AUXLY CANNABIS GROUP INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX - MONTHS PERIODS ENDED JUNE 30TH, 2018 AND 2017

Stated in thousands of Canadian Dollars, unless otherwise noted

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

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

	June 30 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	$ **295,803**	$ 33,454
Other receivables	**1,656**	460
Inventory and biological assets	**998**	-
Note receivable (Note 4)	**2,706**	1,171
Debt obligation receivable in product equivalents (Note 11)	**7,666**	-
Prepaid expenses	**1,497**	436
	310,326	35,521
Non-current assets		
Debt obligation receivable in product equivalents (Note 11)	**6,730**	6,378
Long-term investments (Note 9)	**15,343**	13,501
Investment in joint venture (Note 10)	**13,917**	-
Property, plant and equipment (Note 5)	**14,717**	3,474
Intangible assets (Note 6, 7)	**92,853**	29,205
Goodwill (Note 8)	**24,980**	4,500
	168,540	57,058
Total assets	$ **478,866**	$ 92,579
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ **4,325**	$ 6,115
Interest payable on convertible debenture (Note 12)	**2,687**	655
	7,012	6,770
Non-current liabilities		
Convertible debenture (Note 12)	**91,201**	17,738
Long-term loans (Note 13)	**2,210**	912
Deferred tax liability (Note 20)	**20,615**	4,366
	114,026	23,016
Total liabilities	**121,038**	29,786
Equity		
Share capital (Note 15)	**336,314**	60,813
Shares to be issued (Note 15)	**10,156**	-
Reserves (Note 15)	**48,155**	18,206
Accumulated other comprehensive income	**1,584**	3,515
Deficit	**(42,141)**	(19,741)
Total equity attributable to shareholders of the Company	**354,068**	62,793
Total equity attributable to non-controlling interest	**3,760**	-
Total equity	**357,828**	62,793
Total liabilities and equity	$ **478,866**	$ 92,579

Commitments (Note 19)
Subsequent Events (Note 21)

The condensed consolidated interim financial statements were approved by the Board of Directors on August 29, 2018 and were signed on its behalf by:

(s) Chuck Rifici
Chuck Rifici

(s) Brandon Boddy
Brandon Boddy

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

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the Three and Six Months Periods Ended June 30, 2018 and 2017

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

	Three months Ended June 30 2018	Three months Ended June 30 2017	Six months Ended June 30 2018	Six months Ended June 30 2017
Income				
Fair value changes for financial instruments accounted under FVTPL (Note 9, 11)	$ 282	$ -	$ 900	$ -
Total income	282	-	900	-
Expenses				
Wages and salaries	1,809	-	2,981	-
Director fees	-	2	-	8
General and administration	1,447	92	2,429	126
Professional fees	2,048	163	2,671	1,462
Business development	2,458	1,290	4,592	1,290
Share-based payments (Note 15)	2,742	-	5,561	147
Depreciation and amortization (Note 5, 6)	113	-	190	-
Interest expense	582	11	1,385	11
Foreign exchange loss (gain)	(38)	-	(49)	-
Total expenses	11,161	1,559	19,760	3,044
Loss before undernoted items	(10,879)	(1,559)	(18,860)	(3,044)
		-		-
Accretion expense (Note 12, 13)	(1,180)	(24)	(2,167)	(24)
Loss on settlement of debt (Note 14)	-	-	(4,191)	-
	(1,180)	(24)	(6,358)	(24)
Net loss before income tax	(12,059)	(1,583)	(25,218)	(3,068)
Deferred tax (expense) recovery (Note 20)	(104)	-	2,534	-
Net loss	$ (12,163)	$ (1,583)	$ (22,685)	$ (3,068)
Net loss attributable to shareholders of the Company	(11,880)	(1,583)	(22,400)	(3,068)
Net income attributable to non-controlling interest	(285)		(285)	
Other comprehensive income (loss)				
Fair value change on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 10)	$ (2,928)	$ -	$ (1,931)	$ -
Currency translation adjustment - not subsequently reclassified to profit or loss	875	$ -	875	-
Total comprehensive loss	$ (14,216)	$ (1,583)	$ (23,741)	$ (3,069)
Total comprehensive loss attributable to shareholders of the Company	(14,808)	(1,583)	(24,331)	(3,069)
Total comprehensive income attributable to non-controlling interest	590	-	590	-
Net loss per common share				
Basic and diluted	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.03)
Weighted average number of shares outstanding				
Basic and diluted	466,768,801	162,927,004	416,214,533	119,575,025

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Cash Flows
For the Six Months Periods Ended June 30, 2018 and 2017
Expressed in thousands of Canadian Dollars
Unaudited

		June 30 2018		June 30 2017
Operating activities				
Net loss for the year	**$**	**(22,685)**	$	(3,068)
Items not affecting cash				
Depreciation and amortization (Note 5, 6)		**190**		-
Share-based payments (Note 15)		**5,561**		147
Accretion expense (Note 12, 13)		**2,167**		24
Fair value change on debt obligation receivable in product equivalents (Note 11)		**(900)**		**-**
Deferred income tax recovery (Note 20)		**(2,533)**		**-**
Loss on settlement of debt (Note 14)		**4,191**		**-**
Changes in non-cash working capital items				
Other receivables		**(781)**		(100)
Prepaid expenses		**(809)**		**-**
Inventory and biological assets		**(357)**		
Accounts payable and accrued liabilities		**(2,636)**		(31)
Interest payable on convertible debentures (Note 12)		**2,032**		**-**
Due from related parties		**-**		48
Net cash used in operating activities		**(16,560)**		(2,980)
Investing activities				
Promissory notes (Note 4)		**(1,535)**		-
Investment of debt obligation receivable in product equivalents (Note 11)		**(7,000)**		-
Investment in long-term investments (Note 9)		**(3,502)**		-
Investment in joint venture		**(3,441)**		-
Investment in intangible assets		**(4,963)**		(2,200)
Purchase of capital assets (Note 5)		**(4,084)**		-
Net cash acquired from business combinations (Note 7)		**1,390**		-
Deposits to streaming partners		-		(250)
Net cash used in investing activities		**(23,135)**		(2,450)
Financing activities				
Proceeds from share, special warrant and unit issuances (Note 15)		**109,359**		21,278
Net proceeds from convertible debentures (Note 12)		**100,000**		27,686
Proceeds from share options exercised (Note 15)		**550**		-
Proceeds from warrants exercised (Note 15)		**90,620**		643
Proceeds from broker warrant units exercised (Note 15)		**3,419**		-
Proceeds (repayment) on long-term debt		**(1,904)**		1,912
Net cash from financing activities		**302,044**		51,519
Net increase in cash and cash equivalents		**262,349**		46,089
Cash position, beginning of period		**33,454**		307
Cash position, end of period	**$**	**295,803**	$	46,396

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
Expressed in thousands of Canadian Dollars, except share amounts
Unaudited

	Attributable to the shareholders of the Company									
	Share Capital			Reserves						
	Number of Shares	Share Capital	Share to Be Issued	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance December 31, 2017	263,452,946	$ 60,813	$ -	$ 12,002	$ 4,870	$ 1,334	$ (19,741)	$ 3,515	$ -	$ 62,793
Equity component of convertible debentures issued on private placement January 2018 (Note 12)	-	-	-	3,195	-	6,765	-	-	-	9,960.00
Units issued on private placement May 2018 (Note 15)	82,225,000	90,459	-	18,900	-	-	-	-	-	109,359
Shares issued on acquisition of Robinsons (Note 7)	5,369,126	9,889	-	-	-	-	-	-	-	9,889
Shares and warrants issued on acquisition of Dosecann (Note 7)	14,863,550	33,783	-	5,481	-	-	-	-	-	39,264
Shares to be issued for acquisition of Inverell (Note 7)	-	-	10,156	-	-	-	-	-	-	10,156
Shares issued for Data Licensing Agreement (Note 6)	359,211	528	-	-	-	-	-	-	-	528
Shares issued to Province (Note 9)	303,030	436	-	-	-	-	-	-	-	436
Investment in joint venture (Note 10)	1,250,000	3,980	-	6,497	-	-	-	-	-	10,477
Shares issued on exercise of warrants (Note 15)	141,272,969	90,620	-	-	-	-	-	-	-	90,620
Fair value transfer on exercise of warrants (Note 15)	-	14,742	-	(14,742)	-	-	-	-	-	-
Exercise of broker warrant units (Note 15)	3,419,549	1,858	-	3,061	(1,499)	-	-	-	-	3,420
Cancellation of warrants (Note 15)	-	-	-	(237)	237	-	-	-	-	-
Units issued on investment in Inner Spirit (Note 9)	674,418	1,275	-	704	-	-	-	-	-	1,979
Shares issued for debt settlement (Note 14)	3,018,109	6,881	-	-	-	-	-	-	-	6,881
Shares issued on conversion of convertible debt (Note 12)	21,975,482	20,122	-	-	-	(1,403)	-	-	-	18,719
Share-based payments (Note 15)	-	-	-	-	5,561	-	-	-	-	5,561
Shares issued on exercise of stock options (Note 15)	550,000	550	-	-	-	-	-	-	-	550
Fair value transfer on exercise of stock options (Note 15)	-	378	-	-	(378)	-	-	-	-	-
Deferred income tax (Note 20)	-	-	-	-	-	(2,193)	-	312	-	(1,881)
Non-controlling interest arising from acquistions	-	-	-	-	-	-	-	-	3,170	3,170
Net Loss	-	-	-	-	-	-	(22,400)	-	(285)	(22,685)
Changes in fair value of long-term investments	-	-	-	-	-	-	-	(2,243)	-	(2,243)
Currency translation adjustment	-	-	-	-	-	-	-	-	875	875
Balance June 30, 2018	538,733,390	$ 336,314	$ 10,156	$ 34,861	$ 8,791	$ 4,503	$ (42,141)	$ 1,584	$ 3,760	$ 357,828

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Expressed in thousands of Canadian Dollars, except share amounts
Unaudited

	Share Capital				Reserves					
	Number of Shares	Share Capital	Share to Be Issued	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance December 31, 2016	9,035,001	$ 1,758	$ -	$ -	$ 190	$ -	$ (1,564)	$ -	$ -	$ 384
Units issued on private placement January	60,927,546	740	-	377.0	-	-	-	-		1,117
Units issued on private placement March 14th	54,818,319	638	-	367.0	-	-	-	-		1,005
Units issued on private placement March 21st	21,713,649	253	-	145.0	-	-	-	-		398
Shares issued on exercise of warrants	27,912,108	643	-	-	-	-	-	-		643
Fair value transfer on exercise of warrants	-	173	-	(173)	-	-	-	-		-
Share issuance costs	-	(24)	-	-	18,183	-	-	-		18,159
Broker warrant units issed on private placement June 29th	-	-	-	-	1,596	-	-	-		1,596
Equity component of convertible debtentures issued on private placement June 29th	-	-	-	749.0	-	1,916.0	-	-		2,665
Share-based payments	-	-	-	-	147	-	-	-		147
Net Loss	-	-	-	-	-	-	(3,069)	-		(3,069)
Balance June 30, 2017	174,407	$ 4,181	$ -	$ 1,465	$ 20,117	$ 1,916.0	$ (4,633)	$ -	$ -	$ 23,047

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

1. Nature of operations and going concern

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

2. Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements for the three and six months ended June 30, 2018 of the Company were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the three and six months periods ended June 30, 2018 should be read together with the annual consolidated financial statements for the year ended December 31, 2017, which are available on SEDAR at www.sedar.com.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2017. These interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on August 29, 2018.

3. Significant accounting policies

Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and are exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. As at June 30, 2018, Kolab Project Inc., Knightswood Holdings Ltd., Dosecann Inc., and Robinson’s Cannabis Inc. are the only wholly owned subsidiaries of the Company, and the Company has de facto control of Inverell S.A.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company’s interest in the

3. Significant accounting policies (continued)

entity. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the equity of the Company's subsidiaries are shown separately in equity in the consolidated statements of financial position.

Interest in Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint venture arrangements that involve the creation of a separate entity in which each venturer has an interest are referred to as jointly-controlled entities. The Company accounts for its interests in a joint venture using the equity method.

Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and judgement included in these condensed consolidated financial statements for the three and six months periods ended June 30, 2018 should be read together with the use of estimates and judgements reported on the annual consolidated financial statements for the year ended December 31, 2017.

I) Consolidation of Inverell S.A.

Judgment was used to determine whether the business combination described in Note 7 should be accounted for as a business combination. The share purchase agreement has been signed and the closing of the acquisition is subject to regulatory approval. Based on IFRS 10 guidance of control, management believes that the Company has de facto control over the operations of Inverell S.A as at April 10, 2018.

II) Joint venture with Peter Quiring

Judgment was used to determine whether the agreement described in Note 10 should be accounted for as a joint arrangement or a controlled subsidiary. Given the major business decisions need unanimous support by both parties, the Company has concluded that the transaction falls under the scope of IFRS 11 due to the existence of joint control.

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

4. Note receivable

On October 30, 2017, the Company issued a convertible promissory note receivable to Good Leaf with a principal value of USD $400 thousand. The note has a maturity date of October 13, 2018 and interest is accrued on the outstanding value of the principal at 5% per annum. The note is measured at amortized cost. The effective interest rates used to value the note was 20%. The fair value of the note approximates its carrying amount.

On March 26, 2018, the Company issued a note receivable with a principal value of $400 thousand to Level 10. The note has a maturity date of the earlier of March 26, 2019 and the date that the debtor secures at least $2 million in equity or debt financing in the aggregate. Interest is accrued on the outstanding value of the principal at 5% per annum. The note is measured at amortized cost. The effective interest rates used to value the note was 20%. The fair value of the note approximates its carrying amount.

On May 14, 2018, the Company issued a note receivable with a principal value of $794 thousand to Curative Cannabis. The note has a maturity date of December 31, 2018, and interest is accrued on the outstanding value of the principal at 1% per annum. The note is secured by an interest in the debtor's property and assets, which include securities in the capital of Curative Cannabis. The note is measured at amortized cost. The effective interest rate used to value the note was 20%. The fair value of the note approximates its carrying amount.

On June 15, 2018, the Company issued a note receivable with a principal value of $700 thousand to Restoration Lands Inc. The note has a maturity date of December 15, 2019, and interest is accrued on the outstanding value of the principal at 6% per annum. The note is measured at amortized cost. The effective interest rate used to value the note was 20%. The fair value of the note approximates its carrying amount.

5. Property, plant and equipment

	Computer Equipment	Office Furniture	Leasehold Improvements	Equipment	Building	Vehicles	Computer Software	Construction in Progress	Total
Cost:									
Balance at December 31, 2017	**$ 71**	**$ 73**	**$ 55**	**$ 149**	**$ 2,655**	**$ -**	**$ -**	**$ 504**	**$ 3,507**
Additions from business combinations	-	95	102	**628**	1,448	**-**	- #	5,000	**7,273**
Additions	164	181	301	689	12	78	29	2,631	**4,084**
Dispositions	-	-	-	-	-	-	-	-	**-**
Balance at June 30, 2018	**$ 235**	**$ 349**	**$ 458**	**$ 1,466**	**$ 4,115**	**$ 78**	**$ 29**	**$ 8,135**	**$ 14,864**
Accumulated Depreciation:									
Balance at December 31, 2017	**$ 4**	**$ 1**	**$ 2**	**$ 7**	**$ 18**	**$ -**	**$ -**	**$ -**	**$ 32**
Depreciation	18	12	11	25	62	1	1 #	-	**130**
Balance at June 30, 2018	**$ 22**	**$ 13**	**$ 13**	**$ 32**	**$ 80**	**$ 1**	**$ 1**	**$ -**	**$ 162**
Carrying amounts:									
Balance at December 31, 2017	**$ 67**	**$ 72**	**$ 53**	**$ 142**	**$ 2,637**	**$ -**	**$ -**	**$ 504**	**$ 3,475**
Currency traslation adjustment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (15)**	**$ (15)**
Balance at June 30, 2018	**$ 213**	**$ 336**	**$ 445**	**$ 1,434**	**$ 4,035**	**$ 77**	**$ 28**	**$ 8,150**	**$ 14,717**

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

6. Intangible assets

	Patient Referral Agreements	Streaming Agreements	Distribution Agreements	Streaming Interests	Licenses	Non-competition agreements	Total
Cost:							
Balance at December 31, 2017	$ 838	$ 603	$ -	$ 10,800	$ 16,963	$ -	$ 29,205
Additions	-	-	829	-	5,561	-	6,390
Additions from business combinations	-	-	-	-	55,931	611	56,542
Dispositions	-	-	-	-	-	-	-
Balance at June 30, 2018	$ 838	$ 603	$ 829	10,800	$ 78,455	$ 611	$ 92,136
Accumulated Depreciation:							
Balance at December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	-	60	-	-	-	-	60
Balance at June 30, 2018	$ -	$ 60	$ -	$ -	$ -	$ -	$ 60
Carrying amounts:							
Balance at December 31, 2017	$ 838	$ 603	$ -	$ 10,800	$ 16,963	$ -	$ 29,205
Currency translation adjustment	$ -	$ -	$ -	$ -	$ 777	$ -	$ 777
Balance at June 30, 2018	$ 838	$ 543	$ 829	$ 10,800	$ 79,231.68	$ 611	$ 92,853

a) Distribution agreements

On February 7, 2018, the Company entered into an agreement to purchase 1,500,000 of Inner Spirit shares for consideration of $2.3 million. As part of the agreement, the Company will have access to 50% of the floor space at Inner Spirit distribution locations. The Company has allocated $828.8 thousand of the investment in Inner Spirit as a distribution agreement intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement (see Note 9e).

As at June 30, 2018, no amortization has been recorded as the assets are not yet in use as the Company has not obtained the product needed to execute on the agreements.

b) Dixie licensing agreement

On May 7, 2018, the Company entered into a definitive licensing agreement with Dixie Brands, Inc. As part of the agreement, the Company paid $5.1 million (USD $4 million) to have the exclusive license to Dixie’s intellectual property, product branding and formulation methodologies related to over 100 cannabinoid-infused products. The Company has allocated the investment in Dixie as a license intangible asset.

As at June 30, 2018, no amortization has been recorded as the assets are not yet in use.

c) Data licensing agreement

On April 4, 2018, the Company obtained regulatory approval for a licensing agreement with a Canadian cannabis testing, analysis and licensing company. The Company will be granted an exclusive data access for cannabis testing, analysis and ranking for a term of two years. In consideration, the Company issued 359,211 common shares to the Licensor, with a value of $528 thousand recorded as a license intangible asset.

Since the Company’s operating subsidiaries have not started commercial productions, the license asset is not yet in use. As at June 30, 2018, no amortization has been recorded.

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

7. Business Combination

		Robinsons Cannabis Inc.	Dosecann Inc.	Inverell S.A.
Cash and cash equivalents	$	545	1,091	44
Amounts receivable		151	182	78
Prepaid expenses		34	-	208
Inventory and biological assets		-	-	608
Property, plant and equipment		1,346	5,628	299
Licenses and licenses in progress		11,215	29,321	15,395
Non-competition agreements		611	-	-
Goodwill		4,166	12,313	4,001
Accounts payable and accrued liabilities		(31)	(14)	(70)
Loans from related parties		(1,500)	-	(712)
Deferred tax liabilities		(3,666)	(9,067)	(4,001)
Non-controlling interests		-	-	(3,170)
Net assets acquired	$	12,871	39,454	12,680
Consideration paid in shares	$	9,889	33,783	-
Consideration to be paid in shares		-	-	10,156
Consideration paid in warrants		-	5,481	-
Value of existing investments in acquisition (Note 9)		1,099	-	-
Consideration paid in cash		100	190	-
Consideration to be paid in cash		-	-	2,524
Assumed demand loan		1,783	-	-
	$	12,871	39,454	12,680
Consideration paid in cash	$	(100)	(190)	-
Less: Cash and cash equivalents acquired		545	1,091	44
Net cash (outflow) inflow	$	445	901	44

a) Inverell S.A.

On April 10, 2018 the Company obtained de facto control over Inverell S.A. ("Inverell") by entering into an agreement to purchase 80% of the issued and outstanding shares. Despite the share consideration not being issued as at April 10, 2018, the transaction was accounted for as a business combination. The transaction is subject to regulatory approval.

The shareholders of Inverell are entitled to receive aggregate consideration as follows:

i. USD $2.0 million in cash on closing of the transaction;
ii. 1,927,344 common shares on closing of the transaction; and
iii. 5,105,770 common shares upon the achievement of certain milestones, including the successful registration of Inverell's cannabis genetics and the successful exportation of Cannabidiol ("CBD") products.

7. Business combinations (continued)

The contingent consideration of shares has been classified as equity, as the number of shares to be issued has been fixed based on the Company's share price. 1,927,344 shares will be issued on the closing of the transaction. Management assessed the probability of the issuance of the contingent shares to be highly probable. The total fair value of the consideration is estimated at $12.7 million, which includes the assumption of USD $503 thousand of debt that was payable to the Company prior to the business combination.

Inverell is a federally licensed "cannabis operator" based in Montevideo, Uruguay. Inverell's license allows it to cultivate and harvest its proprietary hemp strain.

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

For the period ended June 30, 2018, Inverell accounted for $285 thousand in net losses since April 10, 2018.

The fair value allocations are based on preliminary purchase price allocations conducted by management. As the acquisition is within the measurement period under IFRS 10, it continues to be refined.

b) Robinson's Cannabis Inc.

On February 1, 2018, the Company purchased 10% of the outstanding common shares of Robinson's Cannabis Inc. ("Robinson's") for consideration of $1.5 million. On April 30, 2018 the Company purchased the remaining 90% of the issued and outstanding shares of Robinsons. A revaluation loss of $401 thousand was recorded on April 30, 2018 relating to the original 10% ownership. The transaction was accounted for as a business combination. The shareholders of Robinsons are entitled to receive aggregate consideration of common shares in the capital of the Company as follows:

i. 5,369,126 common shares on closing of the acquisition;
ii. 2,013,421 common shares to be paid within ten business days of Robinsons receiving its Cultivation License from Health Canada; and
iii. 2,013,421 common shares to be paid within 10 business days of Robinsons receiving its sales license from Health Canada.

Upon acquisition, the Company assumed a demand loan liability of $1.8 million, which was paid off in full during the period ended June 30, 2018.

The contingent consideration of shares has been classified as equity, as the number of shares to be issued has been fixed. Management assessed the probability of the issuance of the contingent shares to be highly probable and discounted the share value to present value for the lock-up periods. The discount rates range from 22.5% to 35% depending on the lock-up period, calculated using the put-option pricing models. The total fair value of the consideration is $12.9 million.

Robinson's is a privately-owned, late-stage licensed producer applicant under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR") located in Kentville, Nova Scotia that is currently constructing a 27,700 square foot purpose-built cannabis cultivation facility.

Goodwill arose in the acquisition of Robinsons, primarily due to the assembled work force of Robinson. These benefits were not recognized separately from goodwill because they do not meet the recognition

7. Business combinations (continued)

criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The fair value allocations are based on preliminary purchase price allocations conducted by management. As the acquisitions is within the measurement period under IFRS 10, it continues to be refined.

For the six months period ended June 30, 2018, Robinsons accounted for $273 thousand in net losses since April 30, 2018.

c) Dosecann Inc.

On May 15, 2018, the Company purchased 100% of the issued and outstanding shares of Dosecann Inc. ("Dosecann"). The transaction was accounted for as a business combination. The shareholders of Dosecann are entitled to receive aggregate consideration of common shares in the capital of the Company as follows:

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

The contingent consideration of shares has been classified as equity, as the number of shares to be issued has been fixed . Management assessed the probability of the issuance of the contingent shares to be highly probable and discounted the share value to present value for the lock-up periods. The discount rates range from 22.5% to 35% depending on the lock-up period, calculating using the put-option pricing models. The total fair value of the consideration is $39.5 million.

Located in the biotech hub of Charlottetown, Prince Edward Island, Dosecann is currently completing the buildout of a 42,000 square foot facility, purpose-built for the research, development, extraction, formulation, filling and packaging of cannabis-based products. Upon receipt of regulatory approval, Dosecann will leverage its state-of-the-art facility to begin developing a range of value added cannabis-based products for the Company and its streaming partners which will ultimately be sold to medical cannabis patients and, upon approval, into the natural health product and adult-use cannabis markets.

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

The fair value allocations are based on preliminary purchase price allocations conducted by management. As the acquisitions is within the measurement period under IFRS 10, it continues to be refined.

For the period ended June 30, 2018, Dosecann accounted for $309 thousand in net losses since May 15, 2018.

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

8. Goodwill

Opening balance - December 31, 2017	4,500
Additions	
Business combination - Inverell S.A.	4,001
Business combination - Robinson's Cannabis Inc.	4,166
Business combination - Dosecann Inc.	12,313
Closing balance - June 30, 2018	**24,980**

9. Long-term investments

a) VIVO Cannabis (formerly ABcann Global Corp. Investment)

The Company owns 6,666,666 shares of VIVO Cannabis. As at June 30, 2018, the fair value of the long-term investment has been revalued at $9 million using the quoted price of $1.35/share on TSX-V. The loss on revaluation was recorded in other comprehensive income, net of applicable income taxes on the consolidated statement of comprehensive loss.

b) Broken Coast Cannabis Investment

The Company owns 184 common shares of Broken Coast Cannabis, a licensed producer of medicinal cannabis located on Vancouver Island. As at June 30, 2018, the fair value of the long-term investment has been revalued at $265.8 thousand using comparable company market values which are publicly available to approximate the fair value. The gain on revaluation was recorded in other comprehensive income, net of applicable income taxes on the consolidated statement of comprehensive loss.

c) CannTx Life Sciences Inc. Investment

The Company owns a minority equity interest of 35,885 common shares in CannTx Life Sciences Inc. (“CannTx”) and an entitlement to 33% of all cannabis (or cannabis-derived products including any cannabis trim) produced at the facility for a period of 10 years from the date of first sale at a fixed cost. As at June 30, 2018, the fair value of the long-term investment has been revalued at $2.7 million using comparable company market values which are publicly available to approximate fair value. The gain on revaluation was recorded in other comprehensive income, net of applicable income taxes on the consolidated statement of comprehensive loss.

d) Inner Spirit Holdings Ltd.

On February 7, 2018, the Company completed an investment in Inner Spirit Holdings Ltd. (“Inner Spirit”). The Company acquired 15,000,000 common shares of Inner Spirit in exchange for:

(i) a cash payment of $350 thousand;

(ii) 674,418 common shares of the Company and;

(iii) 1,250,000 common share purchase warrants of the Company.

9. Long-term investments (continued)

The fair value allocated to the shares was $1.3 million based on the market price of $1.89/share on the date of issuance. The fair value allocated to the warrants was $704.2 thousand based on a probability weighted discounted cash flow of the vesting performance conditions and based on the following assumptions: Share price – $1.89, Annualized volatility – 109.3%; Risk-free interest rate – 1.81%; Dividend yield – 0%; and Expected life – 2 years.

The warrants are exercisable at a price of $2.53 for a period of 2 years, vesting as follows:

(i) 250,000 vest upon the first Spirit Leaf location opening for business to the public.

(ii) 250,000 vest upon the fifth Spirit Leaf location opening for business to the public.

(iii) 250,000 vest upon the tenth Spirit Leaf location opening for business to the public.

(iv) 250,000 vest upon the fifteenth Spirit Leaf location opening for business to the public.

(v) 250,000 vest upon the twentieth Spirit Leaf location opening for business to the public.

The fair value of the long-term investment was valued at $1.8 million based on the private placement price of $0.10/share in February and March 2018, and the Company allocated the residual $828.9 thousand of the investment as a distribution agreement intangible asset.

As part of the investment, the Company has the pre-emptive right to acquire additional shares in future placements in order to maintain a dilutive ownership of 15% of Inner Spirit. The Company exercised its pre-emptive right to acquire an additional 1,500,000 Inner Spirit Shares for $150 thousand on February 7, 2018, an additional 1,058,824 Inner Spirit Shares for $105.9 thousand on March 23, 2018, and 2,647,058 Inner Spirit Shares and 1,323,529 Inner Spirit share purchase warrants exercisable at $0.30, for $397.1 thousand on June 21, 2018. $349.4 thousand was allocated to the shares and $47.7 thousand was allocated to the warrants, based on the following assumptions for the valuation of the warrants: Share price – $0.10, Annualized volatility – 100%; Risk-free interest rate – 1.90%; Dividend yield – 0%; and Expected life – 2 years. The revaluation loss on the shares was recorded in other comprehensive income, while the revaluation loss on the warrants was recorded in the profit and loss.

The fair value of the investment approximates its carrying value as at June 30, 2018 based on recent Inner Spirit shares issuances.

e) Lotus Ventures Inc.

On June 18, 2018, the Company subscribed for 1,818,181 common shares and 909,090 common share purchase derivative warrants of Lotus Ventures Inc (“Lotus”). for gross proceeds $1.0 million. Lotus is a late-stage licensed producer applicant that is based in Vancouver, BC. As at June 30, 2018, the fair value of the long-term investment has been revalued at $741.3 thousand using the quoted price of $0.34/share on CSE, and the following assumptions for the valuation of the warrants: Share price – $0.34, Annualized volatility – 101.1%; Risk-free interest rate – 1.90%; Dividend yield – 0%; and Expected life – 2.86 years. $618.2 thousand was allocated to the shares and $123.1 thousand was allocated to the warrants. The revaluation loss on the shares was recorded in other comprehensive income, while the revaluation loss on the warrants was recorded in the profit and loss.

f) Honest Inc.

On April 11, 2018, the Company closed a strategic alliance agreement with Ontario-based research and development firm Honest Inc. ("Province"). The Company will assist Province with the establishment and licensing of a cannabis facility focused on the research, development and commercialization of cannabis-based beverages. The Company and Province have also agreed to explore and collaborate on further

9. Long-term investments (continued)

commercial opportunities including supply and offtake arrangements, cannabis genetics development and refinement, co-branding opportunities, white-label opportunities, IP development and licensing as well as international distribution opportunities. In consideration, the Company will receive 2,068,284 preferred shares in the capital of Province, and the Company issued 303,030 common shares to Province valued at $452 thousand.

10. Joint venture with Peter Quiring

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

The Company purchased 4,500,000 Class 1 common shares of the joint venture from The Peter Quiring Family Business Trust for consideration of 5,250,000 common shares of the Company with 1,250,000 common shares issued upon the closing of the transaction, and the remainder to be held in escrow and released in tranches corresponding to the achievement of certain operational and performance milestones. The Company issued 10,000,000 common share purchase warrants of the Company entitling the holder to purchase 10,000,000 common shares of the Company at an exercise price of $1.57 per common share. 2,000,000 warrants vested upon closing of the transaction and the remainder will vest in tranches corresponding to the achievement of certain operational and performance milestones. The common share warrants have a term of five years from issuance. The fair value of the 5,250,000 common shares is $3.98 million and the fair value of the 10,000,000 common share purchase warrants is $6.50 million. The fair value allocated to the warrants was calculated using the Binomial Option Pricing Model and valued based on a probability weighted discounted cash flow of the vesting performance conditions and based on the following assumptions: Share price – $1.13, Annualized volatility – 98.24%; Risk-free interest rate – 2.03%; Dividend yield – 0%; and Expected life – 5 years.

The Company purchased 3,441,307 Class B non-voting shares for $3.44 million and 1,224,490 Class V preferred voting shares for a nominal amount during the six months period ended.

As at June 30, 2018, the Company owns 4,500,000 Class 1 common voting shares, 1,224,490 Class V preferred voting shares and 3,441,307 Class B non-voting shares. The Company has 51% of the voting shares of the joint venture. The joint venture has the option to redeem the 1,224,490 Class V common shares from the Company for a nominal amount. If the redemption option is executed, the Company will own 45% of the voting shares of the joint venture.

The investment balance in the joint venture was $13.92 million as at June 30, 2018. As at June 30, 2018, the only material assets of the joint venture were land and buildings.

11. Debt obligation receivable in product equivalents

a) Beleave Inc.

On October 5, 2017, the Company and Beleave Inc. (“Beleave”) entered into an agreement where the Company will provide Beleave with up to $10.0 million in debt financing repayable in product equivalents. The proceeds will be used by Beleave to fund the construction of an expansion facility, which will be situated adjacent to Beleave’s current facility outside of Hamilton, Ontario. On October 17, 2017, the Company advanced $5.0 million of the agreed upon $10.0 million financing to Beleave. Beleave’s debt obligation will be receivable in product equivalents (the “DOPE Note”).

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

11. Debt obligation receivable in product equivalents (continued)

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be $6.7 million at June 30, 2018 and a fair value gain of $352.3 thousand was recorded on the consolidated statement of loss and comprehensive loss for the six-month period ended June 30, 2018.

b) Sundial Growers Inc.

On March 1, 2018, the Company announced that it had entered into a definitive agreement with Sundial Growers Inc. ("Sundial") whereby the Company advanced $7.0 million to Sundial by way of a promissory note for a period of 6 months. Sundial will repay the note either by a cash payment, through the delivery of an agreed upon volume of dried cannabis produced by Sundial or through a combination of cash and grams. The note is subject to an interest rate of 24% per annum, with a minimum guaranteed interest of $840.0 thousand. If the Payment Obligation are not repaid in full prior to the Maturity Date, the maturity date can be extended for an additional 6 months at the option of Sundial, by making a payment of $840.0 thousand to the Company. If the Payment Obligation are not repaid by the end of the additional term, the principal amount which remains outstanding will immediately become due and payable.

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be $7.7 million and a fair value gain of $665.7 thousand was recorded on the consolidated statement of loss and comprehensive loss for the six-month period ended June 30, 2018.

12. Convertible debenture

June 29, 2017 Issuance

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

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.00 per share, at the option of the holder. The fair value of the debenture was recorded at its fair value of $23.5 million, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense calculated using the effective interest method for the six months period ended June 30, 2018 was $57.6 thousand.

		Convertible debenture
BALANCE AT DECEMBER 31, 2017	$	17,738
Accretion expense during the period		58
Less: Units converted during the period		17,672
BALANCE AT JUNE 30, 2018	$	124

January 17, 2018 Issuance

On January 17, 2018, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of $100.0 million. Each convertible debenture unit consists of a

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

12. Convertible debt (continued)

$1.0 thousand principal amount of senior unsecured convertible debentures and 322 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.55 per share, at the option of the holder. The fair value of the debenture was recorded at its fair value

of $90.0 million, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense calculated using the effective interest method for the six months period ended June 30, 2018 was $2.1 million. The effective interest rate used was 11.7%. Interest expense accrued for the six months period ended June 30, 2018 for convertible debentures was $2.7 million.

The residual value of the gross proceeds was allocated to the conversion feature and warrants based on their relative fair values. The conversion feature was estimated at $6.8 million, net of issue costs using based on the following assumptions: Share price – $2.29, Annualized volatility – 101.5%; Risk-free interest rate – 1.76%; Dividend yield – 0%; and Expected life – 2 years.

Each warrant will be exercisable to acquire one common share at an exercise price of $1.80 per share until January 16, 2020. The fair value of these warrants was estimated at $3.2 million, net of issuance cost, based on the following assumptions: Share price – $2.29, Annualized volatility – 101.5%; Risk-free interest rate – 1.76%; Dividend yield – 0%; and Expected life – 2 years.

On closing, the Company paid legal and advisory fees of $128.0 thousand.

Beginning on the date that is four months and one day following the closing date, the Company may force the conversion of the principal amount of the convertible debentures and the expiry of date of the convertible debt warrants should the daily volume weighted average trading price of the Company's common shares be greater than $3.10 for 10 consecutive trading days.

		Convertible debenture
BALANCE AT DECEMBER 31, 2017	$	-
Face value of debt upon issuance		100,000
Less: Allocation to warrants and conversion feature		(9,832)
Less: Debt issue costs		(128)
Fair value of debt on initial recognition		90,040
Accretion expense during the period		2,083
Less: Units converted during the period		1,046
BALANCE AT JUNE 30, 2018	$	91,077

13. Long-term loans

		2557788 Ontario Ltd. (a)		PanCann Streaming Corp. (b)		Total
BALANCE AT DECEMBER 31, 2017	$	578	$	334	**$**	**912**
Accretion expense during the period		17		9		**26**
Settled during the period		(2,080)		(912)		**(2,992)**
Loss on settlement		1,485		569		**2,054**
BALANCE AT JUNE 30, 2018	$	-	$	-	**$**	**-**

13. Long-term loans (continued)

a) The Company entered into an unsecured promissory note with 255 for $912.0 thousand as part of the purchase of the patient referral agreement. The loan has a term of five years and matures on April 17, 2022. The amount can be repaid at any time and is not subject to a prepayment fee. The loan bears interest at 1% per annum, compounded annually. The Company recognized the fair value the below-market interest loan using a market interest rate of 12%. As at June 30, 2018, the full value of the loan was settled through an issuance of shares.

b) The Company entered into an unsecured promissory note with PSC for $1.0 million as part of the purchase of the streaming agreements. The loan has a term of five years and matures on April 25, 2022. The amount can be repaid at any time and is not subject to a prepayment fee. The loan bears interest at 1% per annum, compounded annually. The Company recognized the fair value of the below-market interest loan using a market interest rate of 12%. As at June 30, 2018, the full value of the loan was settled through an issuance of shares.

14. Debt settlement

On January 29, 2018, the Company settled long-term loans and accounts payable balances with a carrying amount of $2.7 million in consideration for the issuance of an aggregate of 3,018,109 common shares. The shares were negotiated at a price between $0.63 and $1.00 of debt for every unit share in November 2017. Due to the timing of the payment, the fair value of the common shares at the time of issuance was $2.28 based on the closing price on grant date. These shares are subject to a four-month lock-up period restriction on trading. The fair value of the consideration was estimated to be $6.9 million and a non-recurring non-cash loss on the settlement of debt of $4.2 million was recorded in the statement of profit and loss.

15. Share capital

a) Authorized

In January 2017, the authorized share capital of the Company was approved to increase to an unlimited number of common shares. On April 10, 2017, the Company completed a forward stock split of its common shares on a six for one basis. All historical references to share transactions or balances prior to this date have been recast on a six for one basis.

b) Issued and outstanding

At June 30, 2018, there were 538,733,390 issued and fully paid common shares and 27,657,731 were held in escrow related to the contingent considerations in acquisitions and investments.

On February 7, 2018, the Company completed a strategic investment in Inner Spirit Holdings Ltd. and issued 674,418 common shares of the Company and 1,250,000 common share purchase warrants of the Company.

On April 4, 2018, the Company obtained regulatory approval for a licensing agreement with a Canadian cannabis testing, analysis and licensing company. The Company will be granted an exclusive data access for cannabis testing, analysis and ranking for a term of two years. In consideration, the Company issued 359,211 common shares to the Licensor, with a value of $528 thousand.

On April 11, 2018, the Company closed a strategic alliance agreement with Ontario-based research and development firm Province. The Company issued 303,030 common shares to Province valued at $436.4 thousand.

15. Share capital (Continued)

On April 30, 2018, the Company acquired acquire 100% of the issued and outstanding shares of Robinson's Cannabis Inc. ("RCI"). Robinson's is a late-stage licensed producer applicant and is currently constructing a 27,700 square foot facility located in Kentville, Nova Scotia. As consideration for the RCI Shares, the shareholders of RCI received an aggregate consideration of 9,395,968 common shares, issued as follows:

(i) 5,369,126 Company common shares upon closing of the transaction;

(ii) 2,013,421 issued and held in escrow to be released upon RCI receiving a Cultivation Licence; and

(iii) 2,013,421 issued and held in escrow to be released upon RCI receiving a Sales Licence.

On May 15, 2018, the Company acquired 100% of the issued and outstanding shares of Dosecann Inc. Dosecann is a late-stage "Licensed Dealer" applicant pursuant to the Narcotic Control Regulations with a purpose-built 42,000 square foot facility located in Charlottetown, Prince Edward Island. The Company has issued 24,494,496 shares, of which 9,630,947 are subject to performance-based milestones. In addition, the Company has assumed the obligations of the existing Dosecann common share purchase warrants, resulting in the issuance of 5,071,248 common share purchase warrants in the capital of the Company. Each replacement warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.962 until January 2020. As a result of the closing, Dosecann is now a wholly-owned subsidiary of the Company.

In May 2018, the Company closed a private placement and distributed a total of 82,225,000 units for gross proceeds of $115.1 million. Each unit consists of one share and one-half warrant, with each warrant entitling the holder to purchase one additional share at $1.85 until May 2020. The Company recorded $90.5 million for the issuance of shares and $18.9 million for the issuance of warrants based on a relative fair value calculation. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price - $1.29, Annualized volatility – 95.16%; Risk-free interest rate – 1.87%; Dividend yield – 0%; and Expected life – 2 years.

On June 15, 2018 the Company signed a definitive joint venture agreement with Peter Quiring to develop, construct and operate a fully-automated, state-of-the-art, purpose-built greenhouse for cannabis cultivation in Leamington, Ontario. In consideration for the agreement, the Company issued 5,250,000 common shares to The Peter Quiring Family Business Trust, with 1,250,000 common shares issued upon the closing of the transaction, and the remainder to be held in escrow and released in tranches corresponding to the achievement of certain operational and performance milestones. The Company will also issue 10,000,000 common share purchase warrants, where 2,000,000.

Warrants will be vested upon closing of the transaction and the remainder will vest in tranches corresponding to the achievement of certain operational and performance milestones.

c) Stock options

The Company has a stock option plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded in any 12-month period was not to exceed 10% of the issued and outstanding shares to any one individual or 2% to any one consultant or employee. 550,000 options were exercised during the period ended June 30, 2018 and 10,695,000 options were granted during the period ended June 30, 2018.

In January 2018, the Company issued 2,670,000 stock options at an exercise price ranging from $2.15 to $2.40 per share, exercisable for 10 years to consultants and employees. Of the options issued, 362,500

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

15. Share capital (Continued)

vest immediately, 842,500 vest over one year, 767,500 vest over two years, 567,500 vest over three years, and 130,000 vest over four years.

In February 2018, the Company issued 1,280,000 stock options at an exercise price of $1.54 per share, exercisable for 10 years to consultants and employees. Of the options issued, 200,000 vest immediately,

299,166 vest over one year, 299,167 vest over two years, 299,167 vest over three years, and 182,500 vest over four years.

In March 2018, the Company issued 1,780,000 stock options at an exercise price of $1.80 per share, exercisable for 10 years to consultants, employees, and officers. Of the options issued, 587,500 vest immediately, 445,000 vest over one year, 445,000 vest over two years, and 445,000 vest over three years.

In March 2018, the Company issued 570,000 stock options at an exercise price of $1.80 per share, exercisable for 10 years to directors. Of the options issued, 142,500 vest immediately, 142,500 vest over one year, 142,500 vest over two years, and 142,500 vest over three years.

The consultant options were measured based on the fair value of the equity instruments granted as the fair value of services cannot be reliably measurable.

In June 2018, the Company issued 4,395,000 stock options at an exercise price of $1.24 per share, exercisable for 10 years to consultants and employees. Of the options issued, 525,000 vest immediately, 952,083 vest over one year, 977,083 vest over two years, 977,083 vest over three years, and 963,750 vest over four years.

The following table summarizes information about stock options outstanding as at June 30, 2018:

Options Outstanding				Options Exerciseable		
Number Outstanding at June 30, 2018		Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exerciseable at June 30, 2018		Weighted Average Exercise Price
12,716,085	$	0.025	1.57	12,716,085	$	0.02
5,795,000	$	1.00	1.82	3,796,835	$	0.19
100,000	$	1.00	0.03	100,000	$	0.00
50,000	$	1.00	0.01	50,000	$	0.00
500,000	$	1.00	0.07	500,000	$	0.02
150,000	$	1.72	0.05	87,808	$	0.01
1,120,000	$	2.23	0.36	531,169	$	0.06
1,200,000	$	2.15	0.38	426,013	$	0.05
200,000	$	2.26	0.06	42,798	$	0.00
150,000	$	2.40	0.05	65,749	$	0.01
1,280,000	$	1.54	0.41	398,534	$	0.03
2,350,000	$	1.80	0.76	855,184	$	0.08
4,350,000	$	1.24	1.45	642,866	$	0.04
29,961,085	**$**	**0.82**	**7.03**	**20,213,040**	**$**	**0.51**

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

15. Share capital (Continued)

The following table reflects the continuity of stock options for the periods presented:

	Options Issued		Price
Balance outstanding at December 31, 2017	19,861,085	$	0.38
Option granted			
January 15, 2018 Grant	1,120,000	$	2.23
January 15, 2018 Grant	1,200,000	$	2.15
January 26, 2018 Grant	200,000	$	2.26
January 31, 2018 Grant	150,000	$	2.40
February 28, 2018 Grant	1,280,000	$	1.54
March 27, 2018 Grant	2,350,000	$	1.80
June 21, 2018 Grant	4,395,000	$	1.24
Total options granted	**10,695,000**	**$**	**1.64**
Total options exercised	**(550,000)**	**$**	**1.00**
Balance outstanding at June 30, 2018	**30,006,085**	**$**	**0.82**

As at June 30, 2018, stock options outstanding have a weighted average remaining life of 7.03 years.

The total fair value of stock options granted during the six-month period ended June 30, 2018 was $16.1 million (June 30, 2017 – $147.0 thousand).

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

	2018	2017
Risk-Free Annual Interest Rate	1.74%-2.06%	1.26%-1.52%
Expected Annual Dividend Yield	0%	0%
Expected Annualized Volatility	94.7% - 108.6%	53.12% - 95.50%
Expected Life of Options	10 years	5 - 10 years
Forfeiture rate	0%	0%

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

For the six-month period ended June 30, 2018, $5.6 million of share-based payments were recorded on the statements of loss and comprehensive loss relating to the vesting of the Company's stock options.

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

15. Share capital (Continued)

d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table reflects the continuity of warrants for the periods presented:

WARRANT ACTIVITY	June 30, 2018		Weighted Average Exercise Price	June 30, 2017		Weighted Average Exercise Price
Balance – Beginning of Period	160,647,124	$	0.561	-	$	-
Issued	93,053,328		1.772	152,459,514		0.169
Expired	(1,411,290)		1.500	-		-
Exercised	(141,272,969)		0.641	(27,912,108)		0.025
Balance – End of Period	**111,016,193**	**$**	**1.431**	**109,547,406**	**$**	**0.202**

The weighted average fair value of warrants outstanding during the six-month period ended June 30, 2018 was $1.431. As at June 30, 2018, warrants outstanding have a weighted average remaining life of 1.51 years. Cash proceeds from warrants exercised during the period ended June 30, 2018 was $90.6 million.

The following table summarizes information about warrants outstanding as at June 30, 2018:

Date of Issuance	Date of Expiry	Exercise Price		June 30, 2018 Outstanding	December 31, 2017 Outstanding
February 22, 2017	February 21, 2019	$	0.023	7,622,441	28,363,407
March 13, 2017	March 12, 2019	$	0.023	7,135,457	46,162,865
March 20, 2017	March 19, 2019	$	0.023	6,049,863	21,713,649
June 29, 2017	June 28, 2019	$	1.500	-	15,000,000
October 3, 2017	June 28, 2019	$	1.500	-	20,252,203
November 1, 2017	October 31, 2019	$	1.200	-	29,155,000
January 10, 2018	June 29, 2019	$	1.500	1,500,000	-
January 16, 2018	June 29, 2019	$	1.500	1,919,500	-
January 17, 2018	January 16, 2020	$	1.800	32,200,000	-
February 6, 2018	February 5, 2020	$	2.530	1,250,000	-
May 15, 2018	May 14, 2020	$	0.962	2,226,432	-
May 31, 2018	May 30, 2020	$	1.850	41,112,500	-
June 20, 2018	June 29, 2023	$	1.570	10,000,000	-
				111,016,193	160,647,124

e) Broker warrant units

No broker warrant units were issued during the six-month period ended June 30, 2018. All 3,419,549 broker warrant units that were outstanding as at December 31, 2017 were exercised during the six-month period ended June 30, 2018.

Cash proceeds from broker warrant units exercised during the period ended June 30, 2018 was $3.4 million.

f) Earnings per share

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

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

16. Related party balances and transactions

Key management and director compensation

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

For the six-month period ended June 30	2018	2017
Short-term benefits	**821**	$ 854
Long-term benefits (*)	**1,141**	134
	$ 1,962	$ 988

(*) Consists of share-based payments as the fair value of options granted to key management personnel of the Company under the Company's stock option plan.

Other related party transactions

Nesta Holding Co Ltd, a company owned and controlled by the CEO of the Company, provides travel and accommodation services to the Company on a month to month basis. For the period ended June 30, 2018, the Company incurred $32 thousand (June 30, 2017 - $Nil) in travel expenses. There was $9 thousand outstanding to Nesta Holding Co Ltd at June 30, 2018 (December 31, 2017 - $Nil).

17. Financial instruments and risk management

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

a) Financial instrument classification and measurement

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

The fair value of hierarchy has the following levels:

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

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

17. Financial instruments and risk management (continued)

	Balance, December 31, 2017	Investment	Divesture (cost)	Cost at June 30, 2018	Cumulative change in fair value	Fair value at June 30, 2018
Level 1 on fair value hierarchy						
Abcann Medicinals Inc.	$ 10,200	$ -	$ -	$ 10,200	$ (1,200)	$ 9,000
Lotus Ventures Inc. (common shares)	-	759	-	759	(140)	618
	$ 10,200	**$ 759**	**$ -**	**$ 10,959**	**$ (1,340)**	**$ 9,618**
Level 2 on fair value hierarchy						
Inner Spirit Holdings Inc. (common shares)	$ -	$ 2,105	$ -	$ 2,105	$ 85	$ 2,190
Inner Spirit Holdings Inc. (warrants)	-	48	-	48	-	48
Lotus Ventures Inc. (warrants)	-	241	-	241	(118)	123
	$ -	**$ 2,394**	**$ -**	**$ 2,394**	**$ (34)**	**$ 2,361**
Level 3 on fair value hierarchy						
CannTx Life Sciences Inc.	$ 3,000	$ -	$ -	$ 3,000	$ (354)	$ 2,646
Robinson's Cannabis Inc.	-	1,500	(1,099)	401	(401)	-
Broken Coast Cannabis	301	-	-	301	(36)	266
Province brands	-	436	-	436	16	452
	$ 3,301	**$ 1,936**	**$ (1,099)**	**$ 4,139**	**$ (775)**	**$ 3,364**

Instrument	Valuation Technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Debt obligation receivable in product equivalent - Beleave Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20% - Usable production space - Selling price per gram of cannabis	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by $28 thousand - If the estimated usable production space increases (decreases) by 10%, the fair value would increase (decrease) by $619 thousand - If the price per gram of Cannabis increases (decreases) by 10%, the fair value increase (decrease) would be $672 thousand
Debt obligation receivable in product equivalent - Sundial Growers Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20%	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by $8 thousand
Investment in CannTx	Market approach	- Facility production space	- If the facility production capacity increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by $300 thousand
Investment in Broken Coast	Market approach	- Facility production space	- If the facility production capacity increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by $30 thousand
Investment in Province	Market approach	- Facility production space	- If the facility production capacity increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by $44 thousand

17. Financial instruments and risk management (continued)

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, marketable securities, note and other receivables, long-term investments, debt obligation receivable in product equivalent, accounts payable and accrued liabilities, convertible debenture and long-term loans and interest payable on convertible debt. As at June 30, 2018 and December 31, 2017, the carrying value of cash and cash equivalents is carried at fair value. Cash and cash equivalents, notes receivable and accounts payable and accrued liabilities, interest payable on convertible debenture approximate their fair value due to their short-term nature. The carrying value of notes receivable, convertible debentures, and long-term loans approximate fair value due to their recent issuance and being at market rates for similar instruments.

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVTOCI and FVTPL. For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $1.9 million before tax. An equal change in the opposite direction would have decreased equity by $1.9 million before tax.

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

d) Interest rate risk

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

e) Credit risk

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

Management has mitigated the risk by using tier 1 financial institutions for managing its cash, established communication channels with the counterparties of the receivables for ongoing monitoring of their financial performance.

18. Capital management

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

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

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

18. Capital management (continued)

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

19. Commitments

a) As at June 30, 2018, the Company has entered into streaming agreements with 13 partners. By entering into these streaming agreements, the Company has commitments, subject to due diligence and other closing conditions, to do one or both of the following:
    i. invest in a private placement of common shares of the streaming partner for certain gross proceeds resulting in the Company owning an equity interest in the streaming partner.
    ii. provide all necessary funding to secure proposed cultivation sites and for the construction of cultivation sites.
b) As at June 30, 2018, the Company has entered into patient referral agreements with 5 clinics. By entering into these patient referral agreements, the Company has committed to milestone payments to the clinics based on specific referral targets.
c) As at June 30, 2018, the Company has the commitment to pay another $15 million subscription and fund the VIVO Cannabis' financed expansion area upon the receipts of the construction budget.
d) As at June 30, 2018, the Company has the commitment to pay CannTx another $7 million related to phase II expansion of the Facility, subject to the completing satisfactory due diligence on the parties agreeing to a construction budget and timeline for the phase II expansion.
e) The Company is committed under two sublease agreements with respect to its office premises located in Toronto, Ontario, expiring May 31, 2020 and April 30, 2024 as follows:

2018	$	231
2019		462
2020		456
2021		457
Thereafter		1,091
Total	**$**	**2,697**

20. Income taxes

Summary & movement of deferred tax assets/(liabilities)	Jan 1, 2018 (Opening balance)	Recognized in profit or loss	Recognized in OCI	Recognized in equity	Acquired in business combinations	Net June 30, 2018
Non-capital losses	1,563	2,534	-	-	-	4,097
Convertible & other debt	(1,516)	-	-	(2,193)	-	(3,709)
Intangible assets	(4,495)	-	-	-	(16,734)	(21,229)
Marketable securities	(537)	-	144	-	-	(393)
Property, plant & equipment	(35)	-	-	-	-	(35)
Financing and share issuance costs	654	-	-	-	-	654
Total deferred income tax assets/(liabilities), net	(4,366)	2,534	144	(2,193)	(16,734)	(20,615)

21. Subsequent events

a) On July 23, 2018, the Company's wholly-owned subsidiary, Kolab Project Inc. ("Kolab" or "Kolab Project"), received its sales licence from Health Canada, pursuant to the Access to Cannabis for Medical Purposes Regulations. The sales licence authorizes Kolab to sell dried cannabis to registered Canadian medical patients across the country.

b) On August 9, 2018, the Company's wholly-owned subsidiary, Dosecann Inc. ("Dosecann"), obtained a Dealer's Licence for Controlled Drugs and Substances (the "Licence") from Health Canada pursuant to the Narcotics Control Regulations for Dosecann's purpose built 42,000 square foot facility located in Charlottetown, PEI.

c) On August 13, 2018, the Company entered into a strategic partnership with Cannabis OneFive, Inc. ("C15"), a provider of quality management and document control software systems for the cannabis industry. Auxly's wholly-owned subsidiary, Dosecann Inc. ("Dosecann"), will become a lead subscriber of C15's software, and the Company expects the C15 software to be deployed at other Auxly facilities.

In connection with the strategic partnership, the Company has entered into a share exchange agreement with C15. Auxly will issue 429,507 common shares and make a cash payment of $50 thousand to C15, and Auxly will receive 9,000,000 common shares in the capital of C15 and a common share purchase warrant entitling Auxly to purchase 4,325,000 common shares of C15 at an exercise price of $0.075 per common share, representing a 30% ownership interest in C15 on a fully-diluted basis.

d) On August 21, 2018 the Company announced that it has entered into a share purchase agreement with KGK Science Inc. ("KGK") to acquire all of the issued and outstanding shares for total consideration of $12.3 million payable in cash and common shares of the Company. KGK is a leading health and wellness focused private contract research organization based in London, Ontario, and the Company expects to leverage KGK's expertise and research abilities to further the Company's product development efforts through collaboration with the Company's wholly owned subsidiary, Dosecann.

The Company will acquire all of the issued and outstanding shares of KGK. Upon the completion of the acquisition, KGK will become a wholly owned subsidiary of the Company. As consideration, the KGK shareholders are entitled to receive 4,132,231 common shares in the capital of the Company, with the remainder of the purchase price to be paid in cash.

e) Subsequent to June 30, 2018, 2,732,280 common shares were issued on the exercise of 2,732,280 warrants for gross proceeds of $310 thousand.