AUXLY CANNABIS GROUP INC.

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

Dated August 27, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") was prepared as of August 27, 2020 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, 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 and six months ended June 30, 2020, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2019.

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.

DESCRIPTION OF BUSINESS

Our Business

We are a consumer packaged goods company in the cannabis products market, dedicated to bringing safe, innovative, effective, and high-quality cannabis products to the wellness and recreational markets. We have established an experienced team of professionals from multiple disciplines including clinical and scientific research, product development and fast-moving consumer goods. We have partnered with industry leaders and are developing assets to create trusted products and brands in an expanding global market.

Our vision is to be a global 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 such products were first available for sale on December 16, 2019. Health Canada is currently undertaking consultations and discussions regarding the possible legalization of Cannabis Health Products ("**CHPs**"), which would permit the making of health claims in respect of cannabis products without the required oversight of a practitioner such as a doctor. Auxly is actively participating in those discussions and is looking forward to the possibility that the authorized classes of cannabis will expand to include CHPs and other derivative product formats ("**Cannabis 3.0 Products**").

Canadian Strategy and Capabilities:

Brand Portfolio and Product Offering

We have created a diverse brand platform designed to target a broad market of consumers, with differentiation in price points and across multiple consumer segments.

Foray. Foray is an accessible entry point for anybody – at any stage of their cannabis journey. Designed for the curious, Foray is an approachable brand that aims to both celebrate and educate one's foray into cannabis, ultimately inviting them to see cannabis differently.

Kolab Project. Kolab Project is a platform dedicated to supporting and celebrating the connection of cannabis and the process of creation in art, design and culture. Its mission is to provide Canadian cannabis enthusiasts with a carefully curated selection of exceptional cannabis products in collaboration with culturally relevant creators. The Kolab Project brand aims to connect with those actively in the cannabis category that have an appreciation for the positive impact that art, culture and design have on humanity.

***Dosecann*.** Dosecann is a wellness brand built on pillars of quality, safety and efficacy. Backed by science, advanced research and development, Dosecann products are driving today's innovation and establishing tomorrow's standards. Dosecann is cannabis – down to a science™.

Robinsons. Robinsons aims to be Canada's premier producer of fine crafted cannabis for the most discerning set of customers and establish the standard by which others measure their own success. Robinsons will cultivate differentiated, high-quality, craft product under the Robinsons cannabis brand and premium cannabis products directly to the market.

Auxly has developed a broad initial portfolio of both Cannabis 1.0 Products and Cannabis 2.0 Products to meet the evolving needs and preferences of Canadian cannabis consumers. We have focused on the development of Cannabis 2.0 Products and were one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada starting in mid-December 2019. Auxly's currently available Cannabis 2.0 Products include vapes, chewables and chocolates under the Kolab Project and Foray brands, product formats at price points which we expect to represent a significant percentage of the initial Canadian market demand for Cannabis 2.0 Products. Our Cannabis 1.0 Products include certain oil-based products in sprayable and bottle formats under the Dosecann brand, pre-rolls under the Kolab Project brand, and has expanded to include finished dried cannabis under the Kolab Project and Robinsons brands as of July 2020.

The launch of the Robinsons brand coincided with the release of Robinsons' premium dried flower cultivated at its craft indoor facility in Kentville, Nova Scotia, and we intend to expand our product offering under the Robinsons brand to include derivative cannabis products using cannabis produced from the Robinsons Outdoor Grow Incorporated ("**Robinsons OG**") outdoor cannabis cultivation project.

Outlined in the table below is a breakdown of our currently available products by brand and product format.

Products Currently Available by Brand

KOLAB PROJECT	Foray	Dosecann Cannabis Solutions	ROBINSONS
Soft Chews	Soft Chews	Cannabis oil spray	Dried Flower
Vape cartridge starter packs	Chocolates	Cannabis oil drops	
510 Vape cartridges	Vape cartridge starter packs		
All-in-one vape pens	510 Vape cartridges		
Pre-rolled cannabis	All-in-one vape pens		
Dried Flower			

Our Cannabis 2.0 Products have been incredibly well received by provincial boards and consumers. As one of the first companies to the Cannabis 2.0 Products market, we continue to build brand recognition and delight consumers with our products.

We will continue to develop our dried flower, pre-roll, oil, vape and edible product formats to respond to evolving consumer demand and preferences.

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 retailers, including our partnership with Medical Cannabis by Shoppers Drug Mart Inc., a brokerage agreement with Kindred Partners Inc. ("**Kindred**") to act as our strategic sales agent, commercial collaboration arrangements with independent retailers such as Inner Spirit and Delta 9, and a wholly-owned retail store in Lloydminster, Saskatchewan ("**LAB001**") under the Kolab Project brand.

We have secured listings and sold our products in all provinces except Quebec (where the regulations for Cannabis 2.0 Products are more restrictive) and were one of only a few cannabis companies that successfully shipped Cannabis 2.0 Products across Canada in 2019. We have obtained the necessary pre-authorization to enter into public contracts in Quebec and are exploring listings for certain products that comply with Quebec's regulatory requirements. Auxly's products are now widely available at retailers across the country.

See below for an overview of our existing distribution partnerships.

kindred	• Kindred, a wholly-owned subsidiary of Breakthru Beverage Group, is a Toronto-based speciality cannabis brokerage serving the recreational market and was selected based on their shared vision, system-driven process and a commitment to joint goals and KPIs supporting the successful launch of Auxly in Canada • Kindred will leverage their relationships in working with Canadian control boards, licensed distributors and retailers to broker Auxly cannabis products for the recreational market
SPIRITLEAF	• Auxly is a strategic foundational partner and minority shareholder in Spiritleaf's parent company • Auxly is entitled to supply and merchandising rights, detailed sales data, collaboration on consumer advertising initiatives, and enhanced budtender engagement opportunities
LAB001	• Auxly's wholly-owned retail store in Lloydminster, Saskatchewan • Offers local cannabis sales at its brick-and-mortar location • Provides province-wide sales through its e-commerce platform
Delta 9 CANNABIS	• Strategic partnership and supply agreement with Auxly (Dosecann) • Currently operates 6 cannabis retail stores in Manitoba with plans for expansion • The leading retailer in the province of Manitoba that has already expanded into the Alberta market
META GROWTH	• 36 operational retail stores across Canada • Auxly's branded products are in all locations
medical cannabis by SHOPPERS DRUG MART	• Auxly is one of the suppliers of cannabis products through Medical Cannabis by Shoppers Drug Mart's online platform • Auxly's full suite of products and brands will be available to consumers across Canada • Dosecann has completed its initial shipment of cannabis products
CANNA Cabana	• 39 retail locations operating in Alberta, Saskatchewan and Ontario • Preferred supplier through their data subscription program called "Cabanalytics" which allows access to competitive sales data, loyalty program shopper insights, budtender engagement and distribution rights
FIRE & FLOWER	• Auxly is a preferred supplier with fire and flower through their "Hyfire" data subscription program • This allows us access to real time sales and inventory data, it allows us access to their +100,000 members of the "Sparks Perks" loyalty rewards program, lastly it allows us to have distribution and merchandising programs throughout their retail network

Product R&D and Manufacturing

Our pre-rolls are manufactured at our Kolab Project Inc. ("**Kolab**") facility located just outside of Ottawa in Carleton Place, Ontario. In 2019, the facility cultivated and distributed dried cannabis and pre-roll products to LAB001 and the Province of Ontario. In 2020, the Company made a strategic decision to cease cultivation at the Kolab facility and fully focus operations on pre-roll manufacturing, dried flower and other processing activities. To date, the Company has contributed approximately $6.4 million towards the construction and development of the Kolab facility and anticipates that $1.8 million in capital expenditures will be required for Kolab towards Cannabis 1.0 Product related equipment purchases and facility upgrades over the next 12 months.

In May of 2018, we acquired our subsidiary Dosecann LD Inc. ("**Dosecann**"), and its purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. The Company conducts its extraction, product development, manufacturing and R&D activities for its value-added derivative cannabis products in-house at the Dosecann facility. Dosecann holds licences for processing, sale for medical purposes, analytical testing as well as research and development under the Cannabis Act. The majority of the first floor of the two-story, 52,000 square foot facility is currently licenced under the Cannabis Regulations for the production, storage and sale of Cannabis 2.0 Products and certain Cannabis 1.0 Products. As of May 12, 2020, Health Canada streamlined its site expansion process whereby licence holders are no longer required to submit certain amendments for approval by Health Canada. This significantly reduces the regulatory burden for site expansion and increases Health Canada's capacity to review applications that must be submitted. Under the revised site expansion process, Dosecann will not be required to seek further Health Canada approval for operational areas on the second floor of the facility, but any additional secure storage areas will require a formal licence amendment submission and approval. Construction of the second floor of the Dosecann facility is ongoing, and the Company anticipates that construction will be completed by the end of Q3 2020. Under the revised site expansion process, Dosecann will be able to commence operational activities on the second floor as construction is completed. Once finished and operational, Dosecann's production area will be tripled, significantly increasing product manufacturing for existing product formats as well as enabling Dosecann to manufacture additional product formats at commercial scale. As at June 30, 2020, the Company has contributed approximately $43.6 million towards the construction and development of the Dosecann facility and anticipates that approximately $17.6 million of capital expenditures will be required over the next 12 months to complete the second floor of the Dosecann facility by Q3 2020, make equipment purchases, finish landscaping and outdoor construction and expand extraction capacity in 2021 within the facility.

Product development is led by Dosecann's team of leading experts in the pharmaceutical, food, scientific research and product development fields, who are dedicated to developing proprietary formulations for a range of derivative cannabis products. As the Company's manufacturing hub, the Dosecann facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. On June 25, 2020, Dosecann was granted a research licence from Health Canada pursuant to the Cannabis Act, which permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing. With the research licence, Dosecann can conduct broader in-house testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations.

KGK Science Inc. ("**KGK**"), the Company's wholly owned contract research organization located in London, Ontario, provides regulatory, research and clinical trial services to the nutraceutical, natural health product and cannabis industries. KGK has an active Cannabis Research licence allowing the possession and administration of cannabis for the purposes of a clinical trial. KGK has also applied for additional Cannabis Research licences which are currently under active review by Health Canada and when obtained will bolster KGK's suite of cannabis services. The team at KGK, who has worked extensively with Health Canada and the U.S. Food and Drug Administration, will assist in the development of future products and has representation on Auxly's Safety Board (alongside other members from Auxly, Dosecann and Imperial Brands), which has oversight of the controls in place to ensure the safety, quality and efficacy of the Company's products. Towards that goal, our Safety Board supports the development of acceptable safety profiles for all products while ensuring that consumers have access to clear and accurate information on product risks.

We believe that our assets and capabilities, in particular the powerful combination of Dosecann and KGK, make us uniquely positioned to become a market leader when looking ahead to the Cannabis 3.0 Products market, as our ability to perform the clinical work necessary to demonstrate product safety and efficacy and substantiate product claims will further differentiate us from other licence holders.

Cultivation Supply

We have a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of wholly owned subsidiaries, offtake agreements, joint ventures and streaming partners. Having a flexible cultivation platform allows us to ensure a consistent source of raw input material for the manufacture of our cannabis products. Because certain of our cultivation facilities are awaiting licencing and completion, including subsequent phases of our Sunens project in Leamington, Ontario (see "*Sunens*", below), Auxly opportunistically purchased approximately 71% of its cannabis inventory (dried cannabis and resin) in the open market throughout 2019 and 2020, which enabled us to meet our commercial objectives for cannabis product development. The majority of the Company's current CBD inventory was purchased from licenced hemp sellers in Prince Edward Island.

A summary of our key cultivation supply is below:

<u>Sunens</u>

Sunens Farms Inc. ("**Sunens**") is the Company's large-scale joint venture with partner Peter Quiring, CEO of Nature Fresh Foods. The 1.1 million square foot greenhouse project is currently under construction in Leamington, Ontario. In June of 2020, Sunens received a standard cultivation licence from Health Canada for the first phase of the project. The first phase includes approximately 360,000 square feet of cultivation, processing and storage space. Since receiving the licence, Sunens has commenced cultivation of organic cannabis within the licenced area. The Company has determined that the most expedited licensing pathway will be achieved by submitting two independent amendment applications for Health Canada's review to expand the site perimeter for the remaining two phases which will permit Sunens to commence operations within such areas following Health Canada's approval. The Company anticipates that these two licence amendments will be submitted throughout the course of 2020, with the first of the two amendments being submitted by the end of Q3 2020, and upon receipt of both amendments, the entire cultivation footprint for the project will be licenced. The Company believes that the Sunens facility will be the cornerstone of its cultivation portfolio, and when fully operational, is expected to produce approximately 100,000 kg of organic cannabis annually. The Company anticipates the initial harvest and delivery of cannabis from Sunens' first licensed phase will be in late 2020, and at such time the Company expects to transition Sunens to become its primary supplier of cannabis inventory.

The Company has contributed approximately $98.5 million towards the Sunens project, with the balance of the budget underwritten by the Bank of Montreal ("**BMO**") and a syndicate of lenders in the third quarter of 2019. The Company's contribution, along with the BMO credit facility, comprise the entire required expenditures for the entire first phase of the project. As of the date of this MD&A, the Company is not expected to advance any additional funding to Sunens within the next 12 months.

Robinsons

Robinsons Cannabis Incorporated ("**Robinsons**") holds licences for cultivation, processing and sale for medical purposes under the Cannabis Act for its purpose-built 27,700 square foot indoor cannabis cultivation facility located in Kentville, Nova Scotia. On May 14, 2020, Robinsons received authorization from Health Canada to sell dried cannabis to provinces and territories. Robinsons has entered into supply arrangements with OntarioNova Scotia and Alberta, with initial shipments of Robinsons dried cannabis products made to those provinces in July 2020. To date, the Company has contributed approximately $12.4 million towards the construction and development of the Robinsons facility and anticipates a further $0.1 million in capital expenditures will be required for Robinsons equipment purchases and facility upgrades over the next 12 months.

Robinsons OG

Robinsons OG is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land and uniquely located in Hortonville, Nova Scotia. The Company anticipates that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG will be used for product development initiatives at Dosecann and to create premium, terroir-driven Robinsons-branded derivative cannabis products, with the same commitment to quality and craftsmanship as Robinsons' dried cannabis. Robinsons OG holds a standard cultivation licence under the Cannabis Act from Health Canada. However, given the timing for the optimal outdoor planting season and the operational challenges posed by the COVID-19 pandemic, the Company has made the strategic decision to delay the commencement of cultivation activities at the Robinsons OG site and instead focus its efforts on the continued development of the Robinsons OG land and facility in preparation for the 2021 cultivation season. To date, the Company has contributed approximately $11.4 million towards the construction and development of the Robinsons OG project and anticipates a further $3.5 million in capital expenditures will be required to complete the Robinsons OG project prior to the 2021 harvest.

PEI Hemp

We acted as the financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp was cultivated in Prince Edward Island by six individual hemp licence holders, which resulted in approximately 98,000 kg of hemp biomass from the 2019 cultivation season. Dosecann secured the right of first refusal to offtake the biomass produced in 2019 at preferential prices. The biomass available for purchase was subject to final inspection and validation of a minimum cannabinoid content and quality specifications to ensure extraction efficiency. Based upon the negotiated pricing and the Company's sponsorship of the project to date, the Company has purchased (after inspection and validation) approximately 55,000 kilograms of hemp biomass for $6.2 million. The purchase price of $6.2 million was previously provided to the hemp farmers as a loan to commence the project and the Company does not anticipate purchasing any more product from the hemp farmers. The Company intends to use the biomass to extract CBD for use in its own products or for the sale of CBD distillate to other regulated industry participants.

Curative Cannabis

To date, the Company has contributed approximately $20.4 million towards the construction and development of the facility owned by its subsidiary, 2368523 Ontario Inc. (d/b/a Curative Cannabis) ("**Curative**"). The Company is currently exploring all possible options with respect to the use and commercialization of the asset. No further material expenditures are required by the Company at this time, but if and when the Company decides to begin active operations at the Curative facility, the Company estimates additional capital expenditures of approximately $0.3 million would be required to finish the facility for the purpose of cannabis cultivation; however, such expenditures may increase depending on the Company's final intended use of the facility. At this time, Curative's licensing application is being actively reviewed by Health Canada.

Strategic Partners

We expect our strategic partnership with Imperial Brands PLC ("**Imperial Brands**"), will further advance our capabilities in relation to Cannabis 2.0 Products. Under the partnership, Imperial Brands has granted Auxly global vape IP licences for cannabis use. Imperial Brands' subsidiary, Nerudia, has a growing scientific team dedicated to cannabis research and a facility licenced for R&D activities with cannabis.

In addition to its vape IP and R&D, Auxly is leveraging Imperial Brands' complementary expertise to spur new product development and global expansion, including:

- commercial expansion into new jurisdictions where Imperial Brands' sales and distribution reach is strongest;
- global brand building in highly regulated markets;
- consumer insights and intelligence capabilities;
- product commercialization expertise;
- scalable operational excellence and supply chain management; and
- best-in-class governance practices.

The Company's possible expansion into new jurisdictions is currently in an exploratory phase and there have been no material expenditures to date. Any future material expenditures will not be clear until the Company moves out of the exploratory phase and suitable markets and product offerings have been selected.

Capsugel Inc. ("**Capsugel**"), a subsidiary of Lonza Group Ltd. ("**Lonza**"), designs, develops and manufactures a wide range of innovative dosage forms for the biopharmaceutical and consumer health & nutrition industries. Capsugel will provide Dosecann with a complete line of equipment for capsule filling and sealing, including a state-of-the-art LEMS® machine, Lonza's proprietary liquid-filled Capsugel® Licaps® capsules and rights to its capsule filling and sealing LEMS® technology. Dosecann and Lonza will also work collaboratively on new product formulations for cannabis capsule products.

Dosecann has also entered into an agreement to purchase the exclusive global rights to omega-rich Ahiflower® seed oil for use in our Cannabis 2.0 Products and, if and when permitted, Cannabis 3.0 Products. We are working to develop new products utilizing Licaps® capsules, Ahiflower® seed oil, cannabis and other ingredients to serve consumer needs in the medical and wellness markets.

International Operations

Inverell S.A. ("**Inverell**") is the Company's 80%-owned subsidiary located in Montevideo, Uruguay. Inverell has completed its 2019-2020 harvest which resulted in approximately 43,000 kilograms of packed hemp biomass. However, due to the slower than anticipated pace of cannabis-specific regulatory development in Latin America ("**LATAM**") and, consequently, the slower development of viable near-term commercial channels in the region, the Company has chosen not to proceed with planting for the 2020-2021 growing season nor with the development of extraction capabilities with a view to reducing headcount and keeping operating expenditures to a minimum. This strategy will reduce future operating expenses by approximately $6-7 million annually, which can be redirected into the Canadian market with a view to driving more immediate revenue to the Company. The Company will maintain the optionality Inverell provides and continue to monitor the regulatory landscape in LATAM, while exploring opportunities to realize value from the existing assets.

We are also focused on additional opportunities in Europe and North America, in markets with legal cannabis regimes. We are collaborating with Imperial Brands to leverage their regulatory, sales and distribution channels, as well as any other resources available to assess viable markets for our cannabis products.

OUTLOOK

With the launch of our Cannabis 2.0 Products in December 2019, we have established the foundation we plan to build on in 2020 to increase revenues and move towards positive cash flows in 2021. Our objectives for 2020, which may be impacted by the COVID-19 pandemic (see further discussion in this MD&A under "*COVID-19 Pandemic*"), continue to be concentrated on our Canadian operations. Broadly, our objectives for the balance of the year are as follows:

- Be a leader in the Canadian Cannabis 2.0 Products market.
- Complete remaining construction and licensing of all Canadian operations to leverage existing assets and increase revenues.
- Work with the Sunens team to secure supply of input materials for use in the Company's product offerings in 2020.
- Collaborate with our partners to move towards commercialization of a small number of products for sale internationally.
- Continue to take measures to improve cash flows and finance the business.

We look forward to continuing our successful execution of our corporate strategy as we get closer to realizing our vision of being a global leader focused on branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic, which has had a profound impact on the global economy. Beginning in March and throughout the second quarter of 2020, the pandemic was a rapidly evolving situation, during which all the provinces and territories of Canada declared (and in some instances have now lifted) some form of a state of emergency. Additionally, certain provincial and territorial governments imposed various degrees of temporary lockdown measures forcing non-essential businesses to close during the pandemic, including retail cannabis stores in some jurisdictions, while certain other jurisdictions have allowed retail cannabis stores to remain open with certain operational limitations and protocols, as set out below:

- in Ontario, the provincial government initially deemed cannabis retailers an essential service, but this position was subsequently withdrawn, forcing cannabis retail outlets to temporarily close. By emergency order, the Ontario government subsequently allowed the re-opening of retail outlets but only for click and collect curbside service. Additionally, the Ontario Cannabis Store ("**OCS**") cancelled all open purchase orders and suspended deliveries for a two-week period as it transitioned from a majority wholesale model to a majority e-commerce model. To aid in the transition to its e-commerce model the OCS temporarily removed and/or lowered certain shipping fees and offered consumers expedited shipping options;
- in Prince Edward Island, all retail cannabis stores were temporarily closed from March 19 until May 22, however e-commerce sales in the province continued during this time;
- in Newfoundland and Labrador retail cannabis stores were temporarily closed for "in-person service", however e-commerce sales in the province continued during this time; and
- the provinces of British Columbia and Alberta placed minimal COVID-19 related limitations on retail cannabis stores. In both provinces, cannabis retail stores were permitted to remain open as 'essential businesses' throughout the COVID-19 pandemic so long as they were able to adhere to appropriate sanitation and social-distancing protocols, which led to relatively stable sales in these provinces for the Company throughout the pandemic.

Since March 2020, the temporarily closed retail stores in Ontario have reopened and many new retail stores have opened across Ontario, and after a temporary decline in retail sales, cannabis sales in Ontario have largely returned to pre-pandemic levels. The Prince Edward Island and Newfoundland and Labrador retail cannabis store closures did not have a material impact on the Company's overall sales, as currently their markets represent a very small portion of the cannabis industry and the Company's overall sales. In British Columbia and Alberta, sales have generally remained consistent throughout the pandemic. Although the lockdown measures described herein are being eased, there is a possibility that such lockdown measures could be imposed again should a province or territory see an increase in COVID-19 cases.

In response to the pandemic, the Company implemented safety measures to protect employees and consumers which comply with all federal and provincial regulations and guidelines while keeping our facilities operating. The Dosecann, Kolab and Robinsons facilities remained open and operational on extended shifts with few instances of employee absenteeism or self isolation, and certain operational changes have been made to best address the safety of our employees and consumers. Employees at the Company's corporate head office in Toronto and other non-production staff at our cannabis facilities have been operating under a work from home model. The impact of COVID-19 on cannabis operations was largely limited to increased freight charges, premium pay for hourly employees, and temporary supply chain disruptions that we not material. Following the second quarter of 2020, the Company rolled back premium pay for hourly employees and has seen a reduction in freight costs to near pre-pandemic levels.

Additionally, due to required social distancing measures KGK was initially unable to commence new clinical trials with participants (which makes up a significant portion of its business), but has since shifted to a virtual process allowing it to facilitate new clinical trials. Further, certain aspects of clinical trial work were deemed an essential service and were therefore completed by third parties. In March 2020, KGK temporarily laid-off up to 50 employees as it transitioned through the new operating model. KGK anticipates that some of these employees will return in the third quarter of 2020. KGK accessed the Canada Emergency Wage Subsidy in March - June 2020 for wages for employees and received approximately $0.5 million. Otherwise, the Company is not relying on any other government financing programs to provide liquidity support.

RECENT DEVELOPMENTS: Second Quarter 2020 To Date

Auxly's Kolab Project Partners with Greentec on Industry-Wide Vape Recycling Program for All Cannabis Retailers

On August 11, 2020, the Company announced that Kolab Project had partnered with the electronic waste leaders at Greentec to provide cannabis retailers with a free-of-charge solution for the recycling of vape pens, cartridges and batteries.

Robinsons Premium Cannabis Now Available in Ontario and Nova Scotia

On July 27, 2020, the Company announced that Robinsons handcrafted, small-batch cannabis is available in Ontario and Nova Scotia. Robinsons launched with four distinctive strains, Lemon Garlic OG, Fire OG, GG#4 and Purple Kush all grown with care at the Robinsons indoor facility in Kentville, Nova Scotia, with an uncompromising commitment to quality and craftsmanship.

Auxly Announces Receipt of a Cannabis Research Licence for Dosecann

On June 30, 2020, the Company announced that Dosecann received its Cannabis Research Licence from Health Canada pursuant to the Cannabis Act. This licence permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing at its facility. With this licence, Dosecann can now conduct broader in-house testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations.

Auxly Provides Update on Cultivation Strategy

On June 30, 2020, the Company provided an update on its national and international cultivation strategy at Sunens, Robinsons, Robinsons OG, Kolab Project and Inverell.

Auxly Enters into Manufacturing Agreement to Produce dosist™ Products in Canada

On June 24, 2020, the Company announced that Dosecann entered into an agreement with GSW Creative Corporation Canada Inc., doing business as dosist™ ("**dosist**"), to manufacture their proprietary wellness vape devices at Dosecann's facility. Dosecann will utilize its production capabilities, capacity, and world-class expertise in cannabis derivative products to manufacture dosist's innovative dose control solutions. dosist will also utilize Auxly's well-established national distribution channels to bring its proprietary new innovations to Canadians nation-wide, including their newly engineered dose pen 100, their new range of high potency formulas for THC-forward experiences called thc-plus, and their new rechargeable dose pen system.

Auxly's Joint Venture Partner Sunens Receives its Cultivation Licence

On June 15, 2020, the Company announced that Sunens secured a standard cultivation licence from Health Canada for the first phase of its fully automated, purpose-built, 1.1 million sq. ft. greenhouse facility in Leamington, Ontario. This first phase of the licensed area includes approximately 360,000 sq. ft. of cultivation, processing, and storage space. This standard cultivation licence allows Sunens to commence bulk sales of cannabis following harvest without additional regulatory approvals. Sunens has secured a large and diverse genetic library consisting of over 200 unique strains.

Auxly Announces Receipt of Sales Licence for Robinsons

On May 20, 2020, the Company announced that Robinsons had been authorized by Health Canada to sell dried cannabis to provinces and territories under the Cannabis Regulations. This sales licence expands the Company's product portfolio to include artisan hand-crafted cannabis flower for the premium craft market, which the Company expects to be available in select Canadian provinces this summer.

Auxly Secures $25 million Convertible Debenture Standby Financing

On April 28, 2020, the Company announced that it entered into an unsecured convertible debenture (the "**Convertible Debenture**") in the principal amount of up to $25.0 million (the "**Offering**") with an institutional investor (the "**Investor**"). The Offering will be completed in tranches with each having a maturity date of 24 months from the date of issue and will bear guaranteed interest from the date of issue at 7.5% per annum, payable semi-annually on June 30 and December 31 of each year. In addition, warrants of the Company (the "**Warrants**") will be issued equal to 55% of the number of Shares into which the Convertible Debenture is convertible based on the applicable conversion price. The conversion price is based on the closing price of the Shares on the TSXV on the trading date immediately prior to the closing date for such tranche ("**Conversion Price**"). Each Warrant will be exercisable to purchase one Share for a period of 24 months from the date of issuance at an exercise price equal to 120% of the applicable Conversion Price.

As of the date hereof, the Company has completed four tranches under the Offering as set out below:

- in connection with the initial tranche of the Offering completed on April 28, 2020, the Company issued to the Investor $1.25 million of Convertible Debentures with a Conversion Price of $0.435 per Common Share and 1,580,460 Common Share purchase warrants with an exercise price of $0.522;
- in connection with the second tranche of the Offering completed on May 20, 2020, the Company issued to the Investor $2 million of Convertible Debentures with a Conversion Price of $0.425 per Common Share and 2,588,235 Common Share purchase warrants with an exercise price of $0.51;
- in connection with the third tranche of the Offering completed on June 8, 2020, the Company issued to the Investor $3 million of Convertible Debentures with a Conversion Price of $0.38 per Common Share and 4,342,105 Common Share purchase warrants with an exercise price of $0.46; and
- in connection with the fourth tranche of the Offering completed on June 26, 2020, the Company issued to the Investor $3 million of Convertible Debentures with a Conversion Price of $0.305 per Common Share and 5,409,836 Common Share purchase warrants with an exercise price of $0.366.

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

a. up to 50% of the principal amount of such Convertible Debenture if for any five consecutive trading days the volume weighted average price (the "**VWAP**") of the Shares on the TSXV is greater than 112% of the Conversion Price; or

b. up to 100% of the principal amount of such Convertible Debenture if for any five consecutive trading days the VWAP of the Shares on the TSXV is greater than 120% of the Conversion Price; and/or

c. 100% of the principal amount of such Convertible Debenture at any time by paying a mutually agreeable make-whole payment to the investor, plus in each case interest on the principal amount of such Convertible Debenture.

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

Funding of additional tranches are subject to mutual agreement between the Company and the Investor and such funding is not guaranteed.

Auxly Announces Kolab Project Partnership with OCAD University

On April 23, 2020 the Company announced that Kolab Project would partner with OCAD University ("**OCAD U**") on various initiatives developed to enhance the community experience, foster faculty innovation and enrich academic programming at OCAD U, including a collaboration between Kolab Project and OCAD U's Centre for Emerging Artists & Designers for the development of design-focused working placements and the creation and support of art exhibit opportunities for OCAD U.

Auxly's Subsidiary Dosecann Signs Key Supplier Agreement with Medical Cannabis by Shoppers

On April 15, 2020 the Company announced that Dosecann entered into an agreement with Medical Cannabis by Shoppers Drug Mart Inc., a subsidiary of Shoppers Drug Mart Inc., to become a supplier of cannabis products through its online platform. The agreement will see Auxly's suite of products and brands, including chewables, chocolates, vapes and oil in a bottle available to consumers across Canada.

Auxly Acquires Exclusive Global Rights to Omega-Rich Ahiflower® Seed Oil for Use in Cannabis Products

On April 8, 2020 the Company announced that Dosecann entered into an agreement with Natures Crops, a vertically integrated grower and manufacturer of plant-based specialty oils, pursuant to which the Company will purchase the exclusive global rights to Ahiflower® oil for use in Auxly's diverse portfolio of cannabis products. This multi-year deal will provide Auxly with a proprietary ingredient for use in its current portfolio of cannabis products and the development of next generation cannabis health products that Auxly will commercialize when legally permitted.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

(000's)	Three months ended: June 30, 2020	June 30, 2019	Change	Percentage Change	Six months ended: June 30, 2020	June 30, 2019	Change	Percentage Change
Total net revenues	**$ 8,564**	$ 2,762	$ 5,802	210%	**$ 18,469**	$ 3,579	$ 14,890	416%
Net loss*	**(27,917)**	(13,987)	(13,930)	-100%	**(40,661)**	(27,598)	(13,063)	-47%
Adjusted EBITDA**	**(7,804)**	(8,042)	238	3%	**(15,965)**	(15,410)	(555)	-4%
Weighed average shares outstanding	**627,821,967**	592,208,342	35,613,625	6%	**626,517,977**	589,730,772	36,787,205	6%

*Attributable to shareholders of the Company

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

(000's)	June 30, 2020	December 31, 2019	Change	Percentage Change
Cash and equivalents	**20,724**	44,134	(23,410)	-53%
Total assets	**378,487**	411,182	(32,695)	-8%
Debt	**104,062**	95,438	8,624	9%

For the three and six months ended June 30, 2020, revenues increased by over 200% and over 400%, respectively, primarily as a result of selling Cannabis 2.0 Products. Cannabis net revenues amounted to $6.8 million and $15.8 million for the three and six months ended June 30, 2020, respectively. The revenues were primarily comprised of Cannabis 2.0 Products sales from Dosecann, along with research revenues from KGK of $1.8 million and $2.7 million, respectively. Net losses attributable to shareholders increased by $13.9 million to $27.9 million during the three month period ended June 30, 2020 when compared to the same period in 2019. For the six month period ended June 30, 2020, net losses attributable to shareholders increased by $13.1 million to $40.7 million. Adjusted EBITDA improved by $0.2 million or 3% to negative $7.8 million during the three month period ended June 30, 2020 as a result of reductions in selling, general, and administrative expenses during the second quarter. Adjusted EBITDA decreased by $0.6 million during the first half of 2020 primarily due to increases in selling, general, and administrative expenses year over year, partially offset by the increase in revenues.

Cash and equivalents declined by $23.4 million to $20.7 million during the first half of 2020. Net cash reductions were primarily associated with operating activities of $19.0 million, capital expenditures of $12.2 million, $3.7 million repayment of debts, and $1.0 million of lease payments, partially offset by $3.7 million added through the sale of long-term investments and $8.8 million generated through the issuance of convertible debentures and the exercise of employee stock options.

For the three and six month periods ended June 30, 2020, the average number of Shares outstanding increased to 627.8 million Shares and 626.5 million Shares, respectively, primarily as a result of the full year impact of all Shares issued in previous years. During the second quarter of 2020, 4.7 million Shares were issued on the exercise of employee stock options and 2.0 million Shares were released from escrow to the previous shareholders of Robinsons on completion of contingent milestones.

RESULTS OF OPERATIONS

For the:		Three months Ended June 30, 2020		Three months Ended June 30, 2019		Six months Ended June 30, 2020		Six months Ended June 30, 2019
Revenue								
Revenue from sales of cannabis products	$	**8,320**		444	$	**18,787**		736
Research contracts and other		**1,763**		2,318		**2,664**		2,843
Excise taxes		**(1,519)**		-		**(2,982)**		-
Total net revenue		**8,564**		2,762		**18,469**		3,579
Costs of sales								
Costs of finished cannabis inventory sold		**5,029**		228		**10,120**		376
Research contracts and other		**274**		2,090		**822**		2,372
Impairment on inventory		**668**		-		**1,942**		-
Gross profit excluding fair value items		**2,593**		444		**5,585**		831
Unrealized fair value gain/(loss) on biological transformation		**201**		(155)		**150**		(537)
Realized fair value loss on inventory		**(15)**		(1)		**(195)**		(195)
Gross profit		**2,779**		288		**5,540**		99
Expenses								
Selling, general, and administrative expenses		**13,638**		11,325		**27,656**		22,293
Depreciation and amortization		**2,439**		1,437		**4,813**		2,475
Interest expense		**3,356**		1,897		**5,555**		5,431
Total expenses		**19,433**		14,659		**38,024**		30,199
Other income / (loss)								
Fair value loss for financial instruments accounted under FVTPL		**(4,521)**		(1,812)		**(4,636)**		(430)
Interest income		**345**		2,019		**406**		2,979
Impairment of long-term assets		**(4,506)**		-		**(4,506)**		-
Impairment of intangible assets and goodwill		**-**		-		**-**		(1,800)
(Loss)/gain on settlement of assets and liabilities and other expenses		**(2,387)**		(250)		**(553)**		125
Share of loss on investment in joint venture		**(996)**		(372)		**(1,781)**		(552)
Foreign exchange (loss)/gain		**(1,056)**		(869)		**588**		(940)
Total other losses		**(13,121)**		(1,284)		**(10,482)**		(618)
Net loss before income tax		**(29,775)**		(15,655)		**(42,966)**		(30,718)
Income tax recovery		**567**		1,464		**567**		2,723
Net loss	**$**	**(29,208)**	$	(14,191)	**$**	**(42,399)**	$	(27,995)
Net loss attributable to shareholders of the Company	**$**	**(27,917)**	$	(13,987)	**$**	**(40,661)**	$	(27,598)
Net loss attributable to non-controlling interest	**$**	**(1,291)**	$	(204)	**$**	**(1,738)**	$	(397)
Adjusted EBITDA	**$**	**(7,804)**	$	(8,042)	**$**	**(15,965)**	$	(15,410)
Net loss per common share (basic and diluted)	**$**	**(0.04)**	$	(0.02)	**$**	**(0.06)**	$	(0.05)
Weighted average shares outstanding (basic and diluted)		**627,821,967**		592,208,342		**626,517,977**		589,730,772

Revenue

Over the first half of 2020, Auxly generated revenues through the sale of Cannabis 2.0 Products and to a lesser extent Cannabis 1.0 Products to customers, and by providing research services for customers who are conducting human clinical trials.

During the three and six month periods ended June 30, 2020, cannabis net revenues of $6.8 million and $15.8 million were comprised of approximately 90% Cannabis 2.0 Products, with the remainder from Cannabis 1.0 Products. During the second quarter, approximately 80% of cannabis net revenues continued to originate from sales to British Columbia, Alberta and Ontario. Sales declines as compared to Q1 2020 were primarily concentrated in Ontario due to new competitor value brand offerings entering the market, temporary store closures, the shift to online sales through the OCS, and the impact of downward pricing adjustments made by the Company near the end of the quarter, which have improved the velocity of sales of key brands to date. Vape products continued to account for more than 60% of our cannabis revenues.

For the three and six months ended June 30, 2020, Auxly recognized $1.8 million and $2.7 million of research revenues from KGK, respectively. These revenues are in support of third-party research contracts which can fluctuate significantly during the term of the contract based upon the achievement of milestones. Where milestones are not met revenues are deferred on the balance sheet which may result in timing differences in earnings. Revenues during the first quarter of 2020 were impacted by temporary clinical trial suspensions due to COVID-19 and revenues during the second quarter of 2020 were achieved in part due to the ability of KGK to pivot to a virtual clinical trial model to achieve milestones and through the introduction of new regulatory advisory services.

Gross Profit / Loss

Auxly realized a gross profit of $2.8 million following fair value adjustments during the second quarter of 2020 and $5.5 million during the first half of 2020. This compares with gross profits of $0.3 million for the second quarter of 2019 and $0.1 million for the first half of 2019. Gross profits for the three months ended June 30, 2020 were comprised of $1.8 million or approximately 26% from Canadian cannabis operations and $1.9 million from research operations. Cannabis gross margins declined during the period in part due to lower vape sales, increased freight costs and costs associated with temporary wages premiums. During the six months ended June 30, 2020, gross profits were comprised of $5.7 million from Canadian cannabis operations, $2.2 million from research operations, partially offset by impairment charges of $1.4 million primarily related to Inverell's biomass.

Total Expenses

Selling, general and administrative expenses are comprised of wages and benefits, office and administrative, professional fees, business developments, share-based payments, and selling expenses.

For the three and six months ended June 30, 2020, wages and benefits were $7.5 million and $14.0 million, respectively, or an increase of $3.4 million and $5.7 million over the same respective periods in 2019. The increase was driven by workforce increases to support Cannabis 2.0 Product sales, primarily related to the operations and commercial teams. Increases of approximately $0.3 million and $0.7 million for the respective three and six months ended June 30, 2020 were attributable to hiring at subsidiaries, including the absorption of employees arising from the foreclosure of Curative. Wages and benefits during the second quarter of 2020 increased by $1.1 million from the first quarter, primarily as a result of compensation and severance accruals recognized during the period.

Office and administrative expenses of $2.9 million in the second quarter of 2020 increased by $1.4 million and $2.3 million to $5.5 million year to date compared to the same periods in 2019 primarily as a result of increased activities associated with cannabis sales in 2020. During the second quarter of 2020, office and administrative expenses were driven by head office and Dosecann to support the product development, formulation, R&D and testing of Cannabis 2.0

Products in preparation for product innovation in conjunction with the second floor expansion at the Dosecann facility. Other increases in fees were related to the continued development and implementation of an organization-wide ERP system.

Auxly's professional fees were $0.5 million and $2.0 million for the three and six months ended June 30, 2020, as compared to $1.8 million and $2.9 million over the same respective period in 2019. Professional fees incurred during the periods primarily related to accounting fees, regulatory matters, reporting issuer fees, ongoing legal proceedings, recruiting fees in conjunction with hiring and preparedness for Cannabis 2.0 Products, consulting fees, and fees associated with financing activities. The decrease in professional fees was driven by the reduction in professional services and professional services contracts in 2020.

Business development fees of $0.2 million in the second quarter of 2020 decreased by $0.8 million and $1.1 million to $1.0 million year to date as compared to the same periods in 2019. The decreases are primarily due to a reduction in acquisitions and travel related expenses.

Selling expenses for the three and six months ended June 30, 2020 were $1.2 million and $2.5 million, respectively, as compared to nominal fees recognized over the same respective periods in 2019. The increase is directly attributable to cannabis sales activities comprised of brokerage fees earned by Kindred Partners and marketing initiatives for Cannabis 2.0 Products.

For the three and six months ended June 30, 2020, share-based compensation was $1.3 million and $2.7 million, a decrease from the $2.7 million and $5.7 million over the same respective periods in 2019. 4,719,692 options and 4,885,692 options were issued during the three and six months ended June 30, 2020, respectively, as compared to 1,440,000 options and 6,590,000 options over the same respective periods in 2019.

Depreciation and amortization expenses were $2.4 million in the second quarter of 2020 and $4.8 million year to date, as compared to $1.4 million and $2.5 million over the same respective periods in 2019 primarily as a result of greater in use capital projects and the associated additional capital expenditures in 2020. During 2019, several projects remained under development.

Interest expenses were $3.4 million for the three months ended June 30, 2020 and $5.6 million for the six months ended June 30, 2020. Interest expenses are driven by interest charges of 6% on the then outstanding 2018 convertible debentures, 4% on the Imperial Brands convertible debentures, 7.5% of the convertible debenture tranches issued in 2020, and the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures.

Total Other Incomes and Losses

Fair value changes on financial instruments included in this section arise on changes in value of promissory notes and level two securities held. For the quarter ended June 30, 2020, the Company reported a $4.5 million fair value loss, as compared to a $1.8 million dollar loss in the previous year. The current period loss is primarily the result of an assessment of prevailing market conditions over our investments held. For the six months ended June 30, 2020, the Company reported a $4.6 million fair value loss, as compared to a $0.4 million fair value loss in the previous year. Fair value changes in 2019 reflected gains on promissory notes that offset market losses on the level two securities held. All promissory notes were repaid or fully impaired as at December 31, 2019.

The Company recorded interest income of $0.3 million during the second quarter for 2020 and $0.4 million year to date, which is a decrease from $2.0 million generated during the second quarter of 2019 and $3.0 million year to date 2019. Interest income is earned on notes receivable balances, investments in convertible debt, and interest on cash and cash equivalents.

During the three-months ended June 30, 2020, the Company recognized an impairment loss on long-term assets of $4.5 million. The Company's LATAM cash generating unit ("**CGU**"), Inverell, represents its operations dedicated to the cultivation and sale of cannabis products within LATAM. Management determined that a liquidation approach was most appropriate in determination of the recoverable amount of the CGU due to regulatory delays causing uncertainty in the timing of sales and lack of cannabis product sales data in the industry. The impairment test concluded that the carrying value was higher than the recoverable amount by $4.5 million. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management allocated $3.3 million of the impairment losses towards property, plant and equipment, and $1.2 million of the impairment losses towards other assets.

Losses on settlement of assets and liabilities and other expenses for the three months ended June 30, 2020 were $2.4 million, primarily relating to accrued legal settlements and a credit loss provision. On November 1, 2019, the Company entered into a commercial lease agreement with 346 Spadina Inc. and provided a security deposit of $0.6 million. In April, 2020 the landlord terminated the lease and commenced a claim against the Company for breach of the lease agreement for and aggregate claim of $21.7 million. The Company has yet to file its defence; however, it intends to dispute the landlord's claims and termination of the lease. As at June 30, 2020, the Company has recorded a provision of $1.3 million relating to this claim. Year to date settlements of lawsuits reflect offsetting gains primarily related to non-monetary inventory transfers with another licensed producer.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate primarily related to loans due from Inverell. During the three and six months ended June 30, 2020, the Company reported a foreign exchange loss of $1.1 million and gain of $0.6 million, respectively, as compared to foreign exchange losses of $0.9 million and $0.9 million over the same respective periods in 2019.

Net Losses

Net losses attributable to shareholders were $27.9 million with a net loss of $0.04 per share on a basic and diluted basis in the second quarter of 2020, and $40.7 million with a net loss of $0.06 per share on a basic and diluted basis year to date. This compares to a net loss of $14.0 million attributable to shareholders and $0.02 per share on a basic and diluted basis and $27.6 million and $0.05 per share on a basic and diluted basis, over the same respective periods in 2019. The increase in net losses was primarily attributable to total other losses recorded during the second quarter, increased depreciation, interest expense, partially offset by gross margins net of selling, general and administrative expenses.

Adjusted EBITDA

Adjusted EBITDA improved by approximately $0.2 million to $(7.8) million during the three months ended June 30, 2020 as compared to the same period in 2019. The increase was primarily driven by a combination of increasing gross margins partially offset by higher selling, general and administrative expenses.

Adjusted EBITDA decreased by $0.6 million during the six months ended June 30, 2020 as compared to the six months ended June 30, 2019, to $(16.0) million from $(15.4) million. The decrease was primarily driven by an increase in selling, general and administrative expenses during the six months ended June 30, 2020 to support the commencement of cannabis product sales, partially offset by higher gross margins.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	**Q2/20**	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18
Total net revenues	**$ 8,564**	$ 9,905	$ 3,156	$ 1,617	$ 2,762	$ 817	$ 647	$ 818
Net losses*	**(27,917)**	(12,744)	(57,721)	(17,255)	(13,987)	(13,611)	(34,861)	(9,727)
Adjusted EBITDA**	**(7,804)**	(8,161)	(10,328)	(10,859)	(8,042)	(7,368)	(9,290)	(6,407)
Average shares outstanding (000's)	**627,822**	625,242	613,683	594,592	592,208	587,247	571,156	544,626
Per share: Basic & diluted loss	**$ (0.04)**	$ (0.02)	$ (0.09)	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.06)	$ (0.02)

*attributable to shareholders of the Company.

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

Prior to Q4 2019, Auxly's revenues were primarily derived from providing research services for customers who are conducting human clinical trials. Commencing December 16, 2019, revenues also include the sale of cannabis products to recreational consumers, which resulted in the significant revenue increase during the first half of 2020.

The net loss for Q2 2020 increased despite recognition of revenues and a decline in SG&A expenses due to losses on investments and settlements, and recognition of impairment charges.

Adjusted EBITDA has seen some volatility primarily as a result of increasing SG&A as a result of acquisitions and expenditures in preparation for cannabis sales in December 2019, partially offset in 2020 with the achievement of the sale of cannabis products. Adjusted EBITDA improved in Q2 2020 by $0.2 million compared to Q1 2020 primarily due to a decrease in selling, general, and administrative expenses.

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

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, stock options or post-employment benefits. Compensation provided to current and key management is as follows:

	Three months ended		**Six months ended**	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Short-term benefits	**$ 594**	$ 533	**$ 930**	$ 1,066
Long-term benefits	**374**	1,013	**841**	1,957
Total	**$ 968**	$ 1,546	**$ 1,771**	$ 3,023

Other related party transactions

Nesta Holding Co. Ltd., a company owned and controlled by the Chairman of the Company's Board of Directors and former Chief Executive Officer, provides travel and accommodation services to the Company on a month to month basis. Nominal general expenses were incurred during the three and six months ended June 30, 2020 and June 30, 2019.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended:		Six months ended:	
(000's)	**June 30, 2020**	June 30, 2019	**June 30, 2020**	June 30, 2019
Cash used in operating activities	**$ (6,498)**	$ (18,994)	**$ (18,994)**	$ (39,316)
Net change in investments	**2,088**	(20,659)	**3,721**	(40,803)
Net capital expenditures	**(4,486)**	(5,649)	**(12,199)**	(12,104)
Cash used in investing activities	**(2,398)**	(26,308)	**(8,478)**	(52,907)
Net cash from/(used in) financing activities	**8,265**	(594)	**4,062**	(357)
Cash position, end of period	**$ 20,724**	$ 119,127	**$ 20,724**	$ 119,127

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 quarter ended June 30, 2020, Auxly used $6.5 million on operating activities, primarily as a result of expenses associated with the build out of human capital, selling, general and administrative expenses and changes in working capital including receivables and inventories. Investing activities of $2.4 million relate to construction in progress of cultivation locations and the purchase of capital equipment, net of long-term investments sold. Financing activities increased cash by $8.3 million, reflecting the issuance of convertible debentures and proceeds from the exercise of employee stock options.

During the six months ended June 30, 2020, Auxly used $19.0 million in operating activities, primarily as a result of expenses associated with the build out of human capital, selling, general and administrative expenses and changes in working capital including receivables and inventories. Investing activities of $8.5 million relate to construction in progress of cultivation locations and the purchase of capital equipment, net of long-term investments sold. Financing activities increased cash by $4.1 million, reflecting the issuance of convertible debentures and proceeds from the exercise of stock options, net of lease payments, repayments of convertible debt and long-term loans.

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. On June 30, 2020, the Company had total cash and cash equivalents of $20.7 million, working capital of $46.0 million, and negative cash flow from operating activities of $19.0 million for the six months ended June 30, 2020. The Company currently has insufficient cash to fund its operations for the next 12 months. Whether and when the Company can attain profitability and positive cash flows is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. Such adjustments could be material.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve-month period following June 30, 2020. To address its financing requirements, the Company will seek financing through debt and equity financings, asset sales, and rights offerings to existing shareholders. The Company will also seek to improve its cash flows by prioritizing certain 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 across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market and overall negative investor sentiment in light of the ongoing 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 "*COVID-19 Pandemic*" and "*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.

	August 27 2020	June 30 2020	June 30 2019
Issued Shares	642,943,875	642,943,875	606,672,075
Escrowed shares	10,994,190	10,994,190	14,329,505
Outstanding shares	631,949,685	631,949,685	592,342,570
Exercisable securities			
Warrants	24,020,636	24,020,636	85,928,520
Convertible Debentures	176,978,266	176,978,266	63,670,970
Options	44,139,232	44,139,232	44,799,553

During the six months ended June 30, 2020, 75,828,520 warrants to purchase Shares expired, with an average exercise price of $1.83 per Share.

On April 28, 2020, the Company announced a $25.0 million convertible debenture standby financing. The drawdown of the initial tranche of $1.3 million resulted in convertible debentures above increasing by 2,873,563 Shares and warrants increasing by 1,580,460 Shares.

On May 21, 2020, the Company announced the drawdown of the Second Tranche which resulted in convertible debentures above increasing by 4,705,882 Shares and warrants increasing by 2,588,235 Shares.

On June 8, 2020, the Company announced the drawdown of the Third Tranche which resulted in convertible debentures above increasing by 7,894,737 Shares and warrants increasing by 4,342,105 Shares.

On June 26, 2020, the Company announced the drawdown of the Fourth Tranche which resulted in convertible debentures above increasing by 9,836,066 Shares and warrants increasing by 5,409,836 Shares.

NON-GAAP FINANCIAL 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 period ended March 31, 2020 and notes 2 and 3 of the consolidated financial statements for the year ended December 31, 2019.

Auxly reports on certain non-GAAP measures that are used by management to evaluate the performance of the Company. As non-GAAP measures do not have standardized meanings prescribed by IFRS, securities regulations require that non-GAAP measures be clearly defined, qualified, and reconciled with their nearest IFRS measure. These measures do not have standardized meanings or interpretations and may not be comparable to similar terms and measures provided by other issuers. Adjusted EBITDA used by Auxly and reported in this MD&A should not be construed as an alternative to net loss attributable to shareholders of the Company determined in accordance with IFRS as indicators of Auxly's performance.

Financial Measures

Adjusted EBITDA

This is a non-GAAP measure 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. Adjusted EBITDA used by the Company is reconciled with net loss attributable to shareholders of the Company, an IFRS measure, in the section "Results of Operations" in this MD&A. The calculation of Adjusted EBITDA is comprised of net loss attributable to shareholders of the Company added or subtracted as applicable as provided in the detailed reconciliation found in this MD&A. There may be many individual financial statement line item adjustments however, they all include, 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)	**Q2/20**	**Q1/20**	**Q4/19**	**Q3/19**	**Q2/19**	**Q1/19**	**Q4/18**	**Q3/18**
Net loss attributable to shareholders of the Company	**(27,917)**	(12,744)	(57,721)	(17,255)	(13,987)	(13,611)	(34,861)	(9,727)
Interest expense	**3,356**	2,199	4,170	2,520	1,897	3,534	3,698	2,814
Interest income	**(345)**	(61)	225	(858)	(2,019)	(960)	(1,230)	(1,361)
Income tax recovery	**(567)**	-	3,269	(11,524)	(1,464)	(1,259)	1,865	(1,644)
Depreciation and amortization	**2,439**	2,374	4,572	1,527	1,437	1,038	1,673	200
EBITDA	**(23,034)**	(8,232)	(45,485)	(25,590)	(14,136)	(11,258)	(28,855)	(9,718)
Impairment of Inventory	**668**	1,274	2,170	1,074	-	-	(140)	(3)
Unrealized fair value loss / (gain) on biological transformation	**(201)**	51	89	135	155	382	-	-
Realized fair value loss / (gain) on inventory	**15**	180	(90)	48	1	194	-	-
Share-based compensation	**1,282**	1,417	1,405	5,433	2,672	3,042	5,912	8,939
Fair value loss / (gain) for financial instruments accounted under FVTPL	**4,521**	115	274	5,778	1,812	(1,382)	4,448	(6,202)
Impairment of long-term assets	**4,506**	-	5,283	-	-	-	-	-
Impairment of intangible assets and goodwill	**-**	-	27,831	-	-	1,800	8,800	-
(Gain) / loss on settlement of assets and liabilities	**2,387**	(1,834)	2,262	1,413	250	(375)	1,360	(35)
Share of loss on investment in joint venture	**996**	785	691	838	372	180	136	173
Foreign exchange loss / (gain)	**1,056**	(1,644)	469	75	869	71	(942)	445
Adjustment for non-controlling interest		(273)	(5,227)	(63)	(37)	(22)	(9)	(6)
Adjusted EBITDA	**(7,804)**	**(8,161)**	**(10,328)**	**(10,859)**	**(8,042)**	**(7,368)**	**(9,290)**	**(6,407)**

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2020, 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**.**

As part of the $84 million in debt financing provided by a syndicate led by BMO towards the construction of the Sunens purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments up to $33 million in the event of default. In addition, both joint venture parties have agreed to fund any cost overruns on the construction of the facility and maintain combined cash balances of at least $15 million.

The Company has committed to funding of $7.0 million to CannTx Life Sciences Inc. ("**CannTx**") related to a phase II expansion of CannTx's facility, subject to the completion of satisfactory due diligence and the parties agreeing to a construction budget and timeline for such phase II expansion. While the Company has committed to this funding as described above, we are uncertain, given the passage of time that this project will advance.

Funding of $6.0 million over two years to September 2021 has been committed to Kindred for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada.

Annual payments of $0.3 million USD for five years to June 2025 to Natures Crops for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 Products.

Annual contributions of $0.1 million for four years to OCAD University as part of a strategic and philanthropic collaboration.

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

	2020	2021	2022	2023	2024	Thereafter	Total
Lease obligations	$ 2,846	$ 1,413	$ 587	$ 416	$ 140	$ -	**$ 5,402**
Long-term debt obligations	4,914	4,914	126,432	-	-	-	**136,260**
Total	**$ 7,760**	**$ 6,327**	**$ 127,019**	**$ 416**	**$ 140**	**$ -**	**$ 141,662**

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Areas requiring estimates and judgements are as follows:

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

The carrying value of goodwill, indefinite life intangible assets and intangible assets not yet in use are subject to annual impairment assessments. Auxly's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model over a five-year period and estimated fair value less cost to sell. The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from Auxly's budget for the future and do not include restructuring activities that Auxly has not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost to sell is based on assessment of comparable company multiples and precedent transactions.

Business Combinations

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

Valuation of the debt obligation receivable in product equivalents

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

Inputs when using Black-Scholes valuation model

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

Discount rates

The discount rates used to calculate the purchase price allocation, impairment analysis, net present value of notes receivable, the convertible debentures and the notes payable are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of Auxly's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

Valuation of long-term investments in private companies

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

Convertible instruments

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

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

CHANGES IN ACCOUNTING POLICIES

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its interim condensed consolidated financial statements.

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Effective January 1, 2020, the Company adopted the amendments to IAS 1 and IAS 8, with no material impact on its interim condensed consolidated financial statements.

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and is currently assessing the impact of these amendment on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

RISK FACTORS

Auxly's business and structure are subject to a number of risks and uncertainties which 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 May 13, 2020, and Auxly's Amended and Restated Preliminary Short Form Base Shelf Prospectus, dated August 10, 2020, 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 competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;
- the Company's response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic on the Company's current and future operations;
- the success of the entities the Company acquires and the Company's collaborations;
- the ongoing construction and expansion of the Company's facilities, including Dosecann, Sunens, Kolab, Robinsons and Robinsons OG, and its partners' facilities and the timing thereof;

- inventory and production capacity, including discussions of plans or potential for expansion of capacity at existing or new facilities;
- the market for the Company's current and proposed product offerings, as well as the Company's ability to capture market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's product offering and expected sales mix thereof;
- development of affiliated 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 related 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 and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- expectations regarding the Company's licences, including in respect of the grant of licences under the Cannabis Act and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- the ability of Auxly and its subsidiaries to produce cannabis products;
- 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 expectation and timing of future revenues;
- expectations regarding the Company's expansion of operations and investment into foreign jurisdictions, including Uruguay;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- Auxly's competitive position.

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

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:

- 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 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;
- the Company will 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 and derivative cannabis products;
- the Company will be able to execute on its business strategy;
- the Company's subsidiaries will be able to meet the governmental and regulatory requirements necessary to obtain and/or 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 industry;
- the Company will be able to manage anticipated and unanticipated costs;
- Auxly will be able to maintain internal controls over financial reporting and disclosure, controls and procedures;
- cannabis prices will not decline materially;
- the Company will be able to successfully develop and commercialize new derivative cannabis products; and
- future Company products will be accepted by consumers and medical professionals;

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.