AUXLY CANNABIS GROUP INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

Dated May 24, 2019

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and is the responsibility of the Company's management.

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Financial Position
Expressed in thousands of Canadian Dollars
Unaudited

		March 31, 2019		December 31 2018
Assets				
Current assets				
Cash and cash equivalents (Note 4)	$	165,023	$	211,707
Short-term investments		3,349		3,349
Note receivable (Note 5)		7,137		2,946
Biological assets (Note 6)		1,914		2,158
Inventory (Note 7)		5,832		2,215
Research contract costs		2,382		1,843
Debt obligation receivable in product equivalents (Note 14)		5,241		14,912
Prepaid expenses		6,242		8,092
Other receivables		7,378		6,147
		204,498		253,369
Non-current assets				
Long-term investments (Note 12)		38,185		27,223
Investment in joint venture (Note 13)		53,578		29,158
Property, plant and equipment (Note 8)		39,810		28,726
Intangible assets (Note 9)		86,609		89,327
Goodwill (Note 11)		33,223		33,015
		251,405		207,449
Total assets	$	455,903	$	460,818
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	12,291	$	20,330
Interest payable		1,713		2,756
Lease liability (Note 15)		1,656		-
Convertible debenture (Note 16)		94,756		-
Deferred revenue		4,974		3,984
		115,390		27,070
Non-current liabilities				
Convertible debenture (Note 16)		-		93,563
Long-term loans		655		588
Lease liability (Note 15)		3,393		-
Deferred tax liability (Note 24)		17,395		18,445
		21,443		112,596
Total liabilities		136,833		139,666
Equity				
Share capital (Note 17)		361,036		350,647
Shares to be issued		-		9,523
Reserves (Note 17)		58,514		55,567
Accumulated other comprehensive income		(2,952)		(10,873)
Deficit		(100,340)		(86,729)
Total equity attributable to shareholders of the Company		316,258		318,135
Total equity attributable to non-controlling interest		2,812		3,017
Total equity		319,070		321,152
Total liabilities and equity	$	455,903	$	460,818

Commitments and Operating Segments are found in Notes 21 and 25, respectively
The accompanying notes are an integral part of these condensed consolidated interim financial statements

The condensed consolidated interim financial statements were approved by the Board of Directors on May 24, 2019 and were signed on its behalf by:

(s) Chuck Rifici	*(s) Genevieve Young*
Chuck Rifici	Genevieve Young

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Expressed in thousands of Canadian Dollars, except share and per share amounts
Unaudited

		March 31 2019		March 31 2018
Revenues				
Research contracts and other	**$**	**525**		-
Revenue from sales of cannabis products		**292**		-
Total Revenues		**817**		**-**
Costs of sales				
Research contracts and other		**282**		-
Costs of finished cannabis inventory sold		**148**		-
Gross profit excluding fair value items		**387**		**-**
Realized fair value change on inventory		**(194)**		-
Unrealized fair value loss on biological transformation (Note 6)		**(382)**		-
Gross loss		**(189)**		-
Other incomes				
Fair value gain for financial instruments accounted under FVTPL (Note 12, 14)		**1,382**		618
Interest income		**960**		415
Total other incomes		**2,342**		1,033
Expenses				
Selling, general, and administrative expenses (Note 22)		**10,968**		7,730
Depreciation and amortization (Note 8, 9)		**1,038**		77
Interest expense (Note 23)		**3,534**		2,205
Impairment of intangible assets (Note 9)		**1,800**		-
(Gain) / loss on settlement of financial assets and liabilities		**(375)**		4,191
Share of loss on investment in joint venture (Note 13)		**180**		-
Foreign exchange (gain) / loss		**71**		(11)
Total expenses		**17,216**		14,192
Net loss before income tax		**(15,063)**		(13,159)
Income tax recovery (Note 24)		**1,259**		2,639
Net loss	**$**	**(13,804)**	$	(10,520)
Net loss attributable to shareholders of the Company	**$**	**(13,611)**	$	(10,520)
Net loss attributable to non-controlling interest	**$**	**(193)**	$	-
Other comprehensive income (loss)				
Fair value change on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 12)		**8,128**		997
Currency translation adjustment - subsequently reclassified to profit or loss		**(219)**		-
Total comprehensive loss	**$**	**(5,895)**	$	(9,523)
Total comprehensive loss attributable to shareholders of the Company	**$**	**(5,690)**	$	(9,523)
Total comprehensive loss attributable to non-controlling interest	**$**	**(205)**	$	-
Net loss per common share				
Basic and diluted	**$**	**(0.02)**	$	(0.03)
Weighted average number of shares outstanding				
Basic and diluted		**587,246,553**		365,098,552

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

Condensed Consolidated Interim Statements of Cash Flows
Expressed in thousands of Canadian Dollars
Unaudited

		March 31 2019		March 31 2018
Operating activities				
Net loss for the period	$	**(13,804)**	$	(10,520)
Items not affecting cash:				
Unrealized fair value loss on biological transformation (Note 6)		**382**		-
Depreciation and amortization (Note 8, 9)		**1,038**		77
Share-based payments (Note 17)		**3,042**		2,819
Interest expense (Note 23)		**1,984**		987
Share of loss on investment in joint venture (Note 13)		**180**		-
Fair value gain for financial instruments accounted under FVTPL (Note 12, 14)		**(1,382)**		(618)
Income tax recovery (Note 24)		**(1,259)**		(2,639)
Impairment of intangible assets (Note 9)		**1,800**		-
(Gain) / loss on settlement of financial assets and liabilities		**(375)**		4,191
Changes in non-cash working capital items:				
Other receivables		**(1,231)**		(180)
Prepaid expenses		**1,850**		(476)
Interest payable		**(1,043)**		540
Biological assets (Note 6)		**(138)**		-
Inventory (Note 7)		**(3,617)**		-
Research contract costs		**(539)**		-
Accounts payable and accrued liabilities		**(6,523)**		(1,369)
Deferred revenue		**990**		-
Net cash used in operating activities	$	**(18,645)**		(7,188)
Investing activities				
Issuance of notes receivable (note 5)	$	**(5,210)**		(634)
Proceeds from repayment of promissory notes		**400**		-
Investment of debt obligation receivable in product equivalents (Note 14)		**-**		(7,000)
Proceeds from debt obligation receivable in product equivalents (Note 14)		**9,191**		-
Investment in long-term investments (Note 12)		**-**		(3,106)
Proceeds from sale of long-term investments (Note 12)		**75**		-
Investment in joint venture (Note 13)		**(24,600)**		-
Purchase of capital assets (Note 8)		**(6,455)**		(596)
Net cash used for business combinations (Note 10)		**(1,776)**		-
Net cash used in investing activities	$	**(28,375)**		(11,336)
Financing activities				
Net proceeds from convertible debentures (Note 16)	$	**-**		99,871
Proceeds from share options exercised (Note 17)		**-**		525
Proceeds from warrants exercised (Note 17)		**336**		87,621
Proceeds from broker warrant units exercised (Note 17)		**-**		3,420
Net cash from financing activities	$	**336**		191,437
Net (decrease)/increase in cash and cash equivalents	$	**(46,684)**		172,913
Cash position, beginning of period		**211,707**		33,454
Cash position, end of period (Note 4)	$	**165,023**	$	206,367

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

Condensed Consolidated Interim Statements of Changes in Equity

Expressed in thousands of Canadian Dollars
Unaudited

	Attributable to the shareholders of the Company									
	Share Capital			Reserves						
	Number of Shares	Share Capital	Shares to Be Issued	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance December 31, 2018	**573,532,247**	**$ 350,647**	**$ 9,523**	**$ 33,618**	**$ 17,873**	**$ 4,076**	**$ (86,729)**	**$ (10,873)**	**$ 3,017**	**$ 321,152**
Shares issued for acquisition of Inverell	**1,927,343**	**9,523**	**(9,523)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shares issued on exercise of warrants (Note 17)	**14,387,301**	**336**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**336**
Fair value transfer on exercise of warrants (Note 17)	**-**	**92**	**-**	**(92)**	**-**	**-**	**-**	**-**	**-**	**-**
Expiry of warrants (Note 17)	**-**	**-**	**-**	**(3,063)**	**3,063**	**-**	**-**	**-**	**-**	**-**
Shares issued to settle financial liabiliites	**450,000**	**387**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**387**
Shares issued on conversion of convertible debt (Note 16)	**32,258**	**51**	**-**	**-**	**-**	**(3)**	**-**	**-**	**-**	**48**
Share-based payments (Note 17)	**-**	**-**	**-**	**-**	**3,042**	**-**	**-**	**-**	**-**	**3,042**
Net Loss	**-**	**-**	**-**	**-**	**-**	**-**	**(13,611)**	**-**	**(193)**	**(13,804)**
Changes in fair value of long-term investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,128**	**-**	**8,128**
Currency translation adjustment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(207)**	**(12)**	**(219)**
Balance March 31, 2019	**590,329,149**	**$ 361,036**	**$ -**	**$ 30,463**	**$ 23,978**	**$ 4,073**	**$ (100,340)**	**$ (2,952)**	**$ 2,812**	**$ 319,070**

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

	Attributable to the shareholders of the Company									
	Share Capital			Reserves						
	Number of Shares	Share Capital	Shares to Be Issued	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance December 31, 2017	**263,452,946**	**$ 60,813**	**$ -**	**$ 12,002**	**$ 4,870**	**$ 1,334**	**$ (19,741)**	**$ 3,515**	**$ -**	**$ 62,793**
Equity component of convertible debentures issued on private placement January 2018	**-**	**-**	**-**	**3,195**	**-**	**6,765**	**-**	**-**	**-**	**9,960**
Shares issued on exercise of warrants	**128,401,125**	**87,620**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**87,620**
Fair value transfer on exercise of warrants	**-**	**11,601**	**-**	**(11,601)**	**-**	**-**	**-**	**-**	**-**	**-**
Exercise of broker warrant units	**3,419,549**	**1,858**	**-**	**3,061**	**(1,499)**	**-**	**-**	**-**	**-**	**3,420**
Cancellation of warrants	**-**	**-**	**-**	**(237)**	**237**	**-**	**-**	**-**	**-**	**-**
Units issued on investment in Inner Spirit Holdings Ltd.	**674,418**	**1,274**	**-**	**705**	**-**	**-**	**-**	**-**	**-**	**1,979**
Shares issued for debt settlement	**3,018,109**	**6,881**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,881**
Shares issued on conversion of convertible debt	**21,240,000**	**18,999**	**-**	**-**	**-**	**(1,326)**	**-**	**-**	**-**	**17,673**
Share-based payments	**-**	**-**	**-**	**-**	**2,862**	**-**	**-**	**-**	**-**	**2,862**
Shares issued on exercise of stock options	**525,000**	**525**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**525**
Fair value transfer on exercise of stock options	**-**	**360**	**-**	**-**	**(360)**	**-**	**-**	**-**	**-**	**-**
Deferred income tax	**-**	**-**	**-**	**-**	**-**	**(2,470)**	**-**	**-**	**-**	**(2,470)**
Net Loss	**-**	**-**	**-**	**-**	**-**	**-**	**(10,520)**	**-**	**-**	**(10,520)**
Changes in fair value of long-term investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**997**	**-**	**997**
Balance March 31, 2018	**420,731,147**	**$ 189,931**	**$ -**	**$ 7,125**	**$ 6,110**	**$ 4,303**	**$ (30,261)**	**$ 4,512**	**$ -**	**$ 181,720**

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

1. Nature of operations and going concern

Auxly Cannabis Group Inc. ("Auxly", "we", "our", or the "Company") is a publicly traded company listed on the TSX Venture Exchange under the symbol "XLY", and was incorporated in British Columbia, Canada. The principal business address is located at 777 Richmond Street West, Toronto, Ontario.

Description of the Company

Auxly is an international cannabis company dedicated to bringing innovative, effective, and high-quality cannabis products to the medical, wellness and adult-use markets. Auxly's experienced team of industry first-movers and enterprising visionaries have secured a diversified supply of raw cannabis, strong clinical, scientific and operating capabilities and leading research and development infrastructure in order to create trusted products and brands in an expanding global market.

2. Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements for the three months ended March 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

Certain comparative figures have been reclassified to conform to the current period's presentation.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these condensed consolidated interim financial statements for the three months ended March 31, 2019 should be read together with the annual consolidated financial statements for the year ended December 31, 2018, which are available on SEDAR at www.sedar.com.

The preparation of condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements were authorized for issue by the Board of the Directors on May 24, 2019.

3. Significant accounting policies

Functional Currency

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The table below lists the Company's subsidiaries that are consolidated in these financial statements and the ownership interest held by non-controlling interests, as at March 31, 2019.

Subsidiaries	Equity interests
Dosecann Inc.	100%
KGK Science Inc.	100%
Kolab Project Inc.	100%
Robinson's Cannabis Inc.	100%
Inverell S.A.	80%

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

IFRS 16 – Leases

The Company is a party to lease contracts for, among others: a) office space; b) machinery and equipment; and c) land. Leases are recognized, measured and presented in line with IFRS 16 'Leases'.

The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Company elected to apply exemptions for short term leases and for leases for which the underlying asset is of low value. The Company has also elected to apply the practical expedient to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

i. the amount of the initial measurement of the lease liability;
ii. any lease payments made at or before the commencement date, less any lease incentives;
iii. any initial direct costs incurred by the lessee.

3. Significant accounting policies (continued)

After the commencement date, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right of-use asset from the commencement date to the end of the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, which comprises:

i. fixed payments, less any lease incentives receivable;
ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii. amounts expected to be payable by the lessee under residual value guarantees;
iv. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
v. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The lease term determined by the Company comprises:

i. non-cancellable period of lease contracts,
ii. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
iii. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Impact of transition to IFRS 16

Effective January 1, 2019, the Company has adopted IFRS 16 using the modified retrospective approach, with recognition of a right of use asset equal to the lease liability adjusted for prepaid or accrued lease payments immediately before the date of initial application.

In applying the modified retrospective approach, the Company has taken advantage of the following practical expedients:

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

3. Significant accounting policies (continued)

a) A single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
b) Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases even though the initial term from lease commencement have been more than twelve months.
c) The company maintained the lease assessments made under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed after January 1, 2019.
d) The Company recognized a right-of-use asset on the date of the application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The aggregate lease liability recognised in the statement of financial position at January 1, 2019 can be reconciled as follows:

Operating lease commitment as at December 31, 2018	$6,401
Effect of discounting those leases commitments	1,253
	5,148

The weighted-average incremental borrowing rate used to measure lease liabilities at the date of initial application was 12%. A corresponding right-of-use asset of $5,148 has been recognised in the statement of financial position as at January 1, 2019 and has been classified as property and equipment.

4. Restricted Cash

Cash and cash equivalents include $21,855 of restricted cash. As at March 31, 2019 Auxly has committed to pay for Sunens Farms Inc. (“Sunens”) equipment purchases of $21,855. Auxly has provided the vendor a Letter of Credit for the full amount of cash to be used for the equipment purchases. Further, Auxly has restricted the cash until December 31, 2019 as collateral in order to facilitate the issuance of the Letter of Credit.

5. Notes receivable

	March 31, 2019	December 31, 2018
Curative principal value	$ 6,246	$ 3,086
Nature Crisp principal value	2,002	-
Other loans principal value	135	535
Less: Allowance for credit losses and discounting using effective interest rate	(1,246)	(675)
Total notes receivable	**$ 7,137**	**$ 2,946**

On February 11, 2019, the Company issued a note receivable with a principal value of USD $1,500. The note has a maturity date of July 31, 2019, and interest is accrued on the outstanding value of the principal at 1% per annum. The note is secured by an interest in the debtor’s property and assets. The effective interest rate used to value the note was 15%, including an expected credit loss reserve of 5%. As at March 31, 2019, the carrying amount of the note is $2,002.

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

5. Notes receivable (continued)

As at March 31, 2019, the Company had a principal note receivable balance of $6,246 outstanding, due from Curative Cannabis. The note has a maturity date of August 5, 2019, and interest is accrued on the outstanding value of the principal at 10% per annum. The effective interest rate used to value the note was 20%, including an expected credit loss reserve of 5%. The carrying value of the note at March 31, 2019 is $5,000.

6. Biological assets

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

	Cannabis	Hemp	Total
	$	$	$
Balance at December 31, 2018	345	1,813	2,158
Changes in fair value less cost to sell due to biological transformation	(382)		(382)
Capitalized production costs	175	496	671
Transferred to inventory upon harvest	(101)	(408)	(509)
Biological Asset Write-off		(60)	(60)
Currency Translation Adjustment	-	36	36
Balance at March 31, 2019	**37**	**1,877**	**1,914**

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

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(c) Cumulative stage of completion in production process	Level 3 input

As at March 31, 2019 the cannabis plants were on average 38% complete through their 14-week growing cycle while Hemp was substantially available to harvest.

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

Significant inputs & assumptions	Range of inputs	Sensitivity	Effect on Biological Asset Balance
Selling price per gram	$12.75 - $14.00 dollars	Increase/decrease $1.00/gram	Increase/decrease $8.00/gram
Average yield per plant	141 grams	Increase/decrease 10%	Increase/decrease $4.00/gram
Post-harvest cost per gram	$1.03 dollar/gram	Increase/decrease $0.50/gram	Decrease/increase $4.00/gram

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

7. Inventory

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

	Acquired through business combination	Capitalized costs	Fair Value Transferred from Biological Assets	Currency Translation Adjustment	Carrying Value
	$	$	$	$	$
Dried Cannabis					
Work-in-process	-	1,890	(47)	-	1,843
Finished goods	-	182	81	-	263
Dried Hemp					
Work-in-process	607	2,087	-	42	2,736
Cannabis Oil					
Work-in-process	-	895	-	-	895
Finished goods	-	31		-	31
Merchandise Products	-	38	-	-	38
Packaging Supplies	-	26	-	-	26
Balance at March 31, 2019	607	5,149	34	42	5,832

As of March 31, 2019, the Company recognized $5,832 (December 31, 2018-$2,215) of inventory on the consolidated statements of financial position, including $34 (December 31, 2018- $523) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest. The Company wrote off $194 of dried cannabis inventory due to the costs capitalized exceeding the NRV of the inventory. The impairment loss has been included in the cost of goods sold in the consolidated statement of loss and comprehensive loss.

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

8. Property, plant and equipment

	Computers and Office Furniture	Leasehold Improvement	Equipment	Building	Construction in Progress	Land	Right of Use Assets	Total
Cost:								
December 31, 2018	$ 1,854	$ 1,013	$ 2,689	$ 4,361	$ 18,823	$ 675	$ -	**$ 29,415**
Reclassification on transition to IFRS 16							5,148	**5,148**
Additions	414	383	1,051	966	1,380	2,112	149	**6,455**
March 31, 2019	**$ 2,268**	**$ 1,396**	**$ 4,620**	**$ 4,447**	**$ 20,203**	**$ 2,787**	**$ 5,297**	**$ 41,018**
Accumulated Depreciation:								
December 31, 2018	$ 161	$ 68	$ 140	$ 343	$ -	$ -	$ -	**$ 712**
Depreciation	133	114	143	32	-	-	74	**496**
March 31, 2019	**$ 294**	**$ 182**	**$ 283**	**$ 375**	**$ -**	**$ -**	**$ 74**	**$ 1,208**
Adjustments								
Currency Translation	$ 4	$ 4	$ 8	$ 7	$ -	$ -	$ -	**$ 23**
Carrying amounts								
December 31, 2018	**$ 1,697**	**$ 949**	**$ 2,557**	**$ 4,025**	**$ 18,823**	**$ 675**	**$ -**	**$ 28,726**
March 31, 2019	**$ 1,974**	**$ 1,214**	**$ 4,337**	**$ 4,072**	**$ 20,203**	**$ 2,787**	**$ 5,223**	**$ 39,810**

	Computers and Office Furniture	Leasehold Improvement	Equipment	Building	Construction in Progress	Land	Right of Use Assets	Total
Cost:								
December 31, 2017	$ 144	$ 55	$ 149	$ 2,655	$ 504	$ -	$ -	**$ 3,507**
Additions from acquisitions	226	312	782	1,157	5,265	212	-	**7,954**
Additions	1,484	646	1,758	549	13,054	463	-	**17,954**
December 31, 2018	**$ 1,854**	**$ 1,013**	**$ 2,689**	**$ 4,361**	**$ 18,823**	**$ 675**	**$ -**	**$ 29,415**
Accumulated Depreciation:								
December 31, 2017	$ 5	$ 2	$ 7	$ 18	$ -	$ -	$ -	**$ 32**
Depreciation	156	66	133	325	-	-	-	**680**
December 31, 2018	**$ 161**	**$ 68**	**$ 140**	**$ 343**	**$ -**	**$ -**	**$ -**	**$ 712**
Adjustments								
Currency Translation	$ 4	$ 4	$ 8	$ 7	$ -	$ -	$ -	**$ 23**
Carrying amounts								
December 31, 2017	**$ 139**	**$ 53**	**$ 142**	**$ 2,637**	**$ 504**	**$ -**	**$ -**	**$ 3,475**
December 31, 2018	**$ 1,697**	**$ 949**	**$ 2,557**	**$ 4,025**	**$ 18,823**	**$ 675**	**$ -**	**$ 28,726**

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

9. Intangible assets

	Cultivation Interests	Canadian Cultivation Licenses	Processing Licenses	International Cultivation Licenses	Distribution Agreements	Others	Total
Cost:							
December 31, 2018	$ 11,142	$ 27,152	$ 31,100	$ 14,206	$ 829	$ 5,145	**$ 89,574**
Additions	453	-	-	-	-	-	**453**
Dispositions	-	-	-	-	-	(453)	**(453)**
Impairment	(1,800)	-	-	-	-	-	**(1,800)**
March 31, 2019	**$ 9,795**	**$ 27,152**	**$ 31,100**	**$ 14,206**	**$ 829**	**$ 4,692**	**$ 87,774**
Accumulated Amortization:							
December 31, 2018	$ -	$ -	$ -	$ -	$ -	$ 1,446	**$ 1,446**
Amortization	229	-	-	-	14	401	**644**
March 31, 2019	**$ 229**	**$ -**	**$ -**	**$ -**	**$ 14**	**$ 1,847**	**$ 2,090**
Adjustments							
Currency Translation (2018)	$ -	$ -	$ -	$ 1,199	$ -	$ -	**$ 1,199**
Currency Translation (2019)	$ -	$ -	$ -	$ 925	$ -	$ -	**$ 925**
Carrying amounts							
December 31, 2018	**$ 11,142**	**$ 27,152**	**$ 31,100**	**$ 15,405**	**$ 829**	**$ 3,699**	**$ 89,327**
March 31, 2019	**$ 9,566**	**$ 27,152**	**$ 31,100**	**$ 15,131**	**$ 815**	**$ 2,845**	**$ 86,609**

	Cultivation Interests	Canadian Cultivation Licenses	Processing Licenses	International Cultivation Licenses	Distribution Agreements	Others	Total
Cost:							
December 31, 2017	$ 10,800	$ 16,963	$ -	$ -	$ -	$ 1,442	**$ 29,205**
Additions	9,142	-	-	-	829	522	**10,493**
Additions from acquisitions	-	10,189	31,100	14,206	-	3,181	**58,676**
Impairment	(8,800)	-	-	-	-	-	**(8,800)**
December 31, 2018	**$ 11,142**	**$ 27,152**	**$ 31,100**	**$ 14,206**	**$ 829**	**$ 5,145**	**$ 89,574**
Accumulated Amortization:							
December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Amortization	-	-	-	-	-	1,446	**1,446**
December 31, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,446**	**$ 1,446**
Adjustments							
Currency Translation (2018)	$ -	$ -	$ -	$ 1,199	$ -	$ -	**$ 1,199**
Carrying amounts							
December 31, 2017	**$ 10,800**	**$ 16,963**	**$ -**	**$ -**	**$ -**	**$ 1,442**	**$ 29,205**
December 31, 2018	**$ 11,142**	**$ 27,152**	**$ 31,100**	**$ 15,405**	**$ 829**	**$ 3,699**	**$ 89,327**

a) Cultivation interests

On February 7, 2019, the Company terminated the definitive agreement with FV Pharma Inc. ("FV") on the basis of contractual breaches relating to, among other things, FV's management and staffing obligations of the JV Facility, resulting in an impairment loss of $1,800.

On January 8, 2019, the Company and Green Relief Inc. ("Green Relief") mutually agreed to terminate their interim agreement, and Green Relief agreed to pay the Company a termination fee of $1,500 through the issuance of 496,689 common shares of Green Relief and the execution of an offtake cultivation agreement. The value of $1,047 was allocated to the common shares of Green Relief and recorded as a long-term investment. The residual value of $453 was allocated to the cultivation

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

9. Intangible assets (continued)

agreement and recorded as an intangible asset. A gain of $1,047 was recorded in the statement of profit and loss on the termination of the interim agreement.

10. Business combinations

The purchase price allocations of business combinations that were preliminary as at December 31, 2018 have been included in the table below. The purchase price allocation for Dosecann has been finalized during the period ended March 31, 2019. All net assets acquired, and consideration paid have been included at their respective fair values with no changes in the preliminary purchase price allocation.

		2018	
		Dosecann Inc.	KGK Science Inc.
Cash and cash equivalents	$	4,062	445
Other receivables		748	1,224
Accounts receivable		-	1,219
Prepaid Expenses		-	65
Inventory and biological assets		-	-
Property, plant and equipment		5,007	445
Licenses and licenses in progress		31,100	-
Non-competition agreements		-	-
Intellectual property		-	2,028
Goodwill		10,112	10,916
Accounts payable and accrued liabilities		(2,479)	(1,261)
Long-term loans		-	-
Deferred revenue		-	(2,460)
Deferred tax liabilities		(9,468)	-
Non-controlling interests		-	-
Net assets acquired	$	39,082	12,621
Consideration paid in shares	$	33,783	4,092
Consideration paid in warrants		5,109	-
Consideration paid in cash		190	5,288
Fair value of future make-whole payment		-	1,082
Assumed loans		-	2,159
	$	39,082	12,621
Consideration paid in cash	$	(190)	(7,447)
Less: Cash and cash equivalents acquired		4,062	445
Net cash (outflow) inflow	$	3,872	(7,002)

10. Business combinations (continued)

a) Dosecann Inc.

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

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

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

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

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

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

Goodwill arose in the acquisition of Dosecann, primarily due to the assembled work force of Dosecann. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill of $10,112 arose due to the recognition of a deferred tax liability on the date of the acquisition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

b) KGK Science Inc.

On August 29, 2018 the Company purchased all the issued and outstanding shares of KGK Science Inc. ("KGK"). The transaction was accounted for as a business combination. The shareholders of KGK received aggregate consideration from the Company as follows:

i. 4,132,231 common shares of the Company on closing of the acquisition;
ii. $5,288 in cash on closing of the acquisition;

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

10. Business combinations (continued)

iii. $2,159 in a cash payment on closing to repay long term loans of KGK;
iv. $1,082 as a future make-whole payment, depending on the share price of the Company six months following the transaction date; and
v. Additional payment of 30% of the purchase price received for the sale of the KGK patents, if the patents are sold by August 29, 2019 or a bona-fide cash offer received. Management has assessed that there is a low probability that the patents will be sold, and the fair value is a nominal amount.

The total fair value of the consideration is $12,621.

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

KGK is a leading health and wellness focused private contract research organization based in London, Ontario, and the Company expects to leverage KGK's expertise and research abilities to further the Company's product development efforts through collaboration with the Company's wholly owned subsidiary, Dosecann.

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

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

11. Goodwill

As at December 31, 2018	$ 33,015
Currency Translation Adjustment	208
As at March 31, 2019	**$ 33,223**

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

12. Long-term investments

Entity	Note	Instrument	Classification	Balance at December 31, 2018	Additions	FV Change	Disposals	Balance at March 31, 2019
VIVO Cannabis		Shares	FVTOCI	$ 4,733	$ -	$ 1,800	$ -	$ 6,533
CannTx Life Sciences		Shares	FVTOCI	971	-	291	-	1,262
Inner Spirit Holdings		Shares	FVTOCI	3,448	-	3,945	-	7,393
Inner Spirit Holdings		Warrants	FVTPL	248	-	364	-	612
Lotus Ventures Inc.		Shares	FVTOCI	1,198	-	307	-	1,505
Lotus Ventures Inc.		Warrants	FVTPL	48	-	11	-	59
Province Brands		Shares	FVTOCI	166	-	50	-	216
Cannabis OneFive Inc.		Shares	FVTOCI	110	-	33	-	143
Cannabis OneFive Inc.		Warrants	FVTPL	12	-	5	-	17
Delta 9 Cannabis		Shares	FVTOCI	7,209	-	2,246	-	9,455
FSD Pharma		Shares	FVTOCI	2,138	-	(450)	-	1,688
Good Leaf		Shares	FVTOCI	384	-	115	-	499
Good Leaf		Warrants	FVTPL	278	-	79	-	357
Ascent Industries Corp.		Shares	FVTOCI	711	-	(289)	(74)	348
Green Relief Inc.	9 (a)	Shares	FVTOCI	-	1,047	81		1,128
KBB Convertible Debt		Convertible Debt	FVTPL	5,569	-	1,401	-	6,970
Total				**$ 27,223**	**$ 1,047**	**$ 9,989**	**$ (74)**	**$ 38,185**

13. Investment in Joint Ventures

On June 15, 2018 the Company signed a definitive joint venture agreement with Peter Quiring to develop, construct and operate a fully-automated, state-of-the-art, purpose-built greenhouse for cannabis cultivation in Leamington, Ontario. The joint arrangement is structured through a separate legal entity, Sunens Farms Inc. (“Sunens”), and has been classified as a joint venture per IFRS 11.

There was $180 an equity loss recorded for the three-month period ended March 31, 2019 (2018 - $Nil). At March 31, 2019 the joint venture reported a net loss of $353, and the material assets in the joint venture were land and buildings valued at $4,026 and supplier and construction deposits of $45,570.

On February 15, 2019, the Company and Sunens cancelled the issuance of 19,025,807 Class B non-voting shares and reclassified the $19,026 investment as a convertible promissory note convertible into Class B non-voting shares, accounted for as fair value through profit and loss.

The Company made additional investments in the joint venture throughout the three months ended March 31, 2019 of $24,600 through a secured loan to the joint venture.

The net investment in the joint venture is $53,578 as at March 31, 2019, which is made up of an equity balance of $9,952 of the Company’s 51% of the voting shares and $43,626 of convertible promissory notes. The Company has joint control as decisions about operating activities require unanimous consent.

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

14. Debt obligation receivable in product equivalents

a) Beleave Inc.

The Company previously advanced $5,000 to Beleave Inc. and the instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be $5,241 at March 31, 2019 (2018 - $6,671) and a fair value loss of $788 was recorded on the consolidated statement of loss and comprehensive loss for the three months ended March 31, 2019 (2018 – gain of $293). As at March 31, 2019, $891 was received as repayment on the note, with $595 received as at December 31, 2018.

b) Sundial Growers Inc.

On March 1, 2018, the Company announced that it had entered into a definitive agreement with Sundial Growers Inc. ("Sundial") whereby the Company advanced $7,000 to Sundial by way of a promissory note. The note was subject to an interest rate of 24% per annum, with a minimum guaranteed interest of $840. The Company extended the loan for an additional six months and as a result, the amount due on maturity increased to $8,780.

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. On February 22, 2019, $8,895 was received to fully settle the promissory note that included an extension charge of $115. A fair value gain of $310 was recorded on the condensed consolidated interim statement of loss and comprehensive loss for the three months ended March 31, 2019 (2018 - $325).

15. Lease liability

		March 31, 2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	$	2,043
One to five years		4,453
More than five years		139
Total undiscounted lease obligations	**$**	**6,635**
Discounted lease obligations included in the condensed interim statement of financial position	**$**	**5,049**
Current portion		1,656
Non-current portion		3,393

16. Convertible debenture

January 17, 2018 Issuance

On January 17, 2018, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of $100,000. Each convertible debenture unit consists of a $1 principal amount of senior unsecured convertible debentures and 322 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months on January 17, 2020. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.55 per share, at the option of the holder. The debenture was recorded at its fair value of $90,040, discounted at a market interest rate of 12% and is net of debt issue costs.

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

16. Convertible debenture (continued)

The accretion expense calculated using the effective interest method for the three months ended March 31, 2019 was $1,236 (2018 - $908). The effective interest rate used was 11.6% and the coupon rate on the debt is 6.0%. Interest expense for the three months ended March 31, 2019 for convertible debentures was $1,479 (2018 – $1,184).

		Convertible debenture
BALANCE AT DECEMBER 31, 2017	$	-
Face value of debt upon issuance		100,000
Less: Allocation to warrants and conversion feature		(9,832)
Less: Debt issue costs		(128)
Fair value of debt on initial recognition		90,040
Accretion expense during the period		4,550
Less: Units converted during the period		(1,158)
BALANCE AT DECEMBER 31, 2018	$	93,432
Accretion expense during the period		1,236
Less: Units converted during the period		(48)
BALANCE AT MARCH 31, 2019	$	94,620

June 29, 2017 Issuance

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

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months on June 29, 2019. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.00 per share, at the option of the holder. The debenture was discounted at a market interest rate of 12% and is net of debt issue costs and was recorded at its fair value of $23,461. The accretion expense calculated using the effective interest method for the three months ended March 31, 2019 was $5 (2018 - $54). The effective interest rate used was 19.2% and the coupon rate on the debt is 6.0%. Interest expense for the three months ended March 31, 2019 for convertible debentures was $2 (2018 – $32).

		Convertible debenture
BALANCE AT DECEMBER 31, 2017	$	17,738
Accretion expense during the period		66
Less: Units converted during the period		(17,673)
BALANCE AT DECEMBER 31, 2018	$	131
Accretion expense during the period		5
BALANCE AT MARCH 31, 2019	$	136

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

17. Share capital

a) Authorized

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

b) Issued and outstanding

At March 31, 2019, there were 590,329,149 issued and fully paid common shares and 16,342,926 shares were held in escrow related to the contingent considerations in acquisitions and investments (March 31, 2018 had 420,731,147 issued and fully paid common shares, and 9,999,942 were held in escrow).

During the three months ended March 31, 2019, the Company issued 1,927,343 common shares on closing the Inverell S.A. acquisition, 14,419,559 common shares on exercise of warrants and conversion of convertible debt, and 450,000 common shares to settle a lawsuit.

c) Stock options

The Company has a stock award plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded is not to exceed 10% of the issued and outstanding shares, or 60,667,207 as at March 31, 2019.

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

	2019	2018
Risk-Free Annual Interest Rate	1.82%-1.92%	1.72%-2.52%
Expected Annual Dividend Yield	0%	0%
Expected Annualized Volatility	94.52% - 94.86%	93.17% - 108.60%
Expected Life of Options	5 - 10 years	5 - 10 years
Forfeiture rate	0%	0%

The expected annualized volatility was estimated based on the Company's historical stock returns and comparable companies.

During the three months ended March 31, 2018, 6,300,000 options were granted, and 525,000 options were exercised. During the three months ended March 31, 2019, 1,440,000 options were granted.

The following table summarizes information about stock options outstanding as at March 31, 2019.

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

17. Share capital (continued)

Options Granted	Number of options granted	Number of options exercised	Number of options modified	Number of options expired or forfeited	Ending balance	Average exercise price ($)	Average remaining life (years)
Jan 1, 2018	19,861,085	(775,000)	-	(5,000)	19,081,085	0.356	4.97
2018 Q1	6,300,000	-	(2,590,000)	(257,500)	3,452,500	1.952	9.16
2018 Q2	4,703,468	-	-	(572,500)	4,130,968	1.271	9.47
2018 Q3	6,080,000	-	-	-	6,080,000	1.220	9.74
2018 Q4	8,307,500	-	-	-	8,307,500	1.240	9.07
Dec 31, 2018	**45,252,053**	**(775,000)**	**(2,590,000)**	**(835,000)**	**41,052,053**	**0.889**	**7.31**

Options Granted	Number of options granted	Number of options exercised	Number of options modified	Number of options expired or forfeited	Ending balance	Average exercise price ($)	Average remaining life (years)
Jan 1, 2019	41,052,053	-	-	(645,000)	40,407,053	0.883	7.03
2019 Q1	1,440,000	-	-	-	1,440,000	0.858	5.30
Mar 31, 2019	**42,492,053**	**-**	**-**	**(645,000)**	**41,847,053**	**0.882**	**6.97**

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

As at March 31, 2019, stock options outstanding have a weighted average remaining life of 6.97 years. The total fair value of stock options granted during the three months ended March 31, 2019 was $752 (2018 – $3,111).

For the three months ended March 31, 2019, $3,042 of share-based payments were recorded on the statements of loss and comprehensive loss relating to the vesting of the Company's stock options (2018 - $2,819).

d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table summarizes information about warrants outstanding as at March 31, 2019:

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

17. Share capital (continued)

Warrants Granted	Number of warrants issued	Number of warrants exercised	Warrant expiries	Ending balance	Average exercise price ($)	Average remaining life (years)
Jan 1, 2018	160,647,124	(145,101,635)	(1,158,188)	14,387,301	0.023	0.18
2018 Q1	36,869,549	(49)	-	36,869,500	1.797	0.99
2018 Q2	56,183,748	(3,805,228)	-	52,378,520	1.775	1.99
2018 Q3	100,000	-	-	100,000	1.310	1.73
Dec 31, 2018	**253,800,421**	**(148,906,912)**	**(1,158,188)**	**103,735,321**	**1.539**	**1.39**

Warrants Granted	Number of warrants issued	Number of warrants exercised	Warrant expiries	Ending balance	Average exercise price ($)	Average remaining life (years)
Jan 1, 2019	103,735,321	(14,387,301)	(3,419,500)	85,928,520	1.793	1.38
2019 Q1	-	-	-	-	-	-
Mar 31, 2019	**103,735,321**	**(14,387,301)**	**(4,577,688)**	**85,928,520**	**1.793**	**1.38**

The weighted average exercise price of warrants outstanding during the three months ended March 31, 2019 was $1.793, with a weighted average remaining life of 1.38 years. Cash proceeds from warrants exercised during the three months ended March 31, 2019 was $336.

e) Earnings per share

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

18. Related party balances and transactions

Key management and director compensation

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

For the three months ended March 31	2019	2018
Short-term benefits	**$ 533**	$ 410
Long-term benefits	**944**	321
	$ 1,477	$ 731

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

Other related party transactions

Nesta Holding Co. Ltd., a company owned and controlled by the CEO of the Company, provides travel and accommodation services to the Company on a month to month basis. For the three months ended March 31, 2019, the Company incurred $10 (2018 - $32) in general expenses.

19. Financial instruments and risk management

The Company has exposure to the following risks from its use of financial instruments. The Board of Directors approves and monitors the risk management processes.

a) Financial instrument classification and measurement

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

The fair value of hierarchy has the following levels:

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

Level 3 Investments	**March 31 2019**
Opening balance, January 1, 2018	41,138
Additions	25,647
Repayment	(9,191)
Transfers	-
Change in Unrealized Gain (Loss) - FVTPL	921
Change in Unrealized Gain (Loss) - FVTOCI	570
Ending Balance	**59,085**

19. Financial instruments and risk management (continued)

Instrument	**Valuation Technique**	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Debt obligation receivable in product equivalent - Beleave Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20% - Default risk percentage: 5% - 20% - Selling price per gram of cannabis	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by $21 - if the estimated default risk percentage was higher (lower) by 1%, the fair value would increase (decrease) by $54 ($62) - If the price per gram of Cannabis increases (decreases) by 1%, the fair value increase (decrease) would be $60
Convertible promissory note in joint venture	Asset based approach	- Fair value of net assets	- If the fair value of the net assets decreased by 1%, the fair value would decrease by $436.
Investments in private companies	Market approach	- Investment index	- If the investment index fair value change increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by $57
Investment in KBB Convertible debt	Monte Carlo Simulation	- volatility: 104% - discount rate: 19.8%	- If the volatility was lower (higher) by 10%, the fair value would increase (decrease) by $303 ($316) - If the estimated discount rate was lower (higher) by 2%, the fair value would increase (decrease) by $172 ($162)

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

As at March 31, 2019	Level 1	Level 2	Level 3	Total
Short-term Investments	3,349	-	-	3,349
Public Company Shares	26,922	-	-	26,922
Company Warrants	-	1,045	-	1,045
Convertible Debentures	-	-	6,970	6,970
Debt Obligations Receivable in Product Equivalents	-	-	5,241	5,241
Convertible promissory note in Joint Venture	-	-	43,626	43,626
Private Company Shares	-	-	3,248	3,248
	30,271	1,045	59,085	90,401

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, short-term investments, note and other receivables, long-term investments, debt obligation receivable in product equivalent, accounts payable and accrued liabilities, convertible debenture and long-term loans and interest payable on convertible debt. As at March 31, 2019, the carrying value of cash and cash equivalents is carried at fair value. Notes receivable and accounts payable and accrued liabilities, interest payable on convertible debenture approximate their fair value due to their short-term nature. The carrying value of notes receivable, convertible debentures, and long-term loans approximate their fair value due to their short-term nature at market rates for similar instruments.

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVTOCI and FVTPL. For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $3,044 before tax. An equal change in the opposite direction would have decreased equity by $3,044 before tax.

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

19. Financial instruments and risk management (continued)

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the cash flows of the Company. As all of the Company's financial debt are on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows during the contract term.

e) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The financial instruments that are exposed to such risk include cash and cash equivalents, other receivables, notes receivable, and debt obligation receivable in product equivalent.

Management has mitigated the risk by using tier 1 financial institutions for managing its cash, established communication channels with the counterparties of the receivables for ongoing monitoring of their financial performance. The Company mitigates credit risk on notes receivable by securing the notes and monitoring the financial performance of the partners.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities. The Company manages liquidity risk through the management of its capital structure.

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

g) Foreign exchange risk

The financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity within the consolidated group determines its own functional currency.

The Company is exposed to certain currency risks in that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. Management has mitigated the risk by holding sufficient cash in US dollars.

20. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include working capital, short and long-term investments, debt, and shareholders' equity.

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

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

21. Commitments

As at March 31, 2019, Auxly has entered into certain agreements which commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

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

Auxly has funding commitments related to construction as follows:

- funding of approximately $160,000 to Sunens towards construction of the fully automated state-of-the-art, purpose-built greenhouse facility in Leamington, Ontario. As at March 31, 2019, Auxly has provided approximately $43,600 towards the construction costs, and has provided a Letter of Credit for $21,855 to be used for equipment purchases. The Company anticipates that the construction will be substantially complete by December 2019;
- funding of approximately $17,400 to Curative Cannabis towards construction of a cannabis cultivation facility, including $2,230 to Hydro One for them to provide required power to the site. As at March 31, 2019, Auxly has funded approximately $6,245 of the total towards the construction costs. The Company anticipates that the construction will be substantially complete by December 2019;
- funding of $7,000 to CannTx related to a phase II expansion of the Facility, subject to the completion of satisfactory due diligence and the parties agreeing to a construction budget and timeline for the phase II expansion.

Auxly has commitments in respect of leases relating to office spaces, equipment and land which will require payments within one year, but not included in the lease liability on the interim condensed consolidated statement of financial position for the three months ended March 31, 2019, amounting to $420.

22. Selling, general, and administrative expenses

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

	March 31, 2019	March 31, 2018
Wages and salaries	**$ 4,105**	$ 1,172
Office and administrative	**1,685**	982
Professional fees	**1,044**	623
Business development	**1,011**	2,134
Share-based payments (Note 13)	**3,042**	2,819
Selling expenses	**81**	-
Total selling, general, and administrative expenses	**$ 10,968**	$ 7,730

23. Interest and accretion expenses

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

	March 31, 2019	March 31, 2018
Cash interest expense on lease liabilities	**$ 122**	$ -
Other cash interest expense	**338**	1,218
Non-cash interest expense	**1,984**	-
Accretion expense on convertible debt	**1,241**	987
Accretion expense on long-term loans	**67**	-
Accretion expense on long-term notes receivables	**(218)**	-
Total interest and accretion expense	**$ 3,534**	$ 2,205

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

24. Income taxes

Summary & movement of deferred tax assets/(liabilities)	Jan 1, 2019	Recognized in profit or loss	Recognized in OCI	March 31, 2019
Non-capital losses	4,790	1,259	-	6,049
Inventory	(244)	-	-	(244)
Convertible & other debt	(4,213)	-	-	(4,213)
Intangible assets	(21,014)	-	(210)	(21,224)
Marketable securities	-	-	-	-
Property, plant & equipment	57	-	-	57
Financing and share issuance costs	2,180	-	-	2,180
Total deferred income tax assets/(liabilities), net	(18,444)	1,259	(210)	(17,395)

25. Operating segments

Management has determined the operating and geographic segments. The Executive Leadership Team evaluates and makes decisions on operating performance by segment. The Company has one reportable operating segment and two geographic segments.

Geographic Information

All the Company's revenue is from the Canadian operations. For the Company's geographically segmented non-current assets, the Company has allocated them based on the location of assets, as follows:

	March 31, 2019		**December 31, 2018**	
Long-term Assets	**Canada**	**Uruguay**	**Canada**	**Uruguay**
Long-term investments	38,185	-	27,223	-
Investment in joint venture	53,578	-	29,158	-
Property, plant and equipment	35,738	4,072	26,033	2,693
Intangible assets	71,002	15,607	73,764	15,563
Goodwill	29,488	3,735	29,488	3,527
Total	**227,991**	**23,414**	**185,666**	**21,783**

26. Subsequent events

a) On April 5, 2019, Robinson's Cannabis Inc. received its cultivation and processing licenses in Nova Scotia.