOURTH QUARTER RESULTS OF OPERATIONS

Three months ending December 31, (000's)	2018	2017
<b>Revenues</b>		
Research contracts and other	\$ 647	\$ -
<b>Total Revenues</b>	<b>647</b>	<b>-</b>
<b>Cost of sales</b>		
Research contracts	1,060	-
<b>Gross loss excluding fair value items</b>	<b>(413)</b>	<b>-</b>
Unrealized fair value gain on biological transformation	140	-
<b>Gross loss</b>	<b>(273)</b>	<b>-</b>
<b>Other incomes</b>		
Fair value gain for financial instruments accounted under FVTPL	(4,448)	1,378
Interest income	1,122	134
<b>Total other (losses)/incomes</b>	<b>(3,326)</b>	<b>1,512</b>
<b>Selling, general and administrative expenses</b>		
Wages and salaries	3,930	978
Office and administrative	995	901
Professional fees	1,870	140
Business development	1,253	4,902
Selling expenses	175	-
<b>Total selling, general, and administrative expenses</b>	<b>8,223</b>	<b>6,921</b>
<b>Other expenses</b>		
Share-based payments	5,912	3,183
Depreciation and amortization	1,673	31
Interest Expense		
Interest expense	2,335	417
Accretion expense	1,255	770
Share of loss on equity investments	136	-
Impairment of intangible assets	8,800	-
Loss on settlement of financial liabilities	1,360	-
Foreign exchange (gain)/loss	(942)	67
<b>Total expenses</b>	<b>28,752</b>	<b>11,389</b>
<b>Net loss before income tax</b>	<b>(32,351)</b>	<b>(9,877)</b>
Income tax (expense)/recovery	(1,865)	672
<b>Net loss</b>	<b>\$ (34,216)</b>	<b>\$ (9,205)</b>
<b>Net loss attributable to shareholders of the Company</b>	<b>\$ (34,861)</b>	<b>\$ (9,205)</b>
<b>Net gain attributable to non-controlling interest</b>	<b>\$ 645</b>	<b>\$ -</b>

Unless stated otherwise, the narrative in this section is in reference to the operating results for the fourth quarter of 2018 as compared to the same period in 2017.



### **Gross loss**

During the period, KGK recognized research revenues of \$647, offset by \$1,060 of cost of sales. In addition, unrealized fair value gains on biological transformations of \$140 were recognized from cannabis harvests completed at Kolab.

### **Selling, general and administrative expenses**

Total selling, general and administrative expenses of \$8,223 in 2018, increased by \$1,302 over the same period in 2017. Increased expenses are primarily comprised of wages and salaries of \$2,952, as a result of hiring to support the business and employee costs associated with acquired businesses, \$1,730 of professional fees attributable to ongoing services related to Auxly's investment opportunities and due diligence related matters partially offset by a reduction in business development expenses associated with expiry of certain contracts of \$3,649.

### **Other expenses**

Auxly recorded share-based expenses of \$5,912 in 2018, an increase of \$2,729 over 2017. The change in expense is primarily the result of the issuance of 25,390,968 options during the year and a grant of 5,913,334 Shares to non-executives as compensation for services performed in 2018.

Depreciation and amortization expenses of \$1,673 in 2018 reflects the impact of approximately \$1,446 of intangible amortization primarily associated with acquisition related non-competition features and \$227 of property, plant and equipment depreciation related to buildings and equipment.

Interest and accretion expenses of \$3,590 increased by \$2,403 primarily due to interest of 6% on the convertible debentures and the non-cash accretion of placement and other fees being recognized over 24 months.

Under the Vivo Agreements, the Company subscribed for 6,666,666 shares of Vivo Cannabis Inc. (then ABCann Global Corporation ("Vivo")) for \$15,000. The fair value of the long-term investment was valued at \$6,200 for the shares and the Company allocated the residual \$8,800 of the investment as a streaming interest intangible asset. The Company and Vivo are currently engaged in confidential arbitration with respect to the Vivo Agreements. As a result of this development, management has written off the \$8,800 intangible asset related to the streaming interest.

The loss on other items of \$1,360 reflects the settlement of a lawsuit.

Auxly's results of operations may be affected by the impact of movements in foreign exchange rates from operations whose functional currency is not Canadian. Such translations predominantly relate to Inverell's Uruguayan operations.

### **Net Losses**

Auxly reported a net loss of \$34,861 attributable to shareholders, compared to a net loss of \$9,205 in 2017. The net losses for the current period reflect the aforementioned impacts, as well as the change in tax expense of \$1,865 in 2018 from a tax recovery of \$672 in 2017.

## TRANSACTIONS WITH RELATED PARTIES

### *Key management and director compensation*

Auxly'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, executive officers and the President. 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:

<b>For the year ended December 31,</b>	<b>2018</b>	<b>2017</b>
Short-term benefits	<b>\$1,722</b>	\$1,970
Long-term benefits	<b>3,873</b>	674
	<b>\$5,595</b>	\$2,644

### *Other related party transactions*

Nesta Holding Co Ltd, a company owned and controlled by the CEO of the Company, provides travel and accommodation services to the Company on a month to month basis. For the year ended December 31, 2018, the Company incurred \$123 (December 31, 2017 - \$28) in general expenses.

An officer of the Company was a director and officer of KGK prior to the acquisition and owned a *de minimis* equity interest in KGK.

## LIQUIDITY AND CAPITAL RESOURCES

(000's)	<b>December 31, 2018</b>	December 31, 2017
Cash used in operating activities	<b>\$ (43,714)</b>	\$ (11,406)
Net change in investments	<b>(60,505)</b>	(24,708)
Net change from business combinations	<b>(4,324)</b>	553
Net capital expenditures	<b>(17,954)</b>	(687)
Cash used in investing activities	<b>(82,783)</b>	(24,842)
Proceeds from financing activities	<b>305,250</b>	70,213
Repayments of financing activities	<b>(500)</b>	(818)
Net cash from financing activities	<b>304,750</b>	69,395
Cash position, end of period	<b>\$ 211,707</b>	\$ 33,454

Auxly's objectives when managing its liquidity and capital resources 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. Auxly considers its capital structure to include working capital, debt, and shareholders' equity.

Auxly manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying asset and may issue additional Shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

Auxly is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital.

During the year ended December 31, 2018, Auxly used \$43,714 in operating activities, primarily as a result of expenses associated with the build out of the business in preparation of future cannabis sales. Investing activities included capital expenditures of \$17,954 primarily related to construction in progress of cultivation locations and \$64,829 associated with long term business investments, joint ventures and debt obligations. These cash outflows were offset by financing activities of \$304,750 as compared to \$69,395 for the year ended December 31, 2017. During the period, Auxly secured financing from the issuance of convertible debentures, Shares and proceeds from the exercise of warrants. At December 31, 2018, cash and equivalents are \$211,707.

Auxly anticipates that it has liquidity and capital resources to meet short term obligations, however, will require additional funding to complete all projects and meet all commitments contemplated in 2019. Management has the ability to defer certain capital expenditures and commitments and is considering a variety of options to finance operations including secured financing, debt or equity offerings. As part of the financing considerations Auxly is evaluating which options will best optimize current interest rates, term length, security provided, covenants and impact on future business plans. Auxly believes it will have sufficient capital for the next 12 months upon successful completion of contemplated financing activities.

Auxly is subject to risks and uncertainties that could significantly impair its ability to raise funds through debt or equity or to generate profits sufficient to meet future obligations, operational, or development needs. See "Risk Factors" in this MD&A for information on the risks and uncertainties that could have a negative effect on Auxly's liquidity.

## OUTSTANDING SHARE DATA

Auxly's authorized share capital consists of an unlimited number of Shares. The following table quantifies the number of issued Shares and exercisable securities.

	March 27, 2019	December 31, 2018	December 31, 2017
Outstanding Shares	606,222,075	584,769,404	273,452,888
Exercisable Securities			
Warrants	89,348,020	103,735,321	164,066,673
Convertible Debentures	63,810,970	63,843,228	21,380,000
Options	42,492,053	41,052,053	19,861,085

Subsequent to December 31, 2018, 14,387,301 Shares were issued on the exercise of 14,387,301 warrants, 7,033,112 Shares upon the closing of Inverell with the remaining Shares issued upon conversion of convertible debentures.

## COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2018, 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 a commitment to provide funding of approximately \$112,500 to the joint venture with Sunens towards construction of the fully automated state-of-the-art, purpose-built greenhouse facility in Leamington, Ontario. As at December 31, 2018, Auxly has provided approximately \$19,000 towards the construction costs. The Company anticipates that the construction will be substantially complete by December 2019.

As at December 31, 2018, Auxly has committed to pay CannTx another \$7,000 related to 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.

As at December 31, 2018, Auxly has entered into patient education agreements with 5 clinics. By entering into these patient education agreements, Auxly has committed to milestone payments to the clinics based on specific patient education targets.

Auxly has commitments in respect of leases relating to office spaces, equipment and land which will require payments as follows:

2019	\$	2,067
2020		1,759
2021		1,423
2022		469
2023		544
Thereafter		139
<b>Total</b>	<b>\$</b>	<b>6,401</b>

## CRITICAL ACCOUNTING ESTIMATES

Auxly makes estimates about the future that affect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Areas requiring estimates and judgements are as follows:

*Impairment assessment of indefinite life intangible assets, intangible assets not available for use and goodwill*

The carrying value of goodwill, indefinite life intangible assets and intangible assets not yet in use are subject to annual impairment assessments. Auxly's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model over a five-year period and estimated fair value less cost to sell. 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 Auxly's budget for the future and do not include restructuring activities that Auxly 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 to sell is based on assessment of comparable company multiples and precedent transactions.

*Business Combinations*

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent considerations have all been classified as equity which is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Auxly measures all the assets acquired and liabilities assumed at their acquisition-date fair values.

*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.

*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 are 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 Auxly's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

### *Valuation of long-term investments in private companies*

In determining the valuation of long-term investments in companies not publicly traded (IFRS 13 level 3 security), there are unobservable inputs used to measure fair value. Estimates were used for unobservable inputs using the best information available such as public company market comparables and recent public company transactions.

### *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 debentures 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 upon a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

## **CHANGES IN ACCOUNTING POLICIES**

IFRS 16 Leases was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The standard consolidates the majority of lease contracts for lessees under one definition, based on the former finance lease classification. The Company intends to implement IFRS 16 as of January 1, 2019 using the modified retrospective approach. Under this approach, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings.

The Company will elect 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* will not be reassessed for whether a lease exists. The Company has reviewed all existing lease agreements as of December 31, 2018 and has identified that certain leases that will need to be reclassified as per the new standard. This will result in the creation 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.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Auxly'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. Cash and cash equivalents and short-term investments are exposed to credit risk and Auxly reduces its credit risks by placing these instruments with institutions of high credit worthiness. Note receivables and debt obligation receivable in product equivalent relates to outstanding loans and Auxly mitigates the credit risk by entering into agreements and reviewing its exposure to credit risk on a regular basis. Auxly is exposed to liquidity risk with respect to its trade and other payables and Auxly manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

## **RISK FACTORS**

Auxly's business and structure are subject to a number of risks and uncertainties which remain unchanged, as discussed in Auxly's Annual Information Form dated May 24, 2018, and Auxly's Amended and Restated Short Form Base Shelf Prospectus, dated February 28, 2018. These documents as well as additional information regarding Auxly can be found on SEDAR at [www.Sedar.com](http://www.Sedar.com).

## **FORWARD LOOKING STATEMENTS**

This MD&A and the documents incorporated by reference herein contain certain statements which contain "forward-looking information" within the meaning of Canadian securities legislation (each a "forward-looking statement"). No assurance can be given that the expectations in any forward-looking statement will prove to be correct and, as such, the forward-looking statements included in this MD&A should not be unduly relied upon. Forward-looking information is by its nature prospective and requires Auxly to make certain assumptions and is subject to inherent risks and uncertainties. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "capable", "budget", "*pro forma*" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, among others, statements pertaining to:

- the dependence of Auxly's cash flow and financial performance on third parties;
- expectations regard the Company's ability to raise additional financing to further the Company's investment in the business;
- changes in laws, regulations and guidelines, including the advent of the recreational cannabis and cannabis-derived products market and changes in the regulation of medical cannabis;
- the price of medical and recreational cannabis or derivative cannabis products;
- the lack of control over operations of Auxly's cultivation partners;
- the fluctuations in the price of Shares and the market for the Shares;

- Auxly's ongoing investment strategy;
- the ability of Auxly's cultivation partners to produce medical and recreational cannabis;
- the successful buildout of the current and proposed facilities of each of Auxly's cultivation partners;
- licensing risk;
- regulatory risk;
- future liquidity and financial position;
- the Company's growth strategy, targets for future growth and projections of the results of such growth;
- expectations regarding the Company's expansion of operations and investment into foreign jurisdictions, including Uruguay;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- Auxly's competitive position.

The forward-looking statements in this MD&A are based on information currently available and what management believes are reasonable assumptions. Forward-looking statements speak only to such assumptions as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, the accuracy of which has not been verified by Auxly. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose. Readers should not place undue reliance on forward-looking information contained in this MD&A. Auxly undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Auxly to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. A number of factors could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking statements in this MD&A including, but not limited to, whether:

- current and future management will abide by the investment objectives and investment strategies of Auxly;
- Auxly will supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which Auxly invests;
- the Company will be able to secure adequate funding in the future on acceptable terms to expand its business;



- cultivation partners will be able to generate cash flow;
- general economic, financial market, regulatory and political conditions in which Auxly operates will remain the same;
- Auxly will be able to compete in the industry;
- Auxly will be able to manage anticipated and unanticipated costs;
- Auxly will be able to enter into additional cultivation agreements;
- Auxly will be able to maintain internal controls over financial reporting and disclosure, controls and procedures;
- cannabis prices will not decline materially;
- cultivation partners will be able to meet the requirements necessary to obtain and / or maintain their licenses under the *Cannabis Act*;
- Auxly will be able to successfully develop and commercialize derivative cannabis products; and
- cultivation partners will be able to successfully complete initial construction and / or expansion construction of their respective facilities pursuant to the terms and conditions of their respective agreements.

Although management believes that the expectation represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to be correct. Auxly cannot guarantee future results, performance or achievements.

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amount of assets, liabilities, revenues and expenses. These estimates may impact the financial performance of Auxly when further information becomes available.