AUXLY CANNABIS GROUP INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
Stated in thousands of Canadian Dollars, unless otherwise noted

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

Note to Reader:
These financial statements are refiled to include column headers indicating the applicable periods on page 3 of the statements. No other changes were made.

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

		September 30 2018		December 31 2017
Assets				
Current assets				
Cash and cash equivalents	$	236,920	$	33,454
Other receivables		7,410		460
Biological assets (Note 4)		1,263		-
Inventory (Note 5)		1,853		-
Note receivable		2,527		1,171
Research contract costs		1,236		-
Debt obligation receivable in product equivalents (Note 12)		14,929		-
Prepaid expenses		2,337		436
		268,475		35,521
Non-current assets				
Debt obligation receivable in product equivalents (Note 12)		-		6,378
Long-term investments (Note 10)		51,858		13,501
Investment in joint venture (Note 11)		19,295		-
Property, plant and equipment (Note 6)		20,098		3,474
Intangible assets (Note 7, 8)		110,487		29,205
Goodwill (Note 9)		30,827		4,500
		232,565		57,058
Total assets	$	501,040	$	92,579
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	9,712	$	6,115
Interest payable on convertible debenture (Note 13)		1,592		655
Research contract liabilities		1,990		-
Other current liabilities (Note 8)		4,248		-
		17,542		6,770
Non-current liabilities				
Convertible debenture (Note 13)		92,327		17,738
Long-term loans		1,000		912
Deferred tax liability (Note 20)		22,348		4,366
		115,675		23,016
Total liabilities		133,217		29,786
Equity				
Share capital (Note 15)		348,890		60,813
Shares to be issued (Note 15)		10,373		-
Reserves (Note 15)		49,809		18,206
Accumulated other comprehensive income		7,396		3,515
Deficit		(51,438)		(19,741)
Total equity attributable to shareholders of the Company		365,030		62,793
Total equity attributable to non-controlling interest		2,793		-
Total equity		367,823		62,793
Total liabilities and equity	$	501,040	$	92,579

The condensed consolidated interim financial statements were approved by the Board of Directors on November 12, 2018 and were signed on its behalf by:

(s) Chuck Rifici
Chuck Rifici

(s) Brandon Boddy
Brandon Boddy

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the Three and Nine Months Ended September 30, 2018 and 2017

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

	Three months Ended September 30 2018	Three months Ended September 30 2017	**Nine months Ended September 30 2018**	Nine months Ended September 30 2017
Income				
Revenue from sales of cannabis products	**$** -	$ -	**$** -	$ -
Costs of finished cannabis inventory sold	-	-	-	-
Production expense	(534)	-	(534)	-
Realized fair value amounts included in inventory sold	-	-	-	
Unrealized fair value gain on biological transformation (Note 4)	537	-	537	-
Profit from operations	**3**	-	**3**	-
Other income				
Net revenue from research contracts (Note 3)	**512**		**512**	
Fair value changes for financial instruments accounted under FVTPL (Note 10, 12)	**6,202**	-	**7,102**	-
Total income	**6,717**	**-**	**7,617**	**-**
Expenses				
Wages and salaries	**2,148**	694	**5,129**	694
Director fees	**-**	-	**-**	8
General and administration	**881**	497	**3,310**	634
Professional fees	**2,605**	1,335	**5,276**	2,797
Business development	**1,208**	2,257	**5,800**	3,547
Selling expenses	**223**	-	**223**	-
Share-based payments (Note 15)	**8,939**	-	**14,500**	147
Depreciation and amortization (Note 6, 7)	**200**	1	**390**	1
Interest expense	**234**	427	**1,618**	427
Foreign exchange loss (gain)	**445**	-	**396**	-
Share of loss on equity investments (Note 11)	**173**	-	**173**	-
Total expenses	**17,056**	5,211	**36,815**	8,255
Loss before undernoted items	**(10,339)**	(5,211)	**(29,198)**	(8,255)
		-		
Accretion expense (Note 13)	**(1,220)**	(692)	**(3,387)**	(717)
Loss on settlement of debt (Note 14)	**35**	-	**(4,156)**	-
	(1,185)	(692)	**(7,543)**	(717)
Net loss before income tax	**(11,524)**	(5,903)	**(36,741)**	(8,972)
Deferred tax recovery (Note 20)	**1,644**	-	**4,178**	-
Net loss	**$ (9,880)**	$ (5,903)	**$ (32,563)**	$ (8,972)
Net loss attributable to shareholders of the Company	**(9,299)**	(5,903)	**(31,697)**	(8,972)
Net loss attributable to non-controlling interest	**(581)**	-	**(866)**	-
Other comprehensive income (loss)				
Fair value change on fair value through other comprehensive income investments - not subsequently reclassified to profit or loss (net of tax) (Note 10)	**$ 5,812**	$ 200	**$ 3,881**	$ 200
Currency translation adjustment - not subsequently reclassified to profit or loss	**(524)**	$ -	**351**	-
Total comprehensive loss	**$ (4,592)**	$ (5,703)	**$ (28,331)**	$ (8,772)
Total comprehensive loss attributable to shareholders of the Company	**(3,487)**	(5,703)	**(27,816)**	(8,772)
Total comprehensive loss attributable to non-controlling interest	**(1,105)**	-	**(515)**	-
Net loss per common share				
Basic and diluted	**$ (0.02)**	$ (0.03)	**$ (0.07)**	$ (0.06)
Weighted average number of shares outstanding				
Basic and diluted	**544,626,362**	199,583,181	**459,488,849**	139,172,611

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

AUXLY CANNABIS GROUP INC.

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

	September 30 2018	September 30 2017
Operating activities		
Net loss for the period	**$ (32,563)**	$ (8,972)
Items not affecting cash:		
Unrealized fair value gain on biological transformation	**(537)**	-
Depreciation and amortization (Note 6, 7)	**390**	1
Share-based payments (Note 15)	**14,500**	147
Accretion expense (Note 13)	**3,387**	717
Equity pickup on investments in JV (Note 11)	**173**	
Fair value changes on investments	**(7,102)**	-
Deferred income tax recovery (Note 20)	**(4,178)**	-
Loss on settlement of debt (Note 14)	**4,156**	-
Changes in non-cash working capital items:		
Other receivables	**(5,297)**	(137)
Prepaid expenses	**(1,589)**	(185)
Interest payable on convertible debentures (Note 13)	**937**	
Inventory	**(1,247)**	-
Biological assets	**(709)**	
Work in progress - research	**(17)**	-
Accounts payable and accrued liabilities	**1,408**	193
Other liabilities	**3,167**	
Deferred revenue	**(470)**	
Net cash used in operating activities	**(25,591)**	(8,236)
Investing activities		
Issuance of promissory notes	**(1,882)**	(650)
Investment of debt obligation receivable in product equivalents (Note 12)	**(6,983)**	-
Investment in long-term investments (Note 10)	**(26,690)**	(6,200)
Investment in joint venture (Note 11)	**(9,027)**	-
Investment in intangible assets (Note 7)	**(14,103)**	(11,000)
Purchase of capital assets (Note 6)	**(9,249)**	(55)
Net cash used for business combinations (Note 8)	**(7,373)**	-
Deposits with streaming partners	-	(250)
Net cash used in investing activities	**(75,307)**	(18,155)
Financing activities		
Proceeds from share, special warrant and unit issuances	**109,359**	21,278
Net proceeds from convertible debentures (Note 13)	**100,000**	27,686
Proceeds from share options exercised (Note 15)	**550**	-
Proceeds from warrants exercised (Note 15)	**91,597**	891
Proceeds from broker warrant units exercised (Note 15)	**3,420**	-
Repayment of long-term debt	**(562)**	-
Proceeds from long-term debt	-	1,912
Net cash from financing activities	**304,364**	51,767
Net increase in cash and cash equivalents	**203,466**	25,376
Cash position, beginning of period	**33,454**	307
Cash position, end of period	**$ 236,920**	$ 25,683

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Expressed in thousands of Canadian Dollars, except share amounts

Unaudited

	Attributable to the shareholders of the Company									
	Share Capital			Reserves						
	Number of Shares	Share Capital	Share to Be Issued	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance December 31, 2017	263,452,946	$ 60,813	$ -	$ 12,002	$ 4,870	$ 1,334	$ (19,741)	$ 3,515	$ -	$ 62,793
Equity component of convertible debentures issued on private placement January 2018 (Note 13)	-	-	-	3,195	-	6,765	-	-	-	9,960
Units issued on private placement May 2018	82,225,000	90,459	-	18,900	-	-	-	-	-	109,359
Contingent shares on acquisition of Kolab released from escrow (Note 15)	4,999,971	-	-	-	-	-	-	-	-	-
Shares issued on acquisition of Robinsons (Note 8)	5,369,126	9,889	-	-	-	-	-	-	-	9,889
Shares and warrants issued on acquisition of Dosecann (Note 8)	21,284,182	33,783	-	5,481	-	-	-	-	-	39,264
Shares issued on acquisition of KGK Science (Note 8)	4,132,231	4,092	-	-	-	-	-	-	-	4,092
Shares to be issued for acquisition of Inverell (Note 8)	-	-	10,373	-	-	-	-	-	-	10,373
Shares and warrants issued for Data Licensing Agreement (Note 7)	359,211	528	-	61	-	-	-	-	-	589
Shares issued to Province (Note 10)	303,030	436	-	-	-	-	-	-	-	436
Shares issued to Cannabis One-Five (Note 10)	429,507	326	-	-	-	-	-	-	-	326
Investment in joint venture (Note 11)	1,250,000	4,073	-	6,368	-	-	-	-	-	10,441
Shares issued on exercise of warrants (Note 15)	145,612,106	91,597	-	-	-	-	-	-	-	91,597
Fair value transfer on exercise of warrants (Note 15)	-	15,773	-	(15,773)	-	-	-	-	-	-
Exercise of broker warrant units (Note 15)	3,419,549	1,858	-	3,061	(1,499)	-	-	-	-	3,420
Cancellation of warrants (Note 15)	-	-	-	(237)	237	-	-	-	-	-
Units issued on investment in Inner Spirit (Note 10)	674,418	1,275	-	702	-	-	-	-	-	1,977
Shares issued for debt settlement (Note 14)	2,984,959	6,806	-	-	-	-	-	-	-	6,806
Shares issued on conversion of convertible debt (Note 13)	22,039,998	20,222	-	-	-	(1,409)	-	-	-	18,813
Share-based payments (Note 15)	-	-	-	-	8,469	-	-	-	-	8,469
Stock options issued to Good Leaf (Note 10)	-	-	-	-	433	-	-	-	-	433
Shares issued on exercise of stock options (Note 15)	550,000	550	-	-	-	-	-	-	-	550
Fair value transfer on exercise of stock options (Note 15)	-	378	-	-	(378)	-	-	-	-	-
Shares issued as employee awards (Note 15)	5,913,334	6,032	-	-	-	-	-	-	-	6,032
Deferred income tax (Note 20)	-	-	-	-	-	(2,773)	-	-	-	(2,773)
Non-controlling interest arising from acquisitions	-	-	-	-	-	-	-	-	3,308	3,308
Net Loss	-	-	-	-	-	-	(31,697)	-	(866)	(32,563)
Changes in fair value of long-term investments	-	-		-	-	-	-	3,881	-	3,881
Currency translation adjustment	-	-	-	-	-	-	-	-	351	351
Balance September 30, 2018	564,999,568	$ 348,890	$ 10,373	33,760	$ 12,132	$ 3,917	$ (51,438)	$ 7,396	$ 2,793	$ 367,823

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

AUXLY CANNABIS GROUP INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Expressed in thousands of Canadian Dollars, except share amounts
Unaudited

	Share Capital		Reserves					
	Number of Shares	Share Capital	Warrants	Contributed Surplus	Convertible Debenture	Deficit	Accumulated Other Comprehensive Income	Total Equity
Balance December 31, 2016	9,035,001	$ 1,758	$ -	$ 190	$ -	$ (1,564)	$ -	$ 384
Units issued on private placement January	60,927,546	740	377	-	-	-	-	1,117
Units issued on private placement March 14th	54,818,319	638	367	-	-	-	-	1,005
Units issued on private placement March 21st	21,713,649	253	145	-	-	-	-	398
Shares issued on exercise of warrants	38,229,243	891	-	-	-	-	-	891
Fair value transfer on exercise of warrants	-	241	(241)	-	-	-	-	-
Share issuance costs	-	(24)	-	18,183	-	-	-	18,159
Broker warrant units issed on private placement June 29th	-	-	-	1,597	-	-	-	1,597
Equity component of convertible debtentures issued on private placement June 29th	-	-	749	-	1,916	-	-	2,665
Share-based payments	-	-	-	147	-	-	-	147
Changes in fair value of long-term investments	-	-	-	-	-	-	200	200
Net Loss	-	-	-	-	-	(8,972)	-	(8,972)
Balance September 30, 2017	184,723,758	$ 4,497	$ 1,397	$ 20,117	$ 1,916	$ (10,536)	$ 200	$ 17,591

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

1. Nature of operations and going concern

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

2. Basis of preparation

Statement of compliance

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

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

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

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

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2017. These interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on November 12, 2018.

3. Significant accounting policies

Basis of Consolidation

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

3. Significant accounting policies (continued)

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

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

Presentation and functional currency

The consolidated financial statements and notes are presented in thousands of Canadian dollars. The functional currency for Auxly Cannabis Group Inc., Kolab Project Inc., Knightswood Holdings Ltd., Dosecann Inc., Robinson's Cannabis Inc., and KGK Science Inc. is Canadian dollars. The functional currency for Inverell S.A. is US dollars.

Interest in Joint ventures

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

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

Biological Assets

The Company's biological assets consist of medical cannabis plants which are valued at fair value less cost to sell, and hemp plants which are valued at amortized costs. The fair value was determined using the income approach.

Production costs include all direct and indirect costs relating to biological transformation, which are expensed as they were incurred on the consolidated statement loss and comprehensive loss.
The direct and indirect costs include the following:

- Direct materials consumed in the growing process such as soil, chemicals, fertilizers and other supplies
- Direct labour for individuals who work in the cultivation department
- Indirect labour for other personnel's time spent related to the cultivation process
- Indirect materials consumed related to the cultivation process
- Utility related to the cultivation process
- Depreciation and maintenance of production equipment
- Quality assurance on the plants

The Company measures and adjusts the biological assets to the fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

3. Significant accounting policies (continued)

Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are included as a separate line in the gross profit calculation on the consolidated statements of loss and comprehensive loss.

Inventory

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested medical cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the initial cost. Inventories of harvested hemp are transferred from biological assets at their carrying amount upon harvest which becomes the initial cost. Any subsequent post-harvest costs, either direct or indirect, are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value on the consolidated statements of financial position. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to net realizable value.

The post-harvest direct and indirect costs include the following:

- Direct materials such as packages, labels and bottles
- Direct labour for individuals who work in the processing department
- Indirect labour for other personnel's time spent related to the production process
- Indirect materials consumed related to the production process
- Utility related to the post-harvest process
- Depreciation and maintenance on dried cannabis processing and packaging equipment
- Quality assurance for the final product

The post-harvest costs capitalized in finished cannabis products and costs of other resale products are subsequently recorded in cost of goods sold on the consolidated statements of loss and comprehensive loss when they are sold. The realized initial costs upon sales, transferred from biological assets measured at fair value less costs to sell at harvest are presented as a separate line in the gross profit calculation on the consolidated statements of loss and comprehensive loss.

Revenue from contracts with customers

The Company has adopted IFRS 15, Revenue from Contracts with Customers. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

As the Company did not have any revenues during the prior year, the adoption of this standard had no material impact on the consolidated financial statements.

3. Significant accounting policies (continued)

The Company follows the five-step model in the Standard to recognize revenue

1) Identify the contract with a customer
2) Identify the performance obligations in the contract
3) Determine the transaction price
4) Allocate the transaction price to performance obligations in the contract
5) Recognize revenue when the Company satisfies a performance obligation

Nature of goods and services

The Company has not commenced medical cannabis or hemp product sales. During the nine-month period ended September 30, 2018, the Company principally generated revenue from providing research services for customers who are conducting human clinical trials.

Billing or payments received from customers in advance of revenue recognition are recorded as research contract liabilities on the consolidated statements of financial position, and costs incurred for fulfilling the contract are recorded as research contract cost on the consolidated statements of financial position.

Costs to obtain or fulfil contracts with customers

The Company capitalizes the incremental costs incurred to obtain the contracts and direct costs incurred to fulfil the contracts and records them as research contract costs on the consolidated statements of financial position. Incremental costs are those costs the Company incurs to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

Expenditures that do not meet the above criteria are expensed when incurred.

The Company amortizes the research contract costs on a systematic basis that is consistent with the transfer of research services and periodically compares the carrying amount to the remaining amount of consideration that Company expects to receive in exchange for the services to which the asset relates less the costs that relate directly to provide the services that have not been recognized as expenses (the recoverable amount). If the carrying amount of the asset is greater than the recoverable amount, an impairment loss will be recorded.

Use of estimates and judgements

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

3. Significant accounting policies (continued)

September 30, 2018 should be read together with the use of estimates and judgements reported on the annual consolidated financial statements for the year ended December 31, 2017.

I) Consolidation of Inverell S.A.

Judgment was used to determine whether the business combination described in Note 8 should be accounted for as a business combination. The share purchase agreement has been signed and the closing of the acquisition was subject to regulatory approval as of September 30, 2018. Based on IFRS 10 guidance of control, management believes that the Company has de facto control over the operations of Inverell S.A effective April 10, 2018. Until the Company obtains regulatory approval from Uruguay, 100% of Inverell's net losses have been recorded as net losses attributable to non-controlling interests.

II) Joint venture with Peter Quiring

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

III) Biological Assets

Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the medical cannabis up to the point of harvest, costs to convert the harvested medical cannabis to finished goods, sales price, risk of loss, expected future yields from the medical cannabis plants and estimating values during the growth cycle. The average grow cycle of plants up to the point of harvest is approximately 14 weeks.

Management determined that the fair value of hemp and hemp products in Uruguay cannot be reliably measured due to limited sales activities in the market. It is also difficult to determine the most-advantageous market price as it may not be accessible due to the few precedents of export activities. Therefore, the biological assets in Uruguay are measured at amortized cost. The Company will continually monitor the hemp market development in Uruguay and revisit this assumption periodically.

IV) Inventory

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory.

The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

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

3. Significant accounting policies (continued)

V) Revenue recognition

The Company uses judgment to assess:

- Whether contracts contain multiple products and services sold and whether these should be considered distinct and accounted as separate performance obligations or together
- Whether the performance obligations are satisfied over time or point in time
- Method of measuring progress towards complete satisfaction of a performance obligation

Estimates are required when:

- Allocating revenue where multiple performance obligations exist in a contract and when estimating
- Calculating total project costs when measuring progress towards complete satisfaction using project cost as an input method to measure progress

4. Biological assets

The continuity of the Company's biological assets is as follows:

	Medical Cannabis	Hemp	Total
	$	$	$
Balance at December 31, 2017	-	-	-
Additions from business combinations	-	1	1
Changes in fair value less cost to sell due to biological transformation	537	-	537
Capitalized production costs	-	948	948
Transferred to inventory upon harvest	(223)	-	(223)
Balance at September 30, 2018	**314**	**949**	**1,263**

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(e) Cumulative stage of completion in production process	Level 3 input

As of September 30, 2018, the medical cannabis plants were on average 40% complete through their 14-week growing cycle.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

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

4. Biological assets (continued)

Significant inputs & assumptions	Range of inputs	Sensitivity	Effect on Biological Asset Balance
Selling price per gram	\$2.50 - \$14.00 dollars	Increase/decrease \$1.00 dollars/gram	Increase/decrease \$63
Average yield per plant	119 grams	Increase/decrease 10%	Increase/decrease \$31
Post-harvest cost per gram	\$1.50 dollars/gram	Increase/decrease \$0.50 dollars/gram	Decrease/increase \$27

5. Inventory

The following is a breakdown of inventory at September 30, 2018

	Acquired through business combination	Capitalized post-harvest costs	Value Transferred from Biological Assets	Carrying Value
	$	$	$	$
Dried Medical Cannabis				
Work-in-process	-	970	218	1,188
Finished goods	-	1	4	5
Dried Hemp				
Work-in-process	622	-	-	622
Merchandise Products	-	30	-	30
Packaging Supplies	-	8	-	8
Balance at September 30, 2018	**622**	**1,009**	**222**	**1,853**

As of September 30, 2018, the Company recognized \$1,853 (2017-\$Nil) of inventory on the consolidated statements of financial position, including \$223 (2017- \$Nil) non-cash expense relating to the fair value less cost to sell transferred to inventory upon harvest.

The depreciation expense included in the production expense is \$44 (2017 - \$Nil).

6. Property, plant and equipment

	Computer Equipment	Office Furniture	Leasehold Improvements	Equipment	Building	Vehicles	Computer Software	Construction in Progress	Total
Cost:									
Balance at December 31, 2017	**\$ 71**	**\$ 73**	**\$ 55**	**\$ 149**	**\$ 2,655**	**\$ -**	**\$ -**	**\$ 504**	**\$ 3,507**
Additions from business combinations	28	129	388	628	1,542	-	3	5,000	7,718
Additions	554	325	535	1,193	281	107	166	6,088	9,249
Dispositions	-	-	-	-	-	-	-	-	-
Balance at September 30, 2018	**\$ 653**	**\$ 527**	**\$ 978**	**\$ 1,970**	**\$ 4,478**	**\$ 107**	**\$ 169**	**\$ 11,592**	**\$ 20,474**
Accumulated Depreciation:									
Balance at December 31, 2017	**\$ 4**	**\$ 1**	**\$ 2**	**\$ 7**	**\$ 18**	**\$ -**	**\$ -**	**\$ -**	**\$ 32**
Depreciation	25	21	19	80	191	1	7	-	344
Balance at September 30, 2018	**\$ 29**	**\$ 22**	**\$ 21**	**\$ 87**	**\$ 209**	**\$ 1**	**\$ 7**	**\$ -**	**\$ 376**
Carrying amounts:									
Balance at December 31, 2017	**\$ 67**	**\$ 72**	**\$ 53**	**\$ 142**	**\$ 2,637**	**\$ -**	**\$ -**	**\$ 504**	**\$ 3,475**
Balance at September 30, 2018	**\$ 624**	**\$ 505**	**\$ 957**	**\$ 1,883**	**\$ 4,269**	**\$ 106**	**\$ 162**	**\$ 11,592**	**\$ 20,098**

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

7. Intangible assets

	Patient Referral Agreements	Streaming Agreements	Distribution Agreements	Streaming Interests	Licenses	Patents	Non-competition agreements	Total
Cost:								
Balance at December 31, 2017	$ 838	$ 603	$ -	$ 10,800	$ 16,963	$ -	$ -	$ 29,204
Additions	-	-	829	9,141	5,552	-	-	15,522
Additions from business combinations	-	-	-	-	55,250	9,608	611	65,469
Dispositions	-	-	-	-	-	-	-	-
Balance at September 30, 2018	$ 838	$ 603	$ 829	19,941	$ 77,765	$ 9,608	$ 611	$ 110,195
Accumulated Depreciation:								
Balance at December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	-	90	-	-	-	-	-	90
Balance at September 30, 2018	$ -	$ 90	$ -	$ -	$ -	$ -	$ -	$ 90
Carrying amounts:								
Balance at December 31, 2017	$ 838	$ 603	$ -	$ 10,800	$ 16,963	$ -	$ -	$ 29,204
Currency translation adjustment	$ -	$ -	$ -	$ -	$ 382	$ -	$ -	$ 382
Balance at September 30, 2018	$ 838	$ 513	$ 829	$ 19,941	$ 78,147	$ 9,608	$ 611	$ 110,487

a) Distribution agreements

On February 7, 2018, the Company entered into an agreement to purchase 15,000,000 of Inner Spirit shares for consideration of $2,329. As part of the agreement, the Company will have access to 50% of the floor space at Inner Spirit distribution locations. The Company has allocated $829 of the investment in Inner Spirit as a distribution agreement intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement (see Note 10(a)).

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

b) Licenses

On May 7, 2018, the Company entered into a definitive licensing agreement with Dixie Brands, Inc. As part of the agreement, the Company paid $5,023 to have the exclusive license to Dixie's intellectual property, product branding and formulation methodologies related to over 100 cannabinoid-infused products. This upfront payment reduces future royalties owing for use of Dixie's license. The Company has allocated the investment in Dixie as a license intangible asset.

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

During the nine-months ended September 2018, the Company issued 100,000 warrants to the Canadian cannabis testing, analysis and licensing company. The fair value allocated to the warrants was $61 based on a probability weighted discounted cash flow of the vesting performance conditions and based on the following assumptions: Share price – $1.23, Annualized volatility – 95.96%; Risk-free interest rate – 2.19%; Dividend yield – 0%; and Expected life – 2 years. The warrants are exercisable at a price of $1.31 for a period of 2 years.

As at September 30, 2018, no amortization has been recorded as the assets are not available for use.

c) Streaming interests

On September 10, 2018, the Company subscribed for 3,755,868 common shares of Lotus Ventures Inc. for gross proceeds $4,000. Of this, $1,333 is a deposit for future purchases of cannabis that has been recorded as other receivables. The Company will be granted the right to purchase or otherwise direct the sale of 50% of the facility's total production. In addition, the Company will have the right of first offer to

7. Intangible assets (continued)

purchase the remaining 50% of cultivation output as well as a right of first refusal to finance a prescribed portion of the first expansion to the facility and all or a portion of any further expansions. The Company allocated $1,728 of the investment as a streaming interest intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement.

On September 5, 2018 the Company entered into a strategic alliance agreement with Delta 9 Cannabis Inc. (“Delta 9”). Delta 9, through its wholly-owned subsidiaries, is a licensed cannabis producer that operates an 80,000 square foot production facility in Winnipeg, Manitoba. Delta 9 has entered into a wholesale supply agreement with the Company, providing for the purchase of cannabis products cultivated by Delta 9. The Company allocated the residual $5,614 of the investment as a streaming interest intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement.

On September 19, 2018 as part of a strategic alliance and streaming agreement, the Company subscribed for 7,500,000 shares of FSD Pharma Inc. (“FSD Pharma”). Proceeds from the financing will be used to fund the construction of a cultivation space that the Company and FSD Pharma are developing. The Company retains a 49.9% stream of all cannabis and cannabis-derived products produced at the Facility. The Company allocated the residual $1,800 of the investment as a streaming interest intangible asset. This amount represents the premium paid by the Company over and above the fair market value of the shares on the date of the agreement.

As at September 30, 2018, no amortization has been recorded as the assets are not available for use.

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

8. Business Combination

		Robinsons Cannabis Inc.	Dosecann Inc.	Inverell S.A	KGK Science Inc.
Cash and cash equivalents	$	545	1,091	44	445
Other receivables		151	182	78	1,224
Accounts receivable		-	-	-	1,219
Prepaid Expenses		34	-	208	65
Inventory and biological assets		-	-	608	-
Property, plant and equipment		1,346	5,628	299	445
Licenses and licenses in progress		11,215	29,321	14,714	-
Non-competition agreements		611	-	-	-
Intellectual property		-	-	-	9,608
Goodwill		4,144	12,313	3,981	3,336
Accounts payable and accrued liabilities		(31)	(14)	(71)	(1,262)
Loans from related parties		(1,500)	-	(61)	-
Deferred revenue		-	-	-	(2,460)
Deferred tax liabilities		(3,666)	(9,067)	(3,679)	-
Non-controlling interests		-	-	(3,224)	-
Net assets acquired	$	12,849	39,454	12,897	12,620
Consideration paid in shares	$	9,889	33,783	-	4,092
Consideration to be paid in shares		-	-	10,373	-
Consideration paid in warrants		-	5,481	-	-
Value of existing investments in acquisition (Note 9)		1,099	-	-	-
Consideration paid in cash		78	190	-	5,288
Consideration to be paid in cash		-	-	2,524	-
Fair value of future make-whole payment		-	-	-	1,081
Assumed loans		1,783	-	-	2,159
	$	12,849	39,454	12,897	12,620
Consideration paid in cash	$	(1,861)	(190)	-	(7,447)
Less: Cash and cash equivalents acquired		545	1,091	44	445
Net cash (outflow) inflow	$	(1,316)	901	44	(7,002)

a) Inverell S.A.

On April 10, 2018 the Company obtained de facto control over Inverell S.A. ("Inverell") by entering into an agreement to purchase 80% of the issued and outstanding shares. Despite the share consideration not being issued as at April 10, 2018, the transaction was accounted for as a business combination. The transaction is subject to regulatory approval as of September 30, 2018.

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

i. USD $2,000 in cash on closing of the transaction
ii. 1,927,344 common shares on closing of the transaction
iii. 5,105,770 common shares upon the achievement of certain milestones, including the successful registration of Inverell's cannabis genetics and the successful exportation of Cannabidiol ("CBD") products.

8. Business combinations (continued)

The contingent consideration of shares has been classified as equity, as the number of shares to be issued has been fixed based on the Company's share price. 1,927,344 shares will be issued on the closing of the transaction. Management assessed the probability of the issuance of the contingent shares to be highly probable. The total fair value of the consideration is estimated at $12,897 which includes the assumption of USD $503 of debt that was payable to the Company prior to the business combination.

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

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

For the period ended September 30, 2018, Inverell accounted for $866 in net losses since April 10, 2018.

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

b) Robinson's Cannabis Inc.

On February 1, 2018, the Company purchased 10% of the outstanding common shares of Robinson's Cannabis Inc. ("Robinson's") for consideration of $1,500. On April 30, 2018 the Company purchased the remaining 90% of the issued and outstanding shares of Robinsons. A revaluation loss of $401 was recorded on April 30, 2018 relating to the original 10% ownership. The transaction was accounted for as a business combination. The shareholders of Robinsons received aggregate consideration of common shares in the capital of the Company as follows:

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

Upon acquisition, the Company assumed a demand loan liability of $1,783, which was paid off in full during the period ended September 30, 2018.

The contingent consideration of shares has been classified as equity. Management assessed the probability of the issuance of the contingent shares to be highly probable and discounted the share value to present value for the lock-up periods. The discount rates range from 22.5% to 35.0% depending on the lock-up period, calculated using the put-option pricing models. The total fair value of the consideration is $12,849.

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

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

8. Business combinations (continued)

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

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

For the nine-months ended September 30, 2018, Robinsons accounted for $494 in net losses since April 30, 2018.

c) Dosecann Inc.

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

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

The contingent consideration of shares has been classified as equity. Management assessed the probability of the issuance of the contingent shares to be highly probable and discounted the share value to present value for the lock-up periods. The discount rates range from 22.5% to 35.0% depending on the lock-up period, calculating using the put-option pricing models. The total fair value of the consideration is $39,454.

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

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

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

For the nine-months ended September 30, 2018, Dosecann accounted for $1,129 in net losses since May 15, 2018.

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

8. Business combinations (continued)

d) KGK Science Inc.

On August 29, 2018 the Company purchased all the issued and outstanding shares of KGK Science Inc. ("KGK"). The transaction was accounted for as a business combination. The shareholders of KGK received aggregate consideration of common shares in the capital of the Company as follows:

i. 4,132,231 common shares on closing of the acquisition;
ii. $5,288 in cash on closing of the acquisition;
iii. $2,159 in a cash payment to repay long term loans of KGK;
iv. $1,081 as a future make-whole payment, depending on the share price of the Company 12 months following the transaction date.

The shareholders are also entitled to receive an additional payment from the Company that is equal to 30% of the purchase price received for the sale of the KGK patents, if the patents are sold by August 29, 2019. Management has assessed that there is a low probability that the patents are sold.

If the market value of the Company's shares is less than $1.21 on February 28, 2019, Auxly shall make a payment to KGK shareholders that is equal to the difference between the market price of the Auxly shares on the final day of the Hold-up Period and $1.21 per share, up to a maximum total payment of $0.64 per share. The fair value of the make-whole payment is $1,081 based on the following assumptions: Strike price - $1.21, Share price – $1.13, Annualized volatility – 78.18%; Risk-free interest rate – 2.23%.

The total fair value of the consideration is $12,620.

KGK is a leading health and wellness focused private contract research organization based in London, Ontario, and the Company expects to leverage KGK's expertise and research abilities to further the Company's product development efforts through collaboration with the Company's wholly owned subsidiary, Dosecann.

Goodwill arose in the acquisition of KGK, primarily due to the assembled work force of KGK. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

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

For the nine-months ended September 30, 2018, KGK accounted for $818 in revenues and $3 in net losses since August 29, 2018.

9. Goodwill

Opening balance - December 31, 2017	$	4,500
Additions		
Business combination - Inverell S.A.		3,981
Business combination - Robinsons Cannabis Inc.		4,144
Business combination - Dosecann Inc.		12,313
Business combination - KGK Science Inc.		5,882
Currency translation adjustment		7
		30,827

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

10. Long-term investments

Entity	Instrument	Classification	Balance at December 31, 2017	Additions	FV Change	Balance at September 30, 2018
VIVO Cannabis	Shares	FVTOCI	10,200	-	200	10,400
Aphria	Shares	FVTOCI	301	-	58	359
CannTx Life Sciences	Shares	FVTOCI	3,000	-	69	3,069
Inner Spirit Holdings	Shares	FVTOCI	-	2,918	4,852	7,770
Inner Spirit Holdings	Warrants	FVTPL	-	147	745	892
Lotus Ventures Inc.	Shares	FVTOCI	-	1,698	(109)	1,589
Lotus Ventures Inc.	Warrants	FVTPL	-	241	(158)	83
Province Brands	Shares	FVTOCI	-	436	88	524
Cannabis OneFive Inc.	Shares	FVTOCI	-	299	-	299
Cannabis OneFive Inc.	Warrants	FVTPL	-	77	-	77
Delta 9 Cannabis	Shares	FVTOCI	-	10,636	(117)	10,519
FSD Pharma	Shares	FVTOCI	-	5,700	(375)	5,325
Good Leaf	Shares	FVTOCI	-	744	23	767
Good Leaf	Warrants	FVTPL	-	433	152	585
KBB Convertible Debt	Convertible Debt	FVTPL	-	5,000	4,600	9,600
Total			13,501	28,329	10,028	51,858

a) Inner Spirit Holdings Ltd.

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

(i) a cash payment of $350;

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

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

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

(i) 250,000 vest upon the first Spirit Leaf location opening for business to the public.
(ii) 250,000 vest upon the fifth Spirit Leaf location opening for business to the public.
(iii) 250,000 vest upon the tenth Spirit Leaf location opening for business to the public.
(iv) 250,000 vest upon the fifteenth Spirit Leaf location opening for business to the public.
(v) 250,000 vest upon the twentieth Spirit Leaf location opening for business to the public.

The fair value of the long-term investment was valued at $1,800 based on the private placement price of $0.10/share in February and March 2018, and the Company allocated the residual $829 of the investment as a distribution agreement intangible asset.

As part of the investment, the Company has the pre-emptive right to acquire additional shares in future placements in order to maintain a dilutive ownership of 15% of Inner Spirit. The Company exercised its pre-emptive right to acquire an additional 1,500,000 Inner Spirit Shares for $150 on February 7, 2018, an additional 1,058,824 Inner Spirit Shares for $106 on March 23, 2018, and 2,647,058 Inner Spirit Shares and 1,323,529 Inner Spirit share purchase warrants exercisable at $0.30, for $397 on June 21, 2018.

10. Long-term investments (continued)

$349 was allocated to the shares and $48 was allocated to the warrants, based on the following assumptions for the valuation of the warrants: Share price – $0.10, Annualized volatility – 100%; Risk-free interest rate – 1.90%; Dividend yield – 0%; and Expected life – 2 years. The revaluation loss on the shares was recorded in other comprehensive income, while the revaluation loss on the warrants was recorded in the profit and loss.

On July 30, 2018, the Company exercised its pre-emptive right to acquire an additional 7,058,824 Inner Spirit Shares and 3,529,412 Inner Spirit share purchase warrants exercisable at $0.30, for $828. $728 was allocated to the shares and $100 was allocated to the warrants, based on the following assumptions for the valuation of the warrants: Share price – $0.10, Annualized volatility – 100%; Risk-free interest rate – 1.90%; Dividend yield – 0%; and Expected life – 2 years.

The fair value of all investments allocated to the shares was $7,770 based on the market price of $0.285/share on the date of issuance. The gain on revaluation was recorded in other comprehensive income, net of applicable income taxes on the consolidated statement of comprehensive loss.

The fair value allocated to the warrants was $892 based on a probability weighted discounted cash flow of the vesting performance conditions and based on the following assumptions: Share price – $0.285, Annualized volatility – 131.16%; Risk-free interest rate – 2.25%; Dividend yield – 0%; and Expected life – 2 years. The gain on revaluation was recorded in the statement of profit and loss, net of applicable income taxes.

b) Lotus Ventures Inc.

On February 8, 2018, the Company subscribed for 1,818,181 common shares and 909,090 common share purchase warrants of Lotus Ventures Inc ("Lotus") for gross proceeds $1,000. Lotus is a late-stage licensed producer applicant that is based in Vancouver, BC.

On September 10, 2018, the Company subscribed for 3,755,868 common shares of Lotus for gross proceeds $2,667. The fair value of the long-term investment was valued at $939 based on the market price of $0.25/share, and the Company allocated the residual $1,728 of the investment as a streaming interest intangible asset.

As at September 30, 2018, the fair value of the shares has been revalued at $1,589 using the quoted price of $0.285/share. The fair value of the warrants has been revalued at $83 based on the following assumptions: Share price – $0.285, Annualized volatility – 104.41%; Risk-free interest rate – 2.25%; Dividend yield – 0%; and Expected life – 2.36 years. The revaluation gain on the shares was recorded in other comprehensive income, while the revaluation gain on the warrants was recorded in the profit and loss.

c) Delta 9 Cannabis Inc.

The Company subscribed for 5,909,090 shares in the capital of Delta 9 on September 5, 2018 for consideration of $16,250. The fair value of the long-term investment was valued at $10,636 based on the market price of $1.80/share on September 5, 2018, and the Company allocated the residual $5,614 of the investment as a streaming interest intangible asset.

As at September 30, 2018, the fair value of the long-term investment has been revalued at $10,519 using the quoted price of $1.78/share. The loss on revaluation was recorded in other comprehensive income, net of applicable income taxes on the consolidated statement of comprehensive loss.

10. Long-term investments (continued)

d) FSD Pharma Inc.

On September 19, 2018 the Company subscribed for 7,500,000 shares of FSD Pharma Inc. ("FSD Pharma") for $7,500. The fair value of the long-term investment was valued at $5,700 based on the market price of $0.76/share, and the Company allocated the residual $1,800 of the investment as a streaming interest intangible asset.

As at September 30, 2018, the fair value of the long-term investment has been revalued at $5,325 using the quoted price of $0.71/share. The loss on revaluation was recorded in other comprehensive income, net of applicable income taxes on the consolidated statement of comprehensive loss.

e) Kaneh Bosm BioTechnology Inc.

On September 17, 2018, the Company subscribed for $5,000 of convertible debentures of Kaneh Bosm BioTechnology Inc. ("KBB"). The debentures bear interest at 8% and have a maturity of September 17, 2021 and can be converted into units at the option of the Company, at a price of $0.53 per unit. Each unit consists of one common share of KBB and one common share purchase warrant, exercisable at a price of $1.06 per share for a period of three years.

As at September 30, 2018, the fair value of the long-term investment has been revalued at $9,600. The gain on revaluation was recorded in the statement of profit and loss. KBB has a number of agreements and licenses in place related to pharmaceutical distribution, wholesale importation, research and development, cultivation, production, storage, and exportation of cannabis.

11. Joint venture with Peter Quiring

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

In consideration for the agreement, the Company issued 5,250,000 common shares to The Peter Quiring Family Business Trust at a price of $1.12 per share, with 1,250,000 common shares issued upon the closing of the transaction, and the remainder to be held in escrow and released in tranches corresponding to the achievement of certain operational and performance milestones. The Company issued 10,000,000 common share purchase warrants, where 2,000,000 warrants which will be vested upon closing of the transaction and the remainder will vest in tranches corresponding to the achievement of certain operational and performance milestones. The warrants are exercisable at a price of $1.57 per share and have a term of five years from issuance. The fair value of the common shares to be issued to Peter Quiring is $4,073 and the fair value of the common share purchase warrants to be issued to Peter Quiring is $6,368.

Management assessed the probability of the issuance of the contingent shares to be highly probable and discounted the share value to present value for the lock-up periods. The discount rates range from 25.07% to 43.58% depending on the lock-up period, calculated using the put-option pricing models.

11. Joint venture with Peter Quiring (continued)

The fair value allocated to the warrants was calculated using the Binomial Option Pricing Model and valued based on a probability weighted discounted cash flow of the vesting performance conditions and based on the following assumptions: Share price – $1.13, Annualized volatility – 92.73%; Risk-free interest rate – 2.03%; Dividend yield – 0%; and Expected life – 5 years.

The Company made additional investments in the joint venture throughout the 9 months-period ended September 30, 2018 of $9,027. As at September 30, 2018, the Company owns 51% of the voting shares of the joint venture and owns 3,441,307 Class B non-voting shares. There was $173 of equity loss recorded for the nine-month period ended September 30, 2018. The investment balance in the joint venture was $19,295 as at September 30, 2018. At September 30, the material assets in the joint venture were land and buildings valued at $4,024 and supplier deposits of $5,000.

12. Debt obligation receivable in product equivalents

a) Beleave Inc.

On October 5, 2017, the Company and Beleave Inc. (“Beleave”) entered into an agreement where the Company will provide Beleave with up to $10,000 in debt financing repayable in product equivalents. The proceeds will be used by Beleave to fund the construction of an expansion facility, which will be situated adjacent to Beleave’s current facility outside of Hamilton, Ontario. On October 17, 2017, the Company advanced $5,000 of the agreed upon $10,000 financing to Beleave. Beleave’s debt obligation will be receivable in product equivalents (the “DOPE Note”).

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be $6,730 at September 30, 2018 and a fair value gain of $16 was recorded on the consolidated statement of loss and comprehensive loss for the three-month period ended September 30, 2018 ($368 for the nine-month period ended September 30, 2018).

b) Sundial Growers Inc.

On March 1, 2018, the Company announced that it had entered into a definitive agreement with Sundial Growers Inc. ("Sundial") whereby the Company advanced $7,000 to Sundial by way of a promissory note for a period of 6 months. Sundial will repay the note either by a cash payment, through the delivery of an agreed upon volume of dried cannabis produced by Sundial or through a combination of cash and grams. The note is subject to an interest rate of 24% per annum, with a minimum guaranteed interest of $840. The Company extended the loan for an additional six months and as a result, the amount due on maturity increased to $8,780.

The instrument was deemed to be a fair value through profit or loss debt investment per IFRS 9 guidance. The fair value of the promissory note was estimated to be $8,199 and a fair value gain of $534 was recorded on the consolidated statement of loss and comprehensive loss for the three-month period ended September 30, 2018 ($1,199 for the nine-month period ended September 30, 2018).

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

13. Convertible debenture

June 29, 2017 Issuance

On June 29, 2017, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of $30,000. Each convertible debenture unit consists of a $1 principal amount of unsecured convertible debentures and 500 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.00 per share, at the option of the holder. The debenture was recorded at its fair value of $23,461, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense calculated using the effective interest method for the nine months period ended September 30, 2018 was $63.

		Convertible debenture
BALANCE AT DECEMBER 31, 2017	$	17,738
Accretion expense during the period		63
Less: Units converted during the period		17,674
BALANCE AT SEPTEMBER 30, 2018	$	127

January 17, 2018 Issuance

On January 17, 2018, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of $100,000. Each convertible debenture unit consists of a $1 principal amount of senior unsecured convertible debentures and 322 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature within 24 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.55 per share, at the option of the holder. The fair value of the debenture was recorded at its fair value of $90,000, discounted at a market interest rate of 12% and is net of debt issue costs. The accretion expense calculated using the effective interest method for the nine months period ended September 30, 2018 was $3,299. The effective interest rate used was 11.7%. Interest expense for the nine months period ended September 30, 2018 for convertible debentures was $4,170.

The residual value of the gross proceeds was allocated to the conversion feature and warrants based on their relative fair values. The conversion feature was estimated at $6,765, net of issue costs using based on the following assumptions: Share price – $2.29, Annualized volatility – 101.5%; Risk-free interest rate – 1.76%; Dividend yield – 0%; and Expected life – 2 years.

Each warrant will be exercisable to acquire one common share at an exercise price of $1.80 per share until January 16, 2020. The fair value of these warrants was estimated at $3,195, net of issuance cost, based on the following assumptions: Share price – $2.29, Annualized volatility – 101.5%; Risk-free interest rate – 1.76%; Dividend yield – 0%; and Expected life – 2 years.

On closing, the Company paid legal and advisory fees of $128.

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

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

13. Convertible debt (continued)

		Convertible debenture
BALANCE AT DECEMBER 31, 2017	$	-
Face value of debt upon issuance		100,000
Less: Allocation to warrants and conversion feature		(9,832)
Less: Debt issue costs		(128)
Fair value of debt on initial recognition		90,040
Accretion expense during the period		3,299
Less: Units converted during the period		1,139
BALANCE AT SEPTEMBER 30, 2018	$	92,200

14. Debt settlement

On January 29, 2018, the Company settled long-term loans and accounts payable balances with a carrying amount of $2,650 in consideration for the issuance of an aggregate of 2,984,959 common shares. The shares were negotiated at a price between $0.63 and $1.00 of debt for every unit share in November 2017. Due to the timing of the payment, the fair value of the common shares at the time of issuance was $2.28 based on the closing price on grant date. The fair value of the consideration was estimated to be $6,806 and a non-recurring non-cash loss on the settlement of debt of $4,156 was recorded in the statement of profit and loss.

15. Share capital

a) Authorized

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

b) Issued and outstanding

At September 30, 2018, there were 564,999,568 issued and fully paid common shares and 16,237,128 were held in escrow related to the contingent considerations in acquisitions and investments.

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

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

15. Share capital (continued)

On April 11, 2018, the Company closed a strategic alliance agreement with Ontario-based research and development firm Province. The Company issued 303,030 common shares to Province valued at $436.

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

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

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

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

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

In May 2018, the Company closed a private placement and distributed a total of 82,225,000 units for gross proceeds of $115,115. Each unit consists of one share and one-half warrant, with each warrant entitling the holder to purchase one additional share at $1.85 until May 2020. The Company recorded $90,500 for the issuance of shares and $18,900 for the issuance of warrants based on a relative fair value calculation. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Share price - $1.29, Annualized volatility – 95.16%; Risk-free interest rate – 1.87%; Dividend yield – 0%; and Expected life – 2 years.

On June 15, 2018 the Company signed a definitive joint venture agreement with Peter Quiring to develop, construct and operate a fully-automated, state-of-the-art, purpose-built greenhouse for cannabis cultivation in Leamington, Ontario. In consideration for the agreement, the Company issued 5,250,000 common shares to The Peter Quiring Family Business Trust, with 1,250,000 common shares issued upon the closing of the transaction, and the remainder to be held in escrow and released in tranches corresponding to the achievement of certain operational and performance milestones. The Company issued 10,000,000 common share purchase warrants, where 2,000,00 warrants will be vested upon closing of the transaction and the remainder will vest in tranches corresponding to the achievement of certain operational and performance milestones.

On August 16, 2018 the Company issued 429,507 common shares to Cannabis OneFive, Inc., a provider of quality management and document control software systems for the cannabis industry. Auxly's wholly-owned subsidiary, Dosecann Inc., will become a lead subscriber of C15's software, and the Company expects the C15 software to be deployed at other Auxly facilities.

15. Share capital (continued)

On August 29, 2018 the Company purchased all the issued and outstanding shares of KGK. The transaction was accounted for as a business combination. The Company issued 4,132,231 common shares on closing of the acquisition. KGK is a leading health and wellness focused private contract research organization based in London, Ontario, and the Company expects to leverage KGK's expertise and research abilities to further the Company's product development efforts through collaboration with the Company's wholly owned subsidiary, Dosecann.

On September 6, 2018, the Company issued 5,913,334 common shares to non-executive employees of the Company as compensation, as part of their employment agreements related to services performed in 2018. The fair value of the common shares is $6,032 and was recorded as share-based payments on the statement of loss and comprehensive loss.

As of September 30, 2018, 11,420,603 shares held in escrow related to the contingent considerations in acquisitions and investments were released upon completion of milestones. 4,999,971 shares were released to the previous shareholders of Kolab, and 6,420,632 shares were released to the previous shareholders of Dosecann.

c) Stock options

The Company has a stock option plan to provide incentives to directors, employees and consultants of the Company. The total number of options awarded in any 12-month period was not to exceed 10% of the issued and outstanding shares to any one individual or 2% to any one consultant or employee. 550,000 options were exercised, 17,083,468 options were granted, and 2,590,000 options were cancelled during the period ended September 30, 2018.

In January 2018, the Company issued 2,670,000 stock options at an exercise price ranging from $2.15 to $2.40 per share, exercisable for 10 years to consultants and employees. Of the options issued, 362,500 vest immediately, 842,500 vest over one year, 767,500 vest over two years, 567,500 vest over three years, and 130,000 vest over four years.

In February 2018, the Company issued 1,280,000 stock options at an exercise price of $1.54 per share, exercisable for 10 years to consultants and employees. Of the options issued, 200,000 vest immediately, 299,166 vest over one year, 299,167 vest over two years, 299,167 vest over three years, and 182,500 vest over four years.

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

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

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

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

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

15. Share capital (Continued)

In August 2018, the Company issued 500,000 stock options at an exercise price of $1.00 per share, exercisable for 10 years to consultants. All of the 500,000 options vest immediately.

In September 2018, the Company issued 5,580,000 stock options at an exercise price of $1.24 per share, exercisable for 10 years to consultants and employees. Of the options issued, 2,590,000 were reissuances for options that were cancelled in September 2018. Of the options issued, 188,345 vest immediately, 1,565,810 vest over one year, 1,404,155 vest over two years, 1,396,690 vest over three years, and 1,025,000 vest over four years.

During the nine months ended September 30, 2018, the Company issued 308,468 stock options at an exercise price of $1.66 per share, exercisable for 10 years to Good Leaf. All the 308,468 options vest immediately.

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

Options Outstanding				Options Exerciseable		
Number Outstanding at September 30, 2018		Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exerciseable at Sept 30, 2018		Weighted Average Exercise Price
12,716,085	$	0.025	1.29	12,716,085	$	0.017
5,795,000	$	1.00	1.57	2,725,000	$	0.147
100,000	$	1.00	0.03	100,000	$	0.005
50,000	$	1.00	0.01	50,000	$	0.003
500,000	$	1.00	0.06	500,000	$	0.027
150,000	$	1.72	0.04	-	$	-
810,000	$	2.23	0.22	325,000	$	0.039
400,000	$	2.15	0.11	-	$	-
100,000	$	2.26	0.03	-	$	-
150,000	$	2.40	0.04	37,500	$	0.005
200,000	$	1.54	0.06	-	$	-
2,050,000	$	1.80	0.58	512,500	$	0.050
308,468	$	1.66	0.09	308,468	$	0.028
4,395,000	$	1.24	1.26	525,000	$	0.035
500,000	$	1.00	0.15	500,000	$	0.027
2,990,000	$	1.24	0.88	102,500	$	0.007
1,110,000	$	1.24	0.31	130,000	$	0.009
100,000	$	1.24	0.03	-	$	-
1,080,000	$	1.24	0.32	58,345	$	0.004
300,000	$	1.24	0.08	-	$	-
33,804,553	**$**	**0.82**	**7.15**	**18,590,398**	**$**	**0.40**

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

15. Share capital (Continued)

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

	Options Issued		Price
Balance outstanding at December 31, 2017	19,861,085	$	0.38
Option granted			
January 15, 2018 Grant	1,120,000	$	2.23
January 15, 2018 Grant	1,200,000	$	2.15
January 26, 2018 Grant	200,000	$	2.26
January 31, 2018 Grant	150,000	$	2.40
February 28, 2018 Grant	1,280,000	$	1.54
March 27, 2018 Grant	2,350,000	$	1.80
May 17, 2018 Grant	308,468	$	1.66
June 21, 2018 Grant	4,395,000	$	1.24
August 23, 2018 Grant	500,000	$	1.00
September 27, 2018 Grant	5,580,000	$	1.24
Total options granted	**17,083,468**	**$**	**1.49**
Total options exercised	**(550,000)**	**$**	**1.00**
Total options cancelled	**(2,590,000)**		
Balance outstanding at September 30, 2018	**33,804,553**	**$**	**0.96**

As at September 30, 2018, stock options outstanding have a weighted average remaining life of 7.18 years.

The total fair value of stock options granted during the nine-month period ended September 30, 2018 was $21,503 (September 30, 2017 – $147).

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

	2018	2017
Risk-Free Annual Interest Rate	1.72%-2.52%	1.26%-1.52%
Expected Annual Dividend Yield	0%	0%
Expected Annualized Volatility	93.17% - 108.60%	53.12% - 95.50%
Expected Life of Options	10 years	5 - 10 years
Forfeiture rate	0%	0%

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

For the nine-month period ended September 30, 2018, $8,446 of share-based payments were recorded on the statements of loss and comprehensive loss relating to the vesting of the Company's stock options.

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

15. Share capital (Continued)

d) Warrants

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

WARRANT ACTIVITY	September 30, 2018		Weighted Average Exercise Price	September 30, 2017		Weighted Average Exercise Price
Balance – Beginning of Period	160,647,124	$	0.561	**-**	**$**	**-**
Issued	93,153,248		1.750	152,459,514		0.169
Expired	(1,158,188)		1.500	-		-
Exercised	(145,865,071)		0.628	(38,229,243)		0.023
Balance – End of Period	**106,777,113**	**$**	**1.348**	**114,230,271**	**$**	**0.217**

The weighted average fair value of warrants outstanding during the nine-month period ended September 30, 2018 was $1.348. As at September 30, 2018, warrants outstanding have a weighted average remaining life of 1.60 years. Cash proceeds from warrants exercised during the period ended September 30, 2018 was $95,017.

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

Date of Issuance	Date of Expiry	Exercise Price		September 30, 2018 Outstanding	December 31, 2017 Outstanding
February 22, 2017	February 21, 2019	$	0.023	7,622,441	28,363,407
March 13, 2017	March 12, 2019	$	0.023	7,135,457	46,162,865
March 20, 2017	March 19, 2019	$	0.023	2,643,663	21,713,649
June 29, 2017	June 28, 2019	$	1.500	-	15,000,000
October 3, 2017	June 28, 2019	$	1.500	-	20,252,203
November 1, 2017	October 31, 2019	$	1.200	-	29,155,000
January 10, 2018	June 29, 2019	$	1.500	1,500,000	-
January 16, 2018	June 29, 2019	$	1.500	1,919,500	-
January 17, 2018	January 16, 2020	$	1.800	32,200,000	-
February 6, 2018	February 5, 2020	$	2.530	1,250,000	-
May 15, 2018	May 14, 2020	$	0.962	1,293,552	-
May 31, 2018	May 30, 2020	$	1.850	41,112,500	-
June 20, 2018	June 19, 2023	$	1.570	10,000,000	-
September 24, 2018	September 24, 2020	$	1.310	100,000	-
				106,777,113	160,647,124

e) Broker warrant units

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

Cash proceeds from broker warrant units exercised during the period ended September 30, 2018 was $3,420.

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

15. Share capital (Continued)

f) Earnings per share

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

16. Related party balances and transactions

Key management and director compensation

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

For the nine-month period ended September 30	2018	2017
Short-term benefits	**$ 1,231**	$ 1,341
Long-term benefits (*)	**598**	134
	$ 1,829	$ 1,475

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

Other related party transactions

Nesta Holding Co Ltd, a company owned and controlled by the CEO of the Company, provides travel and accommodation services to the Company on a month to month basis. For the period ended September 30, 2018, the Company incurred $23 (September 30, 2017 - $4) in general expenses.

A director and officer of the Company was a director of KGK prior to the acquisition and owned a minority interest of the Company.

17. Financial instruments and risk management

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

a) Financial instrument classification and measurement

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

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

17. Financial instruments and risk management (continued)

The fair value of hierarchy has the following levels:

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

	Cost and Fair Value, Dec. 31, 2017	Investment	Cost Sep 30, 2018	Cumulative change in fair value	Fair value Sep 30, 2018
Level 1 on fair value hierarchy					
VIVO	$ 10,200	$ -	$ 10,200	$ 200	**$ 10,400**
Lotus Ventures Inc.	-	1,698	1,698	(109)	**1,589**
Aphria	301	-	301	58	**359**
Inner Spirit	-	2,918	2,918	4,852	**7,770**
Delta 9	-	10,636	10,636	(117)	**10,519**
FSD Pharma	-	5,700	5,700	(375)	**5,325**
	$ 10,501	**$ 20,952**	**$ 31,453**	**$ 4,509**	**$ 35,962**
Level 2 on fair value hierarchy					
Inner Spirit Holdings Inc. (Warrants)	-	147	147	745	**892**
Lotus Ventures Inc. (Warrants)	-	241	241	(158)	**83**
Cannabis One-Five (Warrants)	-	77	77	-	**77**
Good Leaf (Warrants)	-	433	433	152	**585**
	$ -	**898**	**898**	**739**	**1,637**
Level 3 on fair value hierarchy					
CannTx Life Sciences Inc.	3,000	-	3,000	69	**3,069**
Province brands	-	436	436	88	**524**
Cannabis One-Five	-	299	299	-	**299**
Good Leaf	-	744	744	23	**767**
KBB convertible debt	-	5,000	5,000	4,600	**9,600**
Debt obligation receivable in product equivalents	6,378	6,983	13,361	1,568	**14,929**
	$ 9,378	**$ 13,462**	**$ 22,840**	**$ 6,348**	**$ 29,188**

Instrument	Valuation Technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Debt obligation receivable in product equivalent - Beleave Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20% - Usable production space - Selling price per gram of cannabis	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by $15 - If the estimated usable production space increases (decreases) by 10%, the fair value would increase (decrease) by $626 - If the price per gram of Cannabis increases (decreases) by 10%, the fair value increase (decrease) would be $682
Debt obligation receivable in product equivalent - Sundial Growers Inc.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the investment.	- Risk adjusted discount rate: 20%	- If the estimated discount rate was lower (higher) by 1%, the fair value would increase (decrease) by $25
Investments in private companies	Market approach	- market price of shares	- If the share price increased (decreased) by 10%, the estimated fair value of the long-term investment would increase (decrease) by $448

17. Financial instruments and risk management (continued)

b) Fair values of financial assets and liabilities

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

c) Market risk

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

The Company is exposed to equity price risk, which arises from investments measured at FVTOCI and FVTPL. For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $4,044 before tax. An equal change in the opposite direction would have decreased equity by $4,044 before tax.

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

d) Interest rate risk

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

e) Credit risk

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

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

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

18. Capital management

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

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

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

19. Commitments

a) As at September 30, 2018, the Company has entered into streaming agreements with 16 partners. By entering into these streaming agreements, the Company has commitments, subject to due diligence and other closing conditions, to do one or both of the following:

    i. invest in a private placement of common shares of the streaming partner for certain gross proceeds resulting in the Company owning an equity interest in the streaming partner.

    ii. provide all necessary funding to secure proposed cultivation sites and for the construction of cultivation sites.

b) As at September 30, 2018, the Company has entered into patient referral agreements with 5 clinics. By entering into these patient referral agreements, the Company has committed to milestone payments to the clinics based on specific referral targets.

c) As at September 30, 2018, the Company has the commitment to pay another $15,000 subscription and fund the VIVO Cannabis' financed expansion area upon the receipt of a construction budget.

d) As at September 30, 2018, the Company has the commitment to pay CannTx another $7,000 related to phase II expansion of the Facility, subject to the completion of satisfactory due diligence and the parties agreeing to a construction budget and timeline for the phase II expansion.

e) The Company is committed under two sublease agreements with respect to its office premises located in Toronto, Ontario, expiring May 31, 2020 and April 30, 2024 as follows:

2018	$	115
2019		462
2020		456
2021		457
Thereafter		1,091
Total	**$**	**2,581**

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

20. Income taxes

The following table summarizes the movement of deferred tax assets (liabilities):

	Jan 1, 2018 (Opening balance)	Recognized in profit or loss	Recognized in OCI	Recognized in equity	Acquired in business combinations	Net
Non-capital losses	1,563	4,178	-	-	-	5,741
Convertible & other debt	(1,516)	-	-	(2,773)	-	(4,289)
Intangible assets	(4,495)	-	-	-	(18,956)	(23,451)
Marketable securities	(537)	-	(431)	-	-	(968)
Property, plant & equipment	(35)	-	-	-	-	(35)
Financing and share issuance costs	654	-	-	-	-	654
Total deferred income tax assets/(liabilities), net	(4,366)	4,178	(431)	(2,773)	(18,956)	(22,348)

21. Subsequent events

a) On October 22, 2018, the Company has entered into a binding interim agreement with Atlantic Cultivation Inc., an applicant under the Access to Cannabis for Medical Purposes Regulations. The parties will collaborate on the development of a 110,000 square foot indoor cultivation facility in St. John's, Newfoundland and Labrador and on the development of retail locations in the province.

   The Company will invest $2,500 into Atlantic in exchange for a 50% equity stake and a long term right to purchase up to 30% of dried cannabis and cannabis trim produced at the facility.

b) On November 1, 2018, the Company received regulatory approval from Uruguay for the acquisition of Inverell, resulting in the closing of the transaction.

c) Subsequent to September 30, 2018, 225,000 common shares were issued on the exercise of 225,000 stock options for gross proceeds of $225, and 27,532 common shares were issued on the exercise of 27,532 warrants for gross proceeds of $26.