



AUXLY CANNABIS GROUP INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

FOR THE PERIOD ENDED JUNE 30, 2018

Stated in Canadian Funds

DATE: AUGUST 29, 2018

Management Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of August 29, 2018 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. (the "Auxly"). All amounts are stated in thousands of Canadian dollars, unless otherwise noted. This MD&A should be read in conjunction with the consolidated financial statements and the notes thereto for the period ended June 30, 2018.

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

Description of Business, Overall Performance and Outlook

Business of the Company

The Company explores and pursues investment opportunities in the cannabis industry. The Company's principal product is cannabis and cannabis products that it purchases pursuant to its streaming agreements and produces through its subsidiaries.

The Company's business model is premised on building a strategic portfolio of investments to create a platform that spans across three distinct verticals of the cannabis supply chain:

- 1) The "**Upstream**" segment consists of domestic and international cannabis cultivation assets, including the Company's streaming partners and certain subsidiaries.
- 2) The "**Midstream**" segment consists of various value enhancing assets and the development of intellectual property associated with those assets, such as extraction, processing, branding and licensing, product manufacturing, and research and development. It is anticipated that the Midstream segment of the Company's business will produce various cannabis products such as pharmaceuticals, nutraceuticals and consumer packaged goods, all as and when permitted by applicable laws.
- 3) The "**Downstream**" segment consists of the Company's various domestic and international distribution channels. The Company aims to establish several distribution channels including provincially approved retailers, pharmacies and direct to consumer sales as well as distribution channels in Federally legal jurisdictions, as permitted by applicable laws.

Key Developments in the First Quarter of 2018

On January 15, 2018, the Company announced the launch of KoLab Project Inc.. Upon receiving the necessary regulatory approvals, Kolab Project Inc. will offer an exclusive monthly subscription platform to authorized medical cannabis patients.

On January 16, 2018, the Company announced that it had elected to exercise its right under the warrants issued in June 2017 to accelerate the expiry date of the warrants to February 15, 2018.

On January 17, 2018, the Company issued 100,000 convertible debenture units for aggregate gross proceeds of \$100 million. Each convertible debenture unit consists of \$1 thousand principal amount of senior unsecured convertible debentures and 322 common share purchase warrants of the Company. The debentures bear interest at 6.0% per annum, calculated semi-annually on June 30 and December 31 of each year and mature 24 months from the date of closing. MMCAP International Inc. SPC and its affiliates subscribed for \$85 million of the aggregate principal amount of convertible debenture units and is considered to be an insider of the Company.

On January 29, 2018, the Company announced the settlement of \$2.7 million of debt in consideration for the issuance of an aggregate of 3,018,109 common shares. The shares were negotiated based on the market price in November 2017, at a price ranging between \$0.63 and \$1.00 of debt for every share. 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 were 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.

On February 7, 2018, the Company completed a strategic investment in Inner Spirit Holdings Ltd. ("**Inner Spirit**"), a market leader in the franchising of retail cannabis dispensaries in jurisdictions in Canada where the private distribution of recreational cannabis will be legalized. The Company acquired 15,000,000 common shares of Inner Spirit in exchange for:

- a cash payment of \$350 thousand;
- 674,418 common shares of the Company; and
- 1,250,000 common share purchase warrants of the Company.

Pursuant to the investment agreement entered into by the Company and Inner Spirit, the Company also exercised its pre-emptive right to acquire an additional 1,500,000 common shares Inner Spirit for \$150 thousand, and 1,058,824 common shares for \$106 thousand. As a result, the Company now holds approximately 15% of the total issued and outstanding common shares of Inner Spirit.

On February 8, 2018, the Company subscribed for 1,818,181 common shares and 909,090 common share purchase warrants of Lotus Ventures Inc. for the subscription price of \$1.0 million.

On February 16, 2018, the Company announced that it had entered into a joint venture with Peter Quiring, one of Canada's largest greenhouse builders and operators, to develop, construct and operate a state-of-the-art purpose-built greenhouse for cannabis cultivation in Leamington, Ontario.

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 million to Sundial by way of a promissory note for a period of 6 months. Sundial will repay the promissory note either by a

cash payment, through the delivery of an agreed upon volume of dried cannabis produced by Sundial ("**Grams**") or through a combination of cash and Grams.

On March 5, 2018, the Company announced that it had entered into a definitive agreement with its streaming partner FV Pharma Inc., a licensed producer under the ACMPR, to finance the construction of an indoor cultivation facility in Cobourg, Ontario. In return, the Company will be entitled to a 49.9% streaming interest of the cannabis cultivation yield produced at the facility in perpetuity.

On March 15, 2018, the Company announced that it had entered into 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 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, representing a 10% equity ownership interest in Province, and the Company issued 303,030 common shares to Province.

Key Developments in the Second Quarter of 2018

On April 4, 2018, the Company obtained regulatory approval for a licensing agreement with a Canadian cannabis testing, analysis and licensing company (the "**Licensors**"). 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 Licensors.

On April 10, 2018, the Company entered into a definitive agreement with Inverell S.A. ("**Inverell**"), a federally licensed cannabis operator based in Montevideo, Uruguay to purchase 80% of the issued and outstanding common shares of Inverell on a fully diluted basis. The shareholders of Inverell are entitled to receive aggregate consideration as follows:

- USD\$2 million in cash on closing of the transaction
- 1,927,344 common shares on closing of the transaction
- 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 CBD products.

Inverell is a federally licensed "Cannabis Operator" based in Montevideo, Uruguay. Inverell's license allows it to cultivate and harvest its proprietary hemp strain. This transaction remains subject to final regulatory approvals in Uruguay.

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. The shareholders of Robinsons received an aggregate consideration of common shares in the capital of the Company as follows:

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

Robinson's was 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.

On May 7, 2018, the Company entered into a definitive licensing agreement (the "**Dixie Agreement**") with Dixie Brands, Inc. ("**Dixie**"). As part of the Dixie 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.

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

- 5,253,955 common shares on closing of the acquisition;
- 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;
- 9,630,947 common shares issued in escrow subject to Dosecann achieving certain milestones;
- 5,701,248 replacement warrants.

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 to ultimately be sold to medical cannabis patients and, upon approval, into the natural health product and adult-use cannabis markets.

On May 22, 2018, the Company announced that it entered into an agreement with a syndicate of underwriters, led by BMO Capital Markets, on a bought deal basis, to issue and sell 82,225,000 units of the Company at a price of \$1.40 per unit, representing aggregate gross proceeds to the Company of approximately \$115.1 million. Each unit consists of one common share and one-half of one common share purchase warrant, with each common share purchase warrant entitling the holder to purchase one common share at a price of \$1.85 per common share for a period of 24 months following the closing date.

On May 28, 2018, the Company announced that it's streaming partner, FV Pharma Inc., now a wholly-owned subsidiary of FSD Pharma Inc. has received all of the necessary exchange and

regulatory approvals to commence trading publicly on the Canadian Securities Exchange under the symbol "HUGE" and is expected to commence trading May 29, 2018.

On June 18, 2018 the Company announced that it had entered into a definitive joint venture agreement with Peter Quiring, one of Canada's largest greenhouse builders and operators, via a newly formed subsidiary, JVCo, to develop, construct and operate a fully-automated, state-of-the-art, purpose-built greenhouse for cannabis cultivation in Leamington, Ontario.

On June 21, 2018, the Company exercised its pre-emptive right to acquire an additional 2,647,058 Inner Spirit units for \$397.1 thousand in order to maintain approximately 15% of the total issued and outstanding common shares of Inner Spirit. Each unit consists of one common share of Inner Spirit, and one-half share purchase warrant, entitling the Company to purchase a common share of Inner Spirit for \$0.30 over the next 24 months.

RESULTS OF OPERATIONS

For the period ended June 30, 2018, the Company reported a net loss of \$22.7 million with net loss of \$0.05 per common share on a non-diluted and diluted basis. This compares to net loss of \$3.1 million for the period ended June 30, 2017 with net loss of \$0.03 per common share on a non-diluted basis and diluted basis. The decrease in net income was primarily driven by an increase in general and operating expenses, compounded by non-cash and non-recurring expenses and losses during the period. The Company invested in new opportunities and streaming partners in the cannabis industry during the quarter as well as contributed to the execution of existing agreements.

Operating Expenses

Wages and benefits were \$3 million during the period ended June 30, 2018. The increase over the period ended June 30, 2017 was driven by previous and continuing initiatives to hire talent to keep up with the scaling operations of the business. Further, due to three acquisitions during the quarter, wages and benefits were increased by the cost of the respective workforces of the acquisitions.

General and administration costs were \$2.4 million for the period ended June 30, 2018. The costs are primarily due to corporate and general administrative activities of the Company, scaling up of business operations, including executing on existing agreements. Also included in general and administration costs are payments of regulatory and transfer agent fees related to the \$115.1 million equity financing.

Professional fees were \$2.7 million during the period ended June 30, 2018. The fees are attributable to ongoing services related to the Company's investment opportunities and due diligence related matters. Professional fees for the period ended June 30, 2018 included costs associated with three acquisitions, including consulting fees, legal fees, and accounting fees.

Business development fees were \$4.6 million during the period ended June 30, 2018. The fees were driven by the closing out of existing consulting contracts that were signed in 2017. The Company also incurred fees in relation to marketing activities (print and digital), and stakeholder communications. Business development costs over the remainder of 2018 will be mainly allocated towards investment and capital-raising activities as the Company accelerates its operational activities.

The Company recorded share-based payments of \$5.6 million for 10,695,000 stock options granted during the period ended June 30, 2018 to provide incentives to directors, employees and consultants of the Company. Of these options, 1,817,500 vest immediately. 550,000 stock options had been exercised during the period ended June 30, 2018.

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

	Options Issued	Average Exercise 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

Non-operating Income and Expenses

During the period ended June 30, 2018 the Company repaid in full two unsecured loans of \$912 and \$1,000, respectively, which both bore accretion charges at 12%. Accretion was also charged on the June 2017 and January 2018 convertible debentures which bear interest at 6% per annum. Of the June 2017 issuance, 140 units convertible at \$1.00 remain in convertible debt and of the January 2018 issuance, 98,860 units convertible at \$1.55 remain in convertible debt, as at June 30, 2018.

On January 29, 2018, the Company announced the settlement of \$3.1 million of debt in consideration for the issuance of an aggregate of 3,018,109 common shares. The carrying amount of the debt was \$2.7 million. The shares were negotiated based on the market price in November 2017, at a price ranging between \$0.63 and \$1.00 of debt for every unit share. 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 were 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.



Auxly Cannabis Group Inc.
Management's Discussion and Analysis
For the Period Ended June 30, 2018

Summary of Quarterly Results

Quarter Ended	Total Assets	Total Liabilities	Total Revenues	Net Income (loss)	Earnings (loss) per share Basic & Diluted
30-Jun-18	\$ 478,866	\$ 121,038	\$ 282	\$ (12,163)	(0.03)
31-Mar-18	\$ 281,213	\$ 95,493	\$ 618	\$ (10,520)	(0.03)
31-Dec-17	\$ 92,578	\$ 29,785	\$ 1,378	\$ (9,205)	(0.03)
30-Sep-17	\$ 44,170	\$ 26,579	\$ -	\$ (5,903)	(0.01)
30-Jun-17	\$ 48,250	\$ 25,203	\$ -	\$ (1,583)	(0.03)
31-Mar-17	\$ 2,512	\$ 869	\$ -	\$ (1,485)	(0.03)
31-Dec-16	\$ 417	\$ 33	\$ 51	\$ (334)	0.00
30-Sep-16	\$ 748	\$ 29	\$ 73	\$ 15	0.00
30-Jun-16	\$ 719	\$ 16	\$ 56	\$ 7	0.03
31-Mar-16	\$ 712	\$ 16	\$ 51	\$ 82	(0.00)
31-Dec-15	\$ 722	\$ 27	\$ 48	\$ (2)	0.00
30-Sep-15	\$ 636	\$ 21	\$ 74	\$ 11	0.00
30-Jun-15	\$ 629	\$ 24	\$ 71	\$ 17	0.00
31-Mar-15	\$ 623	\$ 35	\$ 65	\$ 7	-

Net loss during the periods ended September 30, 2017, December 31, 2017, March 31, 2018, and June 30, 2018 were significantly higher due to the ramp up of operating activities including fees in management, marketing, business development, audit and legal, and transfer agent and filing fees. June specifically was higher due to the acquisition and consolidation of three companies.

Summary of most recent Annual Results

Year Ended	Total Assets	Total Liabilities	Total Revenues	Net Income (loss)	Earnings (loss) per share Basic & Diluted
31-Dec-17	\$ 92,578	\$ 29,785	\$ 1,378	\$ (18,177)	(0.11)
31-Dec-16	\$ 417	\$ 33	\$ 231	\$ (230)	(0.03)
31-Dec-15	\$ 722	\$ 27	\$ 257	\$ 33	0.01

Transactions with Related Parties

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).

Raul Urbina, the CEO of Inverell, contributed upfront cash to Inverell in the form of a shareholder loan. For the period ended June 30, 2018, there was a USD \$463 thousand outstanding to Raul.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance, liquidity or capital resources of the Company.

Proceeds from financing

The following table provides a breakdown regarding the target use of proceeds for the \$100.0 million convertible debt issuance on January 2018, and the \$115.1 million equity financing on May 22, 2018.

Use of Proceeds	Amount Allocated to Use
Funding of Streaming Agreements	\$30,115
Funding long-term investments	\$20,000
Funding of joint ventures	\$120,000
Capital expenditures for international projects	\$20,000
General working capital purposes	\$25,000
Total	\$215,115

LIQUIDITY AND CAPITAL RESOURCES

During the period ended June 30, 2018, the Company financed its operations and met its capital requirements through debt and equity financings. The Company's objectives when managing its liquidity and capital resources are to generate sufficient cash to fund the Company's operating and working capital requirements. During the period, the Company completed various equity and debt financings to meet its current and anticipated future obligations, and expansion plans.

Working capital as of June 30, 2018 was \$303.3 million as compared to \$28.8 million at December 31, 2017. The increase in working capital was primarily attributable to \$262.3 million increase in the balance of in cash and cash equivalents, which consisted of the Company raising \$215.1 million in debt and equity financings, raising \$94.0 million in warrant and broker warrant units exercises, investing USD \$4.0 million in Dixie Brands, investing \$3.4 million in joint ventures with Peter Quiring, investing \$7.0 million in Sundial Grower's Inc., investing \$1.0 million in Lotus

Ventures Inc., investing \$1.1 million in Inner Spirit Inc., and using cash to finance operating activities.

During the period ended June 30, 2018, the Company significantly strengthened its balance sheet and liquidity position with a new equity and debt financing, including \$215.1 million in additional gross cash proceeds from two debt and equity financings. The Company anticipates that it has sufficient liquidity and capital resources to meet all of its planned expenditures for at least the next twelve months.

The Company is subject to risks and uncertainties that could significantly impair its ability to raise funds through debt or equity or to generate profits sufficient to meet future obligations, operational, or development needs. See "Risks" for information on the risks and uncertainties that could have a negative effect on the Company's liquidity.

Operating Activities

For the period ended June 30, 2018, cash outflows used for operating activities were \$16.6 million compared to cash outflows of \$3 million for the period ended June 30, 2017. Cash flows used for operations resulted primarily from cash outflows to scale up the business including hiring new staff, raising investor awareness, executing on current investments, and conducting due diligence on new investment opportunities.

Investing Activities

For the period ended June 30, 2018, the Company had net cash outflows related to investing activities of \$23.1 million as compared to net cash inflows of \$2.5 million for the period ended June 30, 2017. Investing activities during the period included \$7.0 million in Sundial Grower's Inc., \$3.5 million in long-term investments, \$3.4 million to the Peter Quiring JV, \$5.0 million in intangible assets, and \$4.1 million in fixed assets.

Financing Activities

For the period ended June 30, 2018, the Company had net cash inflows related to financing activities of \$302 million as compared to \$51.5 million for the period ended June 30, 2017. During the period, the Company raised aggregate net cash proceeds as follows:

- financings for net proceeds of \$209.4 million.
- exercise of warrants for proceeds of \$94.0 million.
- proceeds from share options exercised of \$550 thousand.

Critical Accounting Estimates

The Company 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 yet in 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. The Company'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 the Company's budget for the future and do not include restructuring activities that the Company is 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. The Company 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 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 the Company's risk levels.

Changes in the general economic environment could result in significant changes to this estimate.

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 the Company's risk levels.

Changes in the general economic environment could result in significant changes to this estimate.

Depreciation and amortization rates

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets. Management estimated the cultivation license has indefinite life due to the fact that it can be renewed annually with no substantial cost incurred.

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 are 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 on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Financial Instruments and Risk Management

The Company's financial instruments include cash and cash equivalents, other receivables, note receivable, long-term investments, investee companies, debt obligation receivable in product equivalent, trade and trade other payables, convertible debenture, long-term loans payable, interest payable on convertible debt. Cash and cash equivalents, other receivables, note receivables are exposed to credit risk and the Company reduces its credit risks by placing these instruments with institutions of high credit worthiness. Receivables relate to outstanding fees

owing from the Investee Companies and the Company mitigates the credit risk by entering into agreements with the Investee Companies and reviewing its exposure to credit risk on a regular basis. The Company is exposed to liquidity risk with respect to its trade and other payables and the Company manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

Risk Factors

Company's overall performance and results of operations are subject to a number of risks and uncertainties. Please refer to the Company's AIF, dated May 24, 2018, and the Company's Amended and Restated Short Form Base Shelf Prospectus, dated February 28, 2018 which are filed on SEDAR at www.sedar.com, for a detailed description of the risks and uncertainties, which are hereby incorporated by reference.

Outstanding Share and Option Data

As of August 29, 2018, the Company had the following securities issued and outstanding:

Securities	August 29 2018
	#
Issued and outstanding shares	569,519,815
Stock Options	30,006,085
Warrants	67,723,835
Convertible debentures	64,656,129

Subsequent Events

a) On July 23, 2018, the Company's wholly-owned subsidiary, Kolab Project Inc. ("**Kolab**" or "**Kolab Project**"), has received its sales licence from Health Canada, pursuant to the ACMPR. 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, obtained a Dealer's Licence for Controlled Drugs and Substances 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, 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 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 (the "**Acquisition**"). Upon the completion of the Acquisition, KGK will become a wholly owned subsidiary of the Company. As consideration for the KGK Shares, the shareholders of KGK (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.

Cautionary Note Regarding 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 the Company to make certain assumptions and is subject to inherent risks and uncertainties. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "capable", "budget", "*pro forma*" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, among others, statements pertaining to:

- the dependence of the Company's cash flow and financial performance on third parties;
- the price of medical cannabis;
- the lack of control over operations of the Company's streaming partners;
- the fluctuations in the price of the Company's shares and the market for the shares;
- the Company's ongoing investment strategy;
- the ability of the Company's streaming partners to produce medical cannabis;
- the successful buildout of the current and proposed facilities of each of the Company's streaming partners;

- changes in laws, regulations and guidelines, including the advent of the recreation cannabis market and changes in the regulation of medical cannabis;
- licensing risk;
- regulatory risk;
- future liquidity and financial position;
- the Company's expectations with respect to future growth;
- the ability of the Company to generate cash flow; and
- the Company'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 the Company. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose. Readers should not place undue reliance on forward-looking information contained in this MD&A. The Company undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

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

- current and future management will abide by the investment objectives and investment strategies of the Company;
- the Company will supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which the Company invests;
- streaming partners will be able to generate cash flow;
- general economic, financial market, regulatory and political conditions in which the Company 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;

- the Company will be able to enter into additional streaming agreements;
- the Company will be able to maintain internal controls over financial reporting and disclosure, controls and procedures;
- patient services partners will continue to obtain approvals and permits necessary to operate their respective businesses in the ordinary course;
- streaming partners will be able to meet the requirements necessary to obtain and / or maintain their status as LPs; and
- streaming partners will be able to successfully complete initial construction and / or expansion construction of their respective facilities pursuant to the terms and conditions of their respective streaming agreements.

Although management believes that the expectation represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to be correct. The Company 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 the Company when further information becomes available.