



AUXLY CANNABIS GROUP INC.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

Dated March 28, 2019

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 "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Company in accordance with the ethical requirements that are relevant to our audits 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 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 audits 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 audits 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 International Financial Reporting Standards 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 entity'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 Company 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 Company 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 Marufur Raza.

Toronto, Ontario
March 28, 2019

MNP LLP
Chartered Professional Accountants
Licensed Public Accountants

AUXLY CANNABIS GROUP INC.

Consolidated Statements of Financial Position

Expressed in thousands of Canadian Dollars

	December 31 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 211,707	\$ 33,454
Short-term investments	3,349	-
Other receivables	6,147	460
Biological assets (Note 4)	2,158	-
Inventory (Note 5)	2,215	-
Note receivable	2,946	1,170
Research contract costs	1,843	-
Debt obligation receivable in product equivalents (Note 12)	14,912	-
Prepaid expenses	8,092	436
	253,369	35,520
Non-current assets		
Debt obligation receivable in product equivalents (Note 12)	-	6,378
Long-term investments (Note 10)	27,223	13,501
Investment in joint venture (Note 11)	29,158	-
Property, plant and equipment (Note 6)	28,726	3,475
Intangible assets (Note 7, 8)	89,327	29,205
Goodwill (Note 9)	33,015	4,500
	207,449	57,059
Total assets	\$ 460,818	\$ 92,579
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 20,330	\$ 6,115
Interest payable on convertible debenture (Note 13)	2,756	655
Deferred revenue	3,984	-
	27,070	6,770
Non-current liabilities		
Convertible debenture (Note 13)	93,563	17,738
Long-term loans	588	912
Deferred tax liability (Note 20)	18,445	4,366
	112,596	23,016
Total liabilities	139,666	29,786
Equity		
Share capital (Note 15)	350,647	60,813
Shares to be issued (Note 8)	9,523	-
Reserves (Note 15)	55,567	18,206
Accumulated other comprehensive income	(10,873)	3,515
Deficit	(86,729)	(19,741)
Total equity attributable to shareholders of the Company	318,135	62,793
Total equity attributable to non-controlling interest	3,017	-
Total equity	321,152	62,793
Total liabilities and equity	\$ 460,818	\$ 92,579

Commitments and operating segments are found in Notes 19 and 21, respectively.

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

The consolidated financial statements were approved by the Board of Directors on March 28, 2019 and were signed on its behalf by:

(s) Chuck Rifici

Chuck Rifici

(s) Genevieve Young

Genevieve Young

AUXLY CANNABIS GROUP INC.

Consolidated Statements of Loss and Comprehensive Loss

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

	December 31, 2018	December 31, 2017
Revenues		
Research contracts and other (Note 3)	\$ 747	\$ -
Total Revenues	747	-
Cost of sales		
Research contracts (Note 3)	1,078	-
Gross loss excluding fair value items	(331)	-
Unrealized fair value gain on biological transformation (Note 4)	143	-
Gross loss	(188)	-
Other incomes		
Fair value gain for financial instruments accounted under FVTPL (Note 10, 12)	2,654	1,378
Interest income	4,000	167
Total other incomes	6,654	1,545
Selling, general, and administrative expenses		
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	-
Total selling, general, and administrative expenses	27,961	14,601
Other expenses		
Share-based payments (Note 15)	20,412	3,330
Depreciation and amortization (Note 6, 7)	2,063	32
Interest Expense		
Interest expense (Note 13)	6,831	877
Accretion expense (Note 13)	4,642	1,487
Share of loss on equity investments (Note 11)	309	-
Impairment of intangible assets (Note 7)	8,800	-
Loss on settlement of financial liabilities (Note 14)	5,516	-
Foreign exchange (gain) / loss	(546)	67
Total expenses	75,988	20,394
Net loss before income tax	(69,522)	(18,849)
Income tax recovery (Note 20)	2,313	672
Net loss	\$ (67,209)	\$ (18,177)
Net loss attributable to shareholders of the Company	\$ (66,988)	\$ (18,177)
Net loss attributable to non-controlling interest	(221)	-
Other comprehensive income (loss)		
Fair value change on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 10)	(15,299)	3,515
Currency translation adjustment - subsequently reclassified to profit or loss	1,138	-
Total comprehensive loss	\$ (81,370)	\$ (14,662)
Total comprehensive loss attributable to shareholders of the Company	\$ (81,377)	\$ (14,662)
Total comprehensive income attributable to non-controlling interest	\$ 7	\$ -
Net loss per common share		
Basic and diluted	\$ (0.14)	\$ (0.11)
Weighted average number of shares outstanding		
Basic and diluted	489,505,013	168,556,699

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

AUXLY CANNABIS GROUP INC.

Consolidated Statements of cash flows

Expressed in thousands of Canadian Dollars

	December 31 2018	December 31 2017
Operating activities		
Net loss for the period	\$ (67,209)	\$ (18,176)
Items not affecting cash:		
Unrealized fair value gain on biological transformation (Note 4)	(143)	-
Depreciation and amortization (Note 6, 7)	2,063	32
Share-based payments (Note 15)	20,412	3,330
Accretion expense (Note 13)	4,642	1,487
Interest expense	1,074	-
Equity pickup on investments in JV (Note 11)	309	-
Fair value changes on investments (Note 10)	(2,654)	(1,378)
Deferred income tax recovery (Note 20)	(2,313)	(672)
Impairment of intangible assets (Note 7)	8,800	-
Loss on settlement of debt (Note 14)	4,156	-
Changes in non-cash working capital items:		
Other receivables	(2,182)	(270)
Prepaid expenses	(7,719)	(409)
Interest payable on convertible debentures (Note 13)	2,102	655
Inventory (Note 5)	(1,609)	-
Biological assets (Note 4)	(2,014)	-
Research contract costs	(1,843)	-
Accounts payable and accrued liabilities	(1,110)	3,995
Deferred revenue	1,524	-
Net cash used in operating activities	\$ (43,714)	(11,406)
Investing activities		
Issuance of promissory notes	\$ (3,463)	(1,170)
Proceeds from repayment of promissory notes	500	-
Investment of debt obligation receivable in product equivalents (Note 12)	(7,000)	(5,000)
Repayment of debt obligation receivable in product equivalents (Note 12)	595	-
Investment in short-term investments	(3,349)	-
Investment in long-term investments (Note 10)	(29,090)	(18,538)
Sale of long-term investments (Note 10)	328	-
Investment in joint venture (Note 11)	(19,026)	-
Purchase of capital assets (Note 6)	(17,954)	(687)
Net cash used for business combinations (Note 8)	(4,324)	553
Net cash used in investing activities	\$ (82,783)	(24,842)
Financing activities		
Proceeds from share, special warrant and unit issuances (Note 15)	\$ 109,359	22,505
Net proceeds from convertible debentures (Note 13)	100,000	46,425
Proceeds from share options exercised (Note 15)	775	200
Proceeds from warrants exercised (Note 15)	91,696	1,083
Proceeds from broker warrant units exercised (Note 15)	3,420	-
Repayment of long-term debt	(500)	(818)
Net cash from financing activities	\$ 304,750	69,395
Net increase in cash and cash equivalents	\$ 178,253	33,147
Cash position, beginning of period	33,454	307
Cash position, end of period	\$ 211,707	\$ 33,454

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							Non-Controlling Interests	Total Equity
	Number of Shares	Share Capital	Shares to Be Issued	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income				
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 (Note 13)	-	-	-	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 (Note 15)	9,999,942	-	-	-	-	-	-	-	-	-		
Shares issued on acquisition of Robinsons (Note 8)	5,369,126	9,889	-	-	-	-	-	-	-	9,889		
Shares and warrants issued on acquisition of Dosecann (Note 8)	21,284,182	33,783	-	5,109	-	-	-	-	-	38,892		
Shares issued on acquisition of KGK Science (Note 8)	4,132,231	4,092	-	-	-	-	-	-	-	4,092		
Shares to be issued for acquisition of Inverell (Note 8)	-	-	9,523	-	-	-	-	-	-	9,523		
Shares and warrants issued for Data Licensing Agreement (Note 7)	359,211	528	-	61	-	-	-	-	-	589		
Shares issued to Province (Note 10)	303,030	436	-	-	-	-	-	-	-	436		
Shares issued to Cannabis One-Five (Note 10)	429,507	326	-	-	-	-	-	-	-	326		
Investment in joint venture (Note 11)	1,250,000	4,073	-	6,368	-	-	-	-	-	10,441		
Shares issued on exercise of warrants (Note 15)	148,906,911	91,696	-	-	-	-	-	-	-	91,696		
Fair value transfer on exercise of warrants (Note 15)	-	15,545	-	(15,545)	-	-	-	-	-	-		
Exercise of broker warrant units (Note 15)	3,419,549	1,858	-	3,063	(1,501)	-	-	-	-	3,420		
Expiry of warrants (Note 15)	-	-	-	(237)	237	-	-	-	-	-		
Units issued on investment in Inner Spirit (Note 10)	674,418	1,275	-	702	-	-	-	-	-	1,977		
Shares issued for debt settlement (Note 14)	2,984,959	6,806	-	-	-	-	-	-	-	6,806		
Shares issued on conversion of convertible debt (Note 13)	22,052,901	20,242	-	-	-	(4,023)	-	-	-	16,219		
Share-based payments (Note 15)	-	-	-	-	14,381	-	-	-	-	14,381		
Stock options issued to Good Leaf (Note 10)	-	-	-	-	433	-	-	-	-	433		
Shares issued on exercise of stock options (Note 15)	775,000	775	-	-	-	-	-	-	-	775		
Fair value transfer on exercise of stock options (Note 15)	-	547	-	-	(547)	-	-	-	-	-		
Shares issued as employee awards (Note 15)	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 adjustment	-	-	-	-	-	-	-	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		

AUXLY CANNABIS GROUP INC.

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

	Share Capital				Reserves				Deficit	Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Equity
	Number of Shares	Share Capital	Share to Be Issued	Warrants	Contributed Surplus	Convertible Debenture						
Balance December 31, 2016	9,035,001	\$ 1,758	\$ -	\$ -	\$ 190	\$ -	\$ -	\$ (1,564)	\$ -	\$ -	\$ 384	
Units issued on private placements	76,531,968	891	-	512	-	-	-	-	-	-	1,403	
Broker warrant units issued on private placement June 29 (net of deferred taxes)	-	-	-	-	1,499	-	-	-	-	-	1,499	
Equity component of convertible debentures issued on private placement June 29 (net of deferred tax)	-	-	-	694	-	1,872	-	-	-	-	2,566	
Shares issued on exercise of warrants	41,219,593	1,084	-	-	-	-	-	-	-	-	1,084	
Fair value transfer on exercise of warrants	-	259	-	(259)	-	-	-	-	-	-	-	
Shares issued on exercise of special warrants	81,179,749	14,441	-	4,459	-	-	-	-	-	-	18,900	
Shares issued on acquisition of Rock Garden	17,499,970	19,972	-	-	-	-	-	-	-	-	19,972	
Shares issued on conversion of convertible debt	8,620,000	7,690	-	-	-	(538)	-	-	-	-	7,152	
Units issued on convertible debt placement	29,166,665	14,369	-	6,596	-	-	-	-	-	-	20,965	
Share-based payments	-	-	-	-	3,330	-	-	-	-	-	3,330	
Shares issued on exercise of stock options	200,000	200	-	-	-	-	-	-	-	-	200	
Fair value transfer on exercise of stock options (Note 15)	-	149	-	-	(149)	-	-	-	-	-	-	
Changes in fair value of long-term investments	-	-	-	-	-	-	-	3,515	-	-	3,515	
Net Loss	-	-	-	-	-	-	(18,177)	-	-	-	(18,177)	
Balance December 31, 2017	263,452,946	\$ 60,813	\$ -	\$ 12,002	\$ 4,870	\$ 1,334	\$ (19,741)	\$ 3,515	\$ -	\$ 62,793		

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

AUXLY CANNABIS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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 located at 777 Richmond Street West, Toronto, Ontario.

Historical business of the Company

Auxly is 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.

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.

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on March 28, 2019.

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 table below lists the Company's subsidiaries that are consolidated in these financial statements and the ownership interest held by non-controlling interests.

Subsidiaries	Equity interests
Dosecann Inc.	100%
KGK Science Inc.	100%
Kolab Project Inc.	100%
Robinson's Cannabis Inc.	100%
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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

2. Basis of preparation (continued)

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.

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.

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 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 financial statement presentation adopted for the current period ended December 31, 2018.

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets, long-term investments, 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.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

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 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.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

3. Significant accounting policies (continued)

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.

Biological assets also consist of hemp plants in Uruguay which are valued at amortized costs. The fair value presumption has been rebutted on initial recognition for a hemp plants, as quoted market prices are not available and alternative fair value measurements are determined to be clearly unreliable.

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.

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 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.

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3. Significant accounting policies (continued)

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

- | | |
|--------------------------|------------------------|
| • Computer Equipment | 3 - 5 years |
| • Office Furniture | 5 - 10 years |
| • Leasehold Improvements | Over term of the lease |
| • Equipment | 5 - 10 years |
| • Buildings | 20 years |

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

e) 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 |

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.

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

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3. Significant accounting policies (continued)

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 leases some items of property, plant and equipment. A lease of property, plant and equipment is classified as a capital lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property, plant and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

i) Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet 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.

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3. Significant accounting policies (continued)

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 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 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 payment 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.

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3. Significant accounting policies (continued)

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	FVTOCI & 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 comprise of convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as 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

The Company adopted IFRS 15, Revenue from Contracts with Customers as at January 1, 2018 (date of initial adoption). 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.

As the Company did not have any revenues during the prior year, the adoption of this standard had no material impact on the consolidated financial statements as at the date of initial adoption.

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3. Significant accounting policies (continued)

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

Nature of goods and services

The Company has not commenced medical cannabis or hemp product sales. During the year ended December 31, 2018, the Company principally generated revenue 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.

Costs to obtain or fulfil contracts with customers

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

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

The Company amortizes the research contract costs on a systematic basis that is consistent with the transfer of research services and periodically compares the carrying amount to the remaining amount of consideration that 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

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3. Significant accounting policies (continued)

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.

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.

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3. Significant accounting policies (continued)

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, 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.

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

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3. Significant accounting policies (continued)

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.

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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 fair value, 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.

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3. Significant accounting policies (continued)

Consolidation of Inverell

Judgment was used to determine whether the business combination of Inverell S.A. should be accounted for as a business combination. The share purchase agreement was signed and the closing of the acquisition was subject to regulatory approval as of December 31, 2018. The transaction closed on January 8, 2019. Based on IFRS 10 – Consolidated Financial Statements, management believes that the Company has de facto control over the operations of Inverell effective April 10, 2018.

p) Adoption of new accounting standards

IFRS 2 Share-based Payment was issued by the IASB in June 2016. These amendments provide clarification on how to account for certain types of share-based transaction. The amendments are effective for the annual period beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in June 2014. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. IFRS 15 was effective for the Company on January 1, 2018. Since the Company did not recognize any revenue for the previous year, there was no impact on the 2017 comparative financial statements.

q) Future accounting pronouncements

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 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.

AUXLY CANNABIS GROUP INC.

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4. 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	-	1812	1812
Transferred to inventory upon harvest	(523)	-	(523)
Balance at December 31, 2018	345	1,813	2,158

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

(a) Selling price per gram;	Level 3 input
(b) Average yield per plant;	Level 3 input
(c) Standard cost per gram to complete production	Level 3 input

As of December 31, 2018, the medical cannabis plants were on average 63% complete through their 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 & assumptions	Range of inputs	Sensitivity	Effect on Biological Asset Balance
Selling price per gram	\$9.00 - \$14.00	Increase/decrease \$1.00 /gram	Increase/decrease \$57
Average yield per plant	133 grams	Increase/decrease 10%	Increase/decrease \$35
Standard cost to complete per gram	\$1.55 /gram	Increase/decrease \$0.50 /gram	Decrease/increase \$28

AUXLY CANNABIS GROUP INC.

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5. 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 Supplies	-	26	-	-	26
Balance at December 31, 2018	607	1,048	523	37	2,215

As of December 31, 2018, the Company recognized \$2,215 (2017-\$Nil) of inventory on the consolidated statements of financial position, including \$523 (2017- \$Nil) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest.

The depreciation expense capitalized to biological assets is \$63 (2017 - \$Nil).

AUXLY CANNABIS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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6. Property, plant and equipment

	Computer Equipment	Office Furniture	Leasehold Improvement	Equipment	Building	Construction in Progress	Land	Total
Cost:								
December 31, 2017	\$ 71	\$ 73	\$ 55	\$ 149	\$ 2,655	\$ 504	\$ -	\$ 3,507
Additions from acquisitions	171	55	312	782	1,157	5,265	212	7,954
Additions	1,084	400	646	1,758	549	13,054	463	17,954
December 31, 2018	\$ 1,326	\$ 528	\$ 1,013	\$ 2,689	\$ 4,361	\$ 18,823	\$ 675	\$ 29,415
Accumulated Depreciation:								
December 31, 2017	\$ 4	\$ 1	\$ 2	\$ 7	\$ 18	\$ -	\$ -	\$ 32
Depreciation	119	37	66	133	325	-	-	680
December 31, 2018	\$ 123	\$ 38	\$ 68	\$ 140	\$ 343	\$ -	\$ -	\$ 712
Adjustments:								
Currency Translation	\$ 2	\$ 2	\$ 4	\$ 8	\$ 7	\$ -	\$ -	\$ 23
Carrying Amounts:								
December 31, 2017	\$ 67	\$ 72	\$ 53	\$ 142	\$ 2,637	\$ 504	\$ -	\$ 3,475
December 31, 2018	\$ 1,205	\$ 492	\$ 949	\$ 2,557	\$ 4,025	\$ 18,823	\$ 675	\$ 28,726

	Computer Equipment	Office Furniture	Leasehold Improvement	Equipment	Building	Construction in Progress	Land	Total
Cost:								
December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions from acquisitions	15	-	-	97	2,655	54	-	2,821
Additions	56	73	55	52	-	450	-	686
December 31, 2017	71	73	55	149	2,655	504	-	3,507
Accumulated Depreciation:								
December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	4	1	2	7	18	-	-	32
December 31, 2017	4	1	2	7	18	-	-	32
Adjustments:								
Currency Translation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Carrying Amounts:								
December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
December 31, 2017	\$ 67	\$ 72	\$ 53	\$ 142	\$ 2,637	\$ 504	\$ -	\$ 3,475

AUXLY CANNABIS GROUP INC.

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7. Intangible assets

	Cultivation Interests	Canadian Cultivation Licenses	Processing Licenses	International Cultivation Licenses	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	-	10,189	31,100	14,206	-	3,181	58,676
Impairment	(8,800)	-	-	-	-	-	(8,800)
December 31, 2018	\$ 11,142	\$ 27,152	\$ 31,100	\$ 14,206	\$ 829	\$ 5,145	\$ 89,574
Accumulated Depreciation:							
December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization	-	-	-	-	-	1,446	1,446
December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,446	\$ 1,446
Adjustments							
Currency Translation	\$ -	\$ -	\$ -	\$ 1,199	\$ -	\$ -	\$ 1,199
Carrying amounts:							
December 31, 2017	\$ 10,800	\$ 16,963	\$ -	\$ -	\$ -	\$ 1,442	\$ 29,205
December 31, 2018	\$ 11,142	\$ 27,152	\$ 31,100	\$ 15,405	\$ 829	\$ 3,699	\$ 89,327

	Cultivation Interests	Canadian Cultivation Licenses	Processing Licenses	International Cultivation Licenses	Distribution Agreements	Others	Total
Cost:							
December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	10,800	16,963	-	-	-	1,442	29,205
Additions from acquisitions	-	-	-	-	-	-	-
December 31, 2017	\$ 10,800	\$ 16,963	\$ -	\$ -	\$ -	\$ 1,442	\$ 29,205

a) Cultivation interests

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"). 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 cultivation interest intangible asset. The Company and Vivo are currently engaged in confidential arbitration with respect to the Vivo Agreements. As a result of the breaches, management has recorded an impairment loss of \$8,800 in the consolidated statements of loss and comprehensive loss.

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7. Intangible assets (continued)

On December 22, 2017, the Company entered into an agreement with its cultivation partner CannTx Life Sciences Inc. ("CannTx") to fund the construction of its cannabis production facility. The Company has allocated \$2,000 of the \$5,000 investment in CannTx as a cultivation interest asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement. As at December 31, 2018, the Company has the commitment to pay CannTx another \$7,000 related to phase II expansion of the Facility, subject to the completion of satisfactory due diligence on the parties agreeing to a construction budget and timeline for the phase II expansion. As at December 31, 2018, no amortization has been recorded as the asset is not available for use.

On September 5, 2018 the Company entered into a strategic alliance agreement with Delta 9 Cannabis Inc. ("Delta 9"). The Company subscribed for 5,909,090 shares in the capital of Delta 9 for consideration of \$16,250. 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. The Company allocated the residual \$5,614 of the investment as a cultivation interest intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement. As at December 31, 2018, no amortization has been recorded as the asset is not available for use.

On September 10, 2018, the Company subscribed for 3,755,868 common shares of Lotus Ventures Inc. ("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. The Company allocated \$1,728 of the investment as a cultivation interest intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement. As at December 31, 2018, no amortization has been recorded as the asset is not available for use.

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. 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.

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7. Intangible assets (continued)

b) Distribution agreements

On February 6, 2018, the Company entered into an agreement to purchase 15,000,000 of Inner Spirit Holdings Ltd. ("Inner Spirit") shares for consideration of \$2,329. 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. The Company has allocated \$829 of the investment in Inner Spirit as a distribution agreement intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement (see Note 10(a)).

As at December 31, 2018, no amortization has been recorded as the assets are not available for use as the Company has not obtained the product needed to execute on the agreements.

c) Others

On April 4, 2018, the Company obtained regulatory approval for a licensing agreement with a Canadian cannabis testing, analysis and licensing company. The Company will be granted an exclusive data access for cannabis testing, analysis and ranking for a term of two years. In consideration, the Company issued 359,211 common shares to the Licensor, with a value of \$528 recorded as a license intangible asset. During the year ended December 31, 2018, the Company issued 100,000 warrants to the Canadian cannabis testing, analysis and licensing company. The fair value allocated to the warrants was \$61 based on a probability weighted discounted cash flow of the vesting performance conditions on the following assumptions: Share price – \$1.23, Annualized volatility – 95.96%; Risk-free interest rate – 2.19%; Dividend yield – 0%; and Expected life – 2 years. The warrants are exercisable at a price of \$1.31 for a period of 2 years.

As at December 31, 2018, amortization of \$219 has been recorded against the assets.

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8. Business combinations

The purchase price allocations of all business combinations during the year ended December 31, 2018 and December 31, 2017 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

	2018				2017
	Inverell S.A	Robinsons Cannabis Inc.	Dosecann Inc.	KGK Science Inc.	Kolab Project Inc.
Cash and cash equivalents	\$ 44	545	4,062	445	553
Other receivables	79	243	748	1,224	82
Accounts receivable	-	-	-	1,219	-
Prepaid Expenses	209	34	-	65	24
Inventory and biological assets	607	-	-	-	-
Property, plant and equipment	299	2,204	5,007	445	2,820
Licenses and licenses in progress	14,206	10,189	31,100	-	16,963
Non-competition agreements	531	622	-	-	-
Intellectual property	-	-	-	2,028	-
Goodwill	3,527	3,960	10,112	10,916	4,500
Accounts payable and accrued liabilities	(71)	(891)	(2,479)	(1,261)	(86)
Long-term loans	-	(1,088)	-	-	(518)
Deferred revenue	-	-	-	(2,460)	-
Deferred tax liabilities	(3,527)	(2,848)	(9,468)	-	(4,366)
Non-controlling interests	(3,011)	-	-	-	-
Net assets acquired	\$ 12,893	12,970	39,082	12,621	19,972
Consideration paid in shares	\$ -	9,889	33,783	4,092	19,972
Consideration to be paid in shares	9,523	-	-	-	-
Consideration paid in warrants	-	-	5,109	-	-
Value of existing investments in acquisition (Note 9)	-	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 bonus payment	126	-	-	-	-
Assumed loans	720	1,783	-	2,159	-
	\$ 12,893	12,970	39,082	12,621	19,972
Consideration paid in cash	\$ -	(1,783)	(190)	(7,447)	-
Less: Cash and cash equivalents acquired	44	545	4,062	445	553
Net cash (outflow) inflow	\$ 44	(1,238)	3,872	(7,002)	553

a) Inverell

On April 10, 2018 the Company obtained de facto 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. Despite the share consideration not being issued as at April 10, 2018, the transaction was accounted for as a business combination. The transaction is subject to regulatory approval as of December 31, 2018. On January 8, 2019, the Company announced the closing of the acquisition of Inverell. Inverell is a federally licensed

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8. Business combinations (continued)

cannabis operator based in Montevideo, Uruguay. Inverell's license allows it to cultivate and harvest its proprietary hemp strain.

The shareholders of Inverell are entitled to receive 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. Bonus payment of USD \$500 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 will be 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 estimated at \$12,893.

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.

For the period ended December 31, 2018, Inverell accounted for \$1,619 in net losses since April 10, 2018, of which \$1,295 in net losses was attributable to shareholders and \$324 in net losses was attributable to non-controlling interests.

b) 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.

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8. Business combinations (continued)

The contingent consideration of shares has been classified as equity. Management assessed the probability of the issuance of the contingent shares to be highly probable and discounted the share value to present value for the lock-up periods on the 5,369,126 closing shares issued. The discount rates range from 23.0% to 36.5% depending on the lock-up period, calculated using the put-option pricing models. 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.

For the year ended December 31, 2018, Robinsons accounted for \$865 in net losses since April 30, 2018.

c) Dosecann Inc.

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

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

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

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

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

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

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8. Business combinations (continued)

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.

The fair value allocations are based on preliminary purchase price allocations conducted by management. As the acquisitions is within the measurement period under IFRS 10, it continues to be refined. The Company is gathering information to finalize the fair value of the licenses in progress.

For the year ended December 31, 2018, Dosecann accounted for \$1,967 in net losses since May 15, 2018.

d) 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 is \$1,082 based on the following assumptions: Strike price - \$1.21, Share price - \$1.13, Annualized volatility - 78.18%; Risk-free interest rate - 2.23%. If the market value of the Company's shares is less than \$1.21 on February 28, 2019, Auxly shall make a payment to KGK shareholders that is equal to the difference between the market price of the Auxly shares on the final day of the Hold-up Period and \$1.21 per share, up to a maximum total payment of \$0.64 per share. On March 5, 2019 the Company completed the make-whole payment of \$1,776 and thus has completed all of its obligations pursuant to the business combination.

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 \$10,916 arose in the acquisition of KGK. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The fair value allocations are based on preliminary purchase price allocations conducted by management. As the acquisitions is within the measurement period under IFRS 10, it continues to be refined. The Company is gathering information to determine the fair value of the acquired patents and to determine the fair value of any customer relationships.

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8. Business combinations (continued)

For the year ended December 31, 2018, KGK accounted for \$745 in revenues and \$1,933 in net losses since August 29, 2018.

e) Kolab Project Inc. (Formerly RockGarden Medicinals (2014) Inc.)

On October 31, 2017 the Company purchased 100% of the issued and outstanding shares of Kolab Project Inc. ("Kolab"). The transaction was accounted for as a business combination. The shareholders of Kolab are entitled to receive aggregate consideration of common shares in the capital of the Company as follows:

- vi. 17,499,970 common shares upon closing of the acquisition;
- vii. 4,999,971 common shares issued and held in escrow to be released to the Kolab shareholders upon Kolab receiving a sales license; and
- viii. 4,999,971 issued and held in escrow to be released to key employees at the earlier of three months after Kolab receives its sales license; and 20 months after closing, subject in both cases to certain key individuals remaining employed by Kolab

The contingent consideration of 9,999,942 shares has been classified as equity and has been released from escrow during the year ended December 31, 2018. The total fair value of the consideration was \$19,972.

Located in Carleton Place, Ontario, Kolab is authorized for sales under the Cannabis Act and has submitted its approval for an oil processing license. The acquisition furthers the Company's cultivation strategy by providing the Company with additional resources.

Goodwill arose in the acquisition of Kolab primarily due to the assembled work force of Kolab. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill of \$4,500 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.

For the year ended December 31, 2018, Kolab accounted for \$1,657 in net losses (December 31, 2017 – \$195 in net loss since November 1, 2017).

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9. Goodwill

December 31, 2016 - closing balance	\$ -
2017 Additions:	
Business combination - Kolab Project Inc.	4,500
December 31, 2017 - closing balance	4,500
2018 Additions	
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.	10,916
December 31, 2018 - closing balance	\$ 33,015

For the purposes of the goodwill and cultivation license impairment test, the Company considered each acquisition as a separate CGU. The recoverable amount of the CGU was estimated based on a value in use model. The most critical assumption used was the production capabilities per year, the discount rates used, and selling prices. For the Canadian CGUs the discount rates ranged from 18% to 32%. For Inverell, a discount rate of 42% was used. The recoverable amount of all the CGUs was estimated to be higher than its carrying amount. As a result, no impairment was required. A 10% change in these various inputs would not impact the result.

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10. Long-term investments

Entity	Note	Instrument	Classification	Balance at December 31, 2017	Additions	FV Change	Disposals	Balance at December 31, 2018
VIVO Cannabis	7 (a)	Shares	FVTOCI	\$ 10,200	\$ -	\$ (5,467)	\$ -	\$ 4,733
Aphria		Shares	FVTOCI	301	-	26	(327)	-
CannTx Life Sciences	7 (a)	Shares	FVTOCI	3,000	-	(2,029)	-	971
Inner Spirit Holdings	10 (a)	Shares	FVTOCI	-	2,843	605	-	3,448
Inner Spirit Holdings	10 (a)	Warrants	FVTPL	-	170	78	-	248
Lotus Ventures Inc.	10 (b)	Shares	FVTOCI	-	1,698	(500)	-	1,198
Lotus Ventures Inc.	10 (b)	Warrants	FVTPL	-	241	(193)	-	48
Province Brands		Shares	FVTOCI	-	436	(270)	-	166
Cannabis OneFive Inc.		Shares	FVTOCI	-	299	(189)	-	110
Cannabis OneFive Inc.		Warrants	FVTPL	-	77	(65)	-	12
Delta 9 Cannabis	7 (a)	Shares	FVTOCI	-	10,636	(3,427)	-	7,209
FSD Pharma	7 (a)	Shares	FVTOCI	-	5,700	(3,562)	-	2,138
Good Leaf		Shares	FVTOCI	-	744	(360)	-	384
Good Leaf		Warrants	FVTPL	-	433	(155)	-	278
ASNT		Shares	FVTOCI	-	761	(50)	-	711
KBB Convertible Debt	10 (c)	Convertible Debt	FVTPL	-	5,000	569	-	5,569
Total				\$ 13,501	\$ 29,038	\$ (14,989)	\$ (327)	\$ 27,223

a) Inner Spirit Holdings Ltd.

On February 6, 2018, the Company completed an investment in Inner Spirit. The Company acquired 15,000,000 common shares of Inner Spirit in exchange for:

- (i) a cash payment of \$350;
- (ii) 674,418 common shares of the Company; and
- (iii) 1,250,000 common share purchase warrants of the Company.

The warrants are exercisable at a price of \$2.53 for a period of 2 years, vesting as follows:

- (i) 250,000 vest upon the 1st Spirit Leaf location opening for business to the public;
- (ii) 250,000 vest upon the 5th Spirit Leaf location opening for business to the public;
- (iii) 250,000 vest upon the 10th Spirit Leaf location opening for business to the public;
- (iv) 250,000 vest upon the 15th Spirit Leaf location opening for business to the public; and
- (v) 250,000 vest upon the 20th Spirit Leaf location opening for business to the public.

The long-term investment was valued based on the fair value of the consideration at \$2,329. The consideration was allocated to the shares at \$1,500 based on the private placement price of \$0.10/share in February and March 2018, and the residual of \$829 was allocated to the distribution intangible asset.

Subsequently, the Company acquired 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, and \$170 was allocated to the warrants, based on the following assumptions for the valuation of the warrants: Share price – \$0.10, Annualized volatility – 100%; Risk-free interest rate – 1.90%; Dividend yield – 0%; and Expected life – 2 years. The revaluation gain on the shares was recorded in other comprehensive income, while the revaluation gain on the warrants was recorded in the profit and loss.

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10. Long-term investments (continued)

b) Lotus Ventures Inc.

On February 8, 2018, the Company subscribed for 1,818,181 common shares and 909,090 common share purchase warrants of Lotus for gross proceeds \$1,000. Lotus is a late-stage licensed producer applicant that is based in Vancouver, BC. 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.

On September 10, 2018, the Company subscribed for 3,755,868 common shares of Lotus for gross proceeds \$2,667. The fair value of the long-term investment was valued at \$939 based on the market price of \$0.25/share, and the Company allocated the residual \$1,728 of the investment as a cultivation interest intangible asset.

As at December 31, 2018, the fair value of the shares has been revalued at \$1,198 using the quoted price of \$0.22/share. The fair value of the warrants has been revalued at \$48.

c) Kaneh Bosm BioTechnology Inc. (ICC International Cannabis Corp.)

On September 17, 2018, the Company subscribed for \$5,000 of convertible debentures of Kaneh Bosm BioTechnology Inc. ("KBB"). The debentures bear interest at 8% and have a maturity 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.

As at December 31, 2018, the fair value of the long-term investment has been revalued at \$5,569. The gain on revaluation was recorded in the statement of profit and loss. KBB has a number of agreements and licenses in place related to pharmaceutical distribution, wholesale importation, research and development, cultivation, production, storage, and exportation of cannabis.

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11. Sunens Farms Inc. - Joint venture with Peter Quiring

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 and has been classified as a joint venture per IFRS 11.

In consideration for the agreement, the Company will issue 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 upon the closing of the transaction, and the remainder to be held in escrow and released in tranches corresponding to the achievement of certain operational and performance milestones. The Company issued 10,000,000 common share purchase warrants, where 2,000,000 warrants which will be vested upon closing of the transaction and the remainder will vest in tranches corresponding to the achievement of certain operational and performance milestones. The warrants are exercisable at a price of \$1.57 per share and have a term of five years from issuance. The fair value of the common shares to be issued to Peter Quiring is \$4,073 and the fair value of the common share purchase warrants to be issued to Peter Quiring is \$6,368.

Management assessed the probability of the issuance of the contingent shares 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.

The fair value allocated to 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.

There was \$309 of equity loss recorded for the twelve-month period ended December 31, 2018. At December 31, the joint venture reported a net loss of \$606, and the material assets in the joint venture were land and buildings valued at \$4,024 and supplier deposits of \$14,000.

The Company made additional investments in the joint venture throughout the 12 months-period ended December 31, 2018 of \$19,026 through the purchase of 19,025,807 class B non-voting shares of the joint venture. The class B shares form part of the Company's net investment in the joint venture. The class B shares are classified as a FVTOCI instrument per IFRS 9, and the fair value of these shares are estimated to be \$19,026 as at December 31, 2018.

The net investment in the joint venture is \$29,158 as at December 31, 2018, which is made up of an equity balance of \$10,132 of the Company's 51% of the voting shares and \$19,026 of class B shares. The Company has joint control as decisions about operating activities require unanimous consent.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. Debt obligation receivable in product equivalents

a) Beleave Inc.

On October 5, 2017, the Company and Beleave Inc. ("Beleave") entered into an agreement where the Company will provide Beleave with up to \$10,000 in debt financing repayable in product equivalents. The proceeds will be used by Beleave to fund the construction of an expansion facility, which will be situated adjacent to Beleave's current facility outside of Hamilton, Ontario. On October 17, 2017, the Company advanced \$5,000 of the agreed upon \$10,000 financing to Beleave. Beleave's debt obligation will be receivable in product equivalents (the "DOPE Note").

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be \$6,327 at December 31, 2018 (\$6,378 at December 31, 2017) and a fair value loss of \$51 was recorded on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2018 (\$1,378 gain at December 31, 2017). As at December 31, 2018, \$595 was received as repayment on the note.

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 for a period of 6 months. Sundial will repay the 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 grams. The note is subject to an interest rate of 24% per annum, with a minimum guaranteed interest of \$840. The Company extended the loan for an additional six months and as a result, the amount due on maturity increased to \$8,780.

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be \$8,585 and a fair value gain of \$1,585 was recorded on the consolidated statement of loss and comprehensive loss for the twelve-month period ended December 31, 2018 (\$Nil at December 31, 2017).

On February 22, 2019, \$8,895 was received to fully settle the promissory note, including an additional extension charge of \$115.

13. Convertible debenture

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. 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. 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, 2018 was \$4,550. The effective interest rate used was 11.6% and the coupon rate on the debt is 6.0%. Interest expense for the year ended December 31, 2018 for convertible debentures was \$5,721.

AUXLY CANNABIS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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13. Convertible debentures (continued)

The residual value of the gross proceeds was allocated to the conversion feature and warrants based on their relative fair values. The conversion feature was allocated a value of \$6,765, net of issue costs and its relative fair value was derived based on the following assumptions: Share price – \$2.42, Annualized volatility – 101.5%; Risk-free interest rate – 1.76%; Dividend yield – 0%; and Expected life – 2 years.

Each warrant will be exercisable to acquire one common share at an exercise price of \$1.80 per share until January 16, 2020. The warrants were estimated at \$3,195, net of issuance cost, and its relative fair value was derived based on the following assumptions: Share price – \$2.42, Annualized volatility – 101.5%; Risk-free interest rate – 1.76%; Dividend yield – 0%; and Expected life – 2 years.

On closing, the Company paid legal and advisory fees of \$128.

Beginning on the date that is four months and one day following the closing date, the Company may force the conversion of the principal amount of the convertible debentures and the expiry of date of the convertible debt warrants should the daily volume weighted average trading price of the Company's common shares be greater than \$3.10 for 10 consecutive trading days.

	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

June 29, 2017 Issuance

On June 29, 2017, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of \$30,000. Each convertible debenture unit consists of a \$1 principal amount of unsecured convertible debentures and 500 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of \$1.00 per share, at the option of the holder. The debenture was recorded at its fair value of \$23,461, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense was calculated using the effective interest method for the year ended December 31, 2018 was \$66. Interest expense for the year ended December 31, 2018 was \$39.

AUXLY CANNABIS GROUP INC.

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13. Convertible debentures (continued)

	Convertible debenture
BALANCE AT DECEMBER 31, 2016	\$ -
Face value of debt upon issuance	30,000
Less: Allocation to warrants and conversion feature	(2,997)
Less: Debt issue costs	(3,542)
Fair value of debt on initial recognition	23,461
Accretion expense during the period	1,430
Less: Units converted during the period	(7,153)
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

14. 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.

15. Share capital

a) Authorized

In January 2017, the authorized share capital of the Company was approved to increase to an unlimited number of common shares. On April 10, 2017, the Company completed a forward stock split of its common shares on a three for one basis. All historical references to share transactions or balances prior to this date have been recast on a three for one basis.

b) Issued and outstanding

At December 31, 2018, there were 584,769,404 issued and fully paid common shares, of which 11,237,157 shares were held in escrow related to the contingent considerations in acquisitions and investments, and 7,033,114 shares were to be issued for the acquisition of Inverell (December 31, 2017 had 263,452,946 issued and fully paid common shares, and 9,999,942 were held in escrow).

During the year ended December 31, 2018, the Company issued 24,364,906 common shares on closing on various acquisitions, 82,225,000 common shares relating to private placements, 3,016,166 shares relating to long-term investments and intangible assets, 181,067,646 common shares on exercise of warrants, conversion of convertible debt, employee awards, and stock options, 9,999,942 common shares to the previous shareholders of Kolab on completion of contingent milestones, 6,420,632 common shares to the previous shareholders of Dosecann on completion of contingent milestones, 2,984,959 common shares to settle outstanding debts, and 7,033,114 shares to be issued on Inverell on closing and completion of certain milestones.

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15. Share capital (continued)

On May 30, 2018, the Company closed a private placement and distributed a total of 82,225,000 units for gross proceeds of \$115,115. Each unit consists of one share and one-half warrant, with each warrant entitling the holder to purchase one additional share at \$1.85 until May 2020. The Company recorded \$90,500 for the issuance of shares and \$18,900 for the issuance of warrants based on a relative fair value calculation. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price - \$1.29, Annualized volatility – 95.16%; Risk-free interest rate – 1.87%; Dividend yield – 0%; and Expected life – 2 years.

On September 6, 2018, the Company issued 5,913,334 common shares to non-executive employees of the Company as compensation, as part of their employment agreements related to services performed in 2018. The fair value of the common shares is \$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 not to exceed 10% of the issued and outstanding shares, or 58,476,940 as at December 31, 2018.

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

	2018	2017
Risk-Free Annual Interest Rate	1.72%-2.52%	1.26%-1.52%
Expected Annual Dividend Yield	0%	0%
Expected Annualized Volatility	93.17% - 108.60%	53.12% - 95.50%
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 and comparable companies.

During the year ended December 31, 2017, 20,061,085 options were granted and 200,000 options were exercised. During the year ended December 31, 2018, 25,390,968 options were granted, 775,000 options were exercised, 835,000 options expired, and 2,590,000 options were modified during the year ended December 31, 2018.

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15. Share capital (continued)

The following table summarizes information about stock options outstanding as at December 31, 2017 and December 31, 2018:

December 31, 2017							
Options Granted	Number of options granted	Number of options exercised	Number of options modified	Number of options expired	Ending balance	Average exercise price (\$)	Average remaining life (years)
2017 Q1	12,716,085	-	-	-	12,716,085	0.025	4.20
2017 Q4	7,345,000	(200,000)	-	-	7,145,000	1.015	9.20
2017 Total	20,061,085	(200,000)	-	-	19,861,085	0.381	6.00
December 31, 2018							
Options Granted	Number of options granted	Number of options exercised	Number of options modified	Number of options expired	Ending balance	Average exercise price (\$)	Average remaining life (years)
2018 opening	19,861,085	(775,000)	-	(5,000)	19,081,085	0.356	4.97
2018 Q1	6,300,000	-	(2,590,000)	(257,500)	3,452,500	1.952	9.16
2018 Q2	4,703,468	-	-	(572,500)	4,130,968	1.271	9.47
2018 Q3	6,080,000	-	-	-	6,080,000	1.220	9.74
2018 Q4	8,307,500	-	-	-	8,307,500	1.240	9.07
2018 Total	45,252,053	(775,000)	(2,590,000)	(835,000)	41,052,053	0.889	7.31

The consultant options were measured based on the fair value of the equity instrument granted as the fair value of services cannot be reliably measured.

As at December 31, 2018, stock options outstanding have a weighted average remaining life of 7.31 years. The total fair value of stock options granted during the year ended December 31, 2018 was \$30,413 (December 31, 2017 – \$5,679).

Of the options granted during the 12 months ended December 31, 2018, 2,590,000 were modifications for options that were issued earlier in the year.

For the year ended December 31, 2018, \$14,381 of share-based payments were recorded on the statements of loss and comprehensive loss relating to the vesting of the Company's stock options.

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15. Share capital (Continued)
d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at December 31, 2018:

December 31, 2017						
Warrants Granted	Number of warrants issued	Number of warrants exercised	Warrant expiries	Ending balance	Average exercise price (\$)	Average remaining life (years)
2017 Q1	137,459,514	(41,219,593)	-	96,239,921	0.023	1.18
2017 Q2	15,000,000	-	-	15,000,000	1.500	1.49
2017 Q4	49,407,203	-	-	49,407,203	1.323	1.69
2017 Total	201,866,717	(41,219,593)	-	160,647,124	0.561	1.40
December 31, 2018						
Warrants Granted	Number of warrants issued	Number of warrants exercised	Warrant expiries	Ending balance	Average exercise price (\$)	Average remaining life (years)
2018 opening	160,647,124	(145,101,635)	(1,158,188)	14,387,301	0.023	0.18
2018 Q1	36,869,549	(49)		36,869,500	1.797	0.99
2018 Q2	56,183,748	(3,805,228)		52,378,520	1.775	1.99
2018 Q3	100,000			100,000	1.310	1.73
2018 Total	253,800,421	(148,906,912)	(1,158,188)	103,735,321	1.539	1.39

The weighted average exercise price of warrants outstanding during the year ended December 31, 2018 was \$1.539, with a weighted average remaining life of 1.387 years. Cash proceeds from warrants exercised during the period ended December 31, 2018 was \$91,696. Cash proceeds from broker warrant units exercised during the year ended December 31, 2018 was \$3,420.

e) Earnings per share

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

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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, 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:

For the year ended December 31	2018	2017
Short-term benefits	\$ 1,722	\$ 1,970
Long-term benefits	3,873	674
	\$ 5,595	\$ 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.

17. 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.

AUXLY CANNABIS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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17. Financial instruments and risk management (continued)

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.

As at December 31, 2018	Level 1	Level 2	Level 3	Total
Short-term Investments	3,349	-	-	3,349
Public Company Shares	19,437	-	-	19,437
Public Company Warrants	-	586	-	586
Convertible Debentures	-	-	5,569	5,569
Debt Obligations Receivable in Product	-	-	-	-
Equivalents	-	-	14,912	14,912
Non-Voting Shares in Joint Venture	-	-	19,026	19,026
Private Company Shares	-	-	1,631	1,631
	22,786	586	41,138	64,510

Instrument	Valuation Technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Debt obligation receivable in product equivalent - Beleave Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20% - Selling price per gram of cannabis	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by \$33 - If the price per gram of Cannabis increases (decreases) by 1%, the fair value increase (decrease) would be \$63
Debt obligation receivable in product equivalent - Sundial Growers Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20%	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by \$9
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 \$228 (\$267)
Investment in KBB Convertible debt	Monte Carlo Simulation	- volatility: 104% - discount rate: 20.8%	- If the volatility was lower (higher) by 10%, the fair value would increase (decrease) by \$270 (\$236) - If the estimated discount rate was lower (higher) by 2%, the fair value would increase (decrease) by \$165 (\$176)

Level 3 Investments

As at December 31,	2018	2017
Opening balance, December 31, 2017	9,378	-
Additions	32,505	8,000
Sales	-	-
Transfers	-	-
Change in Unrealized Gain (Loss) - FVTOCI	(2,848)	-
Change in Unrealized Gain (Loss) - FVTPL	2,103	1,378
Ending Balance	41,138	9,378

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17. Financial instruments and risk management (continued)

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, 2018 and December 31, 2017, the carrying value of cash and cash equivalents is carried at fair value. Cash and cash equivalents, 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 fair value due to their short term nature at market rates for similar instruments.

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVTOCI and FVTPL. For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by \$4,068 before tax. An equal change in the opposite direction would have decreased equity by \$4,068 before tax.

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

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 of 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, note 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.

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17. Financial instruments and risk management (continued)

f) Foreign exchange risk

The financial statements are presented in Canadian dollars, which is also the Company's consolidated 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. The Company holds cash in US dollars. The impact of a 10% strengthening (weakening) of the US dollar would result in a foreign exchange gain (loss) of approximately \$310, impacting the consolidated statement of loss and comprehensive loss.

18. 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 working capital, debt, and shareholders' equity.

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

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

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19. Commitments

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 Peter Quiring (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
Total	\$	6,401

AUXLY CANNABIS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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20. Income taxes

Reconciliation of effective tax rate:	2018	2017
Income/(loss) before income taxes	(69,522)	(18,849)
Federal & provincial income tax rate	26.50%	26.50%
Expected income tax expense/(recovery)	(18,423)	(4,995)
Increase/(decrease) due to:		
Non-deductible expenses & permanent differences	3,291	762
Change in tax rates	-	2
Change in unrecognized/(recognized) deferred tax assets	14,377	3,824
Other	(1,558)	(265)
Income tax expense/(recovery)	(2,313)	(672)

Summary & movement of deferred tax assets/(liabilities)	Jan 1, 2018	Recognized in profit or loss	Recognized in OCI	Recognized in equity	Acquired in business combinations	Net
Non-capital losses	1,563	2,551	-	-	676	4,790
Inventory	-	(244)	-	-	-	(244)
Convertible & other debt	(1,516)	(86)	-	(2,611)	-	(4,213)
Intangible assets	(4,495)	-	-	-	(16,519)	(21,014)
Marketable securities	(537)	-	537	-	-	-
Property, plant & equipment	(35)	92	-	-	-	57
Financing and share issuance costs	654	-	-	1,525	-	2,179
Total deferred income tax assets/(liabilities), net	(4,366)	2,313	537	(1,086)	(15,843)	(18,445)

Deferred tax assets have not been recognized in respect of the following items because Auxly does not meet the criteria for their recognition pursuant to International Financial Reporting Standards.

	2018	2017
Deductible temporary differences	36,156	3,954
Tax losses	37,876	11,178
	74,032	15,132

The total amount of Canadian non-capital loss carry-forwards for which deferred income tax assets have not been recognized at December 31, 2018 is \$37,876 (2017: \$11,178) expiring between 2036 and 2038.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 based on the location of assets, as follows:

Long-term Assets	Canada	Uruguay
Long-term investments	27,223	-
Investment in joint venture	29,158	-
Property, plant and equipment	26,033	2,693
Intangible assets	73,764	15,563
Goodwill	29,488	3,527
Total	185,666	21,783

22. Subsequent events

- a) On January 8, 2019, the Company announced the closing of the acquisition of Inverell and issued 7,033,112 shares to the previous shareholders.
- b) 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.
- c) On Feb 6, 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.
- d) On February 20, 2019, US \$3,250 was received from Dixie Brands as per the agreement in relation to the US \$3,960 USD prepaid outstanding as at December 31, 2018.
- e) On February 22, 2019, \$8,895 was received to fully settle the Sundial promissory note.
- f) In March 2019, the Company signed a definitive agreement with Curative Cannabis, in which the Company will acquire 46% of the common shares of Curative and enter into a long-term cannabis purchase and sale agreement to fund the construction and development costs of Curative's cannabis cultivation facility.

5,056,026 common shares of the Company will be issued as consideration for the transaction. The Company will also fund the construction and development costs of Curative's facility in exchange for the right to purchase 50% of the cannabis products and cannabis trim produced at an offtake price equal to Curative's direct cost of cultivation plus 10%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

22. Subsequent events (continued)

- g) 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.
- h) On March 5, 2019 the Company completed the make-whole payment of \$1,776 to KGK shareholders and thus has completed all of its obligations pursuant to the business combination with KGK.
- i) Subsequent to December 31, 2018, 14,387,301 common shares were issued on the exercise of 14,387,301 warrants for gross proceeds of \$504, and 32,258 common shares were issued on the conversion of \$50 convertible debenture units.