AUXLY CANNABIS GROUP INC.

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

Dated November 27, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") was prepared as of November 27, 2020 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("**Auxly**", "**we**", "**our**", or the "**Company**"). All amounts are stated in millions of Canadian dollars unless otherwise noted, except common shares ("**Shares**"), options, and per Share amounts. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three and nine months ended September 30, 2020, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2019.

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

DESCRIPTION OF BUSINESS

Our Business

We are a consumer packaged goods company in the cannabis products market. Our focus is on developing, manufacturing and distributing branded cannabis products that delight medical, wellness and recreational consumers.

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

Canadian Market

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

Canadian Strategy and Capabilities

Brand Portfolio and Product Offering

We have created a portfolio of brands designed to target a broad market of cannabis consumers, with differentiation in price points and across our targeted consumer segments.

Ultra-Value	BACK FORTY	***Back Forty.*** Back Forty aims to keep cannabis simple. Appealing to the category's more value driven consumers, Back Forty requires no introduction because it already feels familiar, with a high potency product suite that fits seamlessly into your day-to-day and without the need to overthink its purpose of providing a better experience for less. Take a trip and explore the Back Forty.
Value	Foray	***Foray.*** Foray is an accessible entry point for anybody – at any stage of their cannabis journey. Designed for the curious, Foray is an approachable brand that aims to both celebrate and guide one's foray into cannabis, ultimately inviting them to see cannabis differently.
Core	KOLAB PROJECT	***Kolab Project.*** Kolab Project is a platform dedicated to supporting and celebrating the connection of cannabis and culture. The Kolab Project mission is to provide a carefully curated selection of exceptional cannabis, accessories and experiences in collaboration with culturally relevant creators to Canadian cannabis enthusiasts.
Premium	Dosecann	***Dosecann.*** Dosecann is a wellness brand built on pillars of quality, safety and efficacy. Backed by science, advanced research and development, Dosecann products are driving today's innovation and establishing tomorrow's standards. Dosecann is cannabis – down to a science™.
Ultra-Premium	ROBINSONS	***Robinsons.*** Robinsons is a producer of fine-crafted cannabis. Small-batch, hand-tended and driven by an unwavering commitment to craftsmanship, Robinsons' focus on quality and flavour culminates in a uniquely premium product that will both elevate and enhance your personal cannabis experience.

Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. We have focused on the development of Cannabis 2.0 Products and were one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada starting in mid-December 2019.

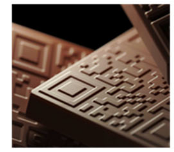
Our currently available Cannabis Products are described below by brand and product format:

BACK FORTY	510 vape cartridges
Foray	Soft chews Chocolates 510 vape cartridge starter packs 510 vape cartridges All-in-one vape pens Hard candy
KOLAB PROJECT	Soft chews Chocolates 510 vape cartridge starter packs 510 vape cartridges All-in-one vape pens Pre-rolled cannabis Dried flower
Dosecann	Cannabis oil spray Cannabis oil drops Capsules
ROBINSONS	Dried flower

Our Cannabis Products continue to be incredibly well received by consumers. We plan to further strengthen our brand recognition and use consumer insights to drive innovation as we look to introduce new Cannabis Products to the Canadian market.

Recently Launched and Upcoming Products

The most recent Cannabis Products brought to market as of the date of this MD&A include:

					
Robinsons Dried Flower in four distinct strains - Lemon Garlic OG, Fire OG, GG#4 and Purple Kush, in 3.5 gram and 28 gram hybrid units	Kolab Project Kalifornia Dried Flower in collaboration with Lotus Cannabis Co. in 3.5 gram units	Foray Hard Maple Caramels available in a two pack, with each piece containing 5 mg of THC	Back Forty 510 vape cartridges in three unique strains: Super Lemon Haze, Forbidden Fruit and Kush Mint in 0.45 gram for all flavours and 1 gram for Kush Mint	Kolab Project Ice Cream Cake Dried Flower in collaboration with Safari Cannabis Co. in 3.5 gram units	Kolab Project Cherry Cola Pop chocolate square with each piece containing 10mg of THC

In addition, the following products are anticipated to be released before the end of the year:

- Dosecann CBD Capsules*, 1:4 (THC:CBD) Capsules, and THC Capsules, all with Ahiflower® Oil, in packages of 30; and
- Kolab Project 232 Series Live Terpene 510 vape cartridges with fresh-frozen Ice Cream Cake strain flower in 0.5 gram cartridges.

*Dosecann CBD Capsules are currently available in PEI and will be available in other provinces before the end of the year.

Distribution

Given the current provincial legislative framework in Canada, we have pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and retailers, including our partnership with Medical Cannabis by Shoppers Drug Mart Inc., a brokerage agreement with Kindred Partners Inc. ("**Kindred**") to act as our strategic sales agent, and strong relationships with leading retailers, including Inner Spirit Holdings Ltd. and Delta 9 Cannabis Inc.

We have secured listings and sold our Cannabis Products in all provinces except Quebec (where the regulations for Cannabis 2.0 Products are more restrictive) and our Cannabis Products are represented in over 86% of all brick-and-mortar retail locations across Canada. We have obtained the necessary pre-authorization to enter into public contracts in Quebec and continue to explore listings for certain products that comply with Quebec's regulatory requirements.

Cannabis Operations, Product R&D and Manufacturing

<u>Dosecann</u>

In May of 2018, we acquired our subsidiary Dosecann LD Inc. ("**Dosecann**"), and its purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. The Company conducts its extraction, product development, manufacturing and R&D activities for its Cannabis Products in-house at the Dosecann facility. Dosecann holds licences for processing, sale for medical purposes, analytical testing, and research and development under the Cannabis Act. The majority of the first floor of the two-story, 52,000 square foot facility is currently licenced under the Cannabis Regulations for the production, storage and sale of Cannabis Products. As of May 12, 2020, Health Canada streamlined its site expansion process whereby licence holders are no longer required to submit certain amendments for approval by Health Canada. This reduces the regulatory burden for site expansion and increases Health Canada's capacity to review applications that must be submitted. Under the revised site expansion process, Dosecann will not be required to seek further Health Canada approval for operational areas on the second floor of the facility, but any additional secure storage areas will require a formal licence amendment submission and approval. Construction of the interior of the second floor of the Dosecann facility is complete. During the third quarter of 2020, operational activities began to transition from the first to second floor with chews, capsules and hard candy production being moved to the newly constructed second floor, and vapes and oils remaining in production on the first floor. With the additional space and equipment at the Dosecann facility to produce products at commercial scale, and the continued development of automation and on-going efforts to reduce the cost of input materials and packaging, we anticipate that improvements in gross margins will be achieved.

Product development is led by Dosecann's team of leading experts in the pharmaceutical, food, scientific research and product development fields, who are dedicated to developing proprietary formulations for a range of Cannabis Products. As the Company's manufacturing hub, the Dosecann facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. On June 25, 2020, Dosecann was granted a research licence from Health Canada pursuant to the Cannabis Act, which permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing. With the research licence, Dosecann can conduct broader in-house testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations.

As at September 30, 2020, the Company has contributed approximately $48.8 million towards the construction and development of the Dosecann facility, and is considering approximately $5.6 million of additional expenditures. We anticipate approximately $2.4 million will be spent on expanding extraction capabilities and throughput and on several pieces of automation equipment across several product categories within the next 6 months, and another $1.3 million in March of 2022. The remaining $1.9 million has been allocated, but not committed to, ethanol extraction.

Kolab Project

In November 2017, we acquired our subsidiary Kolab Project Inc. ("**Kolab**") and its facility located just outside of Ottawa in Carleton Place, Ontario. Kolab holds licences for cultivation, processing and sale for medical purposes under the Cannabis Act. In 2020, we made the strategic decision to cease cultivation at the Kolab facility and focus on manufacturing, processing and distributing pre-rolled and dried flower Cannabis Products. In addition to its current operations, Kolab provides us with flexibility to manufacture, produce and distribute other Cannabis Products as necessary. Although Kolab has ceased its cultivation activities, it will continue to maintain its cultivation licence under the Cannabis Act, and has the ability to recommence the cultivation of cannabis if required. Kolab's curated "Grower Series" has included successful product launch collaborations with Lotus Cannabis Co., Safari Flower Co. and Robinsons. These collaborations strive to deliver unique strains to cannabis enthusiasts across the country while transparently showcasing the craftsmanship of talented cultivators of incredible cannabis by always acknowledging the cultivator on our packaging.

The Company plans to undertake a new capital project, at an estimated cost of $3-4 million, to increase pre-roll production volumes at Kolab through the purchase, installation and commissioning of automated manufacturing and packaging equipment and through minor building alterations, which is expected to quintuple output from the facility. The manufacturing equipment will be installed and commissioned prior to the second quarter of 2021, with packaging automation expected to occur during the second half of 2021, depending upon final equipment selection.

KGK Science

KGK Science Inc. ("**KGK**"), the Company's wholly owned contract research organization located in London, Ontario, provides regulatory, research and clinical trial services to the nutraceutical, natural health product and cannabis industries. KGK has an active Cannabis Research licence allowing the possession and administration of cannabis for the purposes of a clinical trial. On September 22, 2020, KGK received its second cannabis research licence, which permits KGK to conduct product palatability and sensory testing of cannabis extracts, edible cannabis topicals with human subjects. The team at KGK, who has worked extensively with Health Canada and the U.S. Food and Drug Administration, will continue to assist in the development of future products and has representation on Auxly's Safety Board (alongside other members from Auxly, Dosecann and Imperial Brands), which has oversight of the controls in place to ensure the safety, quality and efficacy of the Company's Cannabis Products. Towards that goal, our Safety Board supports the development of acceptable safety profiles for all products while ensuring that consumers have access to clear and accurate information on product risks.

We believe that our assets and capabilities, including the synergies between Dosecann and KGK, make us uniquely positioned to become a market leader when looking ahead to the Cannabis 3.0 Products market, as our ability to perform the clinical work necessary to demonstrate product safety and efficacy and substantiate product claims will further differentiate us from other licence holders.

Curative Cannabis

On November 27, 2019, Auxly accepted certain share collateral of 2368523 Ontario Inc. (d/b/a Curative Cannabis) ("**Curative**") in satisfaction of secured debt obligations owing to Auxly by Curative pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) made in foreclosure proceedings under the *Ontario Personal Property Security Act*, RSO 1990. As a result, the Company holds a 96% share interest in Curative. Curative's assets include an approximately 30,000 square foot cannabis cultivation facility situated on 33 acres of land in Chatham-Kent, Ontario. Curative currently holds licences for cultivation, processing and sale for medical purposes under the Cannabis Act. To date, the Company has contributed approximately $20.4 million towards the construction and development of the Curative facility. The Company is currently exploring all possible options with respect to the use and commercialization of the asset. No further material expenditures are required by the Company at this time, but if and when the Company decides to begin active operations at the Curative facility, the Company estimates additional capital expenditures of approximately $0.3 million would be required to finish the facility for the purpose of cannabis cultivation; however, such expenditures may increase depending on the Company's final intended use of the facility.

Cultivation Supply

We have a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of wholly owned subsidiaries, joint ventures and offtake agreements. Having a flexible cultivation platform allows us to ensure a consistent source of raw input material for the manufacture of our Cannabis Products. We opportunistically purchased approximately 81% of our cannabis inventory (dried cannabis and resin) in the open market during 2020, which enabled us to meet our commercial objectives for cannabis product development. The majority of the Company's current CBD inventory was purchased from licenced hemp sellers in Prince Edward Island.

A summary of our key cultivation sources is below:

<u>Sunens</u>

Sunens Farms Inc. ("**Sunens**") is the Company's large-scale joint venture with partner Peter Quiring, CEO of Nature Fresh Foods. The 1.1 million square foot greenhouse project in Leamington, Ontario is nearing completion. The Company has contributed approximately $98.5 million towards the Sunens project, with the balance of the budget underwritten by the Bank of Montreal ("**BMO**") and a syndicate of lenders in the third quarter of 2019. The Company's contribution, along with the BMO credit facility, comprise all the required expenditures for the entire first phase of the project. As of the date of this MD&A, the Company is not expected to advance any additional funding to Sunens within the next 12 months.

In June of 2020, Sunens received a standard cultivation licence from Health Canada for the first phase of the project. The first phase includes approximately 360,000 square feet of cultivation, processing and storage space. The Company has determined that the most expedited licensing pathway will be achieved by submitting two independent amendment applications for Health Canada's review to expand the site perimeter for the remaining two phases which will permit Sunens to commence operations within such areas following Health Canada's approval. The first of these two amendments has been submitted and the second is anticipated to be submitted in the first quarter of 2021. Upon receipt of both amendments, the entire cultivation footprint for the project will be licenced. In order to provide further commercial flexibility, Sunens also applied for a processing licence, which was issued by Health Canada on November 13, 2020.

Since receiving its licence in June, Sunens has commenced cultivation within the licenced area and anticipates having product available for sale to other licenced producers in Q4 2020. The Company anticipates that it will transition Sunens to become one of its primary suppliers of cannabis inventory over the course of 2021.

<u>Robinsons</u>

Robinsons Cannabis Incorporated ("**Robinsons**") holds licences for cultivation, processing and sale for medical purposes under the Cannabis Act for its purpose-built 27,700 square foot indoor cannabis cultivation facility located in Kentville, Nova Scotia. On May 14, 2020, Robinsons received authorization from Health Canada to sell dried cannabis to provinces and territories. Robinsons has entered into supply arrangements with Alberta, Ontario, Nova Scotia and Newfoundland, and initial shipments of Robinsons dried cannabis products commenced in July 2020. To date, the Company has contributed approximately $12.4 million towards the construction and development of the Robinsons facility and anticipates a further $0.5 million in equipment upgrades and related minor facility upgrades to accommodate equipment and related commissioning expenses, as part of a plan of continuous improvement to improve overall facility efficiency and increase product yields. The equipment is expected to arrive and be operational in the third quarter of 2021.

<u>Robinsons OG</u>

Robinsons OG is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land and uniquely located in Hortonville, Nova Scotia. The Company anticipates that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG will be used for product development initiatives at Dosecann and to create premium, terroir-driven Robinsons-branded derivative cannabis products, with the same commitment to quality and craftsmanship as Robinsons' dried cannabis. Robinsons OG holds a standard cultivation licence under the Cannabis Act from Health Canada. However, given the timing for the optimal outdoor planting season and the operational challenges posed by the COVID-19 pandemic, the Company has made the strategic decision to delay the commencement of cultivation activities at the Robinsons OG site, and instead focus its efforts on the continued development of the Robinsons OG land and facility in preparation for whenever the Company determines should be the next cultivation season. Robinsons OG has applied for a processing licence, which is currently under active Health Canada review. To date, the Company has contributed approximately $11.4 million towards the construction and development of the Robinsons OG project and anticipates a further $3.5 million in capital expenditures will be required to complete the Robinsons OG project prior to the initial harvest of the next cultivation season.

<u>PEI Hemp</u>

We acted as the financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp was cultivated in Prince Edward Island by six individual hemp licence holders, which resulted in approximately 98,000 kg of hemp biomass from the 2019 cultivation season. Dosecann secured the right of first refusal to offtake the biomass produced in 2019 at preferential prices. The biomass available for purchase was subject to final inspection and validation of a minimum cannabinoid content and quality specifications to ensure extraction efficiency. Based upon the negotiated pricing and the Company's sponsorship of the project to date, the Company has purchased (after inspection and validation) approximately 55,000 kilograms of hemp biomass for $6.2 million. The purchase price of $6.2 million was previously provided to the hemp farmers as a loan to commence the project. During the fourth quarter of 2020, an additional 14,300 kilograms of hemp biomass was purchased for $2.0 million. All parties have agreed to terminate and mutually release each other from any further purchases under such arrangement. The Company intends to use the biomass to extract CBD for use in its own products or for the sale of CBD distillate to other regulated industry participants.

Strategic Partners

<u>Imperial Brands</u>

We expect our strategic partnership with Imperial Brands PLC ("**Imperial Brands**") will further advance our capabilities in relation to Cannabis Products. Under the partnership, Imperial Brands has granted Auxly global licenses to its vape IP for cannabis uses, as well as access to Nerudia, Imperial Brands' vapour R&D subsidiary which is focused on bringing next generation vapour innovations to market.

In addition to the Company's access to Imperial Brands' vape IP and to Nerudia, Auxly is leveraging Imperial Brands' complementary expertise to advance the Company's vision of becoming a global leader in branded cannabis products, by:

- conducting consumer research and considering commercial expansion in jurisdictions with existing or emerging cannabis regulatory regimes and where Imperial Brands' sales and distribution reach are strongest;
- developing brand strategies in new regulated markets;
- integrating automated product manufacturing and packaging know-how and equipment into its existing operations;

- improving corporate and product stewardship governance practices; and
- improving supply chain management and key account management practices.

<u>Capsugel</u>

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

<u>Natures Crops</u>

Natures Crops International (“**Natures Crops**”) is a vertically integrated grower and manufacturer of plant-based specialty oils. Pursuant to a supply agreement with Natures Crops, Dosecann holds an exclusive global licence for the use of omega-rich Ahiflower® seed oil in all Cannabis Products sold in any dosage form, including oils, capsules, soft gels and any other pill format. The Company recently announced the launch of its first Ahiflower® seed oil based Cannabis Product, the Dosecann CBD+Ahiflower Oil Capsules, which are sealed in Lonza’s Licaps® Capsugel® capsules, and will continue to develop new products utilizing Licaps® capsules, Ahiflower® seed oil, cannabis and other ingredients to serve consumer needs in the medical and wellness markets.

<u>dosist™</u>

GSW Creative Corporation Canada Inc., doing business as dosist™ (“**dosist**”) and Dosecann have entered into an agreement whereby Dosecann will manufacture dosist’s proprietary vape devices at the Dosecann facility. Dosecann will utilize its production capabilities and expertise to manufacture dosist’s innovative dose control solutions, and dosist will also utilize Auxly’s distribution channels to distribute its vape products. The arrangement allows Dosecann to maximize production capacity at Dosecann and generate additional revenue.

International Operations

Presently the Company does not have any active international operations.

Given the slower than anticipated pace of cannabis-specific regulatory development in Latin America (“**LATAM**”) and, consequently, the slower development of viable near-term commercial channels in the region, the Company has chosen to explore strategic alternatives for Inverell S.A. (“**Inverell**”), the Company’s 80% owned subsidiary located in Montevideo, Uruguay. While exploring strategic alternatives, the Company will not continue with operations nor fund any further operational expenditures at Inverell. This will reduce future operating expenses by approximately $6-7 million annually, which can be redirected into the Canadian market with a view to driving more immediate revenue to the Company.

OUTLOOK

While Auxly has established itself as a market leader in Cannabis 2.0 Products, with its current product offering achieving leading national market shares, the Company is also seeing increasing success with its dried flower product offerings. The launch of our premium Robinsons flower offering, Kolab’s curated “Grower Series” collaborations and Kolab pre-rolls have firmly established the Company as an up-and-coming player in the dried flower market. Our objectives for the remainder of 2020 and the first half of 2021, which may be impacted by the COVID-19 pandemic (see further discussion in this MD&A under "*COVID-19 Pandemic*"), continue to be concentrated on our Canadian operations. Broadly, our objectives for the period are as follows:

- Continued leadership and strength in the Cannabis 2.0 Products market;
- Focused expansion of Cannabis 1.0 Products;
- Finish remaining construction and equipment commissioning at Dosecann and continue to refine and improve related processes and throughput capabilities;
- Manage SG&A to the scale of operations; and
- Continue to take measures to improve cash flows and finance the business.

We will continue to evaluate opportunities to bring new and exciting products to consumers as we continue to realize our vision of becoming a global leader in branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic, which has had a profound impact on the global economy. The pandemic has been a rapidly changing situation throughout the year, and the provincial and territorial responses to the pandemic continue to evolve as Canada is currently experiencing a second wave of COVID-19 cases. Initially, certain provincial and territorial governments imposed various degrees of temporary lockdown measures forcing non-essential businesses to close during the early stages of the pandemic, including retail cannabis stores in some jurisdictions, while certain other jurisdictions allowed retail cannabis stores to remain open with certain operational limitations and protocols in place.

Although the original provincial lockdown measures have since been eased in most areas, there has been a recent trend of stricter lockdown measures being imposed again across various jurisdictions given the increase in COVID-19 cases across the country. On November 23, 2020, Toronto and Peel Region in Ontario moved into a second lockdown, meaning all non-essential businesses will be closed for at least 28 days, however, retail cannabis stores in those regions, and in any other regions that may subsequently move into a lockdown, are permitted to remain open for curbside pickup and will also temporarily be allowed to offer delivery to customers. As of the date of this MD&A, retail cannabis stores across the rest of Canada remain open with pandemic protocols in place, and additionally, many new retail stores have opened across Ontario, and after a temporary decline in retail sales, cannabis sales in Ontario and other provinces have returned to, and are now exceeding, pre-pandemic levels.

In response to the pandemic, the Company implemented safety measures to protect employees and consumers which comply with all federal and provincial regulations and guidelines while keeping our facilities operating. The Dosecann, Kolab and Robinsons facilities remained open and operational on extended shifts with few instances of employee absenteeism or self isolation, and certain operational changes have been made to best address the safety of our employees and consumers. Employees at the Company's corporate head office in Toronto and other non-production staff at our cannabis facilities have been operating under a work from home model. In the first two quarters of 2020, the impact of COVID-19 on cannabis operations was largely limited to increased freight charges, premium pay for hourly employees, and temporary supply chain disruptions that were not material.

Two of the Company's facilities, Dosecann and Robinsons, are located in PEI and Nova Scotia, respectively. The Atlantic provinces (Nova Scotia, PEI, New Brunswick and Newfoundland) have had stricter COVID-19 measures in place than the rest of the country, restricting travel from other provinces within Canada and requiring any visitors to a province in the region to complete a 2-week quarantine upon arrival. This policy has been very successful so far in keeping COVID-19 case counts low across the Atlantic region, however it is possible that further lockdown measures could still be imposed. Partially as a result of the low case count in the Atlantic region, following the second quarter of 2020, the Company was able to roll back premium pay for hourly employees and has also seen a reduction in freight costs to near pre-pandemic levels. However, given the continued uncertainties associated with the COVID-19 pandemic, including disruptions to the global and local economies due to related lockdown orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending, we are unable to estimate the impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows.

Additionally, due to required social distancing measures KGK was initially unable to commence new clinical trials with participants (which makes up a significant portion of its business), but has since shifted to a virtual process allowing it to facilitate new clinical trials. Further, certain aspects of clinical trial work were deemed an essential service and were therefore completed by third parties. In March 2020, KGK temporarily laid-off approximately 50 employees as it transitioned through the new operating model. KGK accessed the Canada Emergency Wage Subsidy in March - September 2020 for wages for employees and received approximately $0.9 million. Otherwise, the Company is not relying on any other government financing programs to provide liquidity support.

RECENT DEVELOPMENTS: Third Quarter 2020 To Date

Lease of Dosecann Facility and Real Property

On November 27, 2020, the Company entered into a new long-term lease for its Dosecann facility. Under the terms of the new lease, Dosecann has the option to purchase the real property for the amortized lease amount of $8M (plus 4% interest) at any time throughout the 21-year term. Prior to this new lease, Dosecann was in the process of purchasing the real property from the original landlord; however, a new purchaser (and now landlord) agreed to purchase the property and fulfill conditions precedent thereby allowing Dosecann to be refunded $2 million and to save an additional $6 million in capital expenditures, thereby effectively providing the Company with $8 million in proceeds.

Auxly Announces $12 Million Bought-Deal Public Offering

On November 24, 2020, the Company entered into an agreement with Mackie Research Capital Corporation as sole underwriter and sole bookrunner (the "**Underwriter**"), pursuant to which the Underwriter has agreed to purchase, on a bought-deal basis, 40,000,000 units of the Company (the "**Units**") at a price of $0.30 per Unit for gross proceeds to the Company of $12,000,000 (the "**Offering**"). Each Unit shall be comprised of one common share of the Company and one-half of one common share purchase warrant of the Company. Each warrant shall entitle the holder to purchase one common share at an exercise price of $0.40 at any time up to 36 months from closing of the Offering.

The Company has granted the Underwriter an option to increase the size of the Offering by up to an additional number of Units, and/or the components thereof, that in aggregate would be equal to 15% of the total number of Units to be issued under the Offering, exercisable at any time and from time to time up to 30 days following the closing of the Offering.

Dosecann Introduces Cannabis Capsules With Omega-Rich Ahiflower® Oil

On November 23, 2020, the Company announced the launch of Dosecann Capsules, a new, high-quality, precision-dosed cannabis product that combines high-potency, broad-spectrum cannabinoids with omega-rich Ahiflower® oil. Ahiflower oil is a sustainable, plant-based source of the complete and balanced essential omegas the body needs. Dosecann Capsules were developed by a team of scientists and researchers at the state-of-the-art laboratory at the Dosecann facility.

Sale of LAB001 Retail Store

On November 6, 2020, the Company and Kolab completed the sale of LAB001, Kolab's wholly owned retail store located in Lloydminster, Saskatchewan, to a subsidiary of Delta 9 Cannabis Inc. ("**Delta 9**"). The purchase price was $875,000, subject to customary adjustments, where $750,000 of the purchase price was satisfied through the issuance of 1,282,270 common shares in the capital stock of Delta 9 at a deemed price of $0.5849 per common share, with the balance of the purchase price paid in cash.

Welcome to the Back Forty: A New Cannabis Brand for Savvy Consumers

On October 13, 2020, the Company announced the launch of its latest brand, Back Forty, a brand that is all about embracing simplicity and getting back to the basics. Back Forty launched with three unique SKUs of distinct high-potency vapes, available at cannabis retailers in British Columbia, Alberta, Ontario and New Brunswick, with more provinces to follow in coming months.

Auxly Strengthens its Board and Announces Additional Steps on Path to Profitability

On October 1, 2020, the Company announced that Auxly Founder and Chair Chuck Rifici would be stepping down as Chair of the Board of Directors, Ms. Genevieve Young, a current Independent Director on the Board and Chair of Auxly's Audit Committee, would be assuming the role of Chair, effective immediately, and Auxly's Board of Directors would also be welcoming a new Independent Director, Mr. Vikram Bawa. The Company also announced that Mr. Michael Lickver had been named President. The Company further announced its continued dedication to executing on its corporate strategy and increasing its market share, while also improving its margins and reducing corporate overhead, with a target of achieving positive adjusted EBITDA during the first half of 2021. In addition to the actions already taken to reduce operating costs at two of Auxly's cultivation assets, Inverell S.A. located in Uruguay and Robinsons Outdoor Grow located in Nova Scotia, the Company has taken added measures to reduce its workforce to further accelerate its path to profitability. The Company expects to generate approximately $3 million in quarterly SG&A savings through these cumulative reductions, resulting in an expected cash-based SG&A run-rate of approximately $10 million by the first quarter of 2021.

Move Over Pumpkin Spice: Foray Rings in Fall with Cannabis-Infused Hard Maple Caramels

On September 22, 2020, the Company announced the launch of its cannabis-infused Hard Maple Caramels under its Foray brand. Made with real Canadian maple syrup, butter, cream and cannabis, Foray Hard Maple Caramels represent a new product category for cannabis 2.0 consumers and will be available in a two pack, with each piece containing 5 mg of THC. Foray Maple Caramels will be coming to cannabis retail stores across Canada this October.

Auxly's Subsidiary KGK Science Receives Research Licence to Conduct Product Palatability and Sensory Testing with Human Subjects

On September 22, 2020, the Company announced that its wholly owned subsidiary, KGK had received its second Cannabis Research Licence from Health Canada, which permits KGK to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing at its clinical research facility located in London, Ontario. KGK will be able to use their existing database of over 25,000 participants to provide palatability and sensory studies to all licensed producers across Canada that are seeking to undertake controlled focus groups on any cannabis product development initiatives.

Auxly Adjusts Retail Ownership in Inner Spirit

On September 18, 2020, the Company announced it had completed a disposition of 6,000,000 common shares and $400,000 worth of convertible debentures of Inner Spirit Holdings Ltd ("**Inner Spirit**"), for gross proceeds of $845,400, which reduced Auxly's security holding percentage in Inner Spirit from 12.9% to 9.8%.

Convertible Debenture Standby Financing

On September 8, 2020, the Company announced that pursuant to the terms of the unsecured convertible debenture (the "**Convertible Debenture**") entered into by the Company with an institutional investor (the "**Investor**") on April 28, 2020, the Company issued an additional $2 million of convertible debentures to the Investor with a conversion price of $0.18 per Share, and issued 6,111,111 common share purchase warrants with an exercise price of $0.216. To date, $11.25 million has been issued pursuant to the Convertible Debenture. Funding of any additional tranches are subject to mutual agreement between the Company and the Investor, and such funding is not guaranteed.

High-Quality Cannabis, Grown with Passion: Introducing Kolab Project Flower – a New Dried-Flower Collaboration Between Kolab Project and Craft Growers Lotus Cannabis Co.

On September 2, 2020, the Company announced that Kolab and Lotus Cannabis Co., the consumer brand of Lotus Ventures Inc. ("**Lotus**"), had launched a unique, heavy-hitting indica-dominant dried flower, Kolab Project Kalifornia. This innovative collaboration between Kolab. and Lotus Cannabis Co. is the result of a long-term supply partnership between Auxly and Lotus.

Auxly's Kolab Project Partners with Greentec on Industry-Wide Vape Recycling Program for All Cannabis Retailers

On August 11, 2020, the Company announced that Kolab Project had partnered with the electronic waste leaders at Greentec to provide cannabis retailers with a free-of-charge solution for the recycling of vape pens, cartridges and batteries. Kolab Project-branded E-waste recycling bins will initially be available in participating Spiritleaf and Superette stores, with more retailers joining the program in coming months.

Robinsons Premium Cannabis Now Available in Ontario and Nova Scotia

On July 27, 2020, the Company announced that Robinsons handcrafted, small-batch cannabis was now available in Ontario and Nova Scotia. Robinsons launched with four distinctive strains, Lemon Garlic OG, Fire OG, GG#4 and Purple Kush all grown with care at the Robinsons indoor facility in Kentville, Nova Scotia, with an uncompromising commitment to quality and craftsmanship.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

(000's)	Three months ended September 30,			
	2020	2019	Change	Change
Total net revenues	**$ 13,449**	$ 1,617	$ 11,832	732%
Net loss*	**$ (17,799)**	$ (17,255)	$ (544)	-3%
Adjusted EBITDA**	**$ (6,783)**	$ (11,056)	$ 4,273	39%
Weighed average shares outstanding	**631,949,685**	594,591,824	37,357,861	6%

(000's)	Nine months ended September 30,			
	2020	2019	Change	Change
Total net revenues	**$ 31,918**	$ 5,196	$ 26,722	514%
Net loss*	**$ (58,460)**	$ (44,853)	$ (13,607)	-30%
Adjusted EBITDA**	**$ (24,213)**	$ (26,804)	$ 2,591	10%
Weighed average shares outstanding	**628,341,762**	590,718,186	37,623,576	6%

*Attributable to shareholders of the Company

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

(000's)	**September 30, 2020**	December 31, 2019	Change	Change
Cash and equivalents	**$ 13,573**	$ 44,134	$ (30,561)	-69%
Total assets	**$ 381,598**	$ 411,182	$ (29,584)	-7%
Debt	**$ 112,358**	$ 95,438	$ 16,920	18%

For the three and nine months ended September 30, 2020, revenues were $13.4 million and $31.9 million respectively, resulting in a significant increase over the same periods of 2019 primarily as a result of commencing the sale of Cannabis Products.

Net losses attributable to shareholders increased by $0.5 million to $17.8 million during the three month period ended September 30, 2020 when compared to the same period in 2019. For the nine month period ended September 30, 2020, net losses attributable to shareholders increased by $13.6 million to $58.5 million.

Adjusted EBITDA improved by $4.3 million or 30% to negative $6.8 million during the three month period ended September 30, 2020 as a result of improved revenues, gross margins and reductions in selling, general, and administrative expenses during the quarter. Adjusted EBITDA increased by $2.6 million during the first nine months of 2020 primarily due to increases in revenues, gross profit and reductions in selling, general, and administrative expenses when compared to the same period of 2019.

Cash and equivalents declined to $13.6 million as at September 30, 2020. Net cash reductions were primarily associated with negative Adjusted EBITDA, net investing activities of $13.4 million, partially offset by net financing activities of $8.5 million primarily through the issuance of convertible debentures.

For the three and nine month periods ended September 30, 2020, the average number of Shares outstanding increased to 631.9 million Shares and 628.3 million Shares, respectively, primarily as a result of the full year impact of all Shares issued in previous years. During 2020, 4.7 million Shares were issued on the exercise of employee stock options and 2.0 million Shares were released from escrow to the previous shareholders of Robinsons on completion of contingent milestones.

RESULTS OF OPERATIONS

(000s)	**Three months ended September 30 2020**	Three months ended September 30 2019	**Nine months ended September 30 2020**	Nine months ended September 30 2019
Revenue				
Revenue from sales of cannabis products	**$ 15,243**	115	**$ 34,030**	851
Research contracts and other	**862**	1,502	**3,526**	4,345
Excise taxes	**(2,656)**	-	**(5,638)**	-
Total net revenue	**13,449**	1,617	**31,918**	5,196
Costs of sales				
Costs of finished cannabis inventory sold	**9,536**	59	**19,656**	435
Research contracts and other	**511**	1,453	**1,333**	3,825
Inventory (gain)/impairment	**(312)**	1,074	**1,630**	1,074
Gross profit excluding fair value items	**3,714**	(969)	**9,299**	(138)
Unrealized fair value gain/(loss) on biological transformation	**172**	(135)	**322**	(672)
Realized fair value gain/(loss) on inventory	**2**	(48)	**(193)**	(243)
Gross profit	**3,888**	(1,152)	**9,428**	(1,053)
Expenses				
Selling, general, and administrative expenses	**11,363**	16,594	**39,019**	38,887
Depreciation and amortization	**2,310**	1,527	**7,123**	4,002
Interest expense	**3,664**	2,520	**9,219**	7,951
Total expenses	**17,337**	20,641	**55,361**	50,840
Other income / (loss)				
Fair value loss for financial instruments accounted under FVTPL	**(34)**	(5,778)	**(4,670)**	(6,208)
Interest income	**381**	858	**787**	3,837
Gain/(impairment) of long-term assets	**144**	-	**(4,362)**	-
Impairment of intangible assets and goodwill	**-**	-	**-**	(1,800)
Loss on settlement of assets and liabilities and other expenses	**(3,309)**	(1,413)	**(3,862)**	(1,288)
Share of loss on investment in joint venture	**(1,214)**	(838)	**(2,995)**	(1,390)
Foreign exchange (loss)/gain	**(466)**	(75)	**122**	(1,015)
Total other losses	**(4,498)**	(7,246)	**(14,980)**	(7,864)
Net loss before income tax	**(17,947)**	(29,039)	**(60,913)**	(59,757)
Income tax recovery	**90**	11,524	**657**	14,247
Net loss	**$ (17,857)**	$ (17,515)	**$ (60,256)**	$ (45,510)
Net loss attributable to shareholders of the Company	**$ (17,799)**	$ (17,255)	**$ (58,460)**	$ (44,853)
Net loss attributable to non-controlling interest	**$ (58)**	$ (260)	**$ (1,796)**	$ (657)
Adjusted EBITDA	**$ (6,783)**	$ (11,056)	**$ (24,213)**	$ (26,804)
Net loss per common share (basic and diluted)	**$ (0.03)**	$ (0.03)	**$ (0.09)**	$ (0.08)
Weighted average shares outstanding (basic and diluted)	**631,949,685**	594,591,824	**628,341,762**	590,718,186

Revenue

For the three months ending September 30, 2020, cannabis revenues were $15.2 million as compared to $0.1 million in the same period in 2019. Net cannabis revenues of $12.6 million during the period were comprised of approximately 80% Cannabis 2.0 Products, with the remainder from Cannabis 1.0 Products, and represented a sequential increase of $5.8 million or approximately 85% over the second quarter of 2020. During the third quarter of 2020, approximately 75% of cannabis net revenues originated from sales to British Columbia, Alberta and Ontario. Net revenues improved from higher vape product sales as a result of pricing adjustments initiated in the second quarter, new product offerings such as 1 gram vape cartridges, the launch of Robinsons dried flower, expansion of dried flower and pre-rolls under the Kolab Project brand, and revenues from the sale of dosist products. Net cannabis revenues of $28.4 million year to date reflect strong Cannabis 2.0 Product sales in the vape and edible categories as well as the third quarter impact of dried flower and dosist product sales.

Research and other revenues of $0.9 million for the third quarter of 2020 and $3.5 million year to date decreased by approximately $0.6 million and $0.8 million during the comparable periods in 2019. Revenues are in support of third-party research contracts which can fluctuate significantly during the term of the contract based upon the achievement of milestones. Where milestones are not met, revenues are deferred on the balance sheet which may result in timing differences in earnings. The decline in revenues year to date are due to the impact of the COVID-19 pandemic and the completion of clinical trials, partially offset by the introduction of new regulatory advisory services.

Gross Profit / Loss

Auxly realized a gross profit of $3.9 million following fair value adjustments during the third quarter of 2020 and $9.4 million year to date. This compares with gross profits of $(1.2) million and $(1.1) million in the comparable periods of 2019. Gross profits for the three months ended September 30, 2020 were comprised of $3.5 million and a 28% margin from Canadian cannabis operations and $0.4 million and a 41% margin from research operations. Cannabis gross margins improved slightly over the second quarter of 2020 in part due to strong dried flower margins, partially offset by inefficiencies associated with the reconfiguration of product manufacturing at the Dosecann facility following the completion of the second floor expansion. During the nine months ended September 30, 2020, gross profits were comprised of $8.6 million from Canadian cannabis operations, $2.2 million from research operations, partially offset by impairment charges of $1.4 million primarily related to Inverell’s stored biomass.

Total Expenses

Selling, general and administrative expenses (“**SG&A**”) are comprised of wages and benefits, office and administrative, professional fees, business developments, share-based payments, and selling expenses. For the three and nine months ended September 30, 2020, SG&A expenses were $11.4 million and $39.0 million respectively, or a decrease of $5.2 million and an increase of $0.1 million over the same respective periods in 2019. SG&A during the quarter declined by $2.3 million as compared to the second quarter of 2020.

For the three and nine months ended September 30, 2020, wages and benefits were $5.3 million and $19.3 million, respectively, or an increase of $0.5 million and $6.3 million over the same respective periods in 2019. The nine month increase of $6.3 million was primarily driven by workforce increases to support Cannabis Product sales, primarily related to the operations and commercial teams, the absorption of employees arising from the foreclosure of Curative and compensation and severance accruals recognized during the period. Expenses in the third quarter of 2020 reflect severance accruals in conjunction with SG&A savings announced in October of

2020 offset by unfilled vacancies which occurred in the second quarter of 2020, employee wage subsidies received by KGK and reduction of Inverell staffing.

Office and administrative expenses of $3.0 million in the third quarter of 2020 increased by $0.1 million and $2.4 million to $8.5 million year to date compared to the same periods in 2019 primarily as a result of increased operating costs associated with the development and sale of Cannabis Products in 2020 and the implementation of an organization-wide ERP system.

Auxly's professional fees were $0.4 million and $2.3 million for the three and nine months ended September 30, 2020, as compared to $2.4 million and $5.3 million over the same respective period in 2019. Professional fees incurred during the periods primarily related to accounting fees, regulatory matters, reporting issuer fees, ongoing legal proceedings, recruiting fees in conjunction with hiring, consulting fees, and fees associated with financing activities. The decrease in professional fees was driven by the reduction in professional services and professional services contracts in 2020.

Business development fees of $0.2 million in the third quarter of 2020 decreased by $0.8 million and $1.9 million to $1.2 million year to date as compared to the same periods in 2019. The decreases are primarily due to a reduction in acquisition and travel related expenses.

Selling expenses for the three and nine months ended September 30, 2020 were $1.4 million and $3.8 million, respectively, as compared to nominal fees recognized over the same respective periods in 2019. The increase is directly attributable to cannabis sales activities comprised of brokerage fees earned by Kindred Partners and marketing initiatives for Cannabis Products.

For the three and nine months ended September 30, 2020, share-based compensation was $1.2 million and $3.9 million, a decrease from the $5.4 million and $11.1 million over the same respective periods in 2019. The reduction in expenses in 2020 reflects the impact of significantly fewer option grants and the impact of lower share prices.

Depreciation and amortization expenses were $2.3 million in the third quarter of 2020 and $7.1 million year to date, as compared to $1.5 million and $4.0 million during the same respective periods in 2019. The increase in expense is primarily as a result of greater in use capital projects and additional capital expenditures in 2020. During 2019, several of these projects remained under development.

Interest expenses were $3.7 million for the three months ended September 30, 2020 and $9.2 million for the nine months ended September 30, 2020. Interest expenses are driven by interest charges of 6% on the then outstanding 2018 convertible debentures, 4% on the Imperial Brands convertible debentures, 7.5% on the convertible debenture tranches issued in 2020, and the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures.

Total Other Incomes and Losses

Fair value changes on financial instruments included in this section arise on changes in value of promissory notes and level two securities held. For the quarter ended September 30, 2020, the Company reported an insignificant fair value loss, as compared to a $5.8 million loss in the previous year. For the nine months ended September 30, 2020, the Company reported a $4.7 million fair value loss, as compared to a $6.2 million fair value loss in the previous year. Fair value changes reflect losses on promissory notes and level two securities held. All promissory notes were repaid or fully impaired as at December 31, 2019.

The Company recorded interest income of $0.4 million during the third quarter for 2020 and $0.8 million year to date, which is a decrease from $0.9 million generated during the third quarter of

2019 and $3.8 million year to date 2019. Interest income is earned on notes receivable balances, investments in convertible debt, and interest on cash and cash equivalents.

During the three months ended September 30, 2020, the Company recognized an impairment gain on long-term assets of $0.1 million and an impairment loss of $4.4 million year to date which represents the impairment of the Company's LATAM cash generating unit ("**CGU**"), Inverell as reported in the second quarter of 2020.

Losses on settlement of assets and liabilities and other expenses for the three months ended September 30, 2020 were $3.3 million, primarily relating the reversal of a gain on non-monetary inventory transfers with another licensed producer which was recorded in the first quarter of 2020. The inventory was returned during the quarter also resulting in the recognition of a liability of approximately $5.8 million in accounts payable and other liabilities and an asset held in inventory. We anticipate that this liability will be settled during the first half of 2021. Year to date losses of $3.9 million also include accrued legal settlements related to a commercial lease agreement with 346 Spadina Inc., and a credit loss provision.

The loss on investment in joint venture of $1.2 million for the three months ended September 30, 2020 and $3.0 million year to date, increased by $0.4 million and $1.6 million over the comparable period in 2019. These amounts reflect the Company's proportionate share of Sunens earnings. Sunens has received its cultivation licence and processing licence and was cultivating cannabis during the third quarter of 2020. Sunens anticipates having product available for sale to other licenced producers in the fourth quarter of 2020.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate primarily related to Inverell. During the three and nine months ended September 30, 2020, the Company reported a foreign exchange loss of $0.5 million and a gain of $0.1 million, respectively, as compared to foreign exchange losses of $0.1 million and $1.0 million over the same respective periods in 2019.

Net Losses

Net losses attributable to shareholders were $17.8 million with a net loss of $0.03 per share on a basic and diluted basis in the third quarter of 2020, and $58.5 million with a net loss of $0.09 per share on a basic and diluted basis year to date. This compares to a net loss of $17.3 million attributable to shareholders and $0.03 per share on a basic and diluted basis and $44.9 million and $0.08 per share on a basic and diluted basis, over the same respective periods in 2019. The increase in net losses of $0.5 million during the third quarter and $13.6 million year to date, over the comparable periods in 2019, was primarily attributable to a tax recovery of $11.5 million recorded in the third quarter of 2019.

Adjusted EBITDA

Adjusted EBITDA improved by approximately $4.3 million to $(6.8) million and improved by $2.6 million to $(24.2) million for the three and nine months ended September 30, 2020 as compared to the same period in 2019 The increase was primarily driven by gross profits from cannabis sales partially offset by SG&A.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	**Q3/20**	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18
Total net revenues	**$ 13,449**	$ 8,564	$ 9,905	$ 3,156	$ 1,617	$ 2,762	$ 817	$ 647
Net losses*	**(17,799)**	(27,917)	(12,744)	(57,721)	(17,255)	(13,987)	(13,611)	(34,861)
Adjusted EBITDA**	**(6,783)**	(9,095)	(8,335)	(10,488)	(11,056)	(8,209)	(7,539)	(9,066)
Average shares outstanding (000's)	**631,950**	627,822	625,242	613,683	594,592	592,208	587,247	571,156
Per share: Basic & diluted loss	**$ (0.03)**	$ (0.04)	$ (0.02)	$ (0.09)	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.06)

*attributable to shareholders of the Company.

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

Prior to Q4 2019, Auxly's revenues were primarily derived from providing research services for customers who are conducting human clinical trials. Commencing December 16, 2019, revenues also include the sale of Cannabis Products to recreational consumers in Canada, which resulted in the significant revenue increase during 2020.

The net loss for Q2 2020 increased despite recognition of revenues and a decline in SG&A expenses due to losses on investments and settlements, and recognition of impairment charges.

Adjusted EBITDA has seen some volatility primarily as a result of increasing SG&A due to acquisitions and expenditures in preparation for cannabis sales in December 2019, partially offset in 2020 with the achievement of the sale of Cannabis Products. Adjusted EBITDA continues to improve as cannabis revenues improve with both customer acceptance and expansion of product offerings.

The increases in average outstanding Shares reflect financing and acquisition related activities (issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures).

TRANSACTIONS WITH RELATED PARTIES

Key management and director compensation

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

(000's)	**Three months ended September 30**		**Nine months ended September 30**	
	2020	2019	**2020**	2019
Short-term benefits	**$ 398**	$ 505	**$ 1,328**	$ 1,571
Long-term benefits	**129**	1,114	**970**	3,071
Total	**$ 527**	$ 1,619	**$ 2,298**	$ 4,642

LIQUIDITY AND CAPITAL RESOURCES

(000's)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Cash used in operating activities	**$ (6,662)**	$ (13,241)	**$ (25,656)**	$ (53,110)
Net change in investments	**2,294**	(27,635)	**6,015**	(68,438)
Net capital expenditures	**(7,181)**	(12,176)	**(19,380)**	(23,421)
Cash used in investing activities	**(4,887)**	(39,811)	**(13,365)**	(91,859)
Net cash from financing activities	**4,398**	120,451	**8,460**	119,788
Cash position at the beginning of the period	**20,724**	119,127	**44,134**	211,707
Cash position, end of period	**$ 13,573**	$ 186,526	**$ 13,573**	$ 186,526

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

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

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

During the quarter ended September 30, 2020, Auxly used $6.7 million on operating activities, primarily as cash flows from gross profits and changes in working capital including receivables and inventories were offset by SG&A. Net investing activities of $4.9 million primarily relate to construction and the purchase of capital equipment at Dosecann, net of long-term investments sold. Financing activities increased cash by $4.4 million, reflecting the issuance of convertible debentures and proceeds from short term debt facilities.

During the nine months ended September 30, 2020, Auxly used $25.7 million in operating activities, primarily as a result of expenses associated with the build out of human capital, selling, general and administrative expenses partially offset by changes in working capital including receivables and inventories. Net investing activities of $13.4 million relate to construction in progress at the Company's cultivation and extraction facilities and the purchase of capital equipment, net of long-term investments sold. Financing activities increased cash by $8.5 million, reflecting the issuance of convertible debentures, short term debt financing and proceeds from the exercise of stock options, net of lease payments, repayments of convertible debt and long-term loans.

Going concern uncertainty

The Company's financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. On September 30, 2020, the Company had total cash and cash equivalents of $13.6 million, working capital of $37.6 million, and negative cash flow from operating activities of $25.7 million for the nine months ended September 30, 2020. The Company currently has insufficient cash to fund its operations for the next 12 months. Whether and when the Company can attain

profitability and positive cash flows is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. Such adjustments could be material.
In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve-month period following September 30, 2020. To address its financing requirements, the Company will seek financing through debt and equity financings, asset sales, and rights offerings to existing shareholders. The Company will also seek to improve its cash flows by prioritizing certain projects with a greater expected return and reducing operating costs by streamlining its operations and support functions. While the Company has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Company's ability to raise capital may be adversely impacted by: market conditions that have resulted in a lack of normally available financing in the cannabis industry; the Company's ongoing litigation matters; increased competition across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market and overall negative investor sentiment in light of the ongoing COVID-19 pandemic. Accordingly, there can be no assurance that the Company will achieve profitability, or secure financing on terms favourable to the Company or at all.

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

OUTSTANDING SHARE DATA

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

	November 27 2020	September 30 2020	December 31 2019
Issued Shares	642,943,875	642,943,875	638,249,946
Escrowed shares	10,994,190	10,994,190	13,007,611
Outstanding shares	631,949,685	631,949,685	625,242,335
Exercisable securities			
Warrants	30,031,747	30,031,747	85,928,520
Convertible Debentures	188,089,377	188,089,377	153,413,181
Options	42,012,757	42,012,757	45,649,553

During the nine months ended September 30, 2020, 75,828,520 warrants to purchase Shares expired, with an average exercise price of $1.83 per Share.

On April 28, 2020, the Company announced a $25.0 million convertible debenture standby financing. In 2020 and to the date of this MD&A the Company has drawn over five tranches of the facility totaling $11.25 million across 36,421,359 convertible debenture units and increasing the Company's warrant count by 20,031,747 units.

NON-GAAP FINANCIAL MEASURES

The interim condensed consolidated financial statements of Auxly are prepared in accordance with IFRS. Auxly's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the interim condensed consolidated financial statements for the period ended September 30, 2020 and notes 2 and 3 of the consolidated financial statements for the year ended December 31, 2019.

Auxly reports on certain non-GAAP measures that are used by management to evaluate the performance of the Company. As non-GAAP measures do not have standardized meanings prescribed by IFRS, securities regulations require that non-GAAP measures be clearly defined, qualified, and reconciled with their nearest IFRS measure. These measures do not have standardized meanings or interpretations and may not be comparable to similar terms and measures provided by other issuers. Adjusted EBITDA used by Auxly and reported in this MD&A should not be construed as an alternative to net loss of the Company determined in accordance with IFRS as indicators of Auxly's performance.

Financial Measures

Adjusted EBITDA

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

(000's)	**Q3/20**	**Q2/20**	**Q1/20**	**Q4/19**	**Q3/19**	**Q2/19**	**Q1/19**	**Q4/18**
Net loss	**(17,857)**	(29,208)	(13,191)	(63,108)	(17,515)	(14,191)	(13,804)	(34,646)
Interest expense	**3,664**	3,356	2,199	4,170	2,520	1,897	3,534	3,698
Interest income	**(381)**	(345)	(61)	225	(858)	(2,019)	(960)	(1,230)
Income tax recovery	**(90)**	(567)	-	3,269	(11,524)	(1,464)	(1,259)	1,865
Depreciation and amortization	**2,310**	2,439	2,374	4,572	1,527	1,437	1,038	1,673
EBITDA	**(12,354)**	(24,325)	(8,679)	(50,872)	(25,850)	(14,340)	(11,451)	(28,640)
Impairment of Inventory	**(312)**	668	1,274	2,170	1,074	-	-	(140)
Unrealized fair value loss / (gain) on biological transformation	**(172)**	(201)	51	89	135	155	382	-
Realized fair value loss / (gain) on inventory	**(2)**	15	180	(90)	48	1	194	-
Share-based compensation	**1,178**	1,282	1,417	1,405	5,433	2,672	3,042	5,912
Fair value loss / (gain) for financial instruments accounted under FVTPL	**34**	4,521	115	274	5,778	1,812	(1,382)	4,448
Impairment of long-term assets	**(144)**	4,506	-	5,283	-	-	-	-
Impairment of intangible assets and goodwill	**-**	-	-	27,831	-	-	1,800	8,800
(Gain) / loss on settlement of assets and liabilities	**3,309**	2,387	(1,834)	2,262	1,413	250	(375)	1,360
Share of loss on investment in joint venture	**1,214**	996	785	691	838	372	180	136
Foreign exchange loss / (gain)	**466**	1,056	(1,644)	469	75	869	71	(942)
Adjusted EBITDA	**(6,783)**	(9,095)	(8,335)	(10,488)	(11,056)	(8,209)	(7,539)	(9,066)

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2020, Auxly has entered into certain agreements which commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

As part of the $84 million in debt financing provided by a syndicate led by BMO towards the construction of the Sunens purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments up to $33 million in the event of default. In addition, both joint venture parties have agreed to fund any cost overruns on the construction of the facility and maintain combined cash and available credit balances of at least $15 million.

Funding of $4.2 million from October 1, 2020 to December 31, 2021 has been committed to Kindred for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada. Further, during the period 2022 to 2024, the Company has committed to a fixed/variable structure whereby the fixed amount will be $3.6 million annually.

Annual payments of $0.3 million USD for five years to June 2025 to Natures Crops for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 Products.

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

	2020	2021	2022	2023	2024	Thereafter	Total
Lease obligations	$ 1,379	$ 1,413	$ 587	$ 416	$ 139	$ -	**$ 3,934**
Long-term debt obligations	5,355	5,758	138,107	-	-	-	**149,220**
Total	**$ 6,734**	**$ 7,171**	**$ 138,694**	**$ 416**	**$ 139**	**$ -**	**$ 153,154**

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Areas requiring estimates and judgements are as follows:

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

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

Business Combinations

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

Valuation of the debt obligation receivable in product equivalents

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

Inputs when using Black-Scholes valuation model

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

Discount rates

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

Valuation of long-term investments in private companies

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

Convertible instruments

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

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

CHANGES IN ACCOUNTING POLICIES

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its interim condensed consolidated financial statements.

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Effective January 1, 2020, the Company adopted the amendments to IAS 1 and IAS 8, with no material impact on its interim condensed consolidated financial statements.

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and is currently assessing the impact of these amendment on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

RISK FACTORS

Auxly's business and structure are subject to a number of risks and uncertainties which could cause future results to differ materially from those described herein, including without limitation, the risk factors discussed in Auxly's Annual Information Form dated May 13, 2020, which risk factors are incorporated by reference into this document and should be reviewed by all readers. These documents as well as additional information regarding Auxly can be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

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

- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;
- the Company's response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic on the Company's current and future operations;
- the success of the entities the Company acquires and the Company's collaborations;
- the ongoing construction and expansion of the Company's facilities, including Dosecann, Sunens, Kolab, Robinsons and Robinsons OG, and its partners' facilities and the timing thereof;

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

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

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

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

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

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