AUXLY CANNABIS GROUP INC.

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

Dated November 21, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of November 21, 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 nine months ended September 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. Our 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.

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

Canadian Market

The Canadian cannabis market is at a pivotal moment in its evolution. Following legalization and the first sales of cannabis products (dried flower and certain extracts) in October 2018, the market is set to expand following the legalization of additional derivative cannabis products in October 2019. We have been focused on developing high-margin, value-added branded derivative cannabis products to bring to market and have made considerable progress towards that end.

Cultivation Supply

Since our inception, we have worked closely with our partners to develop a secure, cost-efficient and diversified supply 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 provide us with access to a diverse source of cannabis genetics and help mitigate the risk of cultivation interruptions at our large scale joint venture Sunens Farms Inc. ("Sunens") project currently under development in Leamington, Ontario and our Robinson's Outdoor Grow Inc. ("Robinsons OG") project currently under development in Hortonville, Nova Scotia.

The Sunens project has experienced a slight delay in the construction of its state of the art, 1.1 million square foot greenhouse and, as a result, has revised its completion and licencing strategy in order to keep the regulatory licencing for the project moving forward and commence operations as quickly as possible. Licencing will now be completed in multiple phases throughout 2020, the first of which the Company anticipates being completed in Q1 2020, which includes submission of the related evidence package to Health Canada, followed by delivery of cannabis commencing in Q3 2020 from such initial licenced area. The Company anticipates that the additional licence amendments for the remaining phases will be submitted in Q2 and Q3 of 2020 and upon receipt of such amendments, the entire cultivation footprint for the project will be licenced. In a project of this scope, such delays can be expected, but management is confident we will meet the adjusted timeline. In addition to the project plan revisions, the Company has mitigated any impact that such delays may have on its ability to produce its derivative products by purchasing additional inventory (dried flower and resin) in the open market this quarter, which will enable us to meet our commercial objectives until the end of Q4 2020.

As recently announced, we have commenced a Robinson's Cannabis Inc. ("Robinsons") outdoor cultivation project located in the heart of Nova Scotia's award-winning Annapolis Valley wine region, located within 25 kilometers of Robinsons' 27,700 square foot indoor facility. Robinsons OG is comprised of over 158 acres of land in Hortonville, Nova Scotia. Planting for the 2020 season is anticipated to be approximately 20 acres, with responsible scaling of operations to follow in the coming years, with an expected yield of approximately 200 kg per acre which will be used to create premium, terroir-driven Robinsons-branded derivative cannabis products, with the same commitment to quality and craftsmanship as Robinsons' dried flower.

We previously announced that we are acting as financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp is being cultivated in Prince Edward Island, and we have the right of first refusal to offtake the biomass produced. We have been monitoring the crop carefully to date and are pleased to report a successful harvest is nearing completion. We expect to have up to 100,000 kilograms of biomass available for purchase subject to final inspection and validation of minimum cannabinoid content for determination of extraction efficiency. We anticipate a final update in the coming months.

Strategic Partner

We expect our strategic partnership with Imperial Brands PLC ("Imperial Brands", see Recent Developments, below), will further advance our capabilities in the derivative adult-use product market (namely extracts, edibles and topicals) ("Cannabis 2.0"). Under the partnership, Imperial Brands has granted Auxly global vape IP licences for cannabis use and will support cannabinoid innovation to create products and brands across various categories. Imperial Brand's subsidiary, Nerudia, has a growing scientific team dedicated to cannabis research and a facility licenced for R&D activities with cannabis. It works cross functionally throughout all stages of development, from concept to launch and beyond, enabling fast and agile delivery from idea to shelf.

Brand Portfolio

We have created a diverse brand platform designed to target a broad market of consumers.

- Dosecann Inc. ("Dosecann") is a clinical wellness brand offering several oil-based cannabis products in bottles, sprays and capsule formats. Backed by science and advanced research and development, Dosecann products are driving today's innovation and establishing tomorrow's standards.

- Foray aims to be an accessible entry point for the adult-use cannabis market. Designed for the curious, Foray aims to both celebrate and educate one's foray into cannabis.
- Kolab Project Inc. ("Kolab") is a platform dedicated to arts, design and culture. Its mission is to provide Canadian cannabis enthusiasts with a carefully curated selection of exceptional cannabis products in collaboration with culturally relevant creators.
- Robinsons is a premium cannabis producer, developing fine crafted cannabis products for the adult-use market. Robinsons' commitment to quality is unwavering at every stage of cultivation and production, working to produce premium product for discerning cannabis consumers.

Extraction, Manufacturing and R&D

In anticipation of the legalization of Cannabis 2.0 products, we began to tailor our assets and capabilities to be a dominant player in the derivative product market by acquiring Dosecann and KGK Science Inc. ("KGK").

Dosecann is our wholly-owned state-of-the-art processing facility located in Prince Edward Island, which houses extraction, manufacturing and R&D. Dosecann's team consists of leading experts that are dedicated to developing proprietary formulations for a range of exceptional derivative products. KGK is our wholly-owned contract research organization providing regulatory, research and clinical trial services to the nutraceutical, natural health product and cannabis industries.

The *Cannabis Regulations* require licenced processors to submit a notification to Health Canada of their intent to sell each novel cannabis product in Canada at least 60 calendar days before making such cannabis products available for sale. Auxly, through its subsidiaries, has submitted a total of 83 product SKUs to Health Canada for the new derivative product formats we intend to offer for sale beginning in mid-December.

Dosecann serves as our manufacturing hub for all of our branded derivative products. Our initial launch of derivative products will include vape, chewable and edible product formats, in addition to the company's current portfolio of dried flower and cannabis oils in bottle and spray formats.

We believe that our assets and capabilities, in particular the powerful combination of Dosecann and KGK, make us uniquely positioned to take and maintain a leadership position in the Cannabis 2.0 market and beyond. Dosecann allows us to formulate and manufacture a broad range of product formats which are responsive to changing industry regulation and evolving consumer preferences, while KGK provides us with the clinical and research bench strength to develop innovative products that are safe and effective.

Distribution

Given the current provincial legislative framework in Canada, we are pursuing a multifaceted strategy to gain access to Canadian consumers. This includes a wholly-owned retail store, retail joint ventures, investments in independent retailers, supply arrangements with provincial boards and a partnership with a strategic sales agent.

We continue to secure listings for our derivative products with the provincial boards and expect to be able to sell products in all provinces except Quebec (where the regulations for Cannabis 2.0 products are more restrictive) beginning December 16, 2019. We also continue to service medical cannabis patients through our wholly-owned subsidiary Kolab, as well as pursue tailored medical cannabis programs with institutional health care providers.

In order to aid in the distribution of our products in non-medical channels we have entered into a brokerage agreement with Kindred Partners Inc.("Kindred"), whereby Kindred will act as Auxly's sales agent for its adult-use cannabis products in Canada. Kindred will provide its brokerage services to Auxly and use its national presence to market the Company's portfolio of brands nationwide.

Kolab had its official store opening in Lloydminster, Saskatchewan on July 11, 2019. Kolab has commenced local cannabis sales and province wide e-commerce throughout Saskatchewan.

International Operations

The Company, through Inverell S.A. (“Inverell”), is a cultivation leader in Latin America. Our Uruguayan operations are led by 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 of hemp were planted, yielding approximately 18 tonnes of hemp biomass. We continue to work towards our extraction and distribution strategy for our Uruguayan operations under the thesis of matching the pace of our capital deployment and infrastructure development in the region to that of the regulatory development in the region.

We are also focused on additional opportunities in Europe and North America. The business strategies for each region may differ depending upon a multitude of factors, including local ownership requirements, applicable international trade restrictions, the pace of regulatory development, the availability of mature and secure infrastructure and requirements for local cultivation.

OUTLOOK

To date, we have been primarily focused on preparing the business for derivative cannabis product sales in the Cannabis 2.0 market, which will legally commence mid-December 2019. In executing on our priorities, we were able to deliver on the following significant items during the quarter:

- Secured a strategic partnership with Imperial Brands and financing of approximately $123 million.
- Secured $84 million in syndicated senior debt and the Bank of Montreal (“BMO”) equipment facilities to be used to fund approximately 1.1 million square feet of the Sunens project.
- Signed a brokerage agreement with Kindred, where they will act as our sales agent for our adult-use cannabis products in Canada.
- Successfully submitted new product notifications to Health Canada for a total of 83 new derivative product formats.
- Obtained all required licence amendments to allow Dosecann and Kolab to legally sell derivative product formats as soon as legally permitted in mid-December 2019.
- Officially opened our Lloydminster store on July 11, 2019; Kolab is now able to commence local cannabis sales and province-wide e-commerce in Saskatchewan.
- Completed a leadership transition with the appointment of Hugo Alves as the Company’s new CEO. Mr. Alves replaced Chuck Rifici, who continues to serve as Chairman of Auxly’s Board of Directors.

We have made considerable progress this quarter and over the past 18 months, which has positioned us to be ready to enter the Cannabis 2.0 market on the first day sales are permitted, through a broad portfolio of branded cannabis products in Canada. We continue to secure listings for our derivative products with the provincial boards and expect to be able to sell products in all provinces except Quebec (where the regulations for Cannabis 2.0 products are more restrictive) beginning December 16, 2019. We anticipate that revenues from the sale of such derivative cannabis products will commence in December 2019, when provinces begin accepting orders from licenced producers, with revenues increasing throughout 2020 as new consumers are attracted to the new product formats, existing consumers transition from dried cannabis to derivative cannabis products and as provincial retail infrastructure continues to develop and expand. We will update our priorities for 2020 along with our results for 2019 in the first quarter of 2020.

RECENT DEVELOPMENTS: Q3 2019 To Date

Robinsons Outdoor Grow

On November 15, 2019, we announced Robinsons OG, a large scale, high quality outdoor cultivation project located in the heart of Nova Scotia's award-winning Annapolis Valley wine region, located within 25 kilometers of Robinsons' 27,700 square foot indoor facility. Robinsons OG is comprised of over 158 acres of land in Hortonville, Nova Scotia and offers road frontage and highway access, allowing for the potential future development of tourism and point of sale opportunities.

The long-term, stable supply of outdoor cannabis produced on site will be used to create premium, terroir-driven Robinsons-branded derivative cannabis products, with the same commitment to quality and craftsmanship as Robinsons' dried flower.

Robinsons OG expects to submit its application and evidence of readiness to obtain a cultivation licence under the Cannabis Act from Health Canada in Q1 2020 with cultivation of approximately 20 acres in the 2020 season.

Health Canada Product Notification and Licence Amendments

On October 24, 2019, we announced that Dosecann and Kolab received amendments to their respective sales licences from Health Canada. These amendments authorize Dosecann and Kolab to sell cannabis extract, edible and topical products in Canada. Subsequently, Dosecann and Kolab successfully submitted 83 new product notifications to Health Canada for the new derivative product formats that the companies intend to offer for sale beginning in mid-December.

Auxly Convertible Debentures – Due January 2020

On October 29, 2019, we announced the retirement of approximately 97% of the outstanding debentures through the issuance of 21,602,460 common shares on the conversion of $16.0 million principal and repayment of principal of $80.0 million.

Imperial Brands

On September 25, 2019, Imperial Brands invested approximately $123.0 million in the Company by way of a debenture, convertible into 19.9% ownership of Auxly at a conversion price of $0.81 per share (the "Debenture"), 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 Debenture has a three-year term and a fixed interest rate of 4.00% per annum, payable on the last day of December, commencing December 31, 2020. 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 strategic partnership with Imperial Brands has granted Auxly the following:

a) Auxly has been granted global licences to Imperial Brands' vaping technology for cannabis use and access to its vapor innovation business, Nerudia. The combination of these two aspects allows Auxly to rapidly innovate and develop vape product formats as the Canadian market evolves to help Auxly take a leadership position in cannabis vapes. Auxly will work closely with a dedicated team from Nerudia to develop a portfolio of new and enhanced vapor products;

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

c) As part of the transaction, Auxly has appointed a representative from Imperial Brands to its Board of Directors as well as one non-voting observer. In addition, the Chair of Imperial Brands' Product Stewardship and Health Group have been appointed to sit on Auxly's new Safety Board, which has oversight of the controls in place to ensure the safety, efficacy and quality of Auxly's products; and

d) Auxly and Imperial Brands have established a Commercial Cooperation Group 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.

Leadership Transition

On August 12, 2019, the Company announced that Hugo Alves would succeed Chuck Rifici as CEO of Auxly. Mr. Alves is a co-founder of Auxly and was previously the Company's President. He is a cannabis industry pioneer, having acted as an advisor and counsel to many cannabis companies when serving as a senior corporate and commercial partner at a major national law firm. He will lead the Company as it moves towards commercialization of its branded derivative products. Mr. Rifici continues to serve as the Chairman of Auxly's Board of Directors.

Sunens Financing

On September 24, 2019, we announced that our joint venture project, Sunens, had entered into syndicated credit facilities with BMO as Lead Underwriter and received 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 $12.5 million leasing facility provided by BMO.

National Sales Agent Agreement

On September 18, 2019, we announced that we entered into a brokerage agreement with Kindred to act as Auxly's sales agent for its adult-use cannabis products in non-medical channels in

Canada. Kindred will provide its brokerage services to Auxly and use its national presence to market the company's portfolio of branded products nationwide.

KGK Science Inc.

On September 5, 2019, we announced that KGK has been issued a Cannabis Research Licence by Health Canada under the Cannabis Regulations, allowing KGK to possess and administer cannabis for purposes of a clinical trial. This licence is one of the first of its kind to be issued to a contract research organization in Canada.

Atlantic Cultivation

On September 4, 2019, we announced that Auxly and Atlantic Cultivation ("Atlantic") entered into a supply, development and retail agreement with the Province of Newfoundland and Labrador, whereby Atlantic will be eligible to apply to operate five new retail locations and Auxly will supply dried flower (or equivalent derivative products) to the province commencing in 2019. Atlantic has agreed to build a 110,000 square foot purpose-built facility in Kenmount Crossing, St. John's, for cultivation, production and processing of high-quality cannabis.

P.E.I. Hemp Cultivation

On August 19, 2019, we announced that we entered into a hemp cultivation and purchase agreement, whereby the Company agreed to act as the financial sponsor for the development of a hemp farming co-operative consisting of six individual hemp licence holders located in Prince Edward Island (collectively, the "P.E.I. Hemp Farmers"). The P.E.I. Hemp Farmers have planted nearly 300 acres of hemp, which is expected to result in approximately 100,000 kilograms of hemp biomass, in the aggregate. Dosecann is entitled, at its option, to purchase all the hemp cultivated by the P.E.I. Hemp Farmers in 2019 at a preferential price relative to current wholesale market rates. A minimum of $6.0 million of funds will be advanced by Auxly toward the development of the project, which will act as pre-payment for any hemp purchases by Dosecann. Additional payments may be required beyond the minimum amount dependent upon the quantity of product accepted. As at September 30, 2019, the Company funded $4.5 million towards the project.

Kolab

Kolab's wholly-owned store in Lloydminster, LAB001, had its official opening on July 11, 2019; Kolab is offering local cannabis sales from the store and province-wide sales through its e-commerce platform in Saskatchewan.

Q3 HIGHLIGHTS

(000's)	Three months ended September 30, 2019	2018	Change	Percentage Change	Nine months ended September 30, 2019	2018	Change	Percentage Change
Total revenues	**$ 1,617**	$ 818	$ 799	98%	**$ 5,196**	$ 818	$ 4,378	535%
Net losses*	**(17,255)**	(9,595)	(7,660)	80%	**(44,853)**	(31,697)	(13,156)	42%
Cash and equivalents**	**186,526**	211,707	(25,181)	-12%	**186,526**	211,707	(25,181)	-12%
Total assets**	**568,090**	460,818	107,272	23%	**568,090**	460,818	107,272	23%
Debt**	**$ 187,443**	94,151	$ 93,292	99%	**$ 187,443**	$ 94,151	$ 93,292	99%
Average Shares outstanding	**594,591,824**	544,626,362	49,965,462	9%	**590,718,186**	459,488,849	131,229,337	29%

*attributable to shareholders of the Company

**comparable period is December 31, 2018

For the three and nine months ended September 30, 2019, revenues increased by $0.8 million and $4.4 million, to $1.6 million and $5.2 million respectively, comprised primarily of KGK research revenues. Net losses increased by 80% to $17.3 million in the third quarter and 42% to $44.9 million year-to-date when compared to the same periods in 2018. Net losses encompass fair value changes on inventory and investments which have seen a decrease due to prevailing market conditions. The net losses also reflect an increase in selling, general and administrative expenses during the quarter as the Company moves towards cannabis product sales in the Cannabis 2.0 market and year to date in part due to the full current year impact of 2018 business acquisitions. Changes in cash and equivalents primarily reflect recent financing activities offset by progress in the development 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

	Three months ended September 30,		Nine months ended September 30,	
(000's)	**2019**	2018	**2019**	2018
Revenues				
Research contracts and other	**$ 1,502**	$ 818	**$ 4,345**	$ 818
Revenue from sales of cannabis products	**115**	-	**851**	-
Total Revenues	**1,617**	818	**5,196**	818
Cost of sales				
Research contracts and other	**1,453**	306	**3,825**	306
Costs of finished cannabis inventory sold	**59**	-	**435**	-
Impairment on inventory	**1,074**	-	**1,074**	-
Gross profit excluding fair value items	**(969)**	512	**(138)**	512
Realized fair value change on inventory	**(48)**	-	**(243)**	-
Unrealized fair value loss on biological transformation	**(135)**	3	**(672)**	3
Gross profit (loss)	**(1,152)**	515	**(1,053)**	515
Other incomes				
Fair value gain for financial instruments, under FVTPL	**(5,778)**	6,202	**(6,208)**	7,102
Interest income	**858**	1,360	**3,837**	2,770
Total other incomes	**(4,920)**	7,562	**(2,371)**	9,872
Expenses				
Selling, general, and administrative expenses	**16,594**	16,004	**38,887**	34,238
Depreciation and amortization	**1,527**	200	**4,002**	390
Interest expense	**2,520**	2,814	**7,951**	7,775
Impairment of intangible assets	**-**	-	**1,800**	-
(Gain) / loss on settlement of financial assets and liabilities	**1,413**	(35)	**1,288**	4,156
Share of loss on equity investment in joint venture	**838**	173	**1,390**	173
Foreign exchange (gain) / loss	**75**	445	**1,015**	396
Total expenses	**22,967**	19,601	**56,333**	47,128
Net loss before income tax	**(29,039)**	(11,524)	**(59,757)**	(36,741)
Income tax recovery	**11,524**	1,644	**14,247**	4,178
Net loss	**$ (17,515)**	$ (9,880)	**$ (45,510)**	$ (32,563)
Net loss attributable to shareholders of the Company	**$ (17,255)**	$ (9,595)	**$ (44,853)**	$ (31,697)
Net loss attributable to non-controlling interest	**(260)**	(285)	**(657)**	(866)
Net loss per common share (Basic and diluted)	**$ (0.03)**	$ (0.02)	**$ (0.08)**	$ (0.07)
Weighted average number of shares outstanding (basic and diluted)	**594,591,824**	544,626,362	**590,718,186**	459,488,849

Revenue

For the three and nine months ended September 30, 2019, Auxly recognized $1.5 million and $4.3 million of research revenues from KGK, respectively. These revenues are in support of third-party research contracts which can fluctuate significantly during the term of the contract 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.

Auxly recognized $0.1 million and $0.9 million of revenues from sales of dry cannabis products for the three and nine months ended September 30, 2019, respectively. Dry cannabis flower sales have been curtailed as a result of the Company's decision to allocate the bulk of its dried flower to the development and manufacture of derivative cannabis products in anticipation of Cannabis 2.0 sales mid-December 2019.

Gross Profit

Auxly realized a gross loss of $1.2 million for the three months ended September 30, 2019 and $1.1 million for the nine months ended September 30, 2019 following fair value adjustments. The gross loss for the three months ended September 30, 2019 is comprised of KGK and cannabis product revenues less expenses of $0.1 million, net of a $1.1 million impairment of inventory associated with final Inverell biomass product qualification and grading, a $0.1 million realized fair value change on other inventories, and a $0.1 million unrealized fair value loss on biological asset transformation. Gross loss for the nine months ended September 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, net of a $1.3 million fair value loss was recognized for an inventory net realizable value adjustment and a $0.7 million unrealized fair value loss on biological asset transformation.

Other incomes

Total other losses were $4.9 million for the three months ended September 30, 2019 and $2.4 million for the nine months ended September 30, 2019. For the three and nine months ended September 30, 2019, other losses are comprised of a fair value loss of $5.8 million and $6.2 million, respectively, from changes in promissory notes, investments, and securities held, and interest income of $0.9 million and $3.8 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 benefits, 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 nine months ended September 30, 2019, wages and benefits were $4.8 million and $13.1 million, respectively. This reflects an increase of $2.6 million and $7.9 million over the same period in 2018, primarily due to workforce increases in both 2018 and 2019. The increases were to support expansion and growth activities as a direct result of workforces added on acquisition of four entities and the corporate office. During the three months ended September 30, 2019, the Company increased workforce specifically related to product formulation and development, sales and marketing in order to prepare for the Cannabis 2.0 sales.

Office and administrative expenses of $2.9 million in the third quarter of 2019 increased by $2.0 million and $2.8 million to $6.1 million year to date compared to the same periods in 2018. The increase in expense is comprised of approximately $1.7 million associated with product development, R&D and testing to prepare for Cannabis 2.0 sales with the remainder related to the implementation of an organization wide ERP system.

Auxly's professional fees were $2.4 million and $5.3 million for the three and nine months ended September 30, 2019, respectively, as compared to $2.6 million and $5.3 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 third quarter three-month period. During the third quarter of 2019, professional fees were primarily attributable to legal expenses, regulatory matters, ongoing legal proceedings and consulting fees associated with construction and product development. Year to date professional fees also reflect incremental recruiting fees in conjunction with hiring and preparedness for Cannabis 2.0.

Business development fees of $1.0 million and $3.1 million for the three and nine months ended September 30, 2019, were lower by $0.2 million and $2.7 million respectively, as compared to the same periods in 2018. Business development activities in 2019 were lower when compared to activities in 2018 associated with the acquisitions of Inverell, Dosecann, Robinsons, and KGK.

For the three and nine months ended September 30, 2019, share-based compensation was $5.4 million and $11.1 million, compared to the $8.9 million and $14.5 million over the same respective periods in 2018. During the three and nine months ended September 30, 2019, 825,000 and 7,415,000 options were granted, respectively, with 6,080,000 and 17,083,468 options being granted over the same respective periods in 2018. Further, during the three months ended September 30, 2019, 3,659,837 common shares were issued to non-executive employees of the Company as compensation, as part of their employment agreements related to services performed in 2019. The fair value of the common shares issued for compensation was $3.3 million and was included in share-based payments.

Other Expenses

Depreciation and amortization expenses were $1.5 million in the third quarter of 2019 and $4.0 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 the Company's property, plant and equipment.

Interest expenses were $2.5 million for the three-month period ended September 30, 2019, a decrease of $0.3 million over the same period in 2018, and $8.0 million for the nine-month period ended September 30, 2019, an increase of $0.2 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.

An impairment charge of $1.8 million related to the intangible value of the FSD Pharma Inc. ("FSD") streaming agreement was taken during the first quarter as a result of previously announced contract breaches. The Company is currently evaluating next steps with respect to such contractual breaches and retains all of its rights at law or in equity with respect thereto.

Losses on settlement of financial assets and liabilities for the three and nine months ended September 30, 2019, primarily relate to credit loss provisions of $0.7 million and final expenditures of approximately $0.5 million associated with the FSD project.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate. During the quarter, foreign exchange losses were nominal and for the nine months ended September 30, 2019, foreign exchange losses were $1.0 million as compared to $0.4 million over the same period in 2018.

Net Losses

Net losses attributable to shareholders were $17.3 million with a net loss of $0.03 per Share on a basic and diluted basis in the third quarter of 2019, and $44.9 million with a net loss of $0.08 per

Share on a basic and diluted basis year to date. This compares to a net loss of $9.6 million and $0.02 per Share on a basic and diluted basis and $31.7 million and $0.07 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)	**Q3/19**	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17
Total revenues	**$ 1,617**	$ 2,762	$ 817	$ 647	$ 818	$ -	$ -	$ -
Net losses*	**(17,255)**	(13,987)	(13,611)	(34,861)	(9,595)	(11,880)	(10,520)	(9,205)
Average shares outstanding (000's)	**594,592**	592,208	587,247	571,156	544,626	466,769	365,099	237,870
Per share								
Basic & diluted loss	**$ (0.03)**	$ (0.02)	$ (0.02)	$ (0.06)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)

*attributable to shareholders of the Company.

Auxly’s current revenues are primarily as a result of operations of KGK, earning $1.5 million and $4.3 million respectively, over the three and nine months ended September 30, 2019. During the same period, the Company completed $0.1 million and $0.9 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 and executive officers. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, stock options or post-employment benefits. Compensation provided to current and key management are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Short-term benefits	**$ 505**	$ 410	**$ 1,571**	$ 1,231
Long-term benefits	**1,114**	457	**3,071**	1,598
	$ 1,619	$ 867	**$ 4,642**	$ 2,829

Other related party transactions

Nesta Holding Co. Ltd., a company owned and controlled by the Chairman of the Company’s Board of Directors and former Chief Executive Officer, provides travel and accommodation services to the Company on a month to month basis.

LIQUIDITY AND CAPITAL RESOURCES

(000's)		Three months ended September 30, 2019		Three months ended September 30, 2018		Nine months ended September 30, 2019		Nine months ended September 30, 2018
Cash used in operating activities	**$**	**(13,241)**	$	(9,031)	**$**	**(53,110)**	$	(25,591)
Net change in investments		**(27,635)**		(47,007)		**(68,438)**		(66,058)
Net capital expenditures		**(12,686)**		(5,165)		**(24,790)**		(9,249)
Cash used in investing activities		**(40,321)**		(52,172)		**(93,228)**		(75,307)
Net cash from financing activities		**120,961**		2,320		**121,157**		304,364
Cash position, end of period	**$**	**186,526**	$	236,920	**$**	**186,526**	$	236,920

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 nine months ended September 30, 2019, Auxly used $13.2 million and $53.1 million in operating activities, respectively, primarily as a result of expenses associated with the build out of human capital and selling, general and administrative expenses, net of changes in working capital. Investing activities of $40.3 million and $93.2 million for the third quarter and year to date of 2019, respectively, primarily relate to construction in progress of cultivation locations, net long-term business investments, joint ventures and debt obligations. Financing activities for the three and nine months ended September 30, 2019, primarily reflect net financing of $121.0 million of Debentures issued to Imperial Brands. At September 30, 2019, cash and cash equivalents are $186.5 million.

During the third quarter of 2019, Sunens 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 the project. Auxly has made all required contributions towards the project as of the date of this MD&A. Future contributions will be completed through the lending facilities subject to customary conditions.

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.

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.

	November 21 2019	September 30 2019	September 30 2018
Issued Shares	631,934,372	610,331,912	581,236,696
Escrowed shares	13,001,874	14,329,505	16,237,128
Outstanding shares	618,932,498	596,002,407	564,999,568
Exercisable securities			
Warrants	85,928,520	85,928,520	106,777,113
Convertible Debentures	153,413,181	215,338,987	63,856,131
Options	45,814,553	45,297,053	33,804,553

Subsequent to September 30, 2019, 21,602,460 common shares were issued on the conversion of $16.0 million of convertible debentures.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at September 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 third party debt provided by a syndicate led by BMO. As at September 30, 2019, Auxly has provided approximately $79.5 million towards the construction costs, and has provided a Letter of Credit for $13.2 million to be used for equipment purchases. Both joint venture parties have agreed to fund any cost overruns on the construction of the facility. As of the date of this MD&A the Company's funding has been satisfied.

Funding of approximately $18.0 million to Curative Cannabis ("Curative") towards construction of a cannabis cultivation facility, including $2.2 million for the provision of power to the site. As at September 30, 2019, Auxly has funded approximately $17.5 million of the total towards the construction costs.

Funding of approximately $6.0 million as part of the Company's sponsorship of the development of the P.E.I. Hemp Farmers. As at September 30, 2019, the Company has funded $4.5 million;

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; and

Funding of $5.0 million over two years to Kindred for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada.

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 nine months ended September 30, 2019, amounting to $0.2 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 regarding 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 ability of Auxly and its subsidiaries to product derivative cannabis products;
- the successful buildout of the current and proposed facilities of each of Auxly's cultivation partners and subsidiaries;
- licencing 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;
- the expectation and timing of future revenues;
- expectations regarding the Company’s expansion of operations and investment into foreign jurisdictions, including Uruguay;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- Auxly's competitive position.

The forward-looking statements in this MD&A are based on information currently available and what management believes are reasonable assumptions. Forward-looking statements speak only to such assumptions as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, the accuracy of which has not been verified by Auxly. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose. 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;
- Auxly's subsidiaries will be able to obtain and maintain all necessary governmental and regulatory authorizations to conduct 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 licences under the *Cannabis Act*;
- Auxly will be able to successfully develop and commercialize derivative cannabis products;
- The acceptance of future Company products by consumers and medical professionals; 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.