AUXLY CANNABIS GROUP INC.

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

FOR THE YEAR ENDED DECEMBER 31, 2019

Dated APRIL 29, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") was prepared as of April 29, 2020 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("**Auxly**", "**we**", "**our**", or the "**Company**"). All amounts are stated in millions of Canadian dollars unless otherwise noted, except common shares ("**Shares**"), options, and per Share amounts. This MD&A should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2019.

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

DESCRIPTION OF BUSINESS

Our Business

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

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

Canadian Market

On October 17, 2018, the Cannabis Act came into force, initially permitting the recreational sale of certain classes of cannabis products, including dried cannabis, fresh cannabis, cannabis plants, cannabis seeds, and cannabis oil (collectively referred to as "**Cannabis 1.0 Products**"). On October 17, 2019, edible cannabis, cannabis extracts and cannabis topicals were added to the authorized classes of cannabis (collectively referred to as "**Cannabis 2.0 Products**") and such products were first available for sale on December 16, 2019. Health Canada is currently undertaking consultations and discussions regarding the possible legalization of Cannabis Health Products ("**CHPs**"), which would permit the making of health claims in respect of cannabis products without the required oversight of a practitioner such as a doctor. Auxly is actively participating in those discussions and is looking forward to the possibility that the authorized classes of cannabis will expand to include CHPs and other derivative product formats ("**Cannabis 3.0 Products**").

Canadian Strategy and Capabilities:

Brand Portfolio and Product Offering

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

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

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

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

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

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

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

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

Products Currently Available by Brand		
KOLAB PROJECT	Foray	Dosecann
Soft Chews	Soft Chews	Cannabis oil spray
Vape cartridge starter packs	Chocolates	Cannabis oil drops
510 Vape cartridges	Vape cartridge starter packs	
All-in-one vape pens	510 Vape cartridges	
Pre-rolled cannabis	All-in-one vape pens	

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

We anticipate launching the following product formats over the course of 2020:

- Robinsons Dried Flower;
- Lozenges;
- Topicals;
- Tablets; and
- Oil in capsules.

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

Distribution

Given the current provincial legislative framework in Canada, we have pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and retailers, including our recently announced partnership with Medical Cannabis by Shoppers Drug Mart Inc., a brokerage agreement with Kindred Partners Inc. ("**Kindred**") to act as our strategic sales agent, commercial collaboration arrangements with independent retailers such as Inner Spirit and Delta 9, and a wholly-owned retail store in Lloydminster, Saskatchewan ("**LAB001**") under the Kolab Project brand.

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

In order to aid in the distribution of our products, we entered into a brokerage agreement with Kindred, a Toronto-based specialty cannabis brokerage serving the recreational market, and a wholly owned subsidiary of Breakthru Beverage Group. Kindred leverages the deep experience of its sister company, Breakthru Beverage Canada, working with Canadian provincial control boards, licenced distributors and retailers to broker regulated cannabis products for the recreational market. Kindred supplies its brokerage services to Auxly and uses its national presence to market the Company's portfolio of brands nationwide while working closely with Auxly's relationship managers.

Product R&D and Manufacturing

Our pre-rolls are manufactured at our Kolab Project Inc. ("**Kolab**") facility located just outside of Ottawa in Carleton Place, Ontario. During the year, the facility cultivated and distributed dried cannabis and pre-roll products to LAB001 and the Province of Ontario. In 2020, the Company made a strategic decision to cease cultivation at the Kolab facility and fully focus operations on pre-roll manufacturing and processing activities.

In May of 2018, we acquired our subsidiary Dosecann LD Inc. ("**Dosecann**"), and its purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island, which houses the Company's extraction, manufacturing and R&D capabilities. The Dosecann team consists of leading experts that are dedicated to developing proprietary formulations for a range of derivative cannabis products. As our manufacturing hub, the Dosecann facility provides us with the ability to be responsive to changing industry regulation and evolving consumer preferences.The majority of the first floor of the two-story, 52,000 square foot facility is licenced for production, storage and sale of Cannabis 1.0 Products and 2.0 Products. Licencing amendments for the next phase of the first floor have been submitted to Health Canada and are currently under review. Construction on the second floor of the Dosecann facility is ongoing, and the Company anticipates that construction will be completed and related licencing amendments obtained in 2020, which will increase storage space and triple the total addressable production area, significantly increasing product manufacturing for existing product formats as well as enabling Dosecann to manufacture additional product formats at commercial scale. We continue to tailor our assets and capabilities in order to be a dominant player in the derivative products market by focusing resources towards Dosecann.

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

We believe that our assets and capabilities, in particular the powerful combination of Dosecann and KGK, make us uniquely positioned to become a market leader for Cannabis 2.0 Products, and looking ahead to the Cannabis 3.0 Products market, our ability to perform the clinical work necessary to demonstrate product safety and efficacy and substantiate product claims will further differentiate us from other licence holders.

Cultivation Supply

We have a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of wholly owned subsidiaries, offtake agreements, joint ventures and streaming partners. Having a flexible cultivation platform allows us to ensure a consistent source of raw input material for the manufacture of our cannabis products. Because certain of our cultivation facilities are awaiting licencing and completion, including our Sunens project in Leamington, Ontario (see “*Sunens*”, below), Auxly opportunistically purchased cannabis inventory (dried flower and resin) in the open market throughout 2019, which enabled us to meet our commercial objectives for cannabis product development in 2019 and into 2020.

A summary of our key cultivation supply is below:

<u>Sunens</u>

Sunens Farms Inc. (“**Sunens**”) is the Company’s large-scale joint venture with partner Peter Quiring, CEO of Nature Fresh Foods. The 1.1 million square foot greenhouse project is currently under construction in Leamington, Ontario. The project will be licenced in multiple phases throughout 2020, the first portion of which included the submission of an evidence package to Health Canada in March 2020, followed by harvest and delivery of cannabis anticipated to commence in the latter portion of 2020 from such initial licenced area. The Company anticipates that the additional licence amendments for the remaining phases will be submitted throughout the course of 2020, and upon receipt of such amendments, the entire cultivation footprint for the project will be licenced. We contributed approximately $98.5 million towards the project, with the balance of the budget underwritten by the Bank of Montreal (“**BMO**”) and a syndicate of lenders in the third quarter of 2019.

Robinsons

Robinsons Cannabis Incorporated ("**Robinsons**") holds a Cultivation, Processing and Sale for Medical Purposes Licence under the *Cannabis Act* for its purpose-built 27,700 sq. ft. indoor cannabis cultivation facility located in Kentville, Nova Scotia. Robinsons is awaiting a final license amendment to allow for the sale of dried cannabis to provincial boards and retail stores. We anticipate that sales of Robinsons products will commence in third quarter of 2020.

Robinsons OG

Robinsons OG is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land and uniquely located in Hortonville, Nova Scotia. The Company anticipates that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG will be used for product development initiatives at Dosecann and 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 submitted its application and evidence package to obtain a cultivation licence under the Cannabis Act in the first quarter of 2020. The evidence package is currently under Health Canada review.

PEI Hemp

We acted as the financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp was cultivated and harvested in Prince Edward Island by six individual hemp licence holders, which resulted in approximately 98,000 kilograms of hemp biomass from the 2019 cultivation season. Dosecann secured the right of first refusal to offtake the biomass produced in 2019 at preferential prices. The biomass available for purchase was subject to final inspection and validation of a minimum cannabinoid content to ensure extraction efficiency. Based upon the negotiated pricing and our sponsorship to date, we have accepted delivery of approximately 55,000 kilograms of hemp biomass. This amount is offset against the loan provided to the hemp famers and no further payment is required. The Company intends to use the biomass it purchased to extract CBD for use in its own products or for the sale of CBD distillate to other regulated industry participants.

Strategic Partners

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

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

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

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

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

International Operations

Inverell S.A. ("**Inverell**"), the Company's 80%-owned subsidiary based in Montevideo, Uruguay, is one of the largest cannabis cultivators in the region. Due to the slow pace of political and regulatory change in Latin America ("**LATAM**") and slow progression of sales opportunities over the past 6-12 months, we chose not to proceed with the development of Inverell's extraction capabilities. We are evaluating opportunities in respect of extraction services or partnerships for Inverell in Uruguay as well as exploring sales channels into other markets in LATAM and other legal jurisdictions. As of the date of this MD&A, the harvest has commenced for the 2020 growing season.

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

OUTLOOK

The past year was pivotal in the Company's development, as we successfully executed on our corporate strategy and became a leader in the derivative cannabis products market in Canada.

Despite challenges, particularly in the second half of 2019, including the slow pace of political and regulatory change in LATAM, delays in construction and licensing associated with Canadian cannabis operations, cannabis industry headwinds as a result of sector under-performance and the limited and slow rollout of retail stores in many provinces, we successfully executed on our goal of starting Cannabis 2.0 Product sales on day one of Cannabis 2.0 in December 2019. We achieved the following milestones during 2019:

- One of a select few companies that were able to ship Cannabis 2.0 Products in December 2019 at the start of Cannabis 2.0.
- Secured a strategic partnership with Imperial Brands and financing of approximately $123 million.
- Secured $84 million in syndicated senior debt led by BMO to fund the approximately 1.1 million square foot Sunens project.
- Established product distribution channels which included securing listings with all provinces (except Quebec) for Cannabis 2.0 Products and signing a brokerage agreement with Kindred to act as our sales agent for our recreational cannabis products in Canada.

- Received required licence amendments which allowed Dosecann and Kolab to legally sell derivative product formats as soon as they were legally permitted in mid-December 2019.
- Completed a leadership transition with the appointment of Hugo Alves as the Company's new CEO, replacing Chuck Rifici, who continues to serve as Chairman of Auxly's Board of Directors.

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

- Be a leader in the Canadian Cannabis 2.0 Products market.
- Complete remaining construction and licensing of all Canadian operations to leverage existing assets and increase revenues.
- Work with the Sunens team to secure supply of input materials for use in the Company's product offerings in 2020.
- Collaborate with our partners to move towards commercialization of a small number of products for sale internationally or, if and when permitted, as part of the Cannabis 3.0 Products market.

We look forward to another successful year ahead that helps us get closer to realizing our vision of being a global leader focused in branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic, and as of the date of this MD&A, the COVID-19 outbreak has had a profound and unprecedented impact on the global economy and the daily lives of individuals in Canada and around the world. The global situation continues to change rapidly, but we have been closely monitoring developments and are evaluating new information as it becomes available and as governmental responses to the pandemic evolve. We are committed to continuing to operate our business while ensuring the safety and well being of all employees and consumers and we have implemented a number of measures in response to the COVID-19 pandemic.

Governance

Auxly, in conjunction with its Board of Directors, has established contingency plans to be implemented in the event that business or market conditions continue to deteriorate over a prolonged period of time. These plans are being reviewed regularly and are subject to change as the impact of the pandemic evolves. In developing these contingency plans, we have considered the safety and well being of staff by location, consumer safety, varying levels of forecasted sales deterioration, financing and cash flow risks, expenditure mitigation, reliance on third party suppliers and potential impact on Health Canada interactions and approvals.

Canadian Operations

We have implemented safety measures to protect employees and consumers, and which comply with all federal and provincial regulations and guidelines while keeping our facilities operating. The Dosecann, Kolab and Robinsons facilities remain open and operational on extended shifts with few instances of employee absenteeism or self isolation, and certain operational changes have been made to best address the safety of our employees and consumers. Employees at the Company's corporate head office in Toronto and other non-production staff at our cannabis facilities have been operating under a work from home model.

Due to social distancing measures put in place in order to reduce the transmission of COVID-19, KGK has been unable to commence new clinical trials with participants that make up a significant portion of its business, but anticipates being able to do so in the coming months provided that its extensive COVID-19 protocols remain in place. In response KGK has taken temporary measures to reduce staff in order to appropriately scale its operations.

We have not experienced any material delays, shortages or issues with our supply chains, but we are continuing to monitor these on a daily basis and are taking any and all necessary steps to maintain sufficient inventories and supply required for the production and sale of our cannabis products. Cannabis sales have generally remained strong, although some provinces have limited in-store sales. The Company's sales agents continue to call on retail stores in provinces where permissible, and the Company has tailored its marketing initiatives to adapt to the current environment and target the online consumer.

Licensing Matters

While Health Canada is prioritizing services directed at facilitating responses to the COVID-19 pandemic in order to protect the health and safety of Canadians, at the same time, it is maintaining core program services to ensure regulated sectors, including the cannabis sector, can continue to operate with appropriate oversight and control. However, Health Canada has recognized that the COVID-19 pandemic, and the measures that governments across Canada have implemented to manage it, are having an impact on the normal operations of government agencies and businesses across the country.

The Company is continuing to pursue its planned licence amendments and new licence applications in the ordinary course; however the Company anticipates possible delays in the review and issuance of licensing of new facilities by Health Canada, as well as amendments with respect to existing facilities. Licensing delays could have a negative impact on the Company's operations. The Company will continue to monitor licencing activity and evaluate any appropriate and prudent responses that may be taken in order to mitigate the potential negative impact of any such delays, including without limitation, suspending planned activities at a site where licensing uncertainty presents material risks. See also the "*Risk Factors"* section in this MD&A.

Corporate Matters

As a growth company that has only recently commenced cannabis sales, cash, cash flows and financing activities where required are critical to the success of the Company. The COVID-19 pandemic has further exacerbated the difficulty in obtaining financing opportunities that the cannabis industry began facing in the second half of 2019. These factors have generally resulted in both a reduction in available financing and an elevated cost of capital. The Company continues to evaluate financing alternatives including the new measures proposed at various levels of governments in Canada to address its financing needs.

Due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, including the results of measures taken to slow the spread and the broader impact COVID-19 may have on the Canadian and global economies or financial markets, the Company is unable at this time to predict the overall impact on its operations, liquidity, financial condition, or results; however, it may have a material, adverse impact on its results. Any future epidemic, pandemic, or other public health crisis that occurs may pose similar risks to the Company. See also “Risk Factors” and “Forward Looking Statements” as part of this MD&A.

RECENT DEVELOPMENTS: Fourth Quarter 2019 To Date

Auxly Secures $25 million Convertible Debenture Standby Financing

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

In addition to an initial tranche of $1.3 million, the Company may request that the investor subscribe for subsequent tranches of Convertible Debentures at an amount per Convertible Debenture mutually agreeable to the Company and the Investor. The initial gross proceeds of $1.25 million at a conversion price of $0.435 per Share and issued the Warrants to acquire up to 1,580,460 Shares until April 29, 2022 at an exercise price of $0.522 per Share.

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

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

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

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

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

Auxly Announces Kolab Project Partnership with OCAD University

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

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

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

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

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

Auxly Leadership Changes

During the first quarter of 2020, the following changes occurred with respect to the Company's executive leadership team:

- As part of a planned transition, Jeff Tung resigned as the Company's Chief Operations Officer ("COO");
- Alan Cooke joined Auxly as Vice President, Domestic and International Supply Chain and Operations; and
- Brad McNamee left his role as the Company's Chief Infrastructure Officer.

Repayment of Unsecured Convertible Debentures and Expiration of Warrants Due January 16, 2020

On January 16, 2020, the Company settled the remaining unsecured convertible debentures due January 16, 2020 for approximately $2.7 million, having previously settled the principal amount of approximately $96.0 million to holders, as announced on October 30, 2019, through the repayment of $80.0 million of debt and the conversion of $16.0 million into 21,602,460 Shares at the price of $0.74 per Share. The Company notified the convertible debenture holders on October 18, 2019 of the proposed amendment to the conversion price to $0.74 per Share.

In addition, warrants issued on January 16, 2018 to purchase 32,200,000 Shares at a strike price of $1.80 expired on January 16, 2020. The warrants, which traded under the TSX Venture Exchange symbol XLY.WT.A, were delisted.

Auxly Reports Imperial Brands Exercises Its Top-Up Rights Under Subscription Agreement

On December 17, 2019, the Company announced that Imperial Brands exercised its pre-emptive right to subscribe for an aggregate amount of 6,315,574 Shares for $5.2 million, showing its continued support in Auxly by maintaining its 19.9% ownership of the Company, following its initial investment of $123.0 million by way of convertible debentures in a transaction announced July 25, 2019.

Auxly was Ready for Sales of Cannabis 2.0 Products

In December 2019, the Company announced that it had entered into supply arrangements with every Canadian province (except Quebec) to commence sales of cannabis 2.0 products (extracts, edibles and topicals) and had secured in excess of 250 listings in the aggregate for its vape, chocolate and chewable products across nine provinces. This development followed the Company's submission to Health Canada of new product notifications for 83 derivative cannabis product SKUs announced in October 2019.

Robinsons Outdoor Grow

On November 15, 2019, the Company announced the Robinson's OG outdoor cultivation project in Hortonville, Nova Scotia. The long-term supply of outdoor cannabis to be produced on site at Robinsons OG will help the product development initiatives at Dosecann and 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. The evidence package for Robinsons OG was submitted in the first quarter of 2020.

Health Canada Product Notification and License Amendments

On October 24, 2019, the Company announced that Dosecann and Kolab received amendments to their respective sales licenses 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 intended to offer for sale beginning in mid-December.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

(000's)	December 31, 2019	December 31, 2018	Change	Percentage Change
Total net revenues	**$ 8,352**	$ 747	$ 7,605	1018%
Net losses*	**(102,574)**	(66,988)	(35,586)	-53%
Adjusted EBITDA**	**(31,248)**	(28,071)	(3,177)	-11%
Cash and equivalents	**44,134**	211,707	(167,573)	-79%
Total assets	**411,592**	460,818	(49,226)	-11%
Debt	**95,438**	94,151	1,287	1%
Weighed average shares outstanding	**596,409,703**	489,505,013	106,904,690	22%

*Attributable to shareholders of the Company

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

2019 was a pivotal year for the Company’s development and moved us closer to our goal of becoming a global leader focused in providing branded cannabis products that deliver on our consumer promise of quality, safety, and efficacy. The Company successfully executed on its goal to sell Cannabis 2.0 Products when first legally permitted in December 2019. In 2019, total net revenues were $8.4 million, an increase of $7.6 million, as a result of a full year of revenue from KGK, following its acquisition in 2018, and cannabis sales of $2.1 million net of excise taxes. Net losses increased by $35.6 million over the 2018 net losses of $67.0 million. The increase in net losses is primarily the result of non-cash impairment charges, fair value adjustments and increased depreciation and amortization. Adjusted EBITDA decreased by $3.2 million or 11% to $31.2 million in 2019 primarily due to increases in SG&A partially offset by higher revenues. Cash and equivalents declined by $167.6 million to $44.1 million in 2019 from 2018. Cash of $134.8 million was used investing in the Sunens project of $79.5 million, capital expenditures of $37.8 million, with the remainder in other investments, while operating activities consumed $79.1 million including an increase of $33.3 million in accounts receivable and inventories. Partially offsetting these amounts was an increase in financing activities of approximately $46.4 million. Outstanding debt increased slightly by $1.3 million over 2018 while the average number of Shares outstanding increased to 596.4 million Shares primarily as a result of the full year impact in 2019 of acquisitions completed in 2018 and securities issued in 2019 upon the partial conversion of the maturing convertible debentures due January 16, 2020, Shares issued to Imperial Brands upon exercise of their top up rights, and the conversion of warrants.

RESULTS OF OPERATIONS

For the years ended:		December 31		December 31
(000's)		**2019**		2018
Revenues				
Research contracts and other	**$**	**6,262**		747
Revenue from sales of cannabis products		**2,287**		-
Excise taxes		**(197)**		-
Total Net Revenues		**8,352**		747
Costs of sales				
Research contracts and other		**5,743**		1,078
Costs of finished cannabis inventory sold		**2,162**		-
Impairment on inventory		**3,244**		-
Gross loss excluding fair value items		**(2,797)**		(331)
Realized fair value loss on inventory		**(153)**		-
Unrealized fair value gain / (loss) on biological transformation		**(761)**		143
Gross loss		**(3,711)**		(188)
Expenses				
Selling, general, and administrative expenses		**50,291**		48,373
Depreciation and amortization		**8,574**		2,063
Interest expense		**12,121**		11,473
Total expenses		**70,986**		61,909
Other incomes / (losses)				
Fair value gain / (loss) for financial instruments accounted under FVTPL		**(6,482)**		2,654
Interest income		**3,612**		4,000
Impairment of long-term assets		**(5,283)**		-
Impairment of intangible assets and goodwill		**(29,631)**		(8,800)
Loss on settlement of financial assets and liabilities		**(3,550)**		(5,516)
Share of loss on investment in joint venture		**(2,081)**		(309)
Foreign exchange gain / (loss)		**(1,484)**		546
Total other losses		**(44,899)**		(7,425)
Net loss before income tax		**(119,596)**		(69,522)
Income tax recovery		**10,978**		2,313
Net loss	**$**	**(108,618)**	$	(67,209)
Net loss attributable to shareholders of the Company	**$**	**(102,574)**	$	(66,988)
Net loss attributable to non-controlling interest	**$**	**(6,044)**	$	(221)
Adjusted EBITDA	**$**	**(31,248)**	$	(28,071)
Net loss per common share (basic and diluted)	**$**	**(0.17)**	$	(0.14)
Weighted average shares outstanding (basic and diluted)		**596,409,703**		489,505,013

Revenue

For the year ended December 31, 2019, Auxly generated revenues by providing research services for customers who are conducting human clinical trials and from the sale of Cannabis 1.0 Products and Cannabis 2.0 Products to medical and recreational customers.

Auxly recognized $6.3 million of research revenues from KGK for the year ended December 31, 2019 as compared to $0.7 million in the previous year primarily due to the full year impact in 2019 of the acquisition completed on August 29, 2018. These revenues are in support of third-party research contracts which can fluctuate significantly during the term of the contract. 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.

Net revenues of $2.1 million were generated on the sales of Cannabis 1.0 Products and Cannabis 2.0 Products in 2019, mainly attributable to the sales of Cannabis 2.0 Products between December 16 and December 31, 2019. During 2019 dry cannabis flower sales were curtailed as a result of the Company's decision to allocate the bulk of its dried flower to the development and manufacture of Cannabis 2.0 Products which were only permitted for sale on December 16, 2019.

Gross Loss

Auxly realized a gross loss of $3.7 million for the year ended December 31, 2019 following fair value adjustments. The gross loss for the year ended December 31, 2019 is primarily comprised of inventory related adjustments of approximately $4.1 million (a $1.8 million impairment of inventory associated with final Inverell biomass product qualification and grading, a $1.4 million impairment of inventory associated with spoilage and obsolescence in mass production of Cannabis 2.0 Products in Dosecann, a $0.1 million realized fair value loss on other inventories, and a $0.8 million unrealized fair value loss on biological asset transformation), partially offset by KGK revenues less expenses of $0.5 million and cannabis product revenues less expenses of $0.1 million, net of $0.2 million of excise taxes. This compares with a gross loss of $0.2 million recognized during the year ended December 31, 2018 comprised of a net gross loss on KGK research contracts of $0.3 million and an unrealized fair value gain on biological asset transformation of $0.1 million.

Total expenses

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

For the year ended December 31, 2019, wages and benefits were $17.9 million. This reflects an increase of $8.9 million over the same period in 2018, primarily due to workforce increases. The increases in employees across the organization were to support expansion and growth activities as a direct result of workforces from our seven subsidiaries and the corporate office. The Company increased its workforce during the second half of the 2019 fiscal year specifically related to product formulation and development and sales and marketing in order to prepare for Cannabis 2.0 Product sales beginning in December 2019.

Office and administrative expenses of $8.0 million in 2019 increased by $3.7 million compared to the same period in 2018. The increase in expense is comprised of product development, formulation, R&D and testing to prepare for Cannabis 2.0 Product sales with the remainder related to the implementation of an organization wide ERP system and the additional expenses associated with the operations of our subsidiaries.

Auxly's professional fees were $6.7 million during the year ended December 31, 2019, as compared to $7.1 million same respective period in 2018. Professional fees for 2019 primarily related to accounting fees, regulatory matters, ongoing legal proceedings, recruiting fees in conjunction with hiring and preparedness for Cannabis 2.0, consulting fees associated with construction and product development, and fees associated with financing activities, whereas these expenses in 2018 primarily related to acquisition activities, leading to a decrease over the comparable year.

Business development fees of $4.8 million for the year ended December 31, 2019, were lower by $2.3 million, as compared to $7.1 million incurred over the same period in 2018. Business development activities, inclusive of travel and related expenses were greater in 2018 with the acquisitions of Inverell, Dosecann, Robinsons and KGK.

For the year ended December 31, 2019, share-based compensation was $12.6 million, compared to the $20.4 million over the year ended December 31, 2018. During 2019, 7,980,000 options were granted compared to 25,390,968 granted over the same period in 2018. Further, during the year ended December 31, 2019, 3,659,837 Shares were issued to non-executive employees of the Company as compensation, as part of their employment agreements related to services performed in 2019. 5,913,334 Shares were issued in 2018. Included in share-based payments were the fair value of the Shares issued for compensation of $3.3 million in 2019 and $6.0 million in 2018.

Depreciation and amortization expenses were $8.6 million for the year ended December 31, 2019 an increase of $6.5 million over the same period in 2018. The increase is primarily due to capital projects and intangible assets becoming ready for use during 2019.

Interest expenses were $12.1 million for the year ended December 31, 2019, a decrease of $0.6 million over the same period in 2018. Interest expenses are driven by interest charges of 6% on the outstanding 2018 convertible debentures and 4% on the Imperial Brands convertible debentures and the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures. Further, the Company has capitalized $1.1 million of interest expense incurred on borrowings used to fund construction projects.

Total Other losses

Fair value changes on financial instruments included in this section arise on changes in value of promissory notes and level two securities held. For the year ended December 31, 2019, the Company reported a $6.5 million fair value loss, as compared to a $2.7 million dollar gain in the previous year. Fair value changes in 2018 reflected market optimism and rising prices of actively traded securities. Fiscal 2019 saw a market decline in the cannabis sector. Further, Auxly recorded a fair value loss of $5.7 million on the debt obligation receivable in product equivalent from Beleave as reported earlier in the year.

Interest income was $3.6 million for the year ended December 31, 2019 as compared to $4.0 million over the previous year. Interest income is generated on notes receivable balances as well as interest on cash and cash equivalents.

During the year ended December 31, 2019, the Company recognized an impairment loss on long-term assets of $5.3 million and an impairment loss on intangible assets and goodwill of $29.6 million. The Company's LATAM cash generating unit ("**CGU**"), Inverell, represents its operations dedicated to the cultivation and sale of cannabis products within LATAM. Management determined that a liquidation approach was most appropriate in determination of the recoverable amount of the CGU due to regulatory delays causing uncertainty in the timing of sales and lack of cannabis product sales data in the industry. The impairment test concluded that the carrying value was higher than the recoverable amount by $23.9 million. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management allocated $14.9 million of impairment losses towards the indefinite life intangible asset, $5.3 million of impairment losses towards long-term assets, including property, plant and equipment, and $3.7 million of the impairment losses towards goodwill.

The Company's Research CGU, KGK, represents its operations dedicated to providing research services for customers who are conducting human clinical trials. The impairment test concluded that the carrying value was higher than the recoverable amount by $7.6 million. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount.

Management allocated $6.9 million of the impairment to goodwill with $0.7 million towards the patent intangible asset.

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 its rights at law or in equity with respect thereto. Other impairment charges on intangible assets include a $1.1 million loss on the 2368523 Ontario Inc. (d/b/a Curative Cannabis) ("**Curative**") supply agreement due to the Curative foreclosure and a $0.5 million loss related to the Green Relief offtake agreement.

Losses on settlement of financial assets and liabilities for the twelve months ended December 31, 2019 were $3.5 million, primarily relate to a $2.5 million loss on the foreclosure over Curative, due to the fair value of Curative's net assets being lower than Auxly's obligation due from the company. Other inclusions include a credit loss provisions of $0.7 million and final expenditures of approximately $0.5 million associated with the FSD project, net of a $0.1 million gain on settlement of the 6% convertible debentures.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate primarily related to loans due from Inverell. During the year, foreign exchange losses were $1.5 million as compared to a $0.6 million gain over the same period in 2018.

Net Losses

Net losses attributable to shareholders were $102.6 million with a net loss of $0.17 per Share on a basic and diluted basis for the year ended December 31, 2019. This compares to a net loss of $67.0 million and $0.14 per Share on a basic and diluted basis for the year ended December 31, 2018. The decrease in net income was primarily driven by an increase in total other losses and depreciation and amortization expenses, partially offset by income tax recoveries.

Adjusted EBITDA

Despite an increase in net losses inclusive of non-cash adjustments, the 2019 full year impact in SG&A of acquisitions completed in 2018, net of increased gross profit, Adjusted EBITDA was $(31.2) million in 2019, and declined by $3.2 million, or 11% over the same period in 2018. This was primarily as a result of increased SG&A expenditures as the business prepared for initial sales of Cannabis 2.0 Products in December 2019.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	**Q4/19**	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
Total revenues	**$ 3,156**	$ 1,617	$ 2,762	$ 817	$ 647	$ 818	$ -	$ -
Net losses*	**(57,721)**	(17,255)	(13,987)	(13,611)	(34,861)	(9,727)	(11,880)	(10,520)
Adjusted EBITDA**	**(5,101)**	(10,796)	(8,005)	(7,346)	(9,281)	(6,401)	(7,479)	(4,910)
Average shares outstanding (000's)	**613,683**	594,592	592,208	587,247	571,156	544,626	466,769	365,099
Per share								
Basic & diluted loss	**$ (0.09)**	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.06)	$ (0.02)	$ (0.03)	$ (0.03)

*attributable to shareholders of the Company.

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

Prior to Q4 2019, Auxly's revenues were from providing research services for customers who are conducting human clinical trials. Commencing in Q4 2019, revenues also include the sale of cannabis products to recreational and medical customers. Net losses have increased slightly over time as SG&A expenses have risen with the build out of the business through acquisitions (employees, professional fees), additional employees in the corporate offices and share compensation expenses. In the fourth quarter of each year, net losses increased more significantly largely due to impact of fair value adjustments and impairment charges. The increases in average outstanding Shares reflect financing and acquisition related activities (issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures).

FOURTH QUARTER RESULTS OF OPERATIONS

Three months ending December 31, (000's)		**2019**		2018
Revenues				
Research contracts and other	**$**	**1,917**		647
Revenue from sales of cannabis products		**1,436**		-
Excise taxes		**(197)**		-
Total Net Revenues		**3,156**		647
Costs of sales				
Research contracts and other		**1,918**		1,060
Costs of finished cannabis inventory sold		**1,727**		-
Impairment on inventory		**2,170**		-
Gross loss excluding fair value items		**(2,659)**		(413)
Realized fair value gain on inventory		**90**		-
Unrealized fair value gain / (loss) on biological transformation		**(89)**		140
Gross loss		**(2,658)**		(273)
Expenses				
Selling, general, and administrative expenses		**11,404**		14,135
Depreciation and amortization		**4,572**		1,673
Interest expense		**4,170**		3,590
Total expenses		**20,146**		19,398
Other incomes / (losses)				
Fair value loss for financial instruments accounted under FVTPL		**(274)**		(4,448)
Interest income		**(225)**		1,122
Impairment of long-term assets		**(5,283)**		-
Impairment of intangible assets and goodwill		**(27,831)**		(8,800)
Loss on settlement of financial assets and liabilities		**(2,262)**		(1,360)
Share of loss on investment in joint venture		**(691)**		(136)
Foreign exchange gain / (loss)		**(469)**		942
Total other losses		**(37,035)**		(12,680)
Net loss before income tax		**(59,839)**		(32,351)
Income tax recovery		**(3,269)**		(1,865)
Net loss	**$**	**(63,108)**	$	(34,216)
Net loss attributable to shareholders of the Company	**$**	**(57,721)**	$	(34,861)
Net loss attributable to non-controlling interest	**$**	**(5,387)**	$	645
Adjusted EBITDA		**(5,101)**		(9,281)

Unless stated otherwise, the narrative in this section is in reference to the operating results for the fourth quarter of 2019 as compared to the same period in 2018.

Revenue

In the fourth quarter of 2019, the Company realized its goal of selling Cannabis 2.0 Products on December 16, 2019, the first day shipments were permitted. Cannabis net revenues were $1.2 million during the quarter ended December 31, 2019. Research revenues from KGK increased to $1.9 million during the quarter ended December 31, 2019 as compared to $0.6 million over the same respective period in 2018.

Gross Loss

Auxly realized a gross loss of $2.7 million for the three-month period ended December 31, 2019 following fair value adjustments. During the three months ended December 31, 2019, research contracts revenues covered costs, cannabis products realized a gross loss of $0.5 million, less a $2.2 million realized fair value change on other inventories. This compares with a gross loss of $0.3 million recognized during the three months ended December 31, 2018 comprised of a gross loss on KGK research contracts of $0.4 million, net with an unrealized fair value gain on biological asset transformation of $0.1 million.

Total Expenses

Selling, general and administrative expenses of $11.4 million during the fourth quarter of 2019 decreased by $2.7 million from $14.1 million during the same period in 2018. While wages, office and administrative expenses, and business development expenses increased by $1.0 million, $0.9 million, and $0.5 million, respectively, share-based compensation decreased by $4.5 million, professional fees decreased by $0.4 million, and selling expenses decreased by $0.2 million. The increases are primarily a result of the scaling of operations, including hiring, to support the business and Cannabis 2.0 Product sales. Share-based payments decreased as a result of a lower level of options issued during the fourth quarter of 2019 as compared to the fourth quarter of 2018.

Depreciation and amortization expenses were $4.6 million for the three-month period ended December 31, 2019 as compared to $1.7 million in 2018. The increase in depreciation and amortization is primarily due to the completion of significant construction projects in 2019, with depreciation commencing as the asset is put in use.

Interest expenses were $4.2 million for the three months ended December 31, 2019, which reflects an increase of $0.6 million over 2018. The increase is primarily due to the closing of the Imperial Brands convertible debenture in September 2019, which incurred accretion and interest expenses of $3.7 million, net of a reduced interest and accretion expense related to the 6% convertible debenture offering as a result of retirement of approximately 97% of the outstanding debt in October of 2019.

Total Other Losses

During the three months ended December 31, 2019, the Company recognized impairment losses on long-term assets of $5.3 million and an impairment loss on intangible assets and goodwill of $27.8 million as previously described in "*Results of Operations*" above.

Losses on settlement of financial assets and liabilities for the three months ended December 31, 2019 were $2.3 million, and primarily relate to a $2.5 million loss on the foreclosure over Curative, due to the fair value of Curative's net assets being lower than Auxly's obligation due from the company. The Curative loss was partially offset by a net gain of $0.1 million on settlement of the 6% convertible debentures.

Net Losses

Net losses attributable to shareholders were $57.7 million with a net loss of $0.09 per Share on a basic and diluted basis for the three months ended December 31, 2019. This compares to a net loss of $34.9 million and $0.06 per Share on a basic and diluted basis for the three months ended December 31, 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.

Adjusted EBITDA

The Adjusted EBITDA loss of $5.1 million was $4.2 million, or 45% better, than the Adjusted EBITDA of $9.3 million in 2018 primarily driven by gross margins earned in 2019.

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:

	For the year ended December 31,	
(000's)	**2019**	2018
Short-term benefits	**$ 2,028**	$ 1,722
Long-term benefits	**3,753**	3,873
	$ 5,781	$ 5,595

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. For the year ended December 31, 2019, the company incurred $0.1 million in general expenses compared to $0.1 million for the year ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

(000's)	**December 31, 2019**	December 31, 2018
Cash used in operating activities	**$ (79,119)**	$ (43,714)
Net change in investments	**(97,016)**	(64,829)
Net capital expenditures	**(37,802)**	(17,954)
Cash used in investing activities	**(134,818)**	(82,783)
Net cash from financing activities	**46,364**	304,750
Cash position, end of period	**$ 44,134**	$ 211,707

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

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

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

During the year ended December 31, 2019, Auxly used $79.1 million on operating activities, primarily as a result of expenses associated with the build out of human capital and selling, general and administrative expenses and changes in working capital including inventories. Investing activities of $134.8 million primarily relate the investment in the Sunens joint venture, construction in progress of cultivation locations, net long-term business investments and debt obligations. Financing activities for the year ended December 31, 2019 primarily reflect net financing of $46.4 million comprised of $121.0 million of net convertible debentures issued to Imperial Brands, $5.5 million proceeds from share issuances and warrant exercises, net of $80.1 million of payments for the settlement of convertible debt. On December 31, 2019, cash and cash equivalents are $44.1 million.

During fiscal 2019, Sunens entered into a syndicated credit facility with the Bank of Montreal for total borrowings of $84.0 million towards the completion of phase 1 of the Sunens greenhouse project. 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 to complete the project will be drawn by way of the lending facilities subject to customary conditions.

Auxly anticipates that it has liquidity and capital resources to meet short term obligations, however, the Company will consider the need for possible additional funding as it assesses its priorities for various projects and commitments contemplated in 2020. Accordingly, management has the ability to defer certain capital expenditures and commitments and is considering a variety of options to finance operations including working capital and secured financing, debt or equity offerings. As part of the financing considerations, Auxly is evaluating which options will best optimize current interest rates, term length, security provided, covenants and impact on future business plans. Auxly believes it will have sufficient capital for the next 12 months upon successful completion of contemplated financing activities.

Auxly's business is subject to risks and uncertainties that could significantly impair Auxly's ability to raise funds or to generate profits sufficient to meet future obligations, operational, or development needs. See "COVID-19" and "Risk Factors" in this MD&A for information on the risks and uncertainties that could have a negative effect on Auxly's liquidity.

OUTSTANDING SHARE DATA

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

	April 2020	December 31 2019	December 31 2018
Issued Shares	638,249,946	638,249,946	584,769,404
Escrowed shares	13,007,611	13,007,611	11,237,157
Outstanding shares	625,242,335	625,242,335	573,532,247
Exercisable securities			
Warrants	51,212,500	85,928,520	103,735,321
Convertible Debentures	151,668,018	153,413,181	63,843,228
Options	44,252,219	45,649,553	41,052,053

*As at April 27, 2020

In January 2020, 34,716,020 warrants to purchase Shares expired, with an average exercise price of $1.80.

On April 28, 2020, the Company announced a $25.0 million convertible debenture standby financing. The impact of the initial tranche of $1.3 million is not reflected in the table above. Please refer to "Recent Developments" for additional details.

NON-GAAP FINANCIAL MEASURES

The consolidated financial statements of Auxly are prepared in accordance with IFRS. Auxly's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the consolidated financial statements for the year ended December 31, 2019.

Auxly reports on certain non-GAAP measures that are used by management to evaluate the performance of the Company. As non-GAAP measures do not have standardized meanings prescribed by IFRS, securities regulations require that non-GAAP measures be clearly defined, qualified, and reconciled with their nearest IFRS measure. These measures do not have standardized meanings or interpretations and may not be comparable to similar terms and measures provided by other issuers.

Adjusted EBITDA used by Auxly and reported in this MD&A should not be construed as an alternative to net loss attributable to shareholders of the Company determined in accordance with IFRS as indicators of Auxly's performance.

Financial Measures

Adjusted EBITDA

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

(000's)	Q4/19	Q3/19	Q2/19	Q1/19	**For the year ended December 31, 2019**
Net loss attributable to shareholders of the Company	$ (57,721)	$ (17,255)	$ (13,987)	$ (13,611)	**$ (102,574)**
Interest expense	4,170	2,520	1,897	3,534	**12,121**
interest income	225	(858)	(2,019)	(960)	**(3,612)**
Income tax recovery	3,269	(11,524)	(1,464)	(1,259)	**(10,978)**
Depreciation and amortization	4,572	1,527	1,437	1,038	**8,574**
EBITDA	(45,485)	(25,590)	(14,136)	(11,258)	**(96,469)**
Impairment of Inventory	2,170	1,074	-	-	**3,244**
Realized fair value gain / (loss) on inventory	(90)	48	1	194	**153**
Unrealized fair value gain / (loss) on biological transformation	89	135	155	382	**761**
Share-based compensation	1,405	5,433	2,672	3,042	**12,552**
Fair value gain / (loss) for financial instruments accounted under FVTPL	274	5,778	1,812	(1,382)	**6,482**
Impairment of long-term assets	5,283	-	-	-	**5,283**
Impairment of intangible assets and goodwill	27,831	-	-	1,800	**29,631**
(Gain) / loss on settlement of financial assets and liabilities	2,262	1,413	250	(375)	**3,550**
Share of loss on investment in joint venture	691	838	372	180	**2,081**
Foreign exchange gain / (loss)	469	75	869	71	**1,484**
Adjusted EBITDA	$ (5,101)	$ (10,796)	$ (8,005)	$ (7,346)	**$ (31,248)**

(000's)	Q4/18	Q3/18	Q2/18	Q1/18	**For the year ended December 31, 2018**
Net loss attributable to shareholders of the Company	$ (34,861)	$ (9,727)	$ (11,880)	$ (10,520)	**$ (66,988)**
Interest expense	3,698	2,814	2,756	2,205	**11,473**
interest income	(1,230)	(1,361)	(994)	(415)	**(4,000)**
Income tax recovery	1,865	(1,644)	104	(2,638)	**(2,313)**
Depreciation and amortization	1,673	200	113	77	**2,063**
EBITDA	(28,855)	(9,718)	(9,901)	(11,291)	**(59,765)**
Unrealized fair value gain / (loss) on biological transformation	(140)	(3)	-	-	**(143)**
Share-based compensation	5,912	8,939	2,742	2,819	**20,412**
Fair value gain / (loss) for financial instruments accounted under FVTPL	4,448	(6,202)	(282)	(618)	**(2,654)**
Impairment of intangible assets and goodwill	8,800	-	-	-	**8,800**
(Gain) / loss on settlement of financial assets and liabilities	1,360	(35)	-	4,191	**5,516**
Share of loss on investment in joint venture	136	173	-	-	**309**
Foreign exchange gain / (loss)	(942)	445	(38)	(11)	**(546)**
Adjusted EBITDA	$ (9,281)	$ (6,401)	$ (7,479)	$ (4,910)	**$ (28,071)**

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

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

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

The Company has committed to funding of $7.0 million to CannTx Life Sciences Inc. ("**CannTx**") related to a phase II expansion of CannTx's facility, subject to the completion of satisfactory due diligence and the parties agreeing to a construction budget and timeline for such phase II expansion.

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

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

000's	2020	2021	2022	2023	2024	Thereafter	Total
Lease obligations	$ 1,959	$ 4,048	$ 655	$ 465	$ 140	$ -	**$ 7,267**
Long-term debt obligations	7,628	4,914	126,432	-	-	-	**138,974**
Total	**$ 9,587**	**$ 8,962**	**$ 127,087**	**$ 465**	**$ 140**	**$ -**	**$ 146,241**

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Areas requiring estimates and judgements are as follows:

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

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

Business Combinations

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

Valuation of the debt obligation receivable in product equivalents

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

Inputs when using Black-Scholes valuation model

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

Discount rates

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

Valuation of long-term investments in private companies

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

Convertible instruments

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

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

CHANGES IN ACCOUNTING POLICIES

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 could cause future results to differ materially from those described herein, including without limitation, the risk factors discussed in Auxly's Annual Information Form dated May 24, 2018, and Auxly's Amended and Restated Short Form Base Shelf Prospectus, dated February 28, 2018, which risk factors are incorporated by reference into this document and should be reviewed by all readers. These documents as well as additional information regarding Auxly can be found on SEDAR at www.Sedar.com. The following factors may also contribute to those risks and uncertainties:

Public Health Crises

- Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as COVID-19, may adversely affect the Company. The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. The Company expects to experience some short to medium term negative impacts from the COVID-19 outbreak; however, the extent of such impacts is currently unquantifiable, but may be significant. Such impacts include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, public health emergency and similar declarations and could include other increased government regulations, a material reduction in demand for the Company's products and services, reduced sales, higher costs for new capital, licencing delays, increased operating expenses, delayed performance of contractual obligations, and potential supply and staff shortages, all of which are expected to negatively impact the business, financial condition and results of operations of the Company and thus may impact the ability of the Company to comply with financial covenants, and its ability satisfy its obligations to its lenders and other parties, which may in turn adversely impact, among other things, the ability the Company to access debt or equity capital on acceptable terms or at all.

- The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Company's facilities. Should an employee or visitor in any of the Company's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The outbreak of COVID-19 is one example of such an illness. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines and applicable health authority recommendations.

- Such public health crises can result in volatility and disruptions in supply and demand, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk, inflation and, as a result, the price and demand for the Company's products and its operating results.

Disruption of Supply Chain

- Conditions or events including, but not limited to, those listed below could disrupt the Company's, and other industry participant's, supply chains, interrupt operations, increase operating expenses, and thereby result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity; (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road. The extent to which COVID 19 or any other contagious disease impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other outbreak and the actions to contain those outbreaks or treat its impact, among others.

FORWARD LOOKING STATEMENTS

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

- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;
- the Company's response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic on the Company's current and future operations;
- the success of the entities the Company acquires and the Company's collaborations;

- the ongoing construction and expansion of the Company's facilities, including Dosecann, Sunens, Kolab, Robinsons and Robinsons OG, and its partners' facilities and the timing thereof;
- inventory and production capacity, including discussions of plans or potential for expansion of capacity at existing or new facilities;
- the market for the Company's current and proposed product offerings, as well as the Company's ability to capture market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's product offering and expected sales mix thereof;
- development of affiliated brands, product diversification and future corporate development;
- the competitive landscape in which the Company operates and the Company's market expertise;
- expectations regarding the Company's ability to raise additional financing to further the Company's investment in the business;
- the applicable legislation, regulations and licensing related and any amendments thereof related to the cultivation, production, processing, distribution and sale of cannabis products by the Company's subsidiaries and other business interests;
- the ability of the Company and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- expectations regarding the Company's licences, including in respect of the grant of licences under the Cannabis Act and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- the ability of Auxly and its subsidiaries to produce cannabis products;
- future liquidity and financial position;
- the Company's growth strategy, targets for future growth and projections of the results of such growth;
- the expectation and timing of future revenues;
- expectations regarding the Company's expansion of operations and investment into foreign jurisdictions, including Uruguay;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- Auxly's competitive position.

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

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

- current and future management will abide by the business objectives and strategies outlined herein;
- the Company will retain and supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which Auxly participates;
- the Company will have sufficient working capital and be able to secure adequate financing required in the future on acceptable terms to develop its business and continue operations;
- the Company will continue to attract, develop, motivate and retain highly qualified and skilled employees;
- no adverse changes will be made to the regulatory framework governing cannabis, taxes and all other applicable matters in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company will be able to generate cash flow from operations, including, where applicable, the cultivation, production, processing, distribution and sale of cannabis and derivative cannabis products;
- the Company will be able to execute on its business strategy;
- the Company's subsidiaries will be able to meet the governmental and regulatory requirements necessary to obtain and/or maintain their licences;
- general economic, financial market, regulatory and political conditions in which Auxly operates will remain the same;
- the Company will be able to compete in the industry;
- the Company will be able to manage anticipated and unanticipated costs;
- Auxly will be able to maintain internal controls over financial reporting and disclosure, controls and procedures;
- cannabis prices will not decline materially;
- the Company will be able to successfully develop and commercialize new derivative cannabis products; and
- future Company products will be accepted by consumers and medical professionals;

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

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