AUXLY CANNABIS GROUP INC.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2023

Dated May 12, 2023

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") was prepared as of May 12, 2023 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("**Auxly**", "**we**", "**our**", or the "**Company**"). All amounts are stated in millions of Canadian dollars unless otherwise noted, except common shares ("**Shares**"), options, warrants, and per Share amounts. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three months ended March 31, 2023, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2022.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information contained herein is made as of the date of this MD&A and is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "*Forward Looking Statements*" section in this MD&A. This MD&A references certain financial measures, including non-GAAP measures and readers should refer to the "*Non-GAAP Measures*" section in this MD&A.

DESCRIPTION OF BUSINESS

Our Business

We are a leading Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada. Our focus is on developing, manufacturing and distributing branded cannabis products that delight our consumers.

Our vision is to be a leader in branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

Canadian Market

On October 17, 2018, the Cannabis Act came into force, initially permitting the recreational sale of certain classes of cannabis products, including dried cannabis, fresh cannabis, cannabis plants, cannabis seeds, and cannabis oil (collectively referred to as "**Cannabis 1.0 Products**"). On October 17, 2019, edible cannabis, cannabis extracts and cannabis topicals were added to the authorized classes of cannabis (collectively referred to as "**Cannabis 2.0 Products**", and together with Cannabis 1.0 Products, collectively referred to as "**Cannabis Products**") and such Cannabis 2.0 Products were first available for sale on December 16, 2019. Since 2019, Health Canada undertook a consultation, established a Scientific Advisory Committee, and has been engaged in discussions regarding the possible legalization of Cannabis Health Products, which would permit the making of health claims in respect of cannabis products without the required oversight of a practitioner, such as a doctor, but such products are not currently permitted.

Canadian Strategy and Capabilities

Brand Portfolio and Product Offering

We have created a portfolio of brands designed for a broad market of cannabis consumers, with differentiation in price points across targeted consumer segments.

Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. Our initial focus was on the development of Cannabis 2.0 Products and we were one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada following their legalization.

We were the top-selling licensed producer of Cannabis 2.0 Products nationally for the past three years. We have continued to introduce a variety of Cannabis Products to the market throughout 2023, ranking among the top 5 licensed producers in Canada by total recreational retail sales as reported by Headset Canadian Insights Data (“Headset”)[1].

Our Cannabis Products available during the first quarter of 2023 are described below by brand and product format:

Products Available by Brand

KOLAB PROJECT	Dosecann	BACK FORTY	Foray	Parcel
510 Vape Cartridges All-in-one Vape Pens Dried Flower Pre-rolled Cannabis Infused Pre-rolls Concentrates Soft Chews	Cannabis Oil Drops Capsules Topicals	510 Vape Cartridges Dried Flower Milled Flower Pre-rolled Cannabis Infused Pre-rolls Chocolates Soft Chews	510 Vape Cartridges All-in-one Vape Pens Chocolates Soft Chews	Dried Flower Milled Flower

Our Cannabis Products have been well received by consumers. We plan to further strengthen our brand recognition by using consumer insights to drive innovation as we continue to introduce new Cannabis Products to the Canadian market, with an emphasis on expanding our dried flower, vape and pre-roll offerings. The Company’s upcoming product offerings for 2023 are presented below:

[1] Data provided by Headset as at May 4, 2023.

Distribution

Given the current provincial legislative framework in Canada, we have pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and distributors, medical cannabis sales channels and strong relationships with major Canadian retailers. Prior to the fourth quarter of 2022, Auxly's sales were supported by an externally managed sales team, but the Company now conducts its sales through an internal sales team.

We have secured listings and sold our Cannabis Products in all provinces except Quebec. We have obtained the necessary pre-authorization to enter into public contracts in Quebec and continue to explore listings for certain products that comply with Quebec's regulatory requirements. In the fourth quarter of 2022, the Company began its first wholesale bulk sales of dried cannabis intended for sale in the Quebec market.

Cannabis Operations: Cultivation, Product R&D and Manufacturing

Auxly Charlottetown

In May 2018, we acquired our subsidiary Auxly Charlottetown Inc. ("**Auxly Charlottetown**"), and its purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. The Company conducts its Cannabis 2.0 Product development, manufacturing and R&D activities in-house at the Auxly Charlottetown facility. Auxly Charlottetown holds licences for processing, analytical testing and research under the Cannabis Act. The full perimeter of the 52,000 square foot facility is currently licensed under the Cannabis Regulations for the production, storage and sale of Cannabis Products.

Product development is led by Auxly Charlottetown's team, who have experience in the pharmaceutical, food, scientific research and product development fields. As the Company's manufacturing hub, this facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. Auxly Charlottetown is authorized to conduct broad in-house analytical and sensory testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations. In December 2022, the Company also obtained a research licence to conduct sensory testing at its head office in Toronto.

As at March 31, 2023, no expenditures were made towards automation initiatives at the Auxly Charlottetown facility. The Company anticipates that expenditures of approximately $Nil-0.5 million will be made towards the purchase of automation equipment, the expansion of throughput capabilities and security enhancements at the facility in 2023.

Auxly Ottawa

In October 2017, we acquired our subsidiary Auxly Ottawa Inc. ("**Auxly Ottawa**") and its facility located in Carleton Place, Ontario. Auxly Ottawa holds licences for cultivation and processing under the Cannabis Act. In 2020, we ceased cultivation at the facility and shifted focus to the manufacturing, processing and distribution of pre-roll and dried flower Cannabis Products. Auxly Ottawa processes and packages certain of the Company's Cannabis 1.0 Products, including Kolab Project 950 Series dried flower and pre-rolls, Back Forty 40s pre-rolls, and Back Forty and Parcel dried and milled flower.

Over the past three years, the Company undertook new capital projects to increase pre-roll production volumes and output from the Auxly Ottawa facility through the purchase, installation and commissioning of automated manufacturing and packaging equipment and minor associated building alterations. Supply chain issues resulted in significant delays in receipt of both the manufacturing equipment and the technical support required to complete commissioning for full scale production. The pre-roll packaging automation equipment is operational and the Company expects to see continued increases in production in Q2 2023, however, the Company continues to work closely with the manufacturer to commission the equipment as it is currently operating below specification. As at March 31, 2023, expenditures of approximately $0.1 million were made towards dried flower and pre-roll automation initiatives. We expect to incur expenditures of approximately $2.5-3.5 million towards capital projects focused on pre-roll cannabis filling machinery and dried flower and pre-roll packaging automation throughout 2023.

Auxly Leamington

We simplified our cultivation supply chain through the acquisition of 100% of Auxly Leamington Inc. ("**Auxly Leamington**") on November 22, 2021. Auxly Leamington provides the Company with a secure and cost-efficient source of dried cannabis, milled flower and extraction materials. Prior to the acquisition of Auxly Leamington, the Company was dependent on third party wholesale purchases. Auxly also began its first wholesale bulk cannabis sales from the Auxly Leamington facility starting in the fourth quarter of 2022 and intends to continue its wholesale bulk cannabis sales throughout 2023.

Auxly Leamington is comprised of a 1.1 million square foot automated greenhouse in Leamington, Ontario, which holds licences for cultivation and processing under the Cannabis Act, authorizing the cultivation, processing, storage and sale of Cannabis Products. Auxly Leamington utilizes a perpetual harvest methodology resulting in a continuous supply of cannabis and flexibility to adjust production capacity to demand as required. On October 26, 2022, Auxly Leamington received approval under the Cannabis Act for an additional cannabis storage area, resulting in a 12,156 square foot expansion of its licensed perimeter. Auxly Leamington intends to use this environmentally controlled expansion to increase its storage and manufacturing capabilities. The total area of the licensed perimeter at Auxly Leamington for cultivation, processing and storage stands at 876,270 square feet. Auxly Leamington is producing award-winning cannabis strains, including popular Back Forty strains and high-quality value strains under the newly launched brand Parcel, all of which are sold to and used by the Company in its full suite of Cannabis Products across all Auxly brands. In addition, Auxly Leamington possesses an extensive genetic library and continues to evaluate all opportunities to acquire new cultivars suited for Auxly's portfolio of Cannabis Products. As at March 31, 2023, expenditures of approximately $0.3 million were made towards capacity expansion, equipment and post-harvest automation. We expect to incur expenditures at the Leamington facility of approximately $2.0-3.0 million towards capital projects throughout 2023 to increase staff housing, implement alternate post-harvest drying methods and purchase equipment to support higher output from the facility.

Funding for the initial project budget was provided by the Company in the form of an equity contribution and a subordinated promissory note totaling approximately $98.5 million provided prior to 2020, and an $84 million secured credit facility underwritten by a syndicate of lenders led by the Bank of Montreal ("**BMO**"). The Company's contribution along with the credit facility comprised the required expenditures for the initial budgeted construction of the facility. Concurrently with the Auxly Leamington acquisition, the Company and Auxly Leamington amended and restated the secured credit facility with BMO and the same syndicate of lenders thereby remedying the defaults noted by BMO on April 16, 2021. Under the amended and restated secured credit agreement ("**ARCA**"), Auxly made a $15 million cash payment towards the outstanding principal balance of the credit facility and the maturity date of the credit facility was extended to September 30, 2023. The obligations of Auxly Leamington under the credit facility also continue to be supported by an unsecured $33 million limited resource guarantee provided by the Company.

Auxly Leamington informed the syndicate of lenders that it did not wish to exercise its option to extend the maturity date for an additional year by making a further principal repayment of $5 million by September 30, 2022. As at March 31, 2023 Auxly Leamington was in compliance with its covenants under the credit facility, including all financial covenants. Upon filing the Company's financial statements for the year ended December 31, 2022, and delivering the audited financial statements for Auxly Leamington for the year ended December 31, 2022, each of the Company and Auxly Leamington was in breach of certain reporting covenants under the ARCA due to the inclusion of the going concern qualifications. The Company and Auxly Leamington have received a waiver from the syndicate of lenders for such breaches.

Auxly Annapolis and Auxly Annapolis OG

On February 7, 2022, Auxly announced that it had ceased operations at the Auxly Annapolis Inc. ("**Auxly Annapolis**") and Auxly Annapolis OG Inc. ("**Auxly Annapolis OG**") facilities and its intention to divest of these non-core assets and apply the proceeds from any such sale to support its ongoing operations. On July 5, 2022, Auxly announced that it had closed the sale of the Auxly Annapolis indoor facility to a private purchaser for total proceeds of $6 million. On August 10, 2022, Auxly announced that it had closed the sale of the Auxly Annapolis OG outdoor facility to a private purchaser for total proceeds of $4.1 million.

Strategic Partner

Imperial Brands

Through our strategic partnership with Imperial Brands PLC ("**Imperial Brands**"), Auxly was granted global licenses to Imperial Brands vaping technology for cannabis uses, and access to its vapour innovation business, Nerudia, and Imperial Brands will use Auxly as its exclusive partner for the future development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world. Auxly has elected to its Board of Directors one out of six director nominees and one non-voting observer, each designated by Imperial Brands. Auxly will continue to leverage the expertise of these Imperial Brands representatives to improve its corporate and product stewardship governance practices. On November 1, 2021, Murray McGowan, Chief Strategy and Development Officer for Imperial Brands, was appointed to Auxly's Board of Directors as Imperial Brands' director nominee. Mr. McGowan replaced the previous Imperial Brands' nominee Conrad Tate. Mr. Tate left Imperial Brands in October 2021, but, at the request of the Company, agreed to remain on the Board of Directors as an independent director.

International Operations

Presently the Company does not have any active international operations. In the third quarter of 2020, the Company ceased all activities at its subsidiary Inverell S.A. ("**Inverell**") in Uruguay due to the slower than anticipated pace of cannabis-specific regulatory development in Latin America. Auxly is continuing to monitor the progress of other jurisdictions towards recreational and medical cannabis legalization, including the United States and Europe.

OUTLOOK

In 2023, we aim to continue to improve earnings performance, increase focus on key product formats, lower costs and increase efficiency, which we expect will yield positive results. With these actions in mind, our goals for 2023 are broadly defined below:

- Increase net revenues by 15%, with a focus on key product categories, enhanced by strategic expansion of our product portfolio, while supporting strong retail distribution through our internal sales team.
- Continue to leverage Auxly Leamington's large-scale, low-cost cultivation facility and the Company's manufacturing automation to increase blended Cost of Finished Cannabis Inventory Sold Margin to an average of 35-40%.
- Vigorously manage SG&A as a percentage of net revenues to keep it below 40%, further building upon savings realized in Q4 2022.
- Prudently manage the Company's balance sheet and streamline assets where possible.

The results for the first quarter of 2023 continued to build upon the gains made in the fourth quarter of 2022. While the first calendar quarter of the year has historically been impacted by greater seasonality, revenues for the quarter declined only marginally from the fourth quarter of 2022. We believe this improved result is due to a more balanced sales mix as our portfolio expanded further into dried flower and pre-roll product sales, which represented approximately 55% of revenues for the period. The shift in sales mix towards these product categories allowed us to better leverage Auxly Leamington's cost structure, and contributed to further improvements in the Cost of Finished Cannabis Inventory Sold Margin to 37%. Despite a slight increase in SG&A, which includes the full build-out of our new internal sales team, we are very pleased to have achieved the Company's first quarter of positive Adjusted EBITDA.

We believe that we are on track to achieve our full year plan, built upon proven demand for our products, outstanding employees, top-tier assets and an underlying desire to continue to put our consumers first by delivering safe, effective, high-quality products that address their evolving needs and preferences and help them live happier lives.

RECENT DEVELOPMENTS: First Quarter 2023 To Date

Auxly Closes $3.36 Million Private Placement

On February 15, 2023, the Company closed a private placement for 96,000,000 Shares at a price of $0.035 per Share and 96,000,000 warrants, with each warrant entitling the investors to purchase one Share at an exercise price of $0.045 per Share at any time up until February 15, 2028, resulting in total gross proceeds of approximately $3.36 million, before deducting any applicable fees or expenses.

On February 10, 2023 as part of the $3.36 million private placement, the Company announced that it intends to amend the terms of 27,381,500 Share purchase warrants (the "**Bought Deal Warrants**") which were issued pursuant to a bought deal financing completed on June 14, 2021. The Bought Deal Warrants currently have an exercise price of $0.38 per Share and expire on June 14, 2024. The purpose of the proposed amendments is to (i) reduce the exercise price of the Bought Deal Warrants from $0.38 to $0.045 per Share, and (ii) extend the expiry date of the Bought Deal Warrants from June 14, 2024 to June 14, 2026 (the "**Bought Deal Warrant**

Amendments"). The Bought Deal Warrant Amendments are subject to the completion of formal documentation and the Company receiving all necessary approvals, including any required approvals from the holders of the Bought Deal Warrants under the terms of the indenture governing the Bought Deal Warrants. As of the date hereof, the Bought Deal Warrant Amendments have not yet become effective.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

For the three months ended: (000's)	**March 31, 2023**	March 31, 2022	Change	Change
Total net revenues	**23,968**	22,626	1,342	6%
Net income/(loss)	**(10,249)**	(39,846)	29,597	74%
Adjusted EBITDA*	**138**	(6,324)	6,462	102%
Weighted average shares outstanding	**954,014,308**	847,603,874	106,410,434	13%

As at: (000's)		**March 31, 2023**		December 31, 2022		Change	Change
Cash and equivalents	**$**	**16,841**	$	14,636	$	2,205	15%
Total assets	**$**	**332,610**	$	331,820	$	790	0%
Debt**	**$**	**174,335**	$	174,475	$	(140)	0%

*Adjusted EBITDA is a Non-IFRS financial measure. Refer to the Non-GAAP Measures section in this MD&A for
**Debt is a supplementary financial measure. Refer to the Non-GAAP Measures section in this MD&A for definitions

For the period ended March 31, 2023, net revenues were $24.0 million, an increase of approximately $1.3 million or 6% over the same period of 2022. Sales increased primarily as a result of an increased focus on the sale of dried flower and pre-roll products which has supported the Company's top 5 LP status for the quarter, and also as a result of overall industry sales growth.

Net losses of $10.2 million decreased by $29.6 million over the same period in 2022, primarily due to improved operating results in 2023 as compared to losses of $25.7 million associated with the sale of the Auxly Annapolis facilities in 2022.

Adjusted EBITDA was positive $0.1 million for the quarter, the first positive Adjusted EBITDA quarter for the Company in its history and an improvement of $6.5 million when compared to negative $6.3 million during the same period of 2022. Adjusted EBITDA for the three months ended March 31, 2023 improved primarily as a result of net improvements in revenues, cost of finished cannabis inventory sold and SG&A.

For the period ended March 31, 2023, the average number of Shares outstanding increased to 954.0 million Shares, an increase of 106.4 million Shares or 13% over 2022 primarily as a result of the full year impact of Shares issued in 2022 and Shares issued in connection with the February 2023 private placement.

Cash and equivalents were $16.8 million on March 31, 2023, an increase of $2.2 million from December 31, 2022. The change in cash was associated with net proceeds from financing activities and increases in cash provided by operating activities.

RESULTS OF OPERATIONS

For the three months ended March 31:				
(000's)		**2023**		2022
Revenues				
Revenue from sales of cannabis products	**$**	**37,544**	$	33,204
Excise taxes		**(13,576)**		(10,578)
Total net revenues		**23,968**		22,626
Costs of sales				
Costs of finished cannabis inventory sold		**15,025**		17,522
Biological asset impairment		**-**		704
Inventory impairment		**673**		4,878
Gross profit/(loss) excluding fair value items		**8,270**		(478)
Unrealized fair value gain/(loss) on biological transformation		**4,247**		6,473
Realized fair value gain/(loss) on inventory		**(4,639)**		(2,325)
Gross profit		**7,878**		3,670
Expenses				
Selling, general, and administrative expenses		**10,090**		12,639
Equity-based compensation		**409**		203
Depreciation and amortization		**1,745**		4,600
Interest expense		**5,808**		5,080
Total expenses		**18,052**		22,522
Other income/(loss)				
Interest and other income		**14**		85
Impairment of assets		**-**		(23,673)
Foreign exchange gain/(loss)		**(89)**		(361)
Total other income/(loss)		**(75)**		(23,949)
Net loss before income tax		**(10,249)**		(42,801)
Income tax recovery		**-**		2,955
Net income/(loss)	**$**	**(10,249)**	$	(39,846)
Adjusted EBITDA	**$**	**138**	$	(6,324)
Net income/(loss) per common share (basic and diluted)	**$**	**(0.01)**	$	(0.05)
Weighted average shares outstanding (basic and diluted)		**954,014,308**		847,603,874

Net Revenues

For the period ended March 31, 2023, net revenues were $24.0 million as compared to $22.6 million during the same period in 2022. Revenues for the period were comprised of approximately 55% in sales of dried flower and pre-roll Cannabis Products, with the remainder from oils and Cannabis 2.0 Product sales. Net revenues included wholesale bulk flower sales of approximately $1.0 million during the first quarter of 2023. Auxly maintained its position as a top 5 LP, by maintaining strength in sales of Cannabis 2.0 Products while increasing its share of market for Cannabis 1.0 Products to 4.6% from 3.7% in the previous quarter[2].

Consistent with prior periods, as the Company does not participate in the Quebec market, approximately 85% of cannabis sales during the period originated from sales to British Columbia, Alberta and Ontario.

Gross Profit

Auxly realized a gross profit of $7.9 million in the first quarter of 2023, an increase of $4.2 million as compared to the same period in 2022, which includes the impacts of non-cash impairments and fair value adjustments. The Gross Profit Margin for the first quarter of 2023 was 33% versus 16% in the same period of 2022. Excluding non-cash amounts, the Cost of Finished Cannabis Inventory Sold Margin improved to 37% versus 23% in the same period of 2022, while increasing from 30% in the fourth quarter of 2022 as a result of a higher proportion of Cannabis 1.0 Products sold by the Company utilizing low-cost cannabis cultivated at Auxly Leamington, and the streamlining of certain Cannabis Products and operating costs.

Realized and unrealized fair value gains and losses reflect accounting treatments associated with Auxly Leamington cultivation activities and sales and are influenced by changes in production, sales and net realizable value assumptions.

Biological and inventory impairments during the first quarter of 2023 of $0.7 million were associated with certain slower moving SKUs and certain product not meeting quality specifications, while impairments in the first quarter of 2022 were primarily related to the closure of the Auxly Annapolis facilities.

Total Expenses

Selling, general and administrative expenses ("**SG&A**") are comprised of wages and benefits, office and administrative, professional fees, business development, and selling expenses. SG&A expenses were $10.1 million during the first quarter of 2023, a $2.5 million or 20% decrease over the same period of 2022.

Wages and benefits were $4.7 million for the first quarter of 2023, as compared to $5.7 million for the same period of 2022. The net decrease is primarily due to measures taken after the third quarter of 2022 to reduce overhead in the organization.

Office and administrative expenses were $2.3 million for the period ended March 31, 2023, decreasing by $1.3 million compared to the same period in 2022. The decreased expenditures primarily relate to higher product cost absorption, reduced waste and the timing and cost associated with product innovation.

Auxly's professional fees were $0.8 million for the first quarter of 2023, approximately $0.4 million greater than the same period of 2022. Professional fees incurred primarily related to accounting

[2] Data provided by Headset as at May 4, 2023.

fees, regulatory matters, reporting issuer fees, and legal fees associated with certain corporate activities and as a result can fluctuate significantly from one period to the next.

Business development expenses were $0.1 million for the period ended March 31, 2023, consistent with the same period in 2022. These expenses primarily relate to acquisition, business development and travel related expenses.

Selling expenses were $2.3 million for the first quarter of 2023, a decrease of $0.6 million over the same period in 2022, primarily as a result of cost reductions associated with the internalization of the sales team, partially offset by Health Canada fees related to higher revenues, and increased marketing initiatives.

Equity-based compensation for the three months ended March 31, 2023 was $0.4 million, an increase of $0.2 million over the same period in 2022, primarily reflecting the impact of restricted share units ("**RSU**") granted in June 2022, in respect of services provided by employees in 2021.

Depreciation and amortization expenses were $1.7 million for the first three months of 2023 representing a decrease of $2.9 million over the same period in 2022, primarily as a result of reductions in intangible assets, completion of certain leases and right of use assets, and depreciation associated with disposed assets.

Interest expenses were $5.8 million in the first quarter of 2023 as compared to $5.1 million during the same period in 2022. The increase in expense is primarily a result of the impact of rising interest rates where such obligations are subject to variable charges. Interest expense includes accretion on the convertible debentures and interest paid in kind on the $123 million Imperial Brands Debenture. Interest payable in cash was approximately $2.0 million for the period.

Total Other Incomes and Losses

Total other incomes and losses for the first quarter of 2023 were a net loss of $0.1 million primarily due to foreign exchange losses, as compared to a net loss of $23.9 million in the same period of 2022. Total other losses in the first quarter of 2022 were primarily related to the closure of the Auxly Annapolis and Auxly Annapolis OG facilities, where the carrying value exceeded the fair value less cost to sell.

Net Income and Loss

Net losses for the three months ended March 31, 2023 were $10.2 million, representing a net loss of $0.01 per share on a basic and diluted basis. The change in net loss in the first quarter of 2023 as compared to the same period of 2022 was primarily driven by changes in total other losses, improved gross profits and lower total expenses.

Adjusted EBITDA

Adjusted EBITDA for the period ended March 31, 2023 was positive $0.1 million, an improvement of $6.5 million over the same period of 2022, primarily as a result of improvements in net revenues and reduced costs of finished cannabis inventory sold and SG&A.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	**Q1/23**	Q4/22	Q3/22	Q2/22	Q1/22	Q4/21	Q3/21	Q2/21
Total net revenues	**23,968**	24,681	19,830	27,335	22,626	29,318	24,493	20,852
Net losses	**(10,249)**	(16,056)	(60,102)	(14,289)	(39,846)	(18,376)	(13,527)	(3,676)
Adjusted EBITDA*	**138**	(783)	(5,776)	(3,995)	(6,324)	(6,043)	(6,099)	(2,989)
Average shares outstanding (000's)	**954,014**	905,819	901,521	888,267	847,604	829,480	825,613	762,653
Per share: Basic & diluted loss	**(0.01)**	(0.02)	(0.07)	(0.02)	(0.05)	(0.02)	(0.02)	(0.00)

*Adjusted EBITDA is a Non-IFRS financial measure. Refer to the Non-GAAP Measures section in this MD&A for definitions.

The Company commenced cannabis sales to the Canadian adult recreational market with the legalization of Cannabis 2.0 Products in the fourth quarter of 2019. Since that date, the Company has become a leader in Cannabis 2.0 Products and has continued to introduce new products including Cannabis 1.0 Products to increase total net revenues. To date, net revenues have been seasonally low during the first quarter of any year as a result of retail sales trends which impact the Company's provincial customers' purchasing practices. The Company's expansion into the larger dried flower and pre-roll product categories has contributed to the increasing sales trend. Sales during the third quarter of 2022 were negatively impacted by reduced orders from two of our largest customers Ontario and British Columbia, as they worked through their respective data security and labour issues, and a one-week closure of Auxly Charlottetown due to hurricane Fiona.

Net losses from continuing operations have fluctuated over the eight quarters primarily as a result of other losses which include impairment charges, fair value adjustments and losses on settlement of assets and liabilities. Results for Q2 2021 improved primarily as a result of increased income tax recoveries and recognition of a gain from the Imperial Brands Debenture amendments, partially offset by total other losses. The first quarter of 2022 reflects the impact of losses associated with the closure of the Auxly Annapolis and Auxly Annapolis OG facilities, while the third quarter of 2022 reflects charges of $45 million related to the impairment of goodwill and other assets.

Adjusted EBITDA has fluctuated with changes in total net revenues, changes to product mix with an increase of dried flower and pre-roll Cannabis Products which prior to the acquisition of Auxly Leamington had lower Gross Profit Margins, and the timing of SG&A expenditures, in particular selling expenses. Improvements in the first quarter of 2023 reflect the impact of lower cultivation costs, improved overall margins and reductions in SG&A during the period, resulting in the strongest quarter in the Company's history.

The increases in average outstanding Shares reflect financing activities (issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures).

TRANSACTIONS WITH RELATED PARTIES

Key management and director compensation

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

For the three months ended March 31:				
(000's)		**2023**		2022
Short-term benefits	**$**	**442**	$	524
Long-term benefits		**260**		104
Total	**$**	**702**	$	628

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31:				
(000's)		**2023**		2022
Cash provided/(used) in continuing operating activities	**$**	**3,230**	**$**	**(7,039)**
Net change in investments		**-**		**-**
Net capital expenditures		**(506)**		(761)
Cash provided/(used) in continuing investing activities		**(506)**		**(761)**
Net cash provided/(used) from continuing financing activities		**(519)**		**9,341**
Cash position, at the beginning of the period		**14,636**		14,754
Cash position, end of period	**$**	**16,841**	$	16,295

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

Auxly manages its capital structure by preparing rolling cash flow forecasts, monitoring the condition and value of assets available for use as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

Auxly is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital and may issue additional Shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

During the three months ended March 31, 2023, Auxly generated $3.2 million in net cash from operating activities, including the positive impact of $5.3 million from changes in working capital. Net investing activities for the period ended March 31, 2023, were a use of $0.5 million primarily related to capital expenditures undertaken at Auxly Leamington. Net financing activities were a use of cash of $0.5 million for the three months ended March 31, 2023, reflecting proceeds from the Company's recent financing partially offset by repayment of the unsecured convertible debentures, lease and other payments.

Going concern uncertainty

The Company's financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

On March 31, 2023, the Company had total cash and cash equivalents of $16.8 million, negative working capital of $15.4 million, and positive cash flow from operating activities of $3.2 million for the three months ended March 31, 2023. The Company currently will have insufficient cash to fund its operations for the next 12 months if the Company's sales do not improve or if they decline;

if the Company's margins do not improve or if they decline; if the Company's SG&A increases or does not decrease; and/or the Auxly Leamington credit facility of $47.2 million matures on September 30, 2023, without extension or refinancing. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following March 31, 2023. To address its financing requirements, the Company will seek financing through debt and equity financings (which may include use of an at-the-market offering program and/or rights offerings to existing shareholders) and non-core asset sales. The Company will also seek to improve its sales and cash flows by prioritizing certain products and projects with a greater expected return and reducing operating costs by streamlining its operations and support functions. While the Company has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Company's ability to raise capital may be adversely impacted by: market conditions that have resulted in a lack of normally available financing in the cannabis industry; the Company's ongoing litigation matters; increased competition and price compression across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market, and overall negative investor sentiment in light of inflation, global conflict and negative macroeconomic impacts from the COVID-19 pandemic. Accordingly, there can be no assurance that the Company will achieve profitability, or secure financing on terms favourable to the Company or at all.

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

OUTSTANDING SHARE DATA

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

	May 12, 2023	March 31, 2023	December 31, 2022
Issued Shares	1,009,008,498	1,009,008,498	913,008,498
Escrowed shares	6,994,190	6,994,190	6,994,190
Outstanding shares	1,002,014,308	1,002,014,308	906,014,308
Exercisable securities			
Warrants	218,510,533	218,510,533	122,510,533
Convertible debentures	196,914,452	196,914,452	205,844,409
Options	23,822,306	24,423,306	24,773,639
Restricted share units	62,088,353	62,088,353	62,088,353

Shares outstanding as at March 31, 2023 increased by approximately 92.0 million to 1,009.0 million primarily as a result of the issuance of equity during the quarter which also resulted in an equal change in outstanding warrants. The Company repaid $1.232 million of the principal amount of convertible debentures owing under the amended standby financing agreement as a result of raising additional capital. The number of options declined to 24.4 million as at March 31, 2023 due to plan forfeitures.

NON-GAAP MEASURES

The interim condensed consolidated financial statements of Auxly are prepared in accordance with IFRS. Auxly's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the interim condensed consolidated financial statements for the three months ended March 31, 2023, and notes 2 and 3 of the annual consolidated financial statements for the year ended December 31, 2022.

This MD&A makes reference to certain financial measures, including non-GAAP measures that are historical, non-IFRS measures that are forward-looking, and supplementary financial measures. Management uses these financial measures for the purpose of comparison to prior periods and the development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use the following non-GAAP financial measures: "EBITDA", "Adjusted EBITDA," and the supplementary financial measures of "Cost of Finished Cannabis Inventory Sold Margin", "Gross Profit Margin", and "Debt."

Financial Measures

EBITDA and Adjusted EBITDA

These are non-GAAP measures used in the cannabis industry and by the Company to assess operating performance removing the impacts and volatility of non-cash adjustments. The definition may differ by issuer. EBITDA and Adjusted EBITDA used by the Company are reconciled with net loss from continuing operations of the Company, an IFRS measure, in the section "Results of Operations" in this MD&A. The calculation of Adjusted EBITDA is comprised of the net loss from continuing operations of the Company added or subtracted as applicable as provided in the detailed reconciliation found in this MD&A. There are a number of individual financial statement adjustments however, they are inclusive of, interest expense and income, income taxes, depreciation and amortizations, fair value gains or losses, impairments or settlements, foreign exchange, changes in the share of joint venture investments, share based compensation, gains or losses on the sale or disposal of assets and any other unusual items. The Adjusted EBITDA reconciliation is as follows:

(000's)		Q1/23		Q4/22		Q3/22		Q2/22		Q1/22		Q4/21		Q3/21		Q2/21
Net income/(loss)	$	**(10,249)**	$	(16,056)	$	(60,102)	$	(14,289)	$	(39,846)	$	(18,376)	$	(13,527)	$	(3,685)
Interest expense		**5,808**		5,655		5,507		5,336		5,080		4,348		3,932		4,787
Interest income		**(14)**		(63)		(105)		(84)		(85)		(308)		(436)		(431)
Income tax recovery		**-**		(1,112)		(2,110)		(85)		(2,955)		-		-		(4,291)
Depreciation and amortization included in cost of sales		**1,120**		1,296		681		2,180		1,211		689		386		326
Depreciation and amortization included in expenses		**1,745**		2,791		3,525		3,900		4,600		5,678		2,223		2,174
EBITDA		**(1,590)**		(7,489)		(52,604)		(3,042)		(31,995)		(7,969)		(7,422)		(1,120)
Impairment of biological assets		**-**		-		-		-		704		-		-		-
Impairment of inventory		**673**		2,062		2,014		1,778		4,878		2,194		716		124
Unrealized fair value loss / (gain) on biological transformation		**(4,247)**		(2,814)		(7,496)		(11,735)		(6,473)		(1,462)		(352)		(315)
Realized fair value loss / (gain) on inventory		**4,639**		7,382		8,175		6,898		2,325		904		1		1
Restructuring related costs		**165**		-		193		-		-		-		-		-
Equity-based compensation		**409**		429		475		2,916		203		212		55		960
Fair value loss / (gain) for financial instruments accounted under FVTPL		**-**		-		-		-		-		408		(223)		(75)
Impairment of assets		**-**		676		42,831		-		23,673		-		60		11,366
(Gain) / loss on settlement of assets, liabilities and disposals		**-**		(1,330)		1,574		(163)		-		815		(1,396)		(16,995)
Share of loss on investment in joint venture		**-**		-		-		-		-		(1,387)		3,095		2,494
Foreign exchange loss / (gain)		**89**		301		(938)		(647)		361		242		(633)		571
Adjusted EBITDA	**$**	**138**	$	(783)	$	(5,776)	$	(3,995)	$	(6,324)	$	(6,043)	$	(6,099)	$	(2,989)

Supplementary Financial Measures

Cost of Finished Cannabis Inventory Sold Margin

“Cost of Finished Cannabis Inventory Sold Margin” is a supplementary financial measure and is defined as Cost of Finished Cannabis Inventory Sold divided by net revenues.

Gross Profit Margin

“Gross Profit Margin” is defined as gross profit divided by net revenues. Gross Profit Margin is a supplementary financial measure.

Debt

“Debt” is defined as current and long-term debt and is a supplementary financial measure. It is a useful measure in managing our capital structure and financing requirements.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2023, the Company 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**.**

The Company has funding commitments as follows:

As part of the debt financing provided by a syndicate led by BMO towards the construction of the Auxly Leamington purpose-built greenhouse facility, the Company has guaranteed payments up to $33 million in the event of default;

Payments of an aggregate of €1.614 million in 2023 for cannabis equipment to expand the Company’s pre-roll and dried flower capabilities;

Annual payment of approximately $0.1 million for minimum annual volume requirement with Union Gas, with agreement ending August 1, 2029; and

Annual payment of approximately $0.1 million until 2024 for guaranteed minimum purchase of bulk carbon dioxide with Air Liquide.

The Company has commitments in respect of long-term debt obligations and leases relating to office spaces, equipment and land which will require payments as follows:

	Remaining in 2023	Fiscal year 2024	Fiscal year 2025	Fiscal year 2026	Thereafter	Total
Lease obligations	$ 4,133	$ 3,145	$ 2,795	$ 2,775	$ 10,062	**$ 22,910**
Loans payable obligations	48,793	8,330	738	-	-	**57,861**
Promissory note obligations	4,677	500	-	-	-	**5,177**
Convertible debenture obligations	472	153,943	-	-	-	**154,415**
Total	**$ 58,075**	**$ 165,918**	**$ 3,533**	**$ 2,775**	**$ 10,062**	**$ 240,363**

Long-term debt obligations include principal and interest on the Imperial Brands Debenture maturing on September 25, 2024. Pursuant to the amendments to the Debenture, interest payable may also be converted to Shares or capitalized and paid at maturity.

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea RD 9 PH 5 (the “**Transfer**”) for which Auxly Leamington shall pay Fresh Energy consideration of:

- an unsecured promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months and;
- contingent consideration payable of $500 upon the completion of effecting such Transfer, included in the consideration paid for the acquisition of Auxly Leamington.

The Company entered into a brokerage agreement with Kindred Partners Inc. (“**Kindred**”) to act as the Company’s strategic sales agent in September 2019. In October 2022, the brokerage agreement with Kindred was terminated. In January 2023, Kindred commenced arbitration against the Company for an aggregate claim of $3,442. The Company has filed its defence and counterclaim against Kindred. As at March 31, 2023, the Company recorded a provision of $1,235 related to this claim.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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.

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

Areas requiring estimates and judgements are as follows:

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 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.

If the recoverable amount of the CGU is greater than the carrying amount, the difference is written off as impairment loss. The impairment loss is first allocated to goodwill and the remainder is allocated to other assets of the CGU subject to the limitation that the carrying amount of an asset should not be reduced below the highest of fair value less cost of disposal, value in use or zero.

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.

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 6.

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 consider factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

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

Fair value measurements

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

Inputs when using Black-Scholes valuation model

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

Discount rates

The discount rates used to calculate the 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.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

Internal controls over financial reporting (ICFR) and disclosure controls and procedures (DCP) are designed to provide reasonable assurance that material information required to be publicly disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure.

Auxly's certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financials for external purposes in accordance with IFRS using the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"). In addition, the Company's certifying officers and its disclosure committee have designed, and assessed the design of, a system of DCP to provide reasonable assurance that (i) material information relating to Auxly, including its consolidated subsidiaries, is made known to them and others; and (ii) information required to be disclosed by Auxly in its annual filings, interim filings and other reports filed or submitted by Auxly under securities legislation is recorded, processed, summarized and reporting within the time periods specified.

There are no material weaknesses relating to the design of either ICFR or DCP at March 31, 2023. There have been no changes to our ICFR during the quarter that has materially affected, or is reasonably likely to materially affect, Auxly's ICFR.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, Auxly intends to take whatever steps are necessary to minimize the consequences thereof.

CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting pronouncements

Amendments to IAS 8, Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendments provide clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company adopted the amendments to IAS 8 with no impact to its interim condensed consolidated financial statements.

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

In May 2021, the IASB issued amendments to IAS 12, Income Taxes ("IAS 12") to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company adopted the amendments to IAS 12 with no impact to its interim condensed consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Auxly's financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, deposits, long-term investments, accounts payable and accrued liabilities, promissory notes, loans payable and convertible debentures. Cash and cash equivalents and short-term investments are exposed to credit risk and Auxly reduces its credit risks by placing these instruments with institutions of high credit worthiness. Other receivables relate to outstanding loans and Auxly mitigates the credit risk by entering into agreements and reviewing its exposure to credit risk on a regular basis. Auxly is exposed to liquidity risk with respect to its trade and other payables and Auxly manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

RISK FACTORS

Auxly's business and structure are subject to a number of risks and uncertainties which could cause future results to differ materially from those described herein, including without limitation, the risk factors discussed in Auxly's Annual Information Form dated March 30, 2023, which risk factors are incorporated by reference into this document and should be reviewed by all readers. These documents as well as additional information regarding Auxly can be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

This MD&A and the documents incorporated by reference herein contain certain statements which contain "forward-looking information" within the meaning of Canadian securities legislation (each a "forward-looking statement"). No assurance can be given that the expectations in any forward-looking statement will prove to be correct and, as such, the forward-looking statements included in this MD&A should not be unduly relied upon. Forward-looking information is by its nature prospective and requires Auxly to make certain assumptions and is subject to inherent risks and uncertainties. All statements, other than statements of historical fact included in this MD&A, including information that address activities, events or developments that the Company expects or anticipates will or may occur in the future, are forward-looking statements. The use of any of the words "anticipates", "plans", "contemplates", "continues", "estimates", "expects", "intends", "proposes", "might", "may", "will", "shall", "projects", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "capable", "budget" and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this MD&A may include, but is not limited to, statements pertaining to:

- the ability of the Company to continue as a going concern;
- future liquidity and financial position;
- the Company's growth strategy, targets for future growth and projections of the results of such growth;
- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;
- the sufficiency of the Company's resources to fund continued operations;
- the Company's expectations regarding its future sales;
- the impact of the COVID-19 pandemic on the Company's current and future operations;
- the success, and integration of operations, of the entities the Company acquires and the Company's collaborations;
- any ongoing construction, expansions, consolidations, improvements, commissioning of the Company's facilities, equipment or assets, including those of Auxly Charlottetown, Auxly Leamington and Auxly Ottawa, and the timing thereof;
- inventory and production capacity, including discussions of anticipated yields or plans or potential for expansion of capacity at existing facilities;
- the market for the Company's current and proposed product offerings, as well as the Company's ability to capture and maintain market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's current and proposed product offering and expected sales mix thereof;
- development of brands, product diversification and future corporate development;
- the competitive landscape in which the Company operates and the Company's market expertise;
- expectations regarding the Company's ability to raise additional financing to further the Company's investment in the business;
- the applicable legislation, regulations and licensing, and any amendments thereof, related to the cultivation, production, processing, distribution and sale of cannabis products by the Company's subsidiaries and other business interests;
- the ability of the Company to use consumer insights to drive innovation; continuously innovate new cannabis products; and introduce innovative cannabis products to the market;
- the ability of the Company, its subsidiaries and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- the ability of the Company to maintain and/or increase its wholesale bulk cannabis sales;

- expectations regarding the Company's licences, including in respect of the grant and maintenance of licences under the Cannabis Act, the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act, and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- the expectation, timing and quantum of future revenues, Cost of Finished Cannabis Inventory Sold Margin, SG&A and of positive Adjusted EBITDA;
- expectations regarding the Company's expansion of sales, operations and investment into foreign jurisdictions;
- the anticipated benefits of the Company's acquisition of Auxly Leamington;
- the performance of the Company's business and operations;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- the Company's competitive position.

The forward-looking statements in this MD&A are based on information currently available and what management believes are reasonable assumptions. Forward-looking statements speak only to such assumptions as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, the accuracy of which has not been verified by Auxly. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose.

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

- the Company will be able to continue as a going concern, will have sufficient working capital and be able to secure adequate financing required in the future on acceptable terms to develop its business and continue operations;
- current and future management will abide by the business objectives and strategies outlined herein;
- the Company will retain and supplement its Board of Directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which Auxly participates;
- the Company will be able to continue to attract, develop, motivate and retain highly qualified and skilled employees;
- no adverse changes will be made to the regulatory framework governing cannabis, taxes and all other applicable matters in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company will be able to generate cash flow from operations, including, where applicable, the cultivation, production, processing, distribution and sale of Cannabis Products;

- the Company will be able to execute on its business strategy or achieve its goals;
- the Company will be able to maintain and/or grow its market share;
- the Company's subsidiaries will be able to meet the governmental and regulatory requirements necessary to maintain their licences;
- general economic, financial market, regulatory and political conditions in which Auxly operates will remain the same;
- the Company will be able to compete in the cannabis industry;
- there are not materially more closures or lockdowns related to the COVID-19 pandemic;
- the Company will be able to manage anticipated and unanticipated costs;
- the Company will be able to successfully integrate Auxly Leamington's operations with its own; and whether the expected benefits of the acquisition materialize in the manner expected, or at all;
- Auxly Leamington will generate sufficient cash flow to satisfy its payment obligations under the amended and restated credit facility; and whether Auxly Leamington will remain in compliance with its operating covenants under the amended and restated credit facility;
- Auxly will be able to maintain effective internal controls over financial reporting and disclosure, controls and procedures;
- there will not be material price compression in the cannabis industry;
- the Company will be able to continue to achieve and maintain its target SG&A expenses;
- the Company will be able to increase and maintain revenues, achieve and maintain positive Adjusted EBITDA and/or achieve and maintain its target Cost of Finished Cannabis Inventory Sold Margin;
- the Company will be able to continue to further expand production capacity and introduce new products and product formats;
- the Company will be able to increase its wholesale bulk cannabis sales;
- the Company will be able to successfully launch and commercialize new brands, create new products and product formats and enter into new markets; and
- there is acceptance and demand for current and future Company products by consumers and provincial purchasers;

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

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