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, 2019

Dated August 15, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of August 15, 2019 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("Auxly", "we", "our", or the "Company"). All amounts are stated in 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 condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 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 speaks only of the date it is provided, is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "Forward Looking Statements" in this MD&A.

DESCRIPTION OF BUSINESS

Our Business

We are 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.

VISION AND STRATEGY

Our vision is to be a global cannabis leader focused on providing branded cannabis products backed by science and innovation.

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

With our cultivation platform largely in place and in anticipation of the legalization of derivative adult-use products for October 2019 (namely, concentrates, edibles and topicals as contemplated by the *Cannabis Act* and its current and proposed accompanying regulations) ("Phase two"), we have been focused on product formulation and development at our wholly owned subsidiary, Dosecann Inc. ("Dosecann"). We were a first mover in 2018 with the acquisition of Dosecann. Its state-of-the-art processing facility and its highly-skilled team give us the ability to turn raw cannabis into a variety of derivative cannabis products under one roof. Further, our acquisition of KGK Science Inc. ("KGK") provides additional scientific and clinical bench strength to Dosecann's ability to develop and produce safe, effective and high-quality cannabis products.

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

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

Cultivation

At June 30, 2019, we had multiple partners and subsidiaries in various stages of cannabis cultivation readiness. Each was expected to be completed, or in the process of completing their facility buildouts with cultivation of cannabis in due course. In January 2019, we received our first shipments of cannabis from several partners with delivery and production expected to increase steadily throughout the year. The majority of cannabis received or produced to date will be held in inventory or processed further during the year in support of Dosecann's product development and manufacturing activities, with the remainder intended for distribution as dried cannabis flower through Kolab Project Inc. ("Kolab") to its registered patients and for sale to non-medical consumers through our wholly-owned Kolab retail location in Lloydminster, Saskatchewan.

Construction of Sunens Farms Inc. ("Sunens") fully-automated, purpose-built greenhouse for cannabis cultivation is well underway in Leamington, Ontario. The first phase of the project is expected to be substantially complete by December 2019, with annual delivery of approximately 100,000 kgs of cannabis commencing on or about the second quarter of 2020.

Product Development

We believe we are well on our way to creating world-class operations that will position us to be a leader in the anticipated market for derivative cannabis products. Through the combined capabilities of Dosecann and KGK, we are developing and manufacturing value-added derivative cannabis products that will enable us to benefit from the changing industry legislation and trending consumer preferences for derivative products. Following regulatory approval, Dosecann will supply derivative cannabis products for the medical, wellness and adult-use cannabis markets. We will also offer branded derivative cannabis products including several proprietary brands developed by Auxly as well as branded Dixie products through our in-licensing arrangement with Dixie Brands Inc. ("Dixie"). Subject to receipt of regulatory approvals, the following table summarizes our anticipated product launch and related timing:

Fourth Quarter of 2019	
Vape Pens Chocolates Capsules	Chewables Tablets Oils/Sprays

First Quarter of 2020	
Lozenges	Topicals

Distribution

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

Kolab had its official store opening in Lloydminster, Saskatchewan on July 11, 2019. Kolab is now able to commence local cannabis sales and province wide e-commerce throughout Saskatchewan.

International Operations

The Company, through Inverell, is a cultivation leader in Latin America. Our Uruguayan operations are led by the renowned Dr. Raul Urbina, the founder of Stevia One, which became one of the largest and lowest cost producers of stevia in the world. For the 2019 growing season, approximately 190 hectares (approximately 20 million square feet) of hemp was planted yielding approximately 18 tonnes of hemp biomass. We continue to work towards our extraction and distribution strategy for our Uruguayan operations.

We are also focused on additional opportunities in the LATAM region, Europe, and North America through strategic partnerships, joint ventures and supply arrangements including leveraging our existing relationships.

OUTLOOK

For the remainder of 2019, we expect to realize cannabis sales through our wholly-owned Kolab retail store in Lloydminster, Saskatchewan which opened on July 11th, sell dry cannabis flower and participate in the market for Phase two cannabis products, with an increasing part of our business dedicated to derivative cannabis product development, manufacturing and distribution. As dry cannabis flower is being used in the development of derivative products, we expect that material revenue generation will coincide with the legalization and regulatory approvals for derivative cannabis products and our sale of such products to the market, presently anticipated to commence in December 2019. Over the long-term, we believe shareholders will benefit from the higher profitability and anticipated strong growth of the derivative cannabis product market.

Our priorities for 2019 and updates thereto are as follows:

1. Complete product R&D, formulation and manufacturing activities at the Dosecann facility in preparation for the legalization of derivative cannabis products:
   - Progress has been made in several areas including extraction of flower to cannabis resin and development of edible product formulations, with a full product suite consisting of vape pens, chocolates, chewables, oils/sprays, tablets, and capsules to be ready for sale in December 2019;
   - Successful production of oil in a bottle, oil in a spray and cannabis oil capsules for sale upon receipt of relevant licenses;
   - Expansion of the Dosecann facility by approximately 10,000 square feet to 52,000 square feet is well underway which will allow for larger production and extraction throughput capacity; and
   - Completed the acquisition of vape pen hardware, capsule manufacturing equipment, derivative cannabis product packaging and related production equipment.

2. Complete construction of all ongoing cultivation assets, while continuing to work with our joint venture partner Sunens as it substantially completes phase one of a state-of-the-art greenhouse facility in 2019:
    - The first phase of the Sunens greenhouse is anticipated to cost approximately $150.0 million of which Auxly has contributed $60.5 million and provided a Letter of Credit for $21.4 million to be used for equipment purchases, as at June 30, 2019;
    - Sunens has entered into a term sheet for a syndicated credit facility, with the Bank of Montreal ("BMO") as Lead Underwriter and, subject to the satisfaction of certain customary closing conditions and the finalization of definitive loan documentation, expects to receive debt financing in the aggregate amount of approximately $84.0 million. The syndicated senior debt facility will be for $71.5 million for a three-year term together with a BMO $12.5 million leasing facility;
    - Construction is anticipated to be substantially completed in December 2019, with licencing expected in early 2020 and cultivation commencing in Q2 2020; and
    - Funding of the Curative facility continued in Q2 2019. Construction of the Curative facility is anticipated to be completed in 2019 along with an evidence package to be submitted to Health Canada for cultivation licencing.

3. Continue to support the rollout of Dosecann, Kolab, Robinsons and Foray:
    - On April 5, 2019, Robinsons received its cultivation and processing licenses in Nova Scotia. We anticipate receipt of the licence amendment to allow sales by the first quarter of 2020;
    - On June 19, 2019 Dosecann entered into a definitive agreement with Capsugel Inc. to provide Dosecann with a complete line of equipment for capsule filling and sealing. In addition, Dosecann and Lonza will work collaboratively on new cannabis capsule products;
    - We have established strong relationships with provincial boards during the second quarter of 2019 and anticipate signing supply agreements in Q3 2019;
    - We have advanced the process for receipt of Dosecann's and Kolab's oil sales approval; and
    - The Lloydminster store had its official opening on July 11, 2019, and Kolab is now able to commence local cannabis sales and province-wide e-commerce in Saskatchewan.

4. Opportunistically expand our footprint in international markets to facilitate the sale of CBD, derived from our large-scale hemp cultivation operation in Uruguay:
    - Corporate development and public relations activities in Uruguay progressed in April 2019;
    - Inverell was awarded a licence for scientific research and development of cannabis strains for registration during May 2019;
    - Seeds containing higher CBD are being registered for the 2020 planting season; and
    - Continued to evaluate and explore options to access markets in Europe.

In addition to the priorities noted above, we are extremely delighted to have secured and participated in financing activities in the past month amounting to more than $200.0 million. These funds along with any additional financing secured by the Company will be used to support and build our business in preparation for Phase two derivative cannabis products.

RECENT DEVELOPMENTS: Q2 2019 AND SUBSEQUENT

Inverell

During the second quarter of 2019, Inverell harvested 18 tonnes of hemp biomass to be converted into CBD isolate.

Kolab

Our wholly-owned store in Lloydminster had its official opening on July 11, 2019, and Kolab is now able to commence local cannabis sales and province-wide e-commerce in Saskatchewan.

Robinsons

Robinsons received its cultivation and processing licenses on April 5, 2019 and anticipates that the license amendment to allow sales will be received by December 2019.

Curative

On April 23, 2019, Auxly committed to funding the construction of the Curative facility up to $18.0 million, with an estimated total cost of $17.8 million.

On May 15, 2019, Auxly entered into a Supply Agreement with Curative, and was issued 25 common shares of Curative (20%) as consideration for past services rendered by Auxly in connection with the licensing, design, and construction of Curative’s facility.

Dosecann

On June 19, 2019 Dosecann entered into a definitive agreement with Capsugel Inc. to 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. In addition, Dosecann and Lonza will work collaboratively on new product formulation for cannabis capsule products.

Imperial Brands PLC

On July 25, 2019 Auxly and Imperial Brands announced that they have entered into a subscription agreement pursuant to which Imperial Brands has agreed to invest approximately $123.0 million by way of a debenture, convertible into 19.9% ownership of Auxly at a conversion price of $0.81 per share, representing an 11% premium to Auxly’s closing share price on July 24, 2019 and a 12% premium to the trailing 10-day volume-weighted average price on the TSX Venture Exchange. The convertible debenture has a three-year term and a fixed interest rate of 4.00% per annum, payable on the last day of December. Imperial Brands will have the right to convert the debenture into Auxly shares at any time during the three-year term and has certain top-up and pre-emptive rights to maintain its pro rata ownership in Auxly and certain governance rights. If at the end of the term Imperial Brands has not converted, the debenture will be repayable in full. In addition, the following items are noteworthy:

a) Auxly has been granted global licences to Imperial Brands' vaping technology for cannabis use and access to its vapor innovation business, Nerudia. The shared ability to rapidly innovate as the Canadian market evolves is key to future growth and Auxly will work closely with a small dedicated team from Nerudia in developing a portfolio of new and enhanced vapor products and brands;

b) Auxly will become Imperial Brands' exclusive partner for the future development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world;

c) As part of the Transaction, Auxly has agreed to nominate for election to its Board of Directors one out of five director nominees and one non-voting observer, each to be designated by Imperial Brands. In addition, the Chair of Imperial Brands' Product Stewardship and Health Group will sit on Auxly's new Safety Board, which will have oversight of the controls in place to ensure the safety, efficacy and quality of Auxly's products; and

d) Upon the closing of the transaction, Auxly and Imperial Brands will establish a Commercial Cooperation Group (the "CCG"), which will foster collaboration between the parties to enable them to leverage their respective capabilities and expertise for the benefit of growing Auxly's business. Each company will appoint four representatives to the eight-member CCG.

The Imperial Brands transaction is expected to close in the third quarter of 2019, subject to receipt of certain closing conditions and approval by the TSX Venture Exchange.

Sunens Financing

On August 14, 2019 the Company announced that its joint venture partner, Sunens Farms Inc. ("Sunens"), had entered into a term sheet for a syndicated credit facility with the Bank of Montreal ("BMO") as Lead Underwriter and, subject to the satisfaction of certain customary closing conditions and the finalization of definitive loan documentation, expects to receive debt financing in the aggregate amount of approximately $84.0 million. The syndicated senior debt facility will be for $71.5 million for a three-year term together with a BMO $12.5 million leasing facility.

Q2 HIGHLIGHTS

(000's)	**Three months Ended June 30 2019**	Three months Ended June 30 2018	Change	Percentage Change	**Six months Ended June 30 2019**	Six months Ended June 30 2018	Change	Percentage Change
Total revenues	**$ 2,762**	$ -	$ 2,762	N/A	**$ 3,579**	$ -	$ 3,579	N/A
Net losses*	**(13,987)**	(11,878)	(2,109)	18%	**(27,598)**	(22,400)	(5,198)	23%
Cash and equivalents**	**119,127**	211,707	(92,580)	-44%	**119,127**	211,707	(92,580)	-44%
Total assets**	**439,888**	460,818	(20,930)	-5%	**439,888**	460,818	(20,930)	-5%
Debt**	**$ 96,637**	94,151	$ 2,486	3%	**$ 96,637**	$ 94,151	$ 2,486	3%
Average Shares outstanding	**592,208,342**	466,768,801	125,439,541	27%	**589,730,772**	416,214,533	173,516,239	42%

*attributable to shareholders of the Company.

**comparable period is December 31, 2018.

For the three and six months ended June 30, 2019, revenues increased to $2.8 million and $3.6 million respectively, comprised primarily of KGK research revenues. Net losses increased by 15% to $14.0 million in the second quarter and 19% to $27.6 million year-to-date when compared to the same periods in 2018. Net losses reflect an increase in selling, general and administrative expenses as the Company moves towards Phase two derivative product sales and the full current year impact of 2018 business acquisitions. Changes in Cash and equivalents primarily reflect progress in the development and financing of business assets, cultivation agreement financing and general operations. Increases in the number of average Shares outstanding in 2019 primarily reflect acquisition activity in 2018.

RESULTS OF OPERATIONS

(000's)		**Three months Ended June 30 2019**	Three months Ended June 30 2018		**Six months Ended June 30 2019**	Six months Ended June 30 2018
Revenues						
Research contracts and other	**$**	**2,318**	**-**	**$**	**2,843**	-
Revenue from sales of cannabis products		**444**	**-**		**736**	-
Total Revenues		**2,762**	**-**		**3,579**	-
Cost of sales						
Research contracts and other		**2,090**	**-**		**2,372**	-
Costs of finished cannabis inventory sold		**228**	**-**		**376**	-
Gross profit excluding fair value items		**444**	**-**		**831**	-
Realized fair value change on inventory		**(1)**	**-**		**(195)**	-
Unrealized fair value loss on biological transformation		**(155)**	**-**		**(537)**	-
Gross profit (loss)		**288**	-		**99**	-
Other incomes						
Fair value gain for financial instruments, under FVTPL		**(1,812)**	282		**(430)**	900
Interest income		**2,019**	994		**2,979**	1,409
Total other incomes		**207**	1,276		**2,549**	2,309
Expenses						
Selling, general, and administrative expenses		**11,325**	10,504		**22,293**	18,235
Depreciation and amortization		**1,437**	113		**2,475**	190
Interest expense		**1,897**	2,756		**5,431**	4,961
Impairment of intangible assets		**-**	-		**1,800**	-
(Gain) / loss on settlement of financial assets and liabilities		**250**	-		**(125)**	4,191
Share of loss on equity investment in joint venture		**372**	-		**552**	-
Foreign exchange (gain) / loss		**869**	(38)		**940**	(49)
Total expenses		**16,150**	13,335		**33,366**	27,528
Net loss before income tax		**(15,655)**	(12,059)		**(30,718)**	(25,219)
Income tax recovery		**1,464**	(104)		**2,723**	2,534
Net loss	**$**	**(14,191)**	(12,163)	**$**	**(27,995)**	(22,685)
Net loss attributable to shareholders of the Company	**$**	**(13,987)**	(11,878)	**$**	**(27,598)**	(22,400)
Net loss attributable to non-controlling interest		**(204)**	(285)		**(397)**	(285)
Net loss per common share (Basic and diluted)	**$**	**(0.02)**	(0.03)	**$**	**(0.05)**	(0.05)
Weighted average number of shares outstanding (basic and diluted)		**592,208,342**	466,768,801		**589,730,772**	416,214,533

Revenue

For the three and six months ended June 30, 2019, Auxly recognized $2.3 million and $2.8 million of research revenues from KGK, respectively. These revenues are in support of third-party research contracts which can fluctuate significantly during the contract and related performance milestones. Revenues are driven by the achievement of milestones on existing and new contracts and are therefore deferred to be only recognized as performance criteria are met, resulting in timing differences of when revenues are recognized. KGK is a critical component in Auxly's overall strategy to develop safe, effective and high-quality consumer cannabis products while continuing to conduct leading edge research for third party clients.

Auxly recognized $0.4 million and $0.7 million of revenues from sales of dry cannabis products for the three and six months ended June 30, 2019, respectively. Dry cannabis flower sales have been curtailed as a result of the company's decision to use the dry flower to develop derivative cannabis products in anticipation of Phase two legalization.

Gross Profit

Auxly realized a gross profit of $0.3 million for the three months ended June 30, 2019 and $0.1 million for the six months ended June 30, 2019. Gross profit for the three months ended June 30, 2019 is comprised of KGK revenues less expenses of $0.2 million and $0.2 million of revenues less expenses on the sale of cannabis products, net of a $0.1 million unrealized fair value loss on biological asset transformation. Gross profit for the six months ended June 30, 2019 is comprised of KGK revenues less expenses of $0.5 million and $0.4 million of revenues less expenses on the sale of cannabis products. In addition, a $0.2 million fair value loss on inventory recognized on net realizable value and a $0.6 million unrealized fair value loss on biological asset transformation contributed to a reduction in overall gross profit over the six-month period ended June 30, 2019.

Other incomes

Total other incomes were $0.2 million for the three months ended June 30, 2019 and $2.5 million for the six months ended June 30, 2019. For the three and six months ended June 30, 2019, other incomes are comprised of a fair value loss of $1.8 million and $0.4 million, respectively, from changes in securities held and interest income of $2.0 million and $3.0 million, respectively. Interest income is generated on notes receivable balances as well as interest on cash and cash equivalents held.

Selling, general and administrative expenses

Selling, general and administrative expenses are comprised of wages and salaries, office and administrative, professional fees, business developments, share-based payments, and selling expenses. Share-based payments were reported separately prior to 2019.

For the three and six months ended June 30, 2019, wages and benefits were $4.2 million and $8.3 million, respectively. This reflects an increase of $2.4 million and $5.3 million over the same period in 2018, primarily due to workforce increases in both 2018 and 2019. The increases were to support expansionary activities as a direct result of workforces added on acquisition of four entities and the corporate office.

Office and administrative expenses of $1.5 million in the second quarter of 2019 increased by $0.1 million and $0.8 million to $3.2 million year to date compared to the same periods in 2018. Office and administrative expenses have remained relatively consistent year over year despite the increase in headcount due to cost savings initiatives at head office.

Auxly's professional fees were $1.8 million and $2.9 million for the three and six months ended June 30, 2019, respectively, as compared to $2.0 million and $2.7 million over the same respective periods in 2018. Professional fees for 2019 primarily related to recruiting expenses, accounting fees, and fees associated with financing activities, whereas these expenses in 2018 primarily related to acquisition activities, leading to a decrease over the comparable second quarter three-month period. The overall growth of the Company resulted in additional accounting and recruiting fees over the six months ended June 30, 2019.

Business development fees of $1.1 million in the second quarter of 2019 decreased by $1.4 million and $2.5 million to $2.1 million year to date as compared to the same periods in 2018, attributable to a lower volume of transactions. The fees in 2019 were focused on exclusively securing opportunities for additional financing, while the fees in 2018 were focused on the acquisitions of Inverell, Dosecann, Robinsons, and KGK in additional to securing financing.

For the three and six months ended June 30, 2019, share-based compensation was $2.7 million and $5.7 million similar to the $2.7 million and $5.6 million over the same respective periods in 2018. 1,440,000 options and 6,590,000 options were issued during the three and six months ended June 30, 2019, respectively.

Other Expenses

Depreciation and amortization expenses were $1.4 million in the second quarter of 2019 and $2.5 million year to date. This is comprised of $0.6 million amortization of intangible amortization per quarter, primarily associated with acquisition related non-competition features. The remaining depreciation relates to charges on the Company's property, plant and equipment.

Interest expenses were $1.9 million for the three-month period ended June 30, 2019, a decrease of $0.9 million over the same period in 2018, and $5.4 million for the six-month period ended June 30, 2019, an increase of $0.4 million over the same period in 2018. Interest expenses are driven by interest charges of 6% on the outstanding convertible debentures and the non-cash accretion of placement and other related fees being recognized over 24 months. Further, the Company has been increasing expenditures on construction projects and capitalizing interest expenses incurred on borrowings used to fund such projects.

A foreign exchange loss of $0.9 million was recognized during the three months ended June 30, 2019, an increase of $0.9 million compared to the same period in 2018, driven by a decrease in the U.S. dollar to CAD dollar exchange rate.

An impairment charge of $1.8 million related to the intangible value of the FSD streaming agreement was taken during the first quarter as a result of previously announced contract breaches. The Company is currently evaluating its next steps in this matter.

Net Losses

Net losses attributable to shareholders were $14.0 million with a net loss of $0.02 per Share on a basic and diluted basis in the second quarter of 2019, and $27.6 million with a net loss of $0.05 per Share on a basic and diluted basis year to date. This compares to a net loss of $11.9 million and $0.03 per Share on a basic and diluted basis and $22.4 million and $0.05 per Share on a basic and diluted basis, over the same respective periods in 2018. The decrease in net income was primarily driven by an increase in expenses, compounded by non-cash expenses and losses during the period, partially offset by income tax recoveries.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	**Q2/19**	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17
Total revenues	**$ 2,762**	$ 817	$ 647	$ 100	$ -	$ -	$ -	$ -
Net losses*	**(13,987)**	(13,611)	(34,861)	(9,727)	(11,880)	(10,520)	(9,205)	(5,903)
Average shares outstanding (000's)	**592,208**	587,247	571,156	544,626	466,769	365,099	237,870	199,583
Per share								
Basic & diluted loss	**$ (0.02)**	$ (0.02)	$ (0.06)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.03)

*attributable to shareholders of the Company.

Auxly's current revenues are primarily as a result of operations of KGK, earning $2.3 million and $2.8 million respectively, over the three and six months ended June 30, 2019. During the same period, the Company completed $0.4 million and $0.7 million in sales of dried cannabis flower, respectively. Expenses have increased due to the build out of the business through acquisitions (employees, professional fees), additional employees in the corporate offices and share compensation expenses. Increases in average outstanding Shares reflect financing and acquisition related activities (issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures).

TRANSACTIONS WITH RELATED PARTIES

Key management and director compensation

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

	Three months Ended June 30 2019	Three months Ended June 30 2018	**Six months Ended June 30 2019**	Six months Ended June 30 2018
Short-term benefits	**$ 533**	$ 411	**$ 1,066**	$ 821
Long-term benefits	**1,013**	820	**1,957**	1,141
	$ 1,546	$ 1,231	**$ 3,023**	$ 1,962

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.

LIQUIDITY AND CAPITAL RESOURCES

(000's)	**Three months Ended June 30 2019**	Three months Ended June 30 2018	**Six months Ended June 30 2019**	Six months Ended June 30 2018
Cash used in operating activities	**$ (19,448)**	$ (9,372)	**$ (39,869)**	$ (16,560)
Net change in investments	**(20,659)**	(8,311)	**(40,803)**	(19,051)
Net capital expenditures	**(5,649)**	(3,488)	**(12,104)**	(4,084)
Cash used in investing activities	**(26,308)**	(11,799)	**(52,907)**	(23,135)
Net cash from financing activities	**(140)**	110,607	**196**	302,044
Cash position, end of period	**$ 119,127**	$ 295,803	**$ 119,127**	$ 295,803

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

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

During the three and six months ended June 30, 2019, Auxly used $19.4 million and $39.9 million in operating activities, respectively primarily as a result of expenses associated with the build out of the business in preparation of sales in the adult-use derivative cannabis products market, estimated to occur in late 2019. Investing activities included capital expenditures of $5.6 million and $12.1 million, respectively primarily related to construction in progress of cultivation locations and $20.7 million and $40.8 million, respectively, associated with net long-term business investments, joint ventures and debt obligations. Financing activities included $0.1 of convertible debt repayments related to the June 2017 issuance during the three months ended June 30, 2019 and $0.3 million generated through the exercise of warrants during the six months ended June 30, 2019. At June 30, 2019, cash and cash equivalents are $119.1 million.

Subsequent to June 30, 2019, Auxly announced that Imperial Brands will invest approximately $123.0 million by way of a debenture convertible into 19.9% ownership in Auxly. Further, Sunens has entered into a syndicated credit facility with the Bank of Montreal for total borrowings of $84.0 million towards the construction of the Sunens greenhouse and equipment. The Sunens financing effectively reduces Auxly's future contributions towards the completion of phase one.

Auxly anticipates that it has liquidity and capital resources to meet short term obligations. Auxly believes it will have sufficient capital for the next 12 months upon successful completion of contemplated financing activities.

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

OUTSTANDING SHARE DATA

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

	August 15, 2019	June 30 2019	June 30 2018
Issued Shares	606,672,075	606,672,075	566,391,178
Escrowed shares	14,329,505	14,329,505	27,657,788
Outstanding shares	592,342,570	592,342,570	538,733,390
Exercisable securities			
Warrants	85,928,520	85,928,520	111,016,193
Convertible Debentures	63,670,970	63,670,970	63,920,647
Options	45,254,553	44,799,553	30,006,085

Subsequent to June 30, 2019, Nil Shares were issued.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 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.

Auxly has funding commitments related to construction as follows:

Total funding of approximately $98.5 million to Sunens towards construction of the fully automated state-of-the-art, purpose-built greenhouse facility in Leamington, Ontario. Total costs of construction are approximately $150.0 million, with the remainder to be funded through debt. As at June 30, 2019, Auxly has provided approximately $60.5 million towards the construction costs, and has provided a Letter of Credit for $21.4 million to be used for equipment purchases. The Company anticipates that the construction will be substantially complete by December 2019;

funding of approximately $18.0 million to Curative Cannabis towards construction of a cannabis cultivation facility with an estimated total cost of $17.8 million, including $2.2 million for the provision of power to the site. As at June 30, 2019, Auxly has funded approximately $13.5 million of the total towards the construction costs. The Company anticipates that the construction will be substantially complete by December 2019;

funding of $7.0 million 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 six months ended June 30, 2019, amounting to $0.3 million.

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

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

The Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under *IAS 17 Leases* will not be reassessed for whether a lease exists.

As at January 1, 2019, a right-of-use asset of $5.1 million was recognized along with a corresponding lease liability of $5.1 million, and a change in retained earnings of $nil. The estimated lease liability is based on the present value of remaining lease payments as of January 1, 2019, discounted using the Company’s incremental borrowing rate as of this date.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

RISK FACTORS

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

FORWARD LOOKING STATEMENTS

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

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

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

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

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

- current and future management will abide by the investment objectives and investment strategies of Auxly;
- Auxly will supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which Auxly invests;

- the Company will be able to secure adequate funding in the future on acceptable terms to expand its business;

- cultivation partners will be able to generate cash flow;

- general economic, financial market, regulatory and political conditions in which Auxly operates will remain the same;

- Auxly will be able to compete in the industry;

- Auxly will be able to manage anticipated and unanticipated costs;

- Auxly will be able to enter into additional cultivation agreements;

- Auxly will be able to maintain internal controls over financial reporting and disclosure, controls and procedures;

- cannabis prices will not decline materially;

- cultivation partners will be able to meet the requirements necessary to obtain and / or maintain their licenses under the *Cannabis Act*;

- Auxly will be able to successfully develop and commercialize derivative cannabis products; and

- cultivation partners will be able to successfully complete initial construction and / or expansion construction of their respective facilities pursuant to the terms and conditions of their respective agreements.

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

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