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, 2021

Dated November 12, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") was prepared as of November 12, 2021 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, 2021, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2020.

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.

Certain comparative amounts have been retrospectively restated in this MD&A as a result of the sale of KGK Science Inc. ("**KGK**") which occurred during the second quarter of 2021. Historical results of operations and cash flows associated with KGK have been aggregated and presented as discontinued operations as applicable, with Adjusted EBITDA presented on a continuing operations basis.

DESCRIPTION OF BUSINESS

Our Business

We are a leading Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada. Our focus is on developing, manufacturing and distributing branded cannabis products that delight 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. Since 2019, Health Canada undertook a consultation, established a Scientific Advisory Committee, and has been engaged in discussions regarding the possible legalization of Cannabis Health Products, which would permit the making of health claims in respect of cannabis products without the required oversight of a practitioner such as a doctor but such products are not currently permitted.

Canadian Strategy and Capabilities

Brand Portfolio and Product Offering

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

Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. Our initial focus was on the development of Cannabis 2.0 Products and we were one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada following their legalization.

We were the top-selling licensed producer of Cannabis 2.0 Products nationally in 2020 and continue to be a leader in the Cannabis 2.0 Product segment in 2021. The Company has also begun introducing a variety of Cannabis 1.0 Products to the market throughout 2021 and is now the #5 licensed producer in Canada by total recreational retail sales as of the date of this MD&A as reported by Headset[1].

Our Cannabis Products available during the third quarter of 2021 are described below by brand and product format:

Products Available by Brand

KOLAB PROJECT	Dosecann Cannabis Solutions	BACK FORTY	Foray
510 Vape Cartridges All-in-one Vape Pens Dried Flower Pre-rolled Cannabis Concentrates Chocolates Soft Chews	Cannabis Oil Drops Capsules Topicals	510 Vape Cartridges Dried Flower Pre-rolled Cannabis Chocolates Soft Chews	510 Vape Cartridges All-in-one Vape Pens Hard Candy Chocolates Soft Chews

Our Cannabis Products have been well received by consumers. We plan to further strengthen our brand recognition by using consumer insights to drive innovation as we continue to introduce new Cannabis Products to the Canadian market, with an emphasis on expanding our dried flower and pre-roll offerings. The Company's upcoming product offerings are presented below.

[1] Data provided by Headset as at November 8, 2021.

Introducing nostalgic new flavours of soft chews and chocolates under the Back Forty and Foray brands.	Further expanding Back Forty's strain-specific, high-quality dried flower offering and Kolab Project Growers Series collaborations to include craft, high THC potency strains.	Dosecann CBD Honey, made from 100% Atlantic wildflower honey sourced from Canadian beekeepers, will be launching in select provinces.	Kolab Project's new concentrates that use carefully curated fresh frozen premium cannabis to create high-quality, high-potency products that ensure maximum terpene preservation.	Kolab Project 232 Series live terpene sticks take premium cannabis flower and potent hydrocarbon extracted terp sauce to deliver a flavourful combustible stick with potencies reaching up to 34% THC.	Launching new concentrates under Kolab Project including, Kolab Project 232 Series Live Rosin Jam, a sticky, amber-colored concentrate speckled with THCA crystals.	New distinct vape flavour profiles and formats including premium, live terpene carts containing flavourful terp sauce, developed using flash-frozen, single-strain flower.	Fast-acting edibles and capsules under our Foray and Dosecann brands that are specially formulated to result in faster onset than our current offerings and utilizing diversified cannabinoids.	Further expanding Kolab Project's pre-roll offering with the launch of a machine-rolled, slim–designed format, that uses only high-quality, high-potency indoor grown cannabis that has been hand tended and offers the user a smooth, slow burn.

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 major Canadian retailers.

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). 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

Dosecann

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 primary extraction, product development, manufacturing and R&D activities for its Cannabis Products in-house at the Dosecann facility. Dosecann holds licences for processing, analytical testing and research under the Cannabis Act. The full perimeter of Dosecann's 52,000 square foot facility is currently licenced under the Cannabis Regulations for the production, storage and sale of Cannabis Products.

Product development is led by Dosecann's team, who have experience in the pharmaceutical, food, scientific research and product development fields. 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. Dosecann is authorized to conduct broad in-house analytical and sensory testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations. Product development is overseen by our safety board, comprised of members from Auxly, Dosecann, KGK and Imperial Brands PLC ("**Imperial Brands**"), which has oversight of the controls in place to ensure the safety, quality and efficacy of the Company's products.

Commencing in 2021, the Company has been undertaking new expenditures of approximately \$2.5 to \$4.0 million comprised of several pieces of automation equipment across several product categories, expansion of extraction capabilities and throughput and security enhancements. As at September 30, 2021, expenditures of approximately \$1.2 million have been made towards the completion of these projects concurrent with a review by external advisors of existing processes and identification of cost savings opportunities. These projects will continue in 2022.

Kolab Project

In October 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 and processing under the Cannabis Act. In 2020, we made the strategic decision to cease cultivation at the Kolab facility and shift our focus to the manufacturing, processing and distribution of pre-roll and dried flower Cannabis Products. Kolab is the Company's hub for the processing and packaging of its Cannabis 1.0 Products, including the Kolab Project Growers Series, Back Forty 40s and Back Forty dried flower products.

Near the end of 2020, the Company undertook new capital projects, at an estimated cost of $5.5 - $6.5 million, to increase pre-roll production volumes at Kolab through the purchase, installation and commissioning of automated manufacturing and packaging equipment and minor associated building alterations, which is expected to quintuple output from the facility. The manufacturing equipment was installed and commissioned during the second quarter of 2021, but the packaging automation equipment has been delayed beyond our previous expectations. The equipment is now anticipated to be received no earlier than December 2021, due to unexpected technical and supply chain issues encountered by the manufacturer. As at September 30, 2021, expenditures of approximately $4.0 million have been made towards the completion of this project.

Curative Cannabis

On July 5, 2021, the Company completed the sale of its interest in 2368523 Ontario Ltd. (d/b/a Curative Cannabis) ("**Curative**") to a private purchaser, see *"Recent Developments: Third Quarter 2021 To Date – Auxly Strengthens Financial Position with the Implementation of Amendments to Imperial Brands $123 Million Convertible Debenture and Sale of Curative Cannabis"* in this MD&A.

Cultivation Supply

We have established a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of a wholly owned subsidiary, a joint venture and offtake agreements. Having a flexible cultivation platform allows for a consistent source of raw input material for the manufacture of our Cannabis Products. To meet our commercial objectives for Cannabis Product sales while the Company's joint venture project Sunens Farms Inc. ("**Sunens**") was under development, we opportunistically purchased, by value, approximately 81% of our cannabis inventory (dried cannabis and resin) in the open market during 2020 and 96% (49% with Sunens purchases deemed related) year-to-date of 2021. The majority of the Company's current CBD inventory was purchased from licenced hemp sellers in Prince Edward Island prior to 2021.

A summary of our key cultivation sources is below:

Sunens

Sunens is the Company's large-scale joint venture with partner Peter Quiring, which is comprised of a 1.1 million square foot greenhouse in Leamington, Ontario.

Funding for the initial project budget was provided by the Company in the form of an equity contribution and a subordinated promissory note totaling approximately $98.5 million provided prior to 2020, and a $84 million secured facility underwritten by a syndicate of lenders led by the Bank of Montreal ("**BMO**"). The Company's contribution along with the credit facility comprised the required expenditures for the initial budgeted construction of the 1.1 million square foot facility.

As part of such financing provided by the syndicate led by BMO, the Company has guaranteed payments up to $33 million in the event of default. As at September 30, 2021, approximately $78.5 million of the facility had been drawn.

Sunens holds licences for cultivation and processing under the Cannabis Act authorizing the cultivation, processing, storage and sale of Cannabis Products. As of October 21, 2021, Health Canada amended the conditions of the licences to authorize the activity of sale of dried and fresh Cannabis Products to provincially and territorially authorized retailers and holders of a licence for sale for medical purposes. The Company is expecting to request an additional site perimeter expansion from Health Canada for processing and storage space, and anticipates the amendment application to be submitted before the end of 2021. Upon approval of the amendment, the total licenced perimeter will encompass approximately 866,000 square feet.

On November 2, 2020, in connection with an amendment to the off-take agreement between the Company and Sunens to provide the Company with more favourable pricing, the Company amended its subordinated promissory note with Sunens so that all interest accrued to date was waived by the Company and interest on the principal amount of the promissory note will not start to accrue until January 1, 2023.

On February 8, 2021, at the request of the lending syndicate, the Company and its joint venture partner contributed $2 million in the aggregate to provide additional cash reserves to support operating cash flows (with the Company proportionately contributing $0.9 million of such amount). In addition, revenue milestones of $3.45 million and $7.15 million for the first and second quarters, respectively, of 2021 (the "**Revenue Milestones Requirement**") were established.

On April 16, 2021, Sunens received a notice of default from BMO in its capacity as lender, administrative agent and syndication agent under the credit facility with respect to Sunens' failure to satisfy the Revenue Milestones Requirement. Although the lenders reserved their rights under the credit agreement, they advanced another $1 million in April 2021 pursuant to a borrowing request made pursuant to the credit facility and BMO granted a one-month payment holiday and term extension of the equipment loan payment due in May 2021 in the amount of approximately $0.2 million which was used to fund day-to-day operations. In May 2021, the Company began further supporting Sunens through purchases of cannabis as production from the Sunens facility increases and becomes one of its primary suppliers of cannabis inventory. In addition, Sunens may require additional funding for working capital until production and revenue from sales reach expected levels. The lenders have retained an accounting firm to provide them advice with respect to the credit facility in the form of a report which was delivered on July 12, 2021. In addition, a forbearance agreement with the lenders was signed on June 22, 2021 whereby the lenders agreed to forbear from taking certain actions available upon a default of the credit facility. The forbearance agreement expired on August 17, 2021. However, discussions with the lenders with respect to a formal credit facility amendment are continuing, and although there can be no assurance that a revised agreement with the lenders or Peter Quiring will be reached, the parties have made substantial progress in their negotiations on a credit facility amendment that is acceptable to all relevant parties.

Subject to reaching an acceptable accommodation with the lenders, the Company is considering some additional capital and equipment expenditures to optimize the processing and storage capabilities at the Sunens facility, however, a reasonable estimate of any such costs is not determinable at this time.

Robinsons

Robinsons Cannabis Incorporated ("**Robinsons**") holds licences for cultivation and processing under the Cannabis Act for its purpose-built 27,700 square foot indoor cannabis cultivation facility located in Kentville, Nova Scotia, and is focused on the production of high-quality craft cannabis. The Company is undertaking minor facility upgrades at a cost of approximately $0.5 million to accommodate equipment and related commissioning expenses, as part of a plan of continuous improvement to improve overall facility efficiency and increase product yields. Cannabis Products produced at the Robinsons facility were previously available under a stand-alone Robinsons brand, but in an effort to streamline distribution and promotional expenditures and better respond to targeted consumer preferences, Robinsons products are being transitioned to the Kolab Project Growers Series.

Robinsons OG

Robinsons Outdoor Grow Incorporated ("**Robinsons OG**") is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land located in Hortonville, Nova Scotia. Robinsons OG holds standard cultivation and processing licences under the Cannabis Act from Health Canada. 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 any cultivation.

The Company anticipated that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG would be used to create Cannabis 2.0 Products as well as product development initiatives. As of the date of this MD&A no cultivation activities are planned, and the Company has made the strategic decision to utilize the facility for additional storage and processing capacity for the Company to manage its dried flower and finished goods activities.

Strategic Partners

Imperial Brands

Through our strategic partnership with Imperial Brands, Auxly was granted global licenses to Imperial Brands vaping technology for cannabis uses, and access to its vapour innovation business, Nerudia, and Imperial Brands will use Auxly as its exclusive partner for the future development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world. Auxly has elected to its board of directors one out of six director nominees and one non-voting observer, each designated by Imperial Brands, and in addition Imperial Brands Group Science and Regulatory Affairs Director sits on Auxly's Safety Board. Auxly will continue to leverage the expertise of these Imperial Brands representatives to improve its corporate and product stewardship governance practices. On November 1, 2021, Murray McGowan, Chief Strategy and Development Officer for Imperial Brands, was appointed to Auxly's board of directors as Imperial Brands' director nominee, see "*Recent Developments: Third Quarter 2021 To Date – Auxly Strengthens Board of Directors with Appointment of Murray McGowan*" in this MD&A.

Capsugel

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 provided 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.

Natures Crops

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.

Inner Spirit

On May 5, 2021 Sundial Growers Inc. (“**Sundial**”) announced that it had entered into an arrangement agreement with Inner Spirit Holdings Ltd. (“**Inner Spirit**”) to acquire all of the issued and outstanding common shares of Inner Spirit ("**Inner Spirit Shares**") for consideration per Inner Spirit Share consisting of (i) $0.30 in cash and (ii) 0.0835 of a common share of Sundial, which acquisition was subsequently completed on July 20, 2021. As an early investor and strategic partner of Inner Spirit, at the time of the acquisition the Company held a 9.8% share ownership position in Inner Spirit, resulting in total proceeds of approximately $8 million to the Company from the acquisition during the third quarter of 2021.

CannTx

On July 14, 2021, Entourage Health Corp. (previously WeedMD Inc.) (“**Entourage**”) announced that it had entered into a definitive acquisition agreement to acquire all of the issued and outstanding shares of CannTx Life Sciences Inc. (“**CannTx**”) in an all-stock transaction, which acquisition was subsequently completed on November 1, 2021. Upon closing of the acquisition, Entourage issued an aggregate of 57,352,488 Entourage common shares (“**Entourage Shares**”) to CannTx shareholders. As a shareholder of CannTx, and in consideration for the termination of its streaming agreement with CannTx, the Company received total consideration of 14,742,479 Entourage Shares as a result of the acquisition.

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, including the sale of the asset, the Company ceased all operations at Inverell effective the third quarter of 2020.

OUTLOOK

In 2021, we are focused on building upon our success as a market leader in Cannabis 2.0 Products, while continuing to advance the Company’s focused expansion of its dried flower, pre-roll, oil and capsule product offerings. Our overall objectives for 2021, which may be impacted by the COVID-19 pandemic (see further discussion in this MD&A under “*COVID-19 Pandemic*”), are as follows:

- Continued leadership and strength in the Cannabis 2.0 Products market;
- Focused expansion of Cannabis 1.0 Products;
- Become a top 5 licenced producer in Canada by total market share in adult recreational cannabis sales;
- Continue to take measures to improve cash flows, and finance the business;
- Become Adjusted EBITDA positive by the end of the calendar year;
- Leverage the Sunens facility to establish a secure supply of cannabis and reduce reliance on open market purchasing; and
- Explore possible cannabis market entry strategies in regulated international markets, on an asset light basis.

During the quarter, we continued to execute against our objectives, securing the #6 LP position in national recreational retail sales with 5.6% market share. Despite delays in certain automation equipment at our Kolab facility, which would have contributed to further sales and cost reductions, the Company saw an increase in national retail sales in the month of October and moved into the #5 LP position with 7.3% share of market, successfully achieving the Company's 2021 market share objective of 7-9% by the end of 2021.

While the quarter presented some challenges for us, including additional expenditures as we scaled operations, commissioned new equipment, introduced new products and innovations to our base product portfolio and supported the opening of new stores in key provinces like Ontario, we are pleased with the continued revenue growth trend and believe our initiatives to improve the cost structure will lead to an increase in cash flows and near-term positive adjusted EBITDA.

We remain focused on bringing innovative and differentiated cannabis products to Canadian consumers 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 continues to be a rapidly changing situation through 2021, and the provincial and territorial responses to the pandemic continue to evolve.

The majority of temporary provincial lockdown measures, which were implemented by provinces and territories at the beginning of the pandemic, and which continued into the first half of 2021, have now been eased in most areas as vaccination rates have risen and COVID-19 cases fall across the country, but there is still a possibility that lockdown measures could be imposed again if there is an increase in COVID-19 cases. On May 20, 2021, the Ontario government released its "Roadmap to Reopen", a three-step plan to safely and cautiously reopen the province of Ontario and gradually lift public health measures based on Province-wide vaccination rates and improvements in key public health and health care indicators. As of September 22, 2021, Ontario requires residents to provide a proof of vaccination in order to access certain public settings and facilities, and other provinces have implemented similar vaccine mandates. As the date of this MD&A, Ontario has lifted capacity restrictions for certain venues, but is still in Step 3 of the Ontario Reopening Plan, which means non-essential retail stores, including retail cannabis stores, are open for in-store sales but with capacity limited as required to permit physical distancing of two metres. However, until all provincial COVID-19 restrictions on retail operations are lifted, these restrictions may have a negative impact on the Company's sales, cash flows and results of operations. In Ontario, as a temporary measure during lockdowns and stay-at-home orders, retail cannabis stores were permitted to remain open for curbside pickup and delivery, and on October 7, 2021, the Ontario government announced a proposal that would allow private retailers to offer curbside pickup and delivery permanently. On October 22, 2021, the Ontario government, in consultation with the Chief Medical Officer of Health, released *A Plan to Safely Reopen Ontario and Manage COVID-19 for the Long-Term*. This plan outlines the province's approach to lifting the remaining public health and workplace safety measures by March 2022. As of the date of this MD&A, retail cannabis stores across Canada are open with pandemic protocols in place, but there is a possibility that lockdown measures could be imposed again if there is an increase COVID-19 cases across provinces and territories which may have a negative impact on the Company's sales, cash flows and results of operations.

In response to the pandemic, the Company implemented safety measures to protect employees and consumers, and is continuing to monitor and comply with all federal and provincial regulations and guidelines while keeping our facilities operating. The Dosecann, Kolab and Robinsons facilities have remained open and operational and employees at the Company's corporate head office in Toronto and other non-production staff at our cannabis facilities are currently operating under a part-time work from home model.

RECENT DEVELOPMENTS: Third Quarter 2021 To Date

Auxly Achieves Key 2021 Target and Launches Exciting Fall Innovation Portfolio

On November 10, 2021, the Company announced its fall product lineup packed with innovative new products, flavours and formulations designed to delight Canadian cannabis consumers. The product launches this fall include: new seasonal confections that evoke the cozy warmth of the holidays; brand-new innovations; extensions of existing product lines that take Auxly brands in new directions; new dried-flower strains; and new flavours & formulations for Auxly's industry-leading vape portfolio. The Company also announced that a strong performance for the month of October helped Auxly reach one of its key objectives for the 2021 fiscal year, by achieving the #5 position among Canadian LPs, with a 7.3% share of the national market, as confirmed by Headset Canadian Insights.

Auxly Strengthens Board of Directors with Appointment of Murray McGowan

On November 2, 2021, the Company announced that, in connection with its strategic partnership with Imperial Brands, the Company had appointed Murray McGowan, Chief Strategy and Development Office for Imperial, to its Board of Directors, effective November 1, 2021. Mr. McGowan will join the Auxly Board of Directors as Imperial Brands' director designee, replacing previous Imperial nominee Conrad Tate, who will remain on the Board as an independent director. Following the appointment of Mr. McGowan, the Board is comprised of six directors.

Auxly Ends Third Quarter 2021 as #6 Licensed Producer in Canada with 6.4% Total National Market Share

On October 18, 2021, the Company announced that it had moved to the #6 LP position in Canada for total cannabis sales as of the end of Q3 2021, after continuing to win with Canadian consumers and gaining market share through its expanded, high-quality and innovative portfolio of branded cannabis products.

Kolab Project Launches 132 Series Live Resin Soft Chews, Canada's First Live Resin Cannabis Edible

On September 29, 2021, the Company announced the launch of Kolab Project 132 Series Live Resin Black Cherry Punch soft chews, Canada's first live resin edible. Kolab Project 132 Series

Live Resin Black Cherry Punch soft chews are for cannabis enthusiasts who love the true-to-plant taste of cannabis, and are an extension of Kolab Project's true-to-strain product line-up that includes the 232 Series Live Terpene vape cartridges and 232 Series Diamonds concentrates.

Introducing Back Forty 40s: Machine-Rolled, Straight Pre-Rolls with High-Potency Cannabis

On August 18, 2021, the Company announced the launch of Back Forty 40s, a new, single-strain, straight pre-roll, machine rolled for consistent, even burn with enhanced airflow and big flavour. Back Forty 40s launched with two high-potency cultivars – Animal Mints and Wedding Pie – and are presented in resealable, recyclable packages of 10.

Auxly on a Hot Streak Heading into a Summer Packed with New Products

On July 12, 2021, the Company presented its product line-up for a summer season filled with brand-new offerings and inspired flavours across multiple categories, including dried flower, vapes, edibles, oil, capsules and concentrates. With its leadership position in cannabis 2.0 products and the added success of dried flower sales, Auxly achieved a 5.2% share of the national market for the month of June, as confirmed by Headset Canadian Insights.

Auxly Strengthens Financial Position with the Implementation of Amendments to Imperial Brands $123 Million Convertible Debenture and Sale of Curative Cannabis

On July 6, 2021, the Company announced the implementation of the amendments to certain provisions of its previously issued $123 million debenture (the "**Debenture**") and investor rights agreement (the "**Investor Rights Agreement**"), dated September 25, 2019, with its strategic partner, Imperial Brands (collectively, the "**Amendments**"), pursuant to the terms of the previously announced amending agreement dated April 19, 2021. Pursuant to the Amendments, Imperial Brands and Auxly have:

i. Extended the maturity date of the Debenture by 24 months from September 25, 2022 to September 25, 2024;

ii. Provided Imperial with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the Debenture then outstanding into Shares at a conversion price equal to the five-day volume weighted average trading price of the Shares on the date that interest conversion election is made;

iii. Provided that the payment of interest under the Debenture, which currently accrues at a rate of 4% per annum and is payable annually, will remain unchanged but will be payable on the maturity of the Debenture; and,

iv. Re-instated certain approval rights of Imperial Brands under the Investor Rights Agreement.

In accordance with Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, the Company obtained minority shareholder approval for the Amendments at the Company's annual and special meeting of shareholders held on June 28, 2021.

The Company also announced that it completed the sale of its interest in Curative to a private purchaser for total proceeds to the Company of $6 million. The disposition of this non-core asset allows the Company to strengthen its financial position with non-dilutive capital that it can deploy into its core business.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

For the three months ended: (000's)	**September 30, 2021**	September 30, 2020	Change	Change
Total net revenues	**24,493**	12,587	11,906	95%
Net income/(loss)*	**(13,527)**	(17,799)	4,272	24%
Net income/(loss) from continuing operations*	**(13,527)**	(17,597)	4,070	23%
Adjusted EBITDA**	**(6,485)**	(6,684)	199	3%
Weighted average shares outstanding	**825,612,944**	631,949,685	193,663,259	31%

For the nine months ended: (000's)	**September 30, 2021**	September 30, 2020	Change	Change
Total net revenues	**54,511**	28,462	26,049	92%
Net income/(loss)*	**(15,363)**	(58,460)	43,097	74%
Net income/(loss) from continuing operations*	**(27,519)**	(58,085)	30,566	53%
Adjusted EBITDA**	**(16,481)**	(24,580)	8,099	33%
Weighted average shares outstanding	**767,844,307**	628,341,762	139,502,545	22%

*Attributable to shareholders of the Company

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

As at: (000's)	**September 30, 2021**	December 31, 2020	Change	Change
Cash and equivalents	**$ 37,215**	$ 21,214	$ 16,001	75%
Total assets	**$ 393,428**	$ 378,963	$ 14,465	4%
Debt	**$ 106,826**	$ 114,825	$ (7,999)	-7%

For the three and nine months ended September 30, 2021, net revenues were $24.5 million and $54.5 million respectively, an increase of approximately $11.9 and $26.0 million respectively, over the same periods of 2020. Sales during the third quarter of 2021 continued to improve primarily due to increases in Auxly's adult recreational retail sales and expansion into Cannabis 1.0 Products.

Net losses attributable to shareholders improved to $13.5 million from a loss of $17.8 million in the third quarter of 2020 primarily as a result of higher other losses in 2020. Year-to-date net losses of $15.4 million were approximately $43.1 million better than the same period in 2020 primarily due to improved gross margins, other income including a net gain from discontinued operations and a gain from the Imperial Brands Debenture Amendments.

Adjusted EBITDA during the current quarter was negative $6.5 million approximately $0.2 million better than the same period of 2020 and improved by $8.1 million on a year-to-date basis, primarily as a result of increased gross profits partially offset by increased selling, general and administrative expenses during the quarter.

Cash and equivalents were $37.2 million on September 30, 2021, an increase of $16.0 million from December 31, 2020. The net cash increase was primarily associated with proceeds from financing activities which include the equity offerings completed in 2021 partially offset by negative cash from operating and investing activities.

For the nine months ending September 30, 2021, the average number of Shares outstanding increased to 767.8 million Shares, an increase of 139.5 million Shares or 22% over 2020 primarily as a result of the equity offering in December 2020 and those completed in 2021.

RESULTS OF OPERATIONS

For the periods ended:	Three months September 30,		Nine months September 30,	
(000's)	**2021**	2020	**2021**	2020
CONTINUING OPERATIONS				
Revenue				
Revenue from sales of cannabis products	**$ 35,817**	$ 15,243	**$ 77,520**	$ 34,030
Other revenues	**-**	-	**-**	70
Excise taxes	**(11,324)**	(2,656)	**(23,009)**	(5,638)
Total net revenue	**24,493**	12,587	**54,511**	28,462
Costs of sales				
Costs of finished cannabis inventory sold	**19,471**	9,536	**39,380**	19,656
Inventory (gain)/impairment	**716**	(312)	**1,070**	1,630
Gross profit excluding fair value items	**4,306**	3,363	**14,061**	7,176
Unrealized fair value gain/(loss) on biological transformation	**352**	172	**922**	322
Realized fair value gain/(loss) on inventory	**(1)**	2	**(1)**	(193)
Gross profit	**4,657**	3,537	**14,982**	7,305
Expenses				
Selling, general, and administrative expenses	**11,562**	10,924	**32,833**	37,274
Depreciation and amortization	**2,223**	2,076	**6,829**	6,653
Interest expense	**3,932**	3,651	**13,320**	9,170
Total expenses	**17,717**	16,651	**52,982**	53,097
Other income/(loss)				
Fair value gain/(loss) for financial instruments accounted under FVTPL	**223**	(34)	**414**	(4,670)
Interest and other income	**436**	392	**1,283**	798
Impairment of long-term assets	**(60)**	144	**(11,426)**	(4,362)
Gain/(loss) on settlement of assets and liabilities and other expenses	**41**	(3,453)	**21,104**	(3,639)
Gain/(loss) on disposal of subsidiary	**1,355**	-	**1,355**	-
Share of gain/(loss) on investment in joint venture	**(3,095)**	(1,214)	**(6,048)**	(2,995)
Foreign exchange gain/(loss)	**633**	(466)	**(546)**	122
Total other income/(loss)	**(467)**	(4,631)	**6,136**	(14,746)
Net loss before income tax	**(13,527)**	(17,745)	**(31,864)**	(60,538)
Income tax recovery	**-**	90	**4,330**	657
Net loss from continuing operations	**$ (13,527)**	$ (17,655)	**$ (27,534)**	$ (59,881)
Net income/(loss) from discontinued operations	**-**	(202)	**12,156**	(375)
Net income/(loss)	**$ (13,527)**	$ (17,857)	**$ (15,378)**	$ (60,256)
Net income/(loss) attributable to shareholders of the Company	**$ (13,527)**	$ (17,799)	**$ (15,363)**	$ (58,460)
Net loss attributable to non-controlling interest	**-**	(58)	**(15)**	(1,796)
Adjusted EBITDA	**$ (6,485)**	$ (6,684)	**$ (16,481)**	$ (24,580)
From continuing operations	**$ (0.02)**	$ (0.03)	**$ (0.04)**	$ (0.09)
From discontinued operations	**-**	(0.00)	**0.02**	(0.00)
Net income/(loss) per common share (basic and diluted)	**$ (0.02)**	$ (0.03)	**$ (0.02)**	$ (0.09)
Weighted average shares outstanding (basic and diluted)	**825,612,944**	631,949,685	**767,844,307**	628,341,762

Revenue

For the three months ended September 30, 2021, net revenues were $24.5 million as compared to $12.6 million during the same period in 2020 and were comprised of approximately 69% Cannabis 2.0 Products sales, with the remainder from Cannabis 1.0 Product sales. Net revenues improved during the third quarter of 2021 by $11.9 million over the same period of 2020 and by $3.6 million over the second quarter of 2021. Likewise, net revenues year-to-date were $54.5 million, an improvement of $26.0 million over the same period of 2020 primarily due to increased retail cannabis sales by the Company nationally, achieved through continued leadership in Cannabis 2.0 Product sales and continued expansion into Cannabis 1.0 Products. Consistent with prior periods, as the Company does not participate in the Quebec market, approximately 85% of cannabis sales during the third quarter of 2021 originated from sales to British Columbia, Alberta and Ontario.

Gross Profit / Loss

Auxly realized a gross profit of $4.7 million resulting in a 19% margin during the three months ended September 30, 2021, compared to $3.5 million (28%) during the same period in 2020. Gross profits as reflected in margin declined during the current period primarily as a result of product mix changes and higher additional costs associated with the production of new products, while margins related to Cannabis 1.0 Products remained nominal. Gross profits on a year-to-date basis improved by approximately $7.7 million to $15.0 million as compared to the same period in 2020, resulting in a 27% margin, which is slightly better than 2020.

Inventory impairment was $0.7 million for the third quarter and $1.1 million year-to-date 2021, primarily driven by packaging materials no longer being used by the Company. In 2020, impairment of inventory was higher on a year-to-date basis due to additional charges associated with Inverell's operations.

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. SG&A expenses were $11.6 million during the third quarter and $32.8 million year-to-date 2021, an increase of $0.6 million and a decrease of $4.5 million as compared to the same periods in 2020.

Wages and benefits were $4.0 million and $12.9 million for the third quarter and year-to-date of 2021 respectively, decreases of $1.3 million and $5.0 million, over the same periods in 2020. The decrease for the third quarter of $1.3 million was primarily driven by workforce reductions which were implemented following the third quarter of 2020 which have continued to have a positive impact to date. Year-to-date decreases of $5.0 million are primarily related to workforce reductions at Inverell of approximately $1.2 million with the remainder of the savings coming from headcount reductions and absorption changes in the rest of the Company.

Office and administrative expenses of $3.3 million for the current period and $10.0 million year-to-date in 2021 increased by $0.5 million and $1.0 million compared to same periods in 2020. Expenditures during the third quarter of 2021 included increased product testing, supplies and waste resulting from increased innovation and product development activities, and Dosecann rent, partially offset by reduced expenditures of $0.3 million at Inverell and a number of other reductions throughout the Company. Year-to-date increased expenditures of $1.0 million primarily relate to increased operating costs associated with the development and sale of Cannabis Products, TSX listing fees, and Dosecann rent, partially offset by approximately $0.8 million of reduced expenditures at Inverell.

Auxly's professional fees for the three months ended September 30, 2021, were $0.8 million, higher by $0.5 million as compared to 2020 primarily due to increased legal expenditures associated with certain corporate activities. Year-to-date expenditures of $1.9 million were lower by $0.3 million as compared to 2020 primarily as a result of greater consulting expenditures in 2020 related to the development of the Company's ERP system and costs incurred by Inverell during 2020. Professional fees incurred during the periods primarily related to accounting fees, regulatory matters, reporting issuer fees, and legal fees associated with certain corporate activities. Professional fees can vary significantly based upon transactional activities from period to period.

Business development expenses were $0.1 million for the three and $0.2 million for the nine months ended September 30, 2021, as compared to $Nil and $0.5 million during the same periods in 2020. The year-to-date decrease is primarily due to a reduction in acquisition, business development and travel related expenses primarily a result of the on-going COVID-19 pandemic.

Selling expenses for the period ended September 30, 2021, were $3.3 million and $6.7 million year-to-date, an increase of approximately $1.9 million and $2.8 million respectively over the same periods in 2020, as a result of cannabis sales activities comprised of brokerage fees earned by Kindred Partners, Health Canada fees related to higher revenues, and marketing initiatives for Cannabis Products.

For the three months ended September 30, 2021, share-based compensation was $0.1 million and $1.2 million year-to-date primarily as a result of options granted in 2021, net of terminations. The year-to-date reduction in expense of $2.7 million as compared to 2020, reflects the impact of lower share prices and aging outstanding options.

Depreciation and amortization expenses were $2.2 million for the three months ended September 30, 2021, and $6.8 million year-to-date, $0.1 million and $0.2 million greater respectively, as compared to the same periods of 2020. The change in expenditures during the current period and year-to-date is primarily related to additional capital expenditures, partially offset by amounts related to Inverell in 2020.

Interest expenses were $3.9 million and $13.3 million for the third quarter and year-to-date of 2021 respectively, increases of $0.3 million and $4.1 million over the same periods in 2020. Interest expenses in 2021 were primarily the result of interest expense and accretion on the $123 million Imperial Brands Debenture and changes related to the Amendments thereof, 7.5% on the convertible debentures issued in 2020, the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures, leases and short-term financing. Interest expenses in 2020 were primarily driven by the Imperial Brands Debenture, 7.5% on the convertible debentures issued in 2020 to date, and by leases.

Total Other Incomes and Losses

Fair value changes on financial instruments arise on changes in value of promissory notes and level two securities held. For the three and nine months ended September 30, 2021, the Company reported a fair value gain of $0.2 million and $0.4 million respectively. The $4.7 million loss for the nine months ended September 30, 2020 was the result of more significant valuation reductions and a larger securities portfolio during 2020.

The Company recorded interest and other incomes of $0.4 million and $1.3 million for the three and nine months ended September 30, 2021, with increases over the same periods of 2020 primarily due to changes in interest accretion on the promissory note from the Company's Sunens joint venture.

Impairment of long-term assets of $11.4 million on a year-to-date basis in 2021 relate to the sale of Curative where the carrying value exceeded the proceeds of sale. During 2020, the Company recognized an impairment loss on long-term assets of $4.5 million related to Inverell. The current period gain on disposal of subsidiary of $1.4 million relates to the final accounting of the Curative sale transaction for assets that were not classified as sold during the previous quarter prior to the closing of such transaction in July 2021.

Gains and losses on settlement of assets and liabilities and other expenses was a gain of $Nil during the current quarter and $21.1 million year-to-date 2021 which primarily relate to a $16.6 million gain associated with the Imperial Brands Debenture Amendments and a $4.2 million first quarter gain on the settlement of a $5.8 million liability associated with a non-monetary product exchange with another licensed producer. The loss of $3.5 million in the third quarter of 2020 and $3.6 million year-to-date primarily relate to the aforementioned licensed producer transaction which had been reversed following the return of the product by the purchaser. The transaction was fully satisfied in 2021.

The share of loss on investment in joint venture of $3.1 million for the three months ended September 30, 2021 and $6.0 million year-to-date reflect the Company's proportionate share of Sunens' earnings. Sunens received its cultivation licence in June 2020 and has scaled up operations and made product available for sale to licenced producers, including Auxly beginning in the first quarter of 2021.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate primarily related to inventory, capital purchases and Inverell net assets. During the quarter ended September 30, 2021, the Company reported a foreign exchange gain of $0.6 million and a loss of $0.5 million year-to-date as compared to a loss of $0.5 million and a gain of $0.1 million during the same periods of 2020.

Net Income and Loss

Net losses attributable to shareholders of the Company were $13.5 million for the three months ended September 30, 2021, representing a net loss of $0.02 per share on a basic and diluted basis. Net losses attributable to shareholders of the Company were $27.5 million for the nine months ended September 30, 2021, representing a net loss of $0.04 per share on a basic and diluted basis from continuing operations and a net loss of $0.02 per share in total. The year-to-date improvement in net income and loss positions was primarily a result of net income of $12.3 million related to the sale of KGK, recognition of a gain from the Imperial Brands Debenture Amendments, improvements in continuing operating gross profits and income tax recoveries, partially offset by an impairment charge related to the Curative recoverable amount and losses on the investment in joint venture.

Adjusted EBITDA

Adjusted EBITDA of negative $6.5 million during the third quarter of 2021 improved nominally over the same period in 2020 primarily driven by greater gross profits and partially offset by higher selling related SG&A expenses. Year-to-date Adjusted EBITDA of negative $16.5 million in 2021 improved by $8.0 million as compared to the same period of 2020 primarily as a result of improved gross profits and lower SG&A.

Discontinued Operations

On May 27, 2021, the Company announced that it had reached an agreement to sell KGK to Myconic Capital Corp. (now KetamineOne Capital Limited) ("**KetamineOne**"), and on June 2, 2021, completed the sale of KGK to KetamineOne. As a result of the sale, results from operations and cash flows from KGK have been presented as discontinued operations, as applicable, on a retrospective basis. The results of operations for the discontinued operations are presented below.

(000's)	**Three months ended September 30, 2021**	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
Revenue	**$ -**	**$ 851**	**$ 2,214**	**$ 3,445**
Cost of sales	-	511	2,109	1,333
Gross profit	**-**	**340**	**105**	**2,112**
Operating expenses, net of government subsidies	-	542	90	2,487
Gain on disposal, before tax	-	-	12,141	-
Net income/(loss) before tax from discontinued operations	**-**	**(202)**	**12,156**	**(375)**
Income tax recovery	-	-	-	-
Net income/(loss) from discontinued operations	**$ -**	**$ (202)**	**$ 12,156**	**$ (375)**

SUMMARY OF QUARTERLY RESULTS

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

(000's)	**Q3/21**	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
CONTINUING OPERATIONS								
Total net revenues	**24,493**	20,852	9,166	18,246	12,598	6,867	9,008	1,239
Net losses*	**(13,527)**	(3,676)	(10,316)	(25,804)	(17,597)	(29,175)	(11,313)	(49,393)
Adjusted EBITDA**	**(6,485)**	(3,315)	(6,681)	(4,839)	(6,684)	(10,488)	(7,408)	(9,827)
Average shares outstanding (000's)	**825,613**	762,653	714,041	640,923	631,950	627,822	625,242	613,683
Per share: Basic & diluted loss	**(0.02)**	(0.00)	(0.01)	(0.04)	(0.03)	(0.05)	(0.02)	(0.08)

*attributable to shareholders of the Company and excludes discontinued operations.

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

The Company commenced cannabis sales to the Canadian adult recreational market commencing with the legalization of Cannabis 2.0 Products in the fourth quarter of 2019. Since that date, the Company has become a leader in Cannabis 2.0 Products and has continued to introduce new products including Cannabis 1.0 Products to increase total net revenues. Net revenues during the second quarter of 2020 were impacted during the first wave of the COVID-19 pandemic and in the first quarter of 2021 as a result of changes to the Company's provincial customers' inventory management practices and increased restrictions during the third wave of the COVID-19 pandemic.

Net losses from continuing operations have fluctuated over the eight quarters primarily as a result of other losses which include impairment charges, fair value adjustments and losses on settlement of assets and liabilities. Results for Q2 2021 improved primarily as a result of increased income tax recoveries and recognition of a gain from the Imperial Brands Debenture Amendments, partially offset by total other losses.

Adjusted EBITDA continues to generally improve as total net revenues improve with both customer acceptance, expansion of product offerings and increased retail share of market. The current quarter of 2021 was impacted by lower gross margins and higher selling costs as part of SG&A.

The increases in average outstanding Shares reflect financing 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:

For the periods ended:	Three months September 30,		Nine months September 30,	
(000's)	**2021**	2020	**2021**	2020
Short-term benefits	**$ 505**	$ 398	**$ 1,645**	$ 1,328
Long-term benefits	**104**	129	**230**	970
Total	**$ 609**	$ 527	**$ 1,875**	$ 2,298

Other related party transactions

Terrene Ltd. provides strategic planning and advisory services to the Company on periodic basis. Vikram Bawa, an independent Board Director, is the Managing Partner of Terrene Ltd. For the three and nine month periods ending September 30, 2021, the Company has incurred thirteen and thirty eight thousand dollars respectively (2020 - nil) in expenses.

Global Public Affairs Inc. provides government relations and strategic counsel to the Company on a periodic basis. Genevieve Young, Chair of the Company's Board of Directors, is the President and Chief Operating Officer of Global Public Affairs Inc. For the three and nine month periods ending September 30, 2021, the Company has incurred five and eight thousand dollars respectively (2020 - nil) in expenses.

LIQUIDITY AND CAPITAL RESOURCES

For the periods ended:	Three months September 30,		Nine months September 30,	
(000's)	**2021**	2020	**2021**	2020
Cash used in continuing operating activities	**$ (7,784)**	$ (6,669)	**$ (35,731)**	$ (26,181)
Net change in investments	**14,196**	2,294	**15,240**	6,015
Net capital expenditures	**(487)**	(7,122)	**(5,755)**	(19,217)
Cash provided/(used) from continuing investing activities	**13,709**	(4,828)	**9,485**	(13,202)
Net cash from continuing financing activities	**(445)**	4,522	**43,128**	8,697
Net cash provided/(used) from discontinued operations	**-**	(176)	**(881)**	125
Cash position at the beginning of the period	**31,735**	20,724	**21,214**	44,134
Cash position, end of period	**$ 37,215**	$ 13,573	**$ 37,215**	$ 13,573

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 three months ended September 30, 2021, Auxly used $7.8 million in operating activities from continuing operations, including $2.6 million in working capital primarily associated with increased accounts receivable, inventories and prepaid expenses, partially offset by reductions in accounts payable and accrued liabilities. On a year-to-date basis, cash from continuing operating activities consumed $35.7 million of which $25.0 million was related to non-cash working capital items as noted above.

Net investing activities from continuing operations for the three and nine months ended September 30, 2021, were a source of $13.8 million and $9.5 million respectively, and primarily relate to the proceeds from the sale of Sundial shares following the acquisition of Inner Spirit and the sale of Curative partially offset by the purchase of capital equipment at Kolab. Net financing activities from continuing operations were nominal during the quarter and were $43.1 million for the nine months ended September 30, 2021, primarily reflecting a private placement and two prospectus offerings completed during 2021.

Auxly believes it has liquidity and capital resources to meet its short-term obligations for the next 12 months. The Company will consider the need for additional funding to further strengthen its balance sheet, or in anticipation of, or response to, changing business and industry conditions, and priorities for various projects in the coming year. Accordingly, management has the ability to defer certain capital expenditures and commitments, reduce overheads and consider a variety of options to finance the business including dilutive and non-dilutive offerings. As part of the financing considerations, Auxly considers which options will best optimize interest rates and fees, term length, security provided, covenants, dilution and the impact on future business plans.

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 12, 2021	September 30, 2021	December 31, 2020
Issued Shares	836,607,134	836,607,134	691,861,024
Escrowed shares	10,994,190	10,994,190	10,994,190
Outstanding shares	825,612,944	825,612,944	680,866,834
Exercisable securities			
Warrants	124,542,270	124,542,270	56,021,747
Convertible Debentures	188,089,377	188,089,377	188,089,377
Options	35,877,050	35,877,050	40,890,608

Shares issued in 2021 increased by approximately 144.7 million to 836.6 million primarily as a result of the issuance of equity of 136.1 million Shares pursuant to prospectus and private placement offerings during the year, 5.1 million Shares issued under the ATM program and 3.5 million related to the exercise of warrants.

In conjunction with the prospectus and private placement offerings in 2021, 72.0 million warrants were issued inclusive of broker warrants, partially offset by the exercise of 3.5 million warrants.

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 three and nine months ended September 30, 2021 and notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2020.

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 from continuing operations 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 from continuing operations of the Company added or subtracted as applicable as provided in the detailed reconciliation found in this MD&A. There are a number of individual financial statement adjustments however, they are inclusive of, 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)	**Q3/21**	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Net loss from continuing operations	**$ (13,527)**	$ (3,685)	$ (10,322)	$ (26,012)	$ (17,655)	$ (30,466)	$ (11,760)	$ (54,780)
Interest expense	**3,932**	4,787	4,601	3,814	3,651	3,339	2,180	4,170
Interest income	**(436)**	(431)	(416)	310	(381)	(345)	(61)	225
Income tax recovery	**0**	(4,291)	(39)	(24)	(90)	(567)	-	3,269
Depreciation and amortization	**2,223**	2,174	2,432	2,328	2,076	2,688	1,889	4,502
EBITDA	**(7,808)**	(1,446)	(3,744)	(19,584)	(12,399)	(25,351)	(7,752)	(42,614)
Impairment of Inventory	**716**	124	230	1,763	(312)	668	1,274	2,170
Unrealized fair value loss / (gain) on biological transformation	**(352)**	(315)	(255)	(215)	(172)	(201)	51	89
Realized fair value loss / (gain) on inventory	**1**	1	(1)	-	(2)	15	180	(90)
Share-based compensation	**55**	960	206	472	1,178	1,282	1,417	1,405
Fair value loss / (gain) for financial instruments accounted under FVTPL	**(223)**	(75)	(116)	(262)	34	4,521	115	274
Impairment of long-term assets	**60**	11,366	-	1,784	(144)	4,506	-	5,283
Impairment of intangible assets and goodwill	**-**	-	-	-	-	-	-	20,234
(Gain) / loss on settlement of assets, liabilities and disposals	**(1,396)**	(16,995)	(4,068)	6,042	3,453	2,020	(1,834)	2,262
Share of loss on investment in joint venture	**3,095**	2,494	459	4,412	1,214	996	785	691
Foreign exchange loss / (gain)	**(633)**	571	608	749	466	1,056	(1,644)	469
Adjusted EBITDA	**$ (6,485)**	$ (3,315)	$ (6,681)	$ (4,839)	$ (6,684)	$ (10,488)	$ (7,408)	$ (9,827)

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2021, the Company 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**.**

The Company has funding commitments as follows:

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 $1.1 million from October 1, 2021 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;

Payments of $1.0 million USD in 2022 to Capsugel, as part of a multi-year licensing arrangement with Lonza; and

Payments of an aggregate of €1.91 million from October 1, 2021 to September 30, 2022 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities.

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

(000's)	Remaining 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Thereafter	Total
Lease obligations	$ 426	$ 1,424	$ 1,208	$ 723	$ 582	$ 9,215	**$ 13,578**
Long-term debt obligations	425	11,573	-	147,408	-	-	**159,406**
Total	**$ 851**	**$ 12,997**	**$ 1,208**	**$ 148,131**	**$ 582**	**$ 9,215**	**$ 172,984**

Long-term debt obligations include principal and interest on the Imperial Brands Debenture maturing on September 25, 2024. Pursuant to the Amendments, interest payable may also be converted to Shares or capitalized and paid at maturity.

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.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

Internal controls over financial reporting (ICFR) and disclosure controls and procedures (DCP) are designed to provide reasonable assurance that material information required to be publicly disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure.

Auxly's certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financials for external purposes in accordance with IFRS using the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In addition, the Company's certifying officers and its disclosure committee have designed, and assessed the design of, a system of DCP to provide reasonable assurance that (i) material information relating to Auxly, including its consolidated subsidiaries, is made known to them and others; and (ii) information required to be disclosed by Auxly in its annual filings, interim filings and other reports filed or submitted by Auxly under securities legislation is recorded, processed, summarized and reporting within the time periods specified.

The Company has limited the scope of the design of its DCP and ICFR to exclude controls, policies and procedures of its Sunens joint venture in which the Company has a 45% interest, as the Company does not have the ability to design and evaluate controls, policies and procedures carried out by that entity. Auxly's assessment is limited to the internal controls over the inclusion of the Company's share of the joint venture and its results in the consolidated financial statements.

There are no material weaknesses relating to the design of either ICFR or DCP at September 30 2021. There have been no changes to our ICFR during the quarter and year-to-date ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect Auxly's ICFR.

CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 1 – Presentation of financial statements: classification of liabilities as current or non-current

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.

Amendments to IFRS 9

Amendments to IFRS 9 As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's 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 April 23, 2021, 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 sufficiency of the Company's resources to fund continued operations;
- the Company's expectations regarding its future sales;
- 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, and integration of operations, of the entities the Company acquires and the Company's collaborations;
- the ongoing construction, expansions and improvements 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 and maintain market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's current and proposed 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, its subsidiaries 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, the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act, and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- 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;
- 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 be able to 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 cannabis industry;
- there are not materially more closures or lockdowns related to the COVID-19 pandemic;
- the Company will be able to manage anticipated and unanticipated costs;
- the Company will be able to reach an agreement with Sunens' lenders on terms acceptable to the Company and in a timely manner;
- Auxly will be able to maintain effective internal controls over financial reporting and disclosure, controls and procedures;
- cannabis prices will not decline materially;
- the Company will be able to continue to achieve its target SG&A expenses;
- the Company will be able to continue to further expand production capacity and introduce new product formats;
- the Company will be able to successfully launch and commercialize new brands, create new product formats and enter into new markets; 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.