AUXLY CANNABIS GROUP INC.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2024

Dated May 10, 2024

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of May 10, 2024 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, warrants, 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 months ended March 31, 2024, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2023.

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. This MD&A references certain financial measures, including non-GAAP measures and readers should refer to the "*Non-GAAP Measures*" section in this MD&A.

DESCRIPTION OF BUSINESS

Our Business

We are a leading Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada. Our mission is to help consumers live happier lives through quality cannabis products that they trust and love.

Our vision is to be a 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.

Our Brands

PARCEL
Parcel delivers on its promise – high quality cannabis for less. No bells, no whistles, just really good cannabis grown by really good people.

BACK FORTY
Take a Trip. Explore the Back Forty. Back Forty is all about embracing simplicity, getting back to basics and not taking life too seriously. Back Forty's mission is to bring to consumers a simple, uncomplicated cannabis product that already feels familiar.

FORAY
Foray is a versatile, modern, and inviting cannabis brand, designed for the curious. 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.

DOSECANN
We believe in the natural potential of cannabis. Backed by science and advanced research and development, Dosecann products are driving today's innovation and establishing tomorrow's standards. Cannabis down to a science.

KOLAB PROJECT
Offering a refined collection of high quality cannabis products and design-focused, purposeful goods. We connect consumers with a carefully selected group of collaborators in order to create experiences that are inspired by the ever-evolving world we live in.

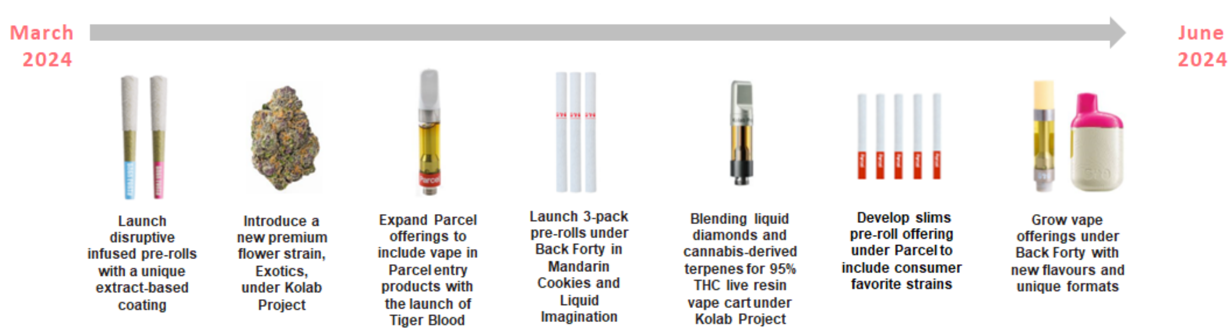
Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. Our initial focus was on the development of Cannabis 2.0 Products and we were one of the first cannabis companies to distribute and sell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

Auxly has maintained its position as a top-selling licensed producer of Cannabis Products, ranking as the 6th largest licensed producer in Canada by total recreational retail sales in Q1 2024, as reported by Hifyre IQ ("Hifyre IQ")[1].

Our Cannabis Products available during the first quarter of 2024 are described below by brand and product format:

Products Available by Brand				
KOLAB PROJECT	Dosecann	BACK FORTY	Foray	Parcel
510 Vape Cartridges All-in-one Vape Pens Dried Flower Pre-rolled Cannabis Infused Pre-rolls Concentrates	Cannabis Oil Drops Capsules Topicals	510 Vape Cartridges All-in-one Vape Pens Dried Flower Milled Flower Pre-rolled Cannabis Infused Pre-rolls Chocolates Soft Chews	510 Vape Cartridges All-in-one Vape Pens Chocolates Soft Chews	Dried Flower Milled Flower Pre-rolled Cannabis Infused Pre-rolls

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, vape and pre-roll offerings. The Company's upcoming product offerings are presented below:



[1] Data provided by HiFyre IQ as at April 25, 2024.

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 distributors, medical cannabis sales channels and strong relationships with major Canadian retailers. The Company's sales are supported by an internal sales team.

We have secured listings and sold our Cannabis Products in all Canadian provinces, as well as Yukon and the Northwest Territories. In May 2024, the Company launched its first branded product in Quebec, the new Back Forty large format 0.75g three-pack pre-rolls. The Company also conducts wholesale bulk sales of dried cannabis to various licensed producers in Canada.

Cannabis Operations: Cultivation, Product R&D and Manufacturing

Auxly Charlottetown

The Company's primary Cannabis 2.0 Product development, manufacturing and R&D activities are conducted by its subsidiary Auxly Charlottetown Inc. ("Auxly Charlottetown") at a purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. Auxly Charlottetown holds licences for processing, analytical testing and research under the Cannabis Act. The full perimeter of the 52,000 square foot facility is licensed under the Cannabis Regulations for the production, storage and sale of Cannabis Products.

Product development is led by Auxly Charlottetown's team, who have experience in the pharmaceutical, food, scientific research and product development fields. This facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. Auxly Charlottetown 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. In December 2022, the Company also obtained a research licence to conduct sensory testing at its head office in Toronto.

In the third quarter of 2023, the Company entered into contract manufacturing agreements for the production of certain of its Cannabis Products with the aim of using an adaptive third party sourcing model to further streamline the Company's operations and to reduce costs where possible.

In the first quarter of 2024, $nil of expenditures were made towards automation initiatives at the Auxly Charlottetown facility. The Company anticipates that expenditures of approximately $nil-0.5 million will be made towards the purchase of automation equipment at the Auxly Charlottetown facility in 2024.

Auxly Ottawa

Auxly Ottawa Inc. ("Auxly Ottawa") holds licences for cultivation and processing under the Cannabis Act, and conducts the Company's primary dried flower and pre-roll manufacturing, processing and distribution activities out of its own licensed space at the Company's Auxly Leamington Inc. ("Auxly Leamington") facility. This includes the production of the Company's Cannabis 1.0 Products, including Kolab Project dried flower and pre-rolls, Back Forty 40s pre-rolls, and Back Forty and Parcel dried and milled flower. In May 2023, Auxly announced the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities from the Auxly Ottawa facility in Carleton Place, Ontario to the Auxly Leamington facility, and the Auxly Ottawa Carleton Place facility was subsequently closed in

November 2023. The Company intends to sell the Auxly Ottawa facility in due course and apply the proceeds from any such sale to support its ongoing operations.

Auxly Leamington

Auxly Leamington, a wholly owned subsidiary of the Company, is comprised of a 1.1 million square foot automated greenhouse in Leamington, Ontario, which holds licences for cultivation and processing under the Cannabis Act, authorizing the cultivation, processing, storage and sale of Cannabis Products. Auxly Leamington provides the Company with a secure and cost-efficient source of dried cannabis, milled flower and extraction materials. Auxly also conducts wholesale bulk cannabis sales from the Leamington facility. Auxly Leamington utilizes a perpetual harvest methodology resulting in a continuous supply of cannabis and flexibility to adjust production capacity to demand as required. The total area of the licensed perimeter at Auxly Leamington for cultivation, processing and storage stands at 876,270 square feet. Auxly Leamington is producing award-winning cannabis strains, including popular Back Forty strains and high-quality value strains under the Parcel brand, all of which are sold to and used by the Company in its full suite of Cannabis Products across all Auxly brands. In addition, Auxly Leamington possesses an extensive genetic library and continues to evaluate all opportunities to acquire new cultivars suited for Auxly's portfolio of Cannabis Products.

In the first quarter of 2024, expenditures of approximately $0.2 million were made towards capacity expansion, equipment and post-harvest automation. We expect to incur expenditures of approximately $0.5-1.0 million towards capital projects throughout 2024 to implement building enhancements to support higher and consistent output from the facility.

Over the past three years, the Company undertook new capital projects to increase pre-roll production volumes and output through the purchase, installation and commissioning of automated manufacturing and packaging equipment. Supply chain issues resulted in significant delays in receipt of both the manufacturing equipment and the technical support required to complete commissioning for full scale production. The pre-roll packaging automation equipment is operational, and the Company saw increased production starting in Q3 2023. In the first quarter of 2024, expenditures of approximately $0.1 million were made towards dried flower and pre-roll automation initiatives. We expect to incur expenditures of approximately $2.0-2.5 million in 2024 for final payments owing for the currently operational automated pre roll manufacturing and packaging equipment.

Funding for Auxly Leamington's 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 an $84.0 million secured credit 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 facility. Concurrently with the Auxly Leamington acquisition, the Company and Auxly Leamington amended and restated the secured credit facility with BMO and the same syndicate of lenders thereby remedying the defaults noted by BMO on April 16, 2021. Under the amended and restated secured credit agreement ("ARCA"), Auxly made a $15.0 million cash payment towards the outstanding principal balance of the credit facility and the maturity date of the credit facility was extended to September 30, 2023. The obligations of Auxly Leamington under the credit facility also continue to be supported by an unsecured $33.0 million limited recourse guarantee provided by the Company.

Between September 29, 2023 and December 28, 2023, the Company received three interim extensions of the maturity date of the ARCA from September 30, 2023 to January 31, 2024, as the Company and the lenders worked towards a formal credit amendment. On January 31, 2024, the Company and the lenders entered into a definitive agreement to amend and restate the ARCA, in order to, among other things, extend the maturity date by two years until December 31, 2025. See "*Recent Developments: First Quarter 2024 To Date – Auxly Completes Amendment and Extension of Auxly Leamington Credit Facility"* in this MD&A.

As at March 31, 2024, Auxly Leamington was in compliance with its covenants under the credit facility, including all financial covenants. Upon filing the Company's financial statements for the year ended December 31, 2023, and delivering the audited financial statements for Auxly Leamington for the year ended December 31, 2023, each of the Company and Auxly Leamington was in breach of certain reporting covenants under the ARCA due to the inclusion of going concern qualifications. The Company and Auxly Leamington have each received a waiver from the syndicate of lenders for such breach.

Strategic Partner

<u>Imperial Brands</u>

In September 2019, as part of a strategic partnership, Imperial Brands PLC ("Imperial") invested approximately $123.0 million in the Company by way of a 4% unsecured debenture, convertible into common shares of the Company at a conversion price of $0.81 per share (the "Imperial Debenture"). Auxly was granted global licenses to Imperial's vaping technology for cannabis uses, and access to its vapour innovation business, Nerudia. In connection with this strategic partnership with Imperial, the parties entered into an investor rights agreement (the "Investor Rights Agreement") which provides, among other things, that Auxly would be Imperial's exclusive cannabis partner, and that for so long as Imperial holds a partially diluted percentage of outstanding common shares in the capital of Auxly of not less than 15%, it is eligible to nominate one individual designated by Imperial for election as a director to Auxly's Board and one non-voting observer. Imperial's nominee, Murray McGowan, Chief Strategy and Development Officer for Imperial, who was appointed to Auxly's Board of Directors on November 1, 2021, resigned from the Board on July 26, 2023, and there is currently no Imperial nominee appointed to the Board, however Imperial retains its nomination rights under the Investor Rights Agreement.

In August 2023, Imperial and the Company amended certain provisions of the Imperial Debenture in order to extend the maturity date of the Imperial Debenture by 24 months from September 25, 2024 to September 25, 2026.

In March 2024, Imperial converted (i) $121.9 million of the principal amount outstanding under the Imperial Debenture at an exercise price of $0.81 for 150,433,450 common shares in the capital of the Company, and (ii) $1.5 million of accrued interest under the Debenture into 90,882,667 common shares in the capital of the Company at a price of $0.017, resulting in Imperial holding an equity position in the Company of approximately 19.8% (the "Imperial Debt Conversion"). Concurrently with the Imperial Debt Conversion, Imperial and the Company amended and restated the Investor Rights Agreement to, among other things, remove the existing requirement that Imperial will use the Company as its exclusive cannabis partner. See "*Recent Developments: First Quarter 2024 To Date – Imperial Debt Conversion"* in this MD&A.

International Operations

Presently the Company does not have any active international operations. In the third quarter of 2020, the Company ceased all activities at its subsidiary Inverell S.A. ("Inverell") in Uruguay due to the slower than anticipated pace of cannabis-specific regulatory development in Latin America, and as of October 20, 2023, the company has divested of all its shares in Inverell. We continue to monitor the progress of other jurisdictions towards recreational and medical cannabis legalization, including the United States and Europe.

OUTLOOK

In 2024, we remain dedicated to sustainable growth, improved profitability, and the excellence of our people. We will prioritize focused and efficient growth in our key product categories of vape, pre-roll and dried flower and continue to optimize and improve distribution and sales of our products. We will continue to foster a collaborative team environment and pursue continued improvements in efficiency to reduce costs and deliver strong gross margins and increased profitability. We will also continue to pursue opportunities to strengthen our balance sheet.

Auxly's results for the first quarter of 2024 reinforced our commitment to sustainable profitability. While the first calendar quarter of the year is typically impacted by greater seasonality and consumer purchasing trends, revenues for the quarter improved from the same comparative period in 2023. This improved result is due to a more balanced sales mix as our portfolio has expanded further into dried flower and pre-roll product sales, which represented approximately 59% of revenues for the period. Furthermore, vape volumes rebounded in the quarter, building off the launch of our innovative all-in-one vapes under our Back Forty brand in Q4 2023. We continue to improve our SG&A by reducing overhead across the organization, ending the first quarter with $8.6 million in SG&A expenses, which is 11% lower than Q4 2023 and 15% lower than the comparative period in 2023. The first quarter of 2024 reflects the first full quarter of results where we sold certain Cannabis 2.0 Products produced by our contract manufacturing partners, allowing us to streamline our operations and further reduce overhead costs. We are pleased to have maintained our leadership position in the Canadian cannabis market as the 6th largest licensed producer in Canada by total recreational sales, while also maintaining an industry-leading low-cost structure that resulted in another consecutive quarter of positive Adjusted EBITDA.

Alongside the improvements in revenues, gross margins, and material improvements in Adjusted EBITDA from the same comparative period in 2023, we continue to strengthen our balance sheet. We worked closely with Imperial to convert $123.4 million of debt and interest outstanding under the Imperial Debenture, increasing Imperial's equity holding in Auxly to 19.8%. We also extended the maturity date of Auxly Leamington's credit facility by two years to December 31, 2025.

Looking ahead, we will continue to grow sustainably and expect to see revenue expansion and gross margin improvements, driven by increased consumer demand in the summer months, and higher cultivation yields that continue to drive down operating costs. We believe that the impact of these factors, along with the stabilization of our SG&A, will improve our Adjusted EBITDA profile.

RECENT DEVELOPMENTS: First Quarter 2024 To Date

Imperial Debt Conversion

On March 28, 2024, Imperial, through its wholly owned subsidiary, completed the Imperial Debt Conversion whereby:

- $121.9 million of the principal amount under the Imperial Debenture was converted at an exercise price of $0.81 for 150,433,450 common shares in the capital of the Company;
- $1.5 million of accrued interest was converted and issued, on a private placement basis, into 90,882,667 common shares in the capital of the Company at a price of $0.017; and
- Imperial and Auxly amended the existing amended and restated investor rights agreement dated July 6, 2021 between the parties to, among other things, remove the existing requirement that Imperial will use the Company as its exclusive cannabis partner.

Following the Imperial Debt Conversion: (i) a principal amount of $1.0 million remains outstanding under the Imperial Debenture convertible at $0.81 per share and due on September 25, 2026; (ii) $20.6 million of accrued interest due September 25, 2026 remains outstanding, unless otherwise converted in accordance with the terms of the Imperial Debenture, and will not accrue further interest thereon; and (iii) Imperial owns approximately 19.8% of the Company's common shares.

Auxly Completes Amendment and Extension of Auxly Leamington Credit Facility

On February 1, 2024, the Company announced that it had signed a definitive agreement (the "Amendment Agreement") to amend and restate the credit facility between its wholly owned subsidiary Auxly Leamington Inc. and a syndicate of lenders, led by the Bank of Montreal as administrative agent, upon the following terms:

- Extension of the maturity date by two years until December 31, 2025, with an option for Auxly Leamington to extend the maturity date for an additional year by making a $2.5 million principal repayment by December 31, 2025;
- Updated EBITDA and other financial and operational covenants for Auxly Leamington;
- Increased quarterly principal payments throughout the term; and
- The obligations of Auxly Leamington under the amended and restated credit facility will continue to be supported by a $33.0 million limited guarantee by Auxly and a pledge by Auxly of all its securities of Auxly Leamington.

Also as announced on September 29, 2023, November 30, 2023 and January 3, 2024, respectively, prior to entering into the Amendment Agreement, the Company was granted three interim extensions of the maturity date of the amended and restated credit facility from September 30, 2023 to January 31, 2024, as the Company and the lenders worked towards the formal credit amendment.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

For the three months ended: (000's)		**March 31, 2024**		March 31, 2023		Change	% Change
Net revenues	**$**	**25,241**	$	23,968	$	1,273	5%
Gross margin on finished cannabis inventory sold*		**9,569**		8,943		626	7%
Gross margin on finished cannabis inventory sold (%)*		**38%**		37%		1%	3%
Net income/(loss)		**(26,012)**		(10,249)		(15,763)	-154%
Adjusted EBITDA*		**2,240**		138		2,102	1523%
Weighted average shares outstanding		**1,016,839,478**		954,014,308		62,825,170	7%

As at: (000's)		**March 31, 2024**		December 31, 2023		Change	% Change
Cash and equivalents	**$**	**13,079**	$	15,608	$	(2,529)	-16%
Total assets		**260,127**		261,904		(1,777)	-1%
Debt*		**66,078**		123,579		(57,501)	-47%

*Non-IFRS or supplementary financial measure. Refer to the Non-GAAP Measures section for definitions.

For the period ended March 31, 2024, net revenues were $25.2 million, an increase of approximately $1.3 million or 5% over the same period of 2023. Sales increased primarily as a result of an increased focus on the sale of dried flower and pre-roll products, partially offset by price compression in the adult-use recreational market as the customer and product mix evolve to focus on more value offerings.

The Gross Margin on Finished Cannabis Inventory Sold improved to 38% versus 37% in the same period in 2023, as a result of a higher proportion of Cannabis 1.0 Products sold, and the streamlining of Cannabis 2.0 Products and operating costs.

Net loss of $26.0 million decreased by $15.8 million over the same period in 2023, primarily due to the deferred tax expense on the conversion of the Imperial Debenture into Shares, partially offset by improved operating results in 2024.

Adjusted EBITDA was $2.2 million for the quarter, an improvement of $2.1 million when compared to $0.1 million during the same period of 2023. Adjusted EBITDA for the period ended March 31, 2024 improved primarily as a result of improved gross profits and SG&A reductions.

For the period ended March 31, 2024, the average number of Shares outstanding increased to 1.0 billion Shares, an increase of 62.8 million Shares or 7% over 2023 primarily as a result of the full year impact of Shares issued in the February 2023 private placement and the Shares issued from the Imperial Debt Conversion in March 2024.

Cash and equivalents were $13.1 million on March 31, 2024, a decrease of $2.5 million from December 31, 2023. The change in cash was primarily driven by net cash used in operating activities and payments made towards lease liabilities and debt instruments, partially offset by the proceeds from the second tranche of the October 2023 inventory financing loan.

RESULTS OF OPERATIONS

For the three months ended March 31: (000's)		2024		2023
Revenues				
Revenue from sales of cannabis products	**$**	**38,357**	$	37,544
Excise taxes		**(13,116)**		(13,576)
Total net revenues		**25,241**		23,968
Costs of sales				
Costs of finished cannabis inventory sold		**15,672**		15,025
Inventory impairment		**456**		673
Gross profit/(loss) excluding fair value items		**9,113**		8,270
Unrealized fair value gain/(loss) on biological transformation		**2,773**		4,247
Realized fair value gain/(loss) on inventory		**(2,435)**		(4,639)
Gross profit		**9,451**		7,878
Expenses				
Selling, general, and administrative expenses		**8,621**		10,090
Equity-based compensation		**1,927**		409
Depreciation and amortization		**1,230**		1,745
Interest and accretion expenses		**6,868**		5,808
Total expenses		**18,646**		18,052
Other income/(loss)				
Interest and other income		**19**		14
Gain/(loss) on settlement of assets and liabilities and other expenses		**(634)**		-
Foreign exchange gain/(loss)		**(210)**		(89)
Total other income/(loss)		**(825)**		(75)
Net income/(loss) before income tax		**(10,020)**		(10,249)
Income tax recovery/(expense)		**(15,992)**		-
Net income/(loss)	**$**	**(26,012)**	$	(10,249)
Adjusted EBITDA	**$**	**2,240**	$	138
Net income/(loss) per common share (basic and diluted)	**$**	**(0.03)**	$	(0.01)
Weighted average shares outstanding (basic and diluted)		**1,016,839,478**		954,014,308

Net Revenues

For the period ended March 31, 2024, net revenues were $25.2 million as compared to $24.0 million during the same period in 2023, an increase of 5%. Revenues for 2023 were comprised of approximately 59% (2023 – 54%) in sales of dried flower and pre-roll Cannabis Products, with the remainder from oils and Cannabis 2.0 Product sales. Net revenues included wholesale bulk flower sales of approximately $4.2 million during the period. Approximately 76% (2023 – 85%) of cannabis sales during the period originated from sales to British Columbia, Alberta and Ontario.

Gross Profit

Auxly realized a gross profit of $9.5 million in the first quarter of 2024 resulting in a 37% Gross Profit Margin, as compared to $7.9 million or 33%, respectively, during the same period in 2023. The Gross Margin on Finished Cannabis Inventory Sold improved to 38% versus 37% in the same period of 2023 as a result of a higher proportion of Cannabis 1.0 Products sold, and the streamlining of Cannabis 2.0 Products and operating costs.

Realized and unrealized fair value gains and losses reflect accounting treatments associated with Auxly Leamington cultivation activities and sales and are influenced by changes in production, sales and net realizable value assumptions.

Inventory impairments during the first quarter of 2024 of $0.5 million were associated with charges related to reductions in net realizable value of dried cannabis under the Company's product specifications and obsolescence of certain retired products and packaging, a decrease of $0.2 million from the comparative period.

Total Expenses

Selling, general and administrative expenses ("SG&A") are comprised of wages and benefits, office and administrative, professional fees, business development, and selling expenses. SG&A expenses were $8.6 million in the first quarter of 2024, $1.5 million or 15% lower than the same period in 2023, primarily due to measures taken to reduce overhead in the organization.

Wages and benefits were $4.3 million for the first quarter of 2024, as compared to $4.7 million for the same period of 2023. The decrease in expenses was related to the streamlining of operations and support staff as a result of a more focused product portfolio.

Office and administrative expenses were $1.4 million for the first quarter of 2024, $0.9 million lower than the same period in 2023. The decreased expenditures primarily relate to streamlining of operations, the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities to the Auxly Leamington facility, and reduced insurance expenses.

Auxly's professional fees were $0.5 million during the first quarter of 2024, $0.3 million lower than the same period in 2023. Professional fees incurred primarily related to accounting fees, regulatory matters, reporting issuer fees, and legal fees associated with certain corporate activities and as a result can fluctuate significantly from one period to the next.

Business development expenses were $0.1 million for the first quarter of 2024, flat to the same period in 2023. These expenses primarily relate to business development and travel related expenses.

Selling expenses were $2.4 million for the first quarter of 2024, an increase of $0.1 million over 2023, primarily as a result of higher Health Canada fees related to higher revenues, partially offset by reduced marketing initiatives.

Equity-based compensation for the first quarter of 2024 was $1.9 million, primarily due to the impact of the increased closing price of the Company's Shares as at March 31, 2024 on the value of Cash Settled RSUs. In the first quarter of 2023, equity-based compensation was $0.4 million.

Depreciation and amortization expenses were $1.2 million for the first quarter of 2024, representing a decrease of $0.5 million over the same period in 2023, primarily as a result of reductions in intangible assets and depreciation associated with disposed assets, including the transition out of the Auxly Ottawa Carleton Place facility.

Interest expenses were $6.9 million for the first quarter of 2024, an increase of $1.1 million over the same period in 2023. The increase in expense is primarily a result of the interest from newly financed obligations and higher accretion expense on convertible debentures. Interest expense includes accretion on the convertible debentures and interest paid in kind on the Imperial Debenture. Interest payable in cash was approximately $2.3 million for the first quarter of 2024, an increase of $0.3 million over the same period in 2023.

Total Other Incomes and Losses

Total other incomes and losses for the first quarter of 2024 were a net loss of $0.8 million compared to a net loss of $0.1 million in the comparative period. Other incomes and losses in the first quarter of 2024 were mainly driven by the loss on the adjustment to the provision related to the claim filed by Kindred Partners Inc. and foreign exchange losses. Other incomes and losses in 2023 were primarily due to foreign exchange losses.

Net Income and Loss

Net loss for the three months ended March 31, 2024 was $26.0 million, representing a net loss of $0.03 per share on a basic and diluted basis. The change in net loss in 2024 as compared to a net loss of $10.2 million in the same period of 2023 was primarily driven by the deferred tax expense on the conversion of Imperial Debenture into Shares, partially offset by improved gross profits and lower expenses.

Adjusted EBITDA

Adjusted EBITDA for the period ended March 31, 2024 was $2.2 million, an improvement of $2.1 million over the same period of 2023, primarily as a result of improvements in gross profits and SG&A.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23	**Q1/24**
Net revenues	$ 27,335	$ 19,830	$ 24,681	$ 23,968	$ 21,990	$ 28,211	$ 26,909	**$ 25,241**
Cost of finished cannabis inventory sold	20,574	14,921	17,245	15,025	16,035	19,618	16,105	**15,672**
Gross margin on finished cannabis inventory sold*	6,761	4,909	7,436	8,943	5,955	8,593	10,804	**9,569**
Gross margin on finished cannabis inventory sold (%)*	25%	25%	30%	37%	27%	30%	40%	**38%**
Net income/(loss)	(14,289)	(60,102)	(16,056)	(10,249)	(12,863)	32,621	(54,020)	**(26,012)**
Adjusted EBITDA*	(3,995)	(5,776)	(783)	138	(1,078)	117	2,294	**2,240**
Average shares outstanding (000's)	888,267	901,521	905,819	954,014	1,002,014	1,002,069	1,005,195	**1,016,839**
Per share: Basic & diluted loss	(0.02)	(0.07)	(0.02)	(0.01)	(0.01)	0.03	(0.05)	**(0.03)**

*Non-IFRS financial measure. Refer to the Non-GAAP Measures section in this MD&A for definitions.

The Company commenced cannabis sales to the Canadian adult recreational market with the legalization of Cannabis 2.0 Products in the fourth quarter of 2019. Since that date, the Company has continued to introduce new products including Cannabis 1.0 Products to increase total net revenues. To date, net revenues have been seasonally low during the first quarter of any year as a result of retail sales trends which impact the Company's provincial customers' purchasing practices. The Company's expansion into the larger dried flower and pre-roll product categories has contributed to the generally increasing sales trend in what continues to be a volatile sales environment.

Gross Margin on Finished Cannabis Inventory Sold is a non-IFRS measure that the Company defines as net revenues less cost of finished cannabis inventory sold divided by net revenues. Management believes that this measure provides useful information to assess the profitability of our operations as it represents the gross margin generated from operations and excludes the effects of non-cash inventory and biological asset impairments and fair value adjustments on inventories and biological assets, which are required by IFRS. The Gross Margin on Finished Cannabis Inventory Sold has improved through 2023 and into 2024 as a result of the shift in sales mix towards Cannabis 1.0 Products that leverage Auxly Leamington's low-cost structure, operational improvements at Auxly Charlottetown including the outsourcing of certain Cannabis 2.0 Products, and the consolidation of our dried flower and pre-roll manufacturing capabilities at Auxly Leamington that included automation efficiencies.

Net income and losses have fluctuated over the eight quarters primarily as a result of other losses which include impairment charges, fair value adjustments and gains and losses on settlement of assets and liabilities. The first quarter of 2024 reflects the deferred tax expense on the conversion of Imperial Debenture into Shares. The fourth quarter of 2023 reflects the impact of the disposal of Inverell and also reflects pre-tax charges of $35.9 million related to the impairment of other assets, noting that the Company's market capitalization trades significantly below its shareholders' equity. The third quarter of 2023 reflects the impact of the gains on the extension of the Imperial Debenture. The second quarter of 2023 reflects the impact of the transition of the Company's dried flower and pre-roll cannabis product manufacturing from Auxly Ottawa to Auxly Leamington. The third quarter of 2022 reflects pre-tax charges of $45.0 million related to the impairment of goodwill and other assets.

Adjusted EBITDA has fluctuated with changes in net revenues, changes to product mix with an increase of dried flower and pre-roll Cannabis Products, and the timing of SG&A expenditures, in particular selling expenses. Improvements since the second half of 2023 compared to the historical average reflect the impact of lower cultivation costs, improved overall margins and reductions in SG&A during the period.

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, equity-based awards or post-employment benefits.

Compensation provided to current and key management personnel is as follows:

For the three months ended March 31: (000's)		**2024**		2023
Short-term benefits	**$**	**436**	$	442
Long-term benefits		**1,280**		260
Total	**$**	**1,716**	$	702

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31: (000's)		**2024**		2023
Cash provided by/(used in) operating activities	**$**	**(2,234)**	$	3,230
Net change in investments and proceeds from sale of assets		**294**		-
Capital expenditures		**(305)**		(506)
Cash provided by/(used in) investing activities		**(11)**		(506)
Net cash provided by/(used in) financing activities		**(284)**		(519)
Cash position, at the beginning of the period		**15,608**		14,636
Cash position, end of period	**$**	**13,079**	$	16,841

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 March 31, 2024, Auxly used $2.2 million in operating activities, mainly driven by the negative impact of $2.1 million from net changes in working capital. Net investing activities for the three months ended March 31, 2024 were flat, driven by $0.3 million of capital expenditures at Auxly Leamington and Auxly Ottawa, offset by proceeds from the sale of assets. Net financing activities were a use of cash of $0.3 million for the three months ended March 31, 2024 that reflects the repayment of the Company's loans, lease and other payments, partially offset by the proceeds from the second tranche of the inventory financing loan.

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. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

On March 31, 2024, the Company had total cash and cash equivalents of $13.1 million, negative working capital of $26.6 million, and cash flow used in operating activities of $2.2 million for the three months ended March 31, 2024. The Company will have insufficient cash to fund its operations for the next 12 months if the Company's sales do not improve or if they decline; if the Company's margins do not improve or if they decline; and/or if the Company's selling, general and administrative expenses increase. The Company's ability to sustain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following March 31, 2024. To address its financing requirements, the Company will seek financing through debt and equity financings (which may include use of an at-the-market offering program and/or rights offerings to existing shareholders) and non-core asset sales. The Company will also seek to improve its sales and cash flows by prioritizing certain products and projects with a greater expected return and reduce 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 and price compression across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market, and overall negative investor sentiment in light of inflation and global conflicts. Accordingly, there can be no assurance that the Company will achieve profitability, or secure financing on terms favourable to the Company or at all.

Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these interim condensed consolidated financial statements should such events impair the Company's ability to continue as a going concern.

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 "*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.

	May 10, 2024	March 31, 2024	December 31, 2023
Issued Shares	1,252,945,718	1,251,348,802	1,013,138,454
Escrowed shares	1,888,421	1,888,421	6,994,190
Outstanding shares	1,251,057,297	1,249,460,381	1,006,144,264
Outstanding securities			
Warrants	156,059,949	156,059,949	187,977,199
Convertible debentures	46,481,002	46,481,002	196,914,452
Options	19,985,803	21,535,803	19,721,837
Restricted share units	49,304,309	51,286,687	51,286,687

Shares outstanding as at March 31, 2024 increased by approximately 243.3 million to 1,249.5 million primarily as a result of the conversion of 150.4 million units of the Imperial Debenture into Shares. The number of warrants decreased to 156.1 million as a result of expired warrants and the conversion of 2.0 million of warrants, issued as part of the February 2023 private placement, into Shares. The number of options increased to 21.5 million as at March 31, 2024 due to options granted, partially offset by employee forfeitures and options expired.

NON-GAAP 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 months ended March 31, 2024, and notes 2 and 3 of the annual consolidated financial statements for the year ended December 31, 2023.

This MD&A makes reference to certain financial measures, including non-GAAP measures that are historical, non-IFRS measures that are forward-looking, and supplementary financial measures. Management uses these financial measures for the purpose of comparison to prior periods and the development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use the following non-GAAP financial measures: "EBITDA", "Adjusted EBITDA," and the supplementary financial measures of "Gross Margin on Finished Cannabis Inventory Sold", "Gross Profit Margin", and "Debt."

Financial Measures

EBITDA and Adjusted EBITDA

These are non-GAAP measures 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. EBITDA and Adjusted EBITDA used by the Company are 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)	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23	**Q1/24**
Net income/(loss)	$ (14,289)	$ (60,102)	$ (16,056)	$ (10,249)	$ (12,863)	$ 32,621	$ (54,020)	**$ (26,012)**
Interest and accretion expense	5,336	5,507	5,655	5,808	6,457	6,613	6,837	**6,868**
Interest and other income	(84)	(105)	(63)	(14)	20	(16)	(22)	**(19)**
Income tax recovery	(85)	(2,110)	(1,112)	-	-	-	(3,238)	**15,992**
Depreciation and amortization included in cost of sales	2,180	681	1,296	1,120	911	1,151	1,084	**1,292**
Depreciation and amortization included in expenses	3,900	3,525	2,791	1,745	1,673	1,817	1,708	**1,230**
EBITDA	(3,042)	(52,604)	(7,489)	(1,590)	(3,802)	42,186	(47,651)	**(649)**
Impairment of inventory	1,778	2,014	2,062	673	1,459	3,233	5,109	**456**
Unrealized fair value loss/(gain) on biological transformation	(11,735)	(7,496)	(2,814)	(4,247)	(4,713)	(4,766)	(2,481)	**(2,773)**
Realized fair value loss/(gain) on inventory	6,898	8,175	7,382	4,639	3,146	5,538	5,428	**2,435**
Restructuring related costs	-	193	-	165	86	29	131	**-**
Equity-based compensation	2,916	475	429	409	377	707	148	**1,927**
Impairment of assets	-	42,831	676	-	2,588	-	37,118	**-**
Non-recurring bad debt expense	-	-	-	-	780	360	-	**-**
(Gain)/loss on settlement of assets, liabilities and disposals	(163)	1,574	(1,330)	-	(1,478)	(46,887)	4,006	**634**
Foreign exchange loss/(gain)	(647)	(938)	301	89	479	(283)	486	**210**
Adjusted EBITDA	$ (3,995)	$ (5,776)	$ (783)	$ 138	$ (1,078)	$ 117	$ 2,294	**$ 2,240**

Supplementary Financial Measures

Gross Margin on Finished Cannabis Inventory Sold

"Gross Margin on Finished Cannabis Inventory Sold" is a supplementary financial measure and is defined as net revenues less cost of finished cannabis inventory sold divided by net revenues.

Gross Profit Margin

"Gross Profit Margin" is defined as gross profit divided by net revenues. Gross Profit Margin is a supplementary financial measure.

Debt

"Debt" is defined as current and long-term debt and is a supplementary financial measure. It is a useful measure in managing our capital structure and financing requirements.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2024, 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 debt financing provided by a syndicate led by BMO towards the construction of the Auxly Leamington purpose-built greenhouse facility, the Company has guaranteed payments up to $33 million in the event of default;

Payments of an aggregate of €1.3 million in 2024 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities;

Annual payments of approximately $0.1 million for minimum annual volume requirement with Union Gas, with agreement ending August 1, 2029; and

Annual payments of approximately $0.1 million until 2025 for guaranteed minimum purchase of bulk carbon dioxide with Air Liquide.

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 2024	Fiscal year 2025	Fiscal year 2026	Fiscal year 2027	Thereafter	Total
Lease obligations	$ 2,491	$ 3,158	$ 3,182	$ 2,397	$ 8,751	**$ 19,979**
Loans payable obligations	12,847	44,847	-	-	-	**57,694**
Promissory note obligations	1,200	1,200	1,200	1,136	-	**4,736**
Convertible debenture obligations	6,535	71	1,030	-	-	**7,636**
Total	**$ 23,073**	**$ 49,276**	**$ 5,412**	**$ 3,533**	**$ 8,751**	**$ 90,045**

Long-term debt obligations include principal and interest on the Imperial Debenture maturing on September 25, 2026. Pursuant to the prior amendments to the Imperial Debenture, interest payable may also be converted to Shares or capitalized and paid at maturity.

Concurrently with the acquisition of Auxly Leamington, Auxly Leamington and Fresh Energy Inc. agreed to complete the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea Rd 9 PH 5 (the "Transfer") for which Auxly Leamington shall pay Fresh Energy consideration of:

- an unsecured promissory note in the principal amount of $3,000 payable in monthly instalments of $100 for 30 months (the "Fresh Energy Promissory Note") and;
- contingent consideration payable of $500 upon the completion of effecting such Transfer, included in the consideration paid for the acquisition of Auxly Leamington.

In June 2023, the Company entered into an agreement to amend the Fresh Energy Promissory Note whereby the $500 contingent consideration was added to the remaining principal amount outstanding and the Company shall continue to pay monthly instalments of $100 until the revised outstanding amount is repaid. As of March 31, 2024, the Company has repaid $2,364 of principal owing under the Fresh Energy Promissory Note. Subsequent to March 31, 2024, the Company and Fresh Energy entered into a second agreement to amend the Fresh Energy Promissory Note to revise the payment schedule for the remaining principal outstanding. Under the revised payment plan, the monthly instalments were reduced to $25 for 12 months beginning March 15, 2024 and resume to $100 until the outstanding amount is repaid. The maturity date of the amended Fresh Energy Promissory Note is July 15, 2025

In June 2023, the Company entered into an agreement to amend the $3,400 unsecured promissory note owing to Peter Quiring, which required the Company to pay monthly instalments of $100 for 36 months, starting November 2024 and maturing in November 2027. Subsequent to March 31, 2024, the unsecured note owing to Peter Quiring was amended for a second time, such that the Company will be required to pay monthly instalments of $100, starting in August 2025 and maturing in November 2028, and a one-time payment of $72 on the maturity date of the note. The unsecured promissory note bears interest of 8.0% per annum between November 2024 and August 2025, and 6.0% per annum starting in August 2025.

The Company entered into a brokerage agreement with Kindred Partners Inc. ("Kindred") to act as the Company's strategic sales agent in September 2019. In October 2022, the brokerage agreement with Kindred was terminated. In January 2023, Kindred commenced arbitration against the Company for an aggregate claim of $3,442. The Company has filed its defence and counterclaim against Kindred. As at March 31, 2024, the Company has recorded a provision of $1,767 related to this claim.

The Company and its subsidiaries 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 interim condensed consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 of goodwill and intangible assets

The carrying value of goodwill and intangible assets is reviewed annually for impairment or more frequently when there are indicators that impairment may have occurred. The Company's impairment tests for goodwill and intangible assets are based on the comparison of the carrying amount of the CGU and the recoverable amount, which is the greater of value-in-use calculations that use a discounted cash flow model and estimated fair value less cost of disposal. The determination of the Company's CGUs are based on management's judgment.

If the recoverable amount of the CGU is greater than the carrying amount, the difference is written off as impairment loss. The impairment loss is first allocated to goodwill and the remainder is allocated to other assets of the CGU subject to the limitation that the carrying amount of an asset should not be reduced below the highest of fair value less cost of disposal, value in use or zero.

The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost of disposal is based on assessment of comparable company multiples and precedent transactions. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

The discount rates used to calculate impairment analysis are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, expected yields for the cannabis plants, selling costs, and average or expected selling prices. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 6.

Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Equity-based compensation

In calculating the equity-based compensation expense, key estimates such as the rate of forfeiture of options and RSUs granted, the expected life of the option and RSU, the volatility of the Company's stock price, forfeiture rates and the risk-free interest rate are used.

Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating the fair value of Level 3 investments, the Company uses market-observable data to the extent it is available.

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

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").

The Company has used the Internal Control – Integrated Framework (2013) from COSO in order to assess the effectiveness of the Company's internal control over financial reporting. There are no material weaknesses relating to the design of either ICFR or DCP at March 31, 2024. There have been no changes to our ICFR during the quarter ended March 31, 2024, that has materially affected, or is reasonably likely to materially affect, Auxly's ICFR.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, Auxly intends to take whatever steps are necessary to minimize the consequences thereof.

CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting pronouncements

Amendments to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

In January 2020 and October 2022, the IASB issued amendments to clarify the requirements for classifying liabilities current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those that 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, 2024, with early adoption permitted, and the amendments are to be applied retrospectively. The Company adopted the amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1"), effective January 1, 2024, and reclassified comparative figures. As at March 31, 2024, interest payable of $20.6 million (December 31, 2023 – $20.9 million) related to the Imperial convertible debentures has been classified as current liabilities as a result of the amendments to IAS 1.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Auxly's financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, deposits, long-term investments, accounts payable and accrued liabilities, promissory notes, loans payable, convertible debentures, other current liabilities, and other non-current liabilities. 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. Other receivables relate 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 March 24, 2024, 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 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 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 success, and integration of operations, of the entities the Company acquires and the Company's collaborations;
- any ongoing construction, expansions, consolidations, improvements, commissioning of the Company's facilities, equipment or assets, including those of Auxly Charlottetown, Auxly Leamington and Auxly Ottawa, and the timing thereof;
- the intention of the Company to sell the Auxly Ottawa assets and the proposed use of any proceeds;
- expectations regarding the anticipated benefits of the Imperial Debt Conversion;
- inventory and production capacity, including discussions of anticipated yields or plans or potential for expansion of capacity at existing 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 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, 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 to use consumer insights to drive innovation; continuously innovate new cannabis products; and introduce innovative cannabis products to the market;
- the ability of the Company, its subsidiaries and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- the ability of the Company to maintain and/or increase its wholesale bulk cannabis sales;
- expectations regarding the Company's licences, including in respect of the grant and maintenance 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 expectation, timing and quantum of future revenues, Gross Margin on Finished Cannabis Inventory Sold, SG&A and of positive Adjusted EBITDA;
- expectations regarding the costs and benefits associated with third party contract manufacturing agreements;
- expectations regarding the Company's expansion of sales, operations and investment into foreign jurisdictions;

- the performance of the Company's business and operations;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- the Company's competitive position.

The forward-looking statements in this MD&A are based on information currently available and what management believes are reasonable assumptions. Forward-looking statements speak only to such assumptions as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, the accuracy of which has not been verified by 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:

- 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;
- 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 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 Products;
- the Company will be able to execute on its business strategy or achieve its goals;
- the Company will be able to maintain and/or grow its market share;
- the Company's subsidiaries will be able to meet the governmental and regulatory requirements necessary to 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;
- the Company will be able to manage anticipated and unanticipated costs;

- the Company will be able to sell the Auxly Ottawa assets and achieve the anticipated cost savings from the closure of the facility;
- the expected benefits of the Imperial Debt Conversion materialize in the manner expected, or at all;
- Auxly Leamington will generate sufficient cash flow to satisfy its payment obligations under the amended and restated credit facility; and whether Auxly Leamington will remain in compliance with its operating covenants under the amended and restated credit facility;
- the expected benefits of the credit facility Amendment Agreement materialize in the manner expected, or at all;
- Auxly will be able to maintain effective internal controls over financial reporting and disclosure, controls and procedures;
- there will not be material price compression in the cannabis industry;
- the Company will be able to continue to achieve and maintain its target SG&A expenses;
- the Company will be able to increase and maintain revenues, achieve and maintain positive Adjusted EBITDA and/or achieve and maintain its target Gross Margin on Finished Cannabis Inventory Sold;
- the Company will be able to continue to further expand production capacity and introduce new products and product formats;
- the Company will be able to increase its wholesale bulk cannabis sales;
- the Company will be able to successfully launch and commercialize new brands, create new products and product formats and enter into new markets; and
- there is acceptance and demand for current and future Company products 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.