



AUXLY CANNABIS GROUP INC.

ANNUAL INFORMATION FORM

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020

April 23, 2021

TABLE OF CONTENTS

NOTICE TO READER.....	1
FORWARD-LOOKING STATEMENTS	1
CORPORATE STRUCTURE.....	4
GENERAL DEVELOPMENT OF THE BUSINESS	5
Three Year History.....	5
DESCRIPTION OF THE BUSINESS	17
Overview	17
Brand Portfolio	17
Current Products.....	18
Product Development	18
Current Services	20
New Products	20
Distribution	21
Revenue	21
Cannabis Input Materials and Supply	21
Specialized Skill and Knowledge	23
Competitive Conditions.....	23
Cycles	24
Intangible Properties.....	24
Economic Dependence	24
Employees	24
Foreign Operations	24
Bankruptcy and Similar Procedures	25
Canadian Regulatory Environment	25
RISK FACTORS	30
DIVIDENDS.....	52
DESCRIPTION OF CAPITAL STRUCTURE	52
MARKET FOR SECURITIES	53
PRIOR SALES	54
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER....	54
DIRECTORS AND OFFICERS	55
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	60
INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS	60
TRANSFER AGENT AND REGISTRAR	61
MATERIAL CONTRACTS	61
AUDIT COMMITTEE INFORMATION.....	61
INTERESTS OF EXPERTS	62

ADDITIONAL INFORMATION	62
GLOSSARY.....	63
SCHEDULE “A” AUDIT COMMITTEE CHARTER.....	A-1

NOTICE TO READER

In this annual information form (the “AIF”), unless otherwise noted or the context indicates otherwise, “Auxly”, the “Company”, “we”, “us” and “our” refer to Auxly Cannabis Group Inc. and its subsidiaries. All financial information in this AIF is prepared in Canadian dollars and using International Financial Reporting Standards as issued by the International Accounting Standards Board. Unless otherwise specified, in this AIF, all references to “dollars” or to “\$” are to Canadian dollars and references to “US\$” are to U.S. dollars. Unless otherwise specified, information contained in this AIF applies to the business activities and operations of the Company for the year ended December 31, 2020, as updated to April 23, 2021. Capitalized terms have meanings assigned to them in the “Glossary” on page 63.

FORWARD-LOOKING STATEMENTS

This AIF contains “forward-looking information” (“**forward-looking information**”) within the meaning of applicable Canadian securities legislation. All information, other than statements of historical fact, included in this AIF, including information that addresses activities, events or developments that the Company expects or anticipates will or may occur in the future, is forward-looking information. Forward-looking information is often identified by the words “plans”, “expects” or “does not expect”, “budgets”, “schedules”, “estimates”, “forecasts”, “proposes”, “continues”, “anticipates” or “does not anticipate”, “believes”, “intends”, and similar expressions or statements that certain actions, events or results “may”, “could”, “would”, “might”, “shall” or “will” be taken, occur or be achieved.

Forward-looking information in this AIF may include, but is not limited to:

- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;
- the sufficiency of the Company’s resources to fund continued operations;
- the Company’s response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic on the Company’s current and future operations;
- the Company’s expectations regarding its future sales;
- the success, and integration of operations, of the entities the Company acquires and the Company’s collaborations;
- the ongoing construction and expansion of the Company's facilities, including Dosecann, Sunens, Kolab, Robinsons and Robinsons OG (as are all defined below), and its partners' facilities and the timing thereof;
- inventory and production capacity, including discussions of plans or potential for expansion of capacity at existing or new facilities;
- the market for the Company’s current and proposed product offerings, as well as the Company’s ability to capture market share;
- the distribution methods expected to be used by the Company to deliver its products;

- the benefits and applications of the Company's product offering and expected sales mix thereof;
- development of affiliated brands, product diversification and future corporate development;
- the competitive landscape in which the Company operates and the Company's market expertise;
- expectations regarding the Company's ability to raise additional financing to further the Company's investment in the business;
- the applicable legislation, regulations and licensing related and any amendments thereof related to the cultivation, production, processing, distribution and sale of cannabis products by the Company's subsidiaries and other business interests;
- the ability of the Company, its subsidiaries and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- expectations regarding the Company's licences, including in respect of the grant of Licences under the Cannabis Act, the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act, and the permitted activities thereunder;
- expectations regarding the Company's expansion of operations and investment into foreign jurisdictions;
- expectations regarding the Company's ability to find strategic alternatives with respect to Inverell;
- the Company's growth strategy, targets for future growth and projections of the results of such growth;
- the performance of the Company's business and operations;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- the Company's competitive position.

By identifying such information and statements in this manner, the Company is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such information and statements.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. A number of factors could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking information. The forward-looking information contained herein is based on certain assumptions, including without limitations, that:

- current and future management will abide by the business objectives and strategies outlined herein;

- the Company will retain and supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which the Company participates;
- the Company will be able to continue as a going concern, will have sufficient working capital and be able to secure adequate financing required in the future on acceptable terms to develop its business and continue operations;
- the Company will continue to attract, develop, motivate and retain highly qualified and skilled employees;
- no adverse changes will be made to the regulatory framework governing cannabis, taxes and all other applicable matters in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company will be able to generate cash flow from operations, including, where applicable, the cultivation, production, processing, distribution and sale of cannabis and cannabis products;
- the Company will be able to execute on its business strategy;
- the Company will be able to meet the governmental and regulatory requirements necessary to obtain and/or maintain its Licences;
- general economic, financial market, regulatory and political conditions in which the Company operates will remain the same;
- Company will be able to compete in the cannabis industry;
- cannabis prices will not decline materially;
- the Company will be able to continue to achieve its target selling, general and administrative expenses ("**SG&A**");
- there are not-materially more closures or lockdowns related to the COVID-19 pandemic;
- Company will be able to manage anticipated and unanticipated costs;
- Company will be able to maintain internal controls over financial reporting and disclosure, and procedures;
- the Company will further expand production capacity and introduce new product formats once the second floor of its Dosecann facility is fully operational;
- the Company will be able to successfully launch new brands, create new product formats and enter into new markets; and
- current and future Company products will be accepted by consumers and provincial purchasers.

Although the Company believes that the expectations reflected in such forward-looking information are reasonable, it can give no assurance that such expectations will prove to have been correct. New factors

emerge from time to time, and it is not possible for management to predict all of those factors or to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information. The Company's forward-looking information is based on information currently available and what management believes are reasonable assumptions. The forward-looking information contained herein is made as of the date of this AIF and speaks only to such assumptions as of the date of this AIF.

The Company's forward-looking information is expressly qualified in its entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this AIF under "*General Development of the Business*" and "*Description of the Business*" as well as statements regarding the Company's objectives, plans and goals, including future operating results, and economic performance may make reference to or involve forward-looking information. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose. Readers should not place undue reliance on forward-looking information contained in this AIF. By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking information. Some of the risks and other factors which could cause actual results to differ materially from those expressed in the forward-looking information contained in this AIF include, but are not limited to the factors included under "*Risk Factors*".

CORPORATE STRUCTURE

Name, Address and Incorporation

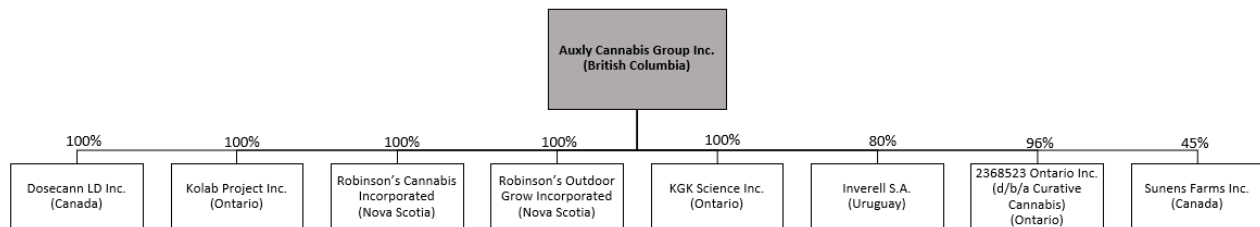
The Company was incorporated on August 24, 1987 pursuant to the *Company Act* (British Columbia) (as it then was called). On January 12, 2017, at a special meeting of the Company's shareholders, the shareholders approved the increase of the Company's authorized share capital from 100,000,000 Shares to an unlimited number of Shares and the adoption of new articles to better reflect the provisions of the *Business Corporations Act* (British Columbia). On July 11, 2017, the Company adopted an advance notice policy, which was subsequently approved by its shareholders on September 8, 2017. On July 15, 2020, at an annual and special meeting of the Company's shareholders, the shareholders approved the Company's possible continuance from British Columbia to Ontario pursuant to the *Business Corporations Act* (Ontario). The Company is currently contemplating a continuation to Ontario which may be affected by the Company in the near future, at the discretion of the Board and without further notice to or approval of the shareholders, should the Board determine it to be advantageous to the Company.

On May 5, 2017, the Company changed its name from "Knightswood Financial Corp." to "Cannabis Wheaton Income Corp." and on May 8, 2017, the Company began trading on the TSXV under its new name and under the trading symbol "CBW". On June 8, 2018, the Company changed its name to "Auxly Cannabis Group Inc." and on the same date, began trading on the TSXV under its present name and under the trading symbol "XLY". On April 20, 2021, the Company began trading on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "XLY". The Company's Shares also trade on the OTC Market's OTCQX under the symbol "CBWTF" and on the Frankfurt Stock Exchange under the symbol "3KF".

The Company's head office is located at 777 Richmond St. W, Unit 002, Toronto, Ontario, M6J 0C2 and its registered office is located at Suite 2500, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8. The Company's corporate website is www.auxly.com.

Intercompany Relationships

The Company's material subsidiaries are: Dosecann LD Inc. ("**Dosecann**"), Kolab Project Inc. ("**Kolab**"), Robinson's Cannabis Incorporated ("**Robinsons**"), Robinson's Outdoor Grow Incorporated ("**Robinsons OG**"), KGK Science Inc. ("**KGK**"), Inverell S.A. ("**Inverell**"), 2368523 Ontario Inc. (d/b/a Curative Cannabis) ("**Curative**"), and Sunens Farms Inc. ("**Sunens**"). The jurisdiction of incorporation or organization of each entity and the Company's ownership interest is set out in the organizational chart below.



GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

Imperial Brands Investment

On September 25, 2019, Imperial Brands PLC ("**Imperial Brands**") invested \$123 million in the Company by way of a debenture convertible into 19.9% ownership of Auxly at a conversion price of \$0.81 per Share (the "**Debenture**"), representing an 11% premium to the Company's closing Share price on July 24, 2019 (the "**Imperial Transaction**"). The convertible debenture had a three-year term and a fixed interest rate of 4.00% per annum, payable on the last day of December. Imperial Brands has the right to convert the debenture into Shares at any time during the term and has certain top-up and pre-emptive rights to maintain its pro rata ownership in Auxly and certain governance rights, provided under an investor rights agreement (the "**Investor Rights Agreement**"). If at the end of the term Imperial Brands has not converted, the debenture will be repayable in full.

On April 19, 2021 the Company announced an agreement with Imperial Brands to amend certain provisions of the Debenture and Investor Rights Agreement (collectively, the "**Amendments**"). Pursuant to the Amendments, Imperial Brands and Auxly have agreed to extend the maturity date of the Debenture by 24 months from September 25, 2022 to September 25, 2024. The Amendments will also provide Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the Debenture then outstanding into Shares, at a conversion price equal to the five-day volume weighted average trading price of the Shares on the date that interest conversion election is made. Auxly and Imperial Brands have also agreed that the interest rate under the Debenture, which currently accrues at a rate of 4% per annum and is payable annually, will remain unchanged but will be payable on maturity of the Debenture. The Debentures are convertible into Common Shares at a price of \$0.81 per share at any time prior to the close

of business on the business day immediately preceding maturity. Lastly, the Amendments provide for the reinstatement of certain approval rights of Imperial Brands under the Investor Rights Agreement.

The implementation of the Amendments is subject to the satisfaction of a number of conditions, including, among other things, the approval of the TSXV, and minority shareholder approval of the Amendments in accordance with Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions*.

Pursuant to the Imperial Transaction, on September 25, 2019 Auxly elected to its Board of Directors one out of five director nominees, Conrad Tate, and one non-voting observer, John Downing, each designated by Imperial Brands. In addition, Imperial Brands' Group Science and Regulatory Affairs Director sits on Auxly's Safety Board, which has oversight of the controls in place to ensure the safety, efficacy, and quality of the Company's products. Imperial Brands also granted Auxly global licences to its vaping technology, access to its vapor innovation business, Nerudia, and will use Auxly as its exclusive partner for the future development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world.

On December 17, 2019, Imperial Brands exercised its pre-emptive right to subscribe for an aggregate amount of 6,315,574 Shares for \$5,207,110.94. By subscribing for the Shares, Imperial Brands is able to maintain its 19.9% ownership of the Company. Imperial Brands subscribed for (i) 914,960 Shares at \$0.91 per Share; and (ii) 5,400,614 Shares at \$0.81 per Share.

Operations

The following operational changes to the Company have taken place since January 1, 2018:

- *Strategic Expansion into Cannabis 1.0 Market.* On February 18, 2021, the Company announced its strategic expansion plans for the dried-flower market. Auxly's expansion into Cannabis 1.0 will consist of a three-pronged strategy: (1) expanding its flower offering under the Kolab Project Growers Series through the launch of new cultivars with existing partners and securing new partnerships with top-tier cultivators; (2) launching a strain-specific dried flower offering of unique genetics at a compelling price point under Auxly's Back Forty brand; and (3) significantly boosting its pre-roll capacity through custom-built automation and launching disruptive pre-roll products under its Kolab Project and Back Forty brands.
- *New Product Launches.* The Company released the following new products in the first quarter of 2021 and the second half of 2020:
 - On March 24, 2021, Kolab Project announced the launch of its first concentrate offering, Kolab Project 232 Series Diamonds. 232 Series Diamonds are single-strain concentrates extracted from fresh, flash-frozen cannabis flower. The first release is produced with the Ice Cream Cake strain launched as part of the Kolab Project Growers Series in partnership with Safari Flower Co. ("**Safari**").
 - On December 10, 2020, the Company announced the launch of Kolab Project Cherry Cola Pop milk chocolates.
 - On December 2, 2020, the Company and Kolab Project announced its collaboration with craft cultivator, Safari in launching Ice Cream Cake dried flower.

- On November 23, 2020, the Company announced the launch of Dosecann Capsules, a precision-dosed cannabis product that combines high-potency, broad-spectrum cannabinoids with omega-rich Ahiflower® oil.
- On September 22, 2020, the Company announced the launch of its cannabis-infused Hard Maple Caramels under its Foray brand.
- On September 2, 2020, the Company announced that Kolab and Lotus Cannabis Co., the consumer brand of Lotus Ventures Inc. ("**Lotus**"), had launched an indica-dominant dried flower, Kolab Project Kalifornia.
- *Launch of the Back Forty Brand:* On October 13, 2020, the Company announced the launch of its latest brand, Back Forty. The initial Back Forty launch consisted of three unique SKUs of distinct high-potency vape cartridges. See "*Description of the Business – Brand Portfolio*".
- *Auxly Leadership Changes.* On October 1, 2020 the following changes occurred with respect to the Company's Board and executive leadership team:
 - Chuck Rifici stepped down as Chair of the Board;
 - Genevieve Young, an independent director on the Company's Board, assumed the role of Chair;
 - Vikram Bawa was appointed to the Board as an independent director; and
 - Michael Lickver was appointed as President.
- *Additional Steps on Path to Profitability.* On October 1, 2020, the Company announced its continued dedication to executing on its corporate strategy and increasing its market share, while also improving its margins and reducing corporate overhead, with a target of achieving positive adjusted EBITDA during the first half of 2021. In addition to the actions already taken to reduce operating costs at two of Auxly's cultivation assets, Inverell and Robinsons OG, the Company has taken added measures to reduce its workforce to further accelerate its path to profitability. The Company expects to generate approximately \$3 million in quarterly SG&A savings through these cumulative reductions, resulting in an expected cash-based SG&A run-rate of approximately \$10 million by the first quarter of 2021.
- *Licences Received in 2020:*
 - On December 21, 2020, KGK received an institutional Research Licence from Health Canada which provides the broad approval to conduct multiple cannabis research projects, removing the need to obtain individual Research Licences for each project.
 - On November 13, 2020, Sunens received its Processing Licence from Health Canada.
 - On September 22, 2020, KGK received its second Research Licence from Health Canada, which permits KGK to conduct product palatability and sensory testing of cannabis extracts, edible cannabis topicals with human subjects.

- On September 18, 2020, 239523 Ontario Limited (d/b/a Curative Cannabis) received a standard Cultivation Licence, standard Processing Licence and Sale for Medical Purposes Licence from Health Canada.
- On June 25, 2020 Dosecann received a Research Licence from Health Canada which permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing.
- On June 12, 2020 Sunens received a standard Cultivation Licence from Health Canada for the first for the first phase of the project, which includes approximately 360,000 square feet of cultivation, processing and storage space. Sunens subsequently had a perimeter amendment approved by Health Canada which has granted Sunens the use of an additional 409,684 square feet of cultivation and storage space.
- On May 14, 2020, Robinsons received its sales authorization from Health Canada to sell dried cannabis to provinces and territories under the Cannabis Regulations.
- *Kolab Project and Greentec Vape Recycling Program Partnership.* On August 11, 2020, the Company announced that Kolab Project had partnered with the electronic waste leaders at Greentec to provide cannabis retailers with a free-of-charge solution for the recycling of vape pens, cartridges and batteries.
- *Launch of Robinsons Premium Cannabis.* On July 27, 2020, the Company launched its Robinsons handcrafted, small-batch cannabis in Ontario and Nova Scotia. Robinsons cannabis products are now also available in Alberta, Newfoundland and Labrador and Saskatchewan.
- *Dosecann Key Supplier Agreement with Medical Cannabis by Shoppers:* On April 15, 2020, the Company announced that Dosecann had entered into an agreement with Medical Cannabis by Shoppers Drug Mart Inc., a subsidiary of Shoppers Drug Mart Inc., to become a supplier of cannabis products through its online platform.
- *Exclusive Global Rights to Ahiflower® Oil for Use in Cannabis Products:* On April 8, 2020 the Company announced that Dosecann had entered into an agreement with Natures Crops International, a vertically integrated grower and manufacturer of plant-based specialty oils, pursuant to which the Company will purchase the exclusive global rights to Ahiflower® oil for use in Auxly's portfolio of cannabis products. This multi-year deal provides Auxly with a proprietary ingredient for use in its current portfolio of cannabis products and the development of next generation cannabis health products that Auxly plans to commercialize when legally permitted.
- *Auxly Leadership Changes:* During the first quarter of 2020, the following changes occurred with respect to the Company's executive leadership team:
 - As part of a planned transition, Jeff Tung resigned as the Company's Chief Operations Officer;
 - Alan Cooke joined Auxly as Vice President, Domestic and International Supply Chain and Operations; and
 - Brad McNamee left his role as the Company's Chief Infrastructure Officer.

- *In-House Brands:* Throughout 2019, the Company unveiled its in-house brands, Kolab Project, Foray, Robinsons and Dosecann, further described below. Auxly has created a portfolio of brands designed for a broad market of cannabis consumers, with differentiation in price points across targeted consumer segments. See "*Description of the Business – Brand Portfolio*".
- *Provincial Supply Arrangements and Listing of Products:* On December 16, 2019, Auxly became one of the first cannabis companies to distribute and sell derivative cannabis products across Canada. On December 5, 2019, the Company announced that it had entered supply arrangements with nine Canadian provinces, all except Quebec, to commence the sale of cannabis derivative products, having secured 250 listings in the aggregate for Auxly's derivative cannabis products.
- *Licensing Milestones in 2019 and 2018:*
 - On October 22 and 23, 2019, Kolab and Dosecann were issued amendments to their respective Licences from Health Canada to sell cannabis extracts, edibles and topical products in Canada.
 - On September 6 and 9, 2019, Dosecann and Kolab were each issued amendments to their respective Licences from Health Canada to sell cannabis oil pursuant to the Cannabis Regulations.
 - On September 5, 2019, KGK was issued a Research Licence by Health Canada pursuant to the Cannabis Regulations, allowing KGK to possess and administer cannabis for purposes of a clinical trial.
 - On April 5, 2019, Robinsons received its Cultivation Licence and Processing Licence from Health Canada under the Cannabis Regulations.
 - On August 7, 2018 Dosecann received its Dealer's Licence, which was transitioned to a Processing Licence on December 21, 2018, and on January 11, 2019, Dosecann was issued its Analytical Testing Licence.
- *Robinsons OG.* On November 15, 2019, the Company announced the development of Robinsons OG, an outdoor cannabis cultivation project located on 158 acres of land in Hortonville, Nova Scotia. See "*Description of the Business – Cannabis Input Materials and Supply – Robinsons OG*".
- *Kindred.* On September 18, 2019, the Company entered into a brokerage agreement with Kindred Partners Inc. ("**Kindred**") pursuant to which Kindred will act as Auxly's strategic sales agent for its recreational cannabis products in Canada. Kindred, a wholly owned subsidiary of Breakthru Beverage Group, is a Toronto-based cannabis brokerage serving the recreational market.
- *CEO Succession and Board Changes.* On August 27, 2019, Hugo Alves, previously President of the Company, succeeded Chuck Rifici as the Chief Executive Officer of Auxly. On August 26, 2019, Jean Paul-Gaillard did not submit his name for re-election to the Board at the Company's Annual General and Special Meeting of Shareholders, and therefore was not elected as a member of the Board.
- *LAB001.* On July 11, 2019, the Company received its cannabis retail store permit from the Saskatchewan Liquor and Gaming Authority, and opened LAB001, the Company's first recreational cannabis store and Kolab's flagship retail location, located in Lloydminster, Saskatchewan.

- *Lonza/Capsugel Strategic Agreement.* On June 19, 2019, Dosecann entered into an equipment lease, license and capsule sale agreement with Capsugel Inc., a subsidiary of Lonza Group Ltd. (“**Capsugel**”), to provide Dosecann with a complete line of equipment for capsule filling and sealing, including a state-of-the-art LEMS® machine, Lonza’s proprietary liquid-filled Capsugel® Licaps® capsules, and rights to its filling and sealing LEMS® technology. In addition, Dosecann and Lonza will work collaboratively on new product formulation for cannabis capsule products.
- *CFO Appointment.* On February 13, 2019, Brian Schmitt was appointed as Chief Financial Officer of the Company, and Jeff Tung, who previously held the role of Chief Financial Officer and Chief Operating Officer, continued to serve as the Company's Chief Operating Officer.
- *Board Resignation and Appointments.* On December 28, 2018, Brandon Boddy resigned from the Board and Genevieve Young and Jean-Paul Gaillard were appointed as independent members of the Board. On July 12, 2018, Ian McKay resigned from the Board.
- *Dixie.* On May 14, 2018, the Company announced that it had entered into a definitive licensing agreement with Dixie Brands, Inc. (“**Dixie**”), pursuant to which the Company was granted the exclusive licence to Dixie’s intellectual property, product branding and formulation methodologies related to certain cannabis products in Canada and Mexico for an initial term of 10 years and an option to renew for up to two additional 5 year terms. In the first quarter of 2019, the Company sold the Mexican access rights back to Dixie and now holds an exclusive licence for Canada.
- *Inner Spirit.* On January 9, 2018, the Company entered into an investment agreement and strategic alliance agreement with Inner Spirit pursuant to which it acquired 15 million common shares of Inner Spirit and was granted exclusive rights to supply up to 50% of Inner Spirit’s annual inventory requirements for any cannabis, cannabis-infused or cannabis-derived products to be sold at its retail dispensaries, with a mutually agreeable profit-sharing arrangement. In exchange for the Inner Spirit shares, the Company provided Inner Spirit with a closing cash payment of \$350,000 and issued to Inner Spirit 674,418 Shares and 1,250,000 Share purchase warrants. Inner Spirit is the parent company of Spirit Leaf, which franchises retail cannabis dispensaries across Canada. The transaction closed on February 7, 2018. Pursuant to the investment agreement, the Company was granted pre-emptive rights which it has subsequently exercised to acquire an additional 10,941,177 shares and 4,191,177 warrants of Inner Spirit for approximately \$1.5 million. The common share purchase warrants of Inner Spirit have since been cancelled.

Acquisitions, Dispositions, Investments, Partnerships and Cannabis Supply Arrangements

The Company has entered into the following notable transactions, strategic investments and partnerships since January 1, 2018:

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

- *Manufacturing Agreement with dosist™*. On June 24, 2020, the Company announced that Dosecann had entered into an agreement with GSW Creative Corporation Canada Inc., doing business as dosist™ ("**dosist**"), to manufacture their proprietary wellness vape devices at Dosecann's facility.
- *Government of Newfoundland and Labrador Agreement*. On September 4, 2019, the Company and Atlantic Cultivation Limited ("**Atlantic**") entered into a supply, development and retail agreement with the Province of Newfoundland and Labrador (the "**NL Government Agreement**"), providing Atlantic with the ability to apply and operate five new retail locations in the Province. Additionally, pursuant to the NL Government Agreement, Auxly agreed to supply the Province with up to 50 kg of dried cannabis (or equivalent derivative products) in 2019, up to an additional 1,000 kg in 2020 and an option for up to another 1,000 kg in 2021.
- *PEI Hemp Agreement*. On August 19, 2019, the Company entered into a hemp cultivation and purchase agreement where the Company agreed to act as the financial sponsor for the development of a hemp farming co-operative consisting of six individual hemp licence holders pursuant to the *Cannabis Act* located in Prince Edward Island. Dosecann was entitled to purchase all of the hemp cultivated by the hemp farmers in 2019. All parties have since agreed to terminate the agreement. See "*Description of the Business – Cannabis Input Materials and Supply – PEI Hemp*".
- *Curative Cannabis*. On May 15, 2019, the Company terminated its previously announced definitive agreement with Curative and under the terms of new arrangement, the Company subscribed for 20% of the issued and outstanding securities of Curative as consideration for past services rendered, entered into a secured financing arrangement to fund up to \$18 million for the construction and development cost of Curative's cannabis cultivation facility in Chatham-Kent, Ontario, and entered into a cannabis supply agreement with Curative for the right to purchase a fixed amount of dried cannabis produced at Curative's facility for a period of 14 years. The Company subsequently acquired substantially all the shares and assets of Curative pursuant to a foreclosure order issued on November 27, 2019. See "*Bankruptcy and Similar Procedures*" below.
- *Inverell S.A.* On January 9, 2019, the Company acquired an 80% ownership interest in Inverell (the "**Inverell Acquisition**") for an aggregate purchase price of approximately US\$15 million, where US\$2 million in cash and 1,927,343 Shares were paid to the shareholders of Inverell on closing, and the remainder will be paid via the issuance of 5,105,769 Shares to be held in escrow pending the achievement of certain performance milestones. See "*Description of the Business – Foreign Operations – Inverell (Uruguay)*".
- *Atlantic*. On October 15, 2018, the Company entered into a binding interim agreement with Atlantic, pursuant to which the Company agreed to collaborate on the development of Atlantic's 110,000 sq. ft. purpose-built cannabis cultivation facility located in St. John's, Newfoundland and Labrador and on the development of retail locations in the province. Subsequently, on March 5, 2020, the Company and Atlantic entered into a management services agreement with respect to the retail stores to be opened by Atlantic in Newfoundland, and a supply agreement pursuant to which the Company will have the right, but not the obligation, to purchase up to 30% of dried cannabis and cannabis trim produced at Atlantic's facility.
- *ICC*. On September 17, 2018, the Company subscribed for \$5 million of senior unsecured convertible debentures of ICC International Cannabis Corp. ("**ICC**") by way of a non-brokered private placement. The debentures, which bear a coupon of 8% and mature on September 17, 2021, are convertible into units at a price of \$0.53 per unit. Each unit consists of one common share and one common share

purchase warrant exercisable into one common share of ICC at an exercise price of \$1.06 for a period of 3 years. The Company also entered into a commercial rights agreement with ICC, pursuant to which the Company became a preferred commercial partner to ICC on its current and future international and domestic cannabis ventures. The Company also acquired a right of first refusal in respect of the supply, sale or distribution of cannabis products and assets, and licensing of intellectual property owned or developed by ICC or its subsidiaries for a period of 10 years.

- Lotus.* On September 11, 2018, the Company entered into a definitive agreement with Lotus Ventures Inc. ("**Lotus**") and closed an additional \$4 million investment in Lotus to partially fund the completion of Lotus' facility located in Armstrong, British Columbia, which was in addition to the Company's \$1 million subscription for 1,818,181 common shares of Lotus completed in February 2018. Lotus holds a Cultivation Licence and Sale for Medical Purposes Licence under the Cannabis Act. In connection with the Lotus transaction, Auxly was issued an additional 3,755,868 common shares of Lotus and is entitled to purchase or otherwise direct the sale of 50% of the Lotus facility's total production for a term of 10 years.
- Delta 9.* On September 5, 2018, the Company entered into a definitive agreement with Delta 9, pursuant to which the Company made a strategic investment of \$16.25 million to fund the expansion of Delta 9's cannabis cultivation facility in Winnipeg, Manitoba and provide general working capital to Delta 9 in exchange for 5,909,090 common shares of Delta 9 and the right to purchase a fixed amount of dried cannabis produced at Delta 9's facility for a period of 10 years. Effective January 1, 2019 and until January 1, 2029, the Company will have the right to purchase 1,000 kg of dried cannabis per annum as well as 100 kg of cannabis trim. In addition, effective July 1, 2020 and until July 1, 2030, the Company will have the right to purchase an additional 4,000 kg per annum as well as 400 kg of cannabis trim. On February 25, 2020 the Company and Delta 9 entered a supply agreement pursuant to which the Company will supply cannabis products to Delta 9's multiple retail locations, where permitted.
- Acquisition of KGK Science.* On August 29, 2018, the Company acquired 100% of the issued and outstanding securities of KGK, a contract research organization, for an aggregate purchase price of \$12.3 million, comprised of \$7.3 million in cash (a portion of which was used to repay certain indebtedness of KGK on closing), and 4,132,231 Shares at a deemed price of \$1.21 per Share. Provided the KGK shareholders did not sell any Shares during a period of 6 months from closing and that the Share price was below \$1.21, the shareholders were also entitled to a make whole payment equal to the difference between the market price for the Shares on the date that was 6 months from closing and \$5 million. On March 5, 2019 the Company completed the make whole payment of \$1,776,859 to the KGK shareholders. See "*Description of the Business – Current Services*".
- Sunens Farms Inc.* On June 15, 2018, the Company entered into a definitive joint venture agreement for its previously announced joint venture with Peter Quiring, via a newly formed subsidiary, to develop, construct and operate a purpose-built greenhouse facility for cannabis cultivation in Leamington, Ontario. Pursuant to the agreement, Mr. Quiring, through South Essex Fabricating, is responsible for the design construction and operation of the facility and the Company is responsible for funding the project and assisting in obtaining a Licence for the facility. In consideration, the Company issued 5,250,000 Shares to Mr. Quiring at a price of \$1.12 per Share, where 1,250,000 Shares were issued upon the closing of the transaction, and the remainder are held in escrow, to be released upon the achievement of certain operational and performance milestones. The Company also issued 10,000,000 Warrants, where 2,000,000 Warrants vested on the 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. See "*Description of the Business – Cannabis Input Materials and Supply – Sunens*".

- *Acquisition of Dosecann.* On May 17, 2018, the Company acquired 100% of the issued and outstanding securities of Dosecann by way of a "three-cornered amalgamation" (the "**Dosecann Acquisition**") for an aggregate purchase price of up to \$38 million, payable in Shares to the holders of the Dosecann securities. The Company issued 24,494,496 Shares at a deemed price of \$1.47 per Share, of which 14,863,549 Shares were issued on closing, and 9,630,947 Shares were issued to be held in escrow pending the achievement of certain performance milestones. In addition, the Company assumed the obligations of the existing Dosecann common share purchase warrants, resulting in the issuance of 5,071,248 Warrants in the capital of the Company (the "**Dosecann Replacement Warrants**"). Each whole Dosecann Replacement Warrant entitled the holder to purchase a Share at an exercise price of \$0.962 per Share until January 2020. "*Description of the Business – Product Development – Dosecann*".
- *Acquisition of Robinsons.* On May 11, 2018, the Company acquired the remaining 90% of the issued and outstanding securities of Robinsons (the "**Robinsons Acquisition**") for an aggregate purchase price of \$14 million payable in Shares, at a price per Share of \$1.49. This followed the Company's acquisition of 10% of the issued and outstanding securities of Robinsons for \$1.5 million in cash on February 1, 2018. As consideration for the Robinsons Acquisition, the shareholders of Robinsons received aggregate consideration of 9,395,968 Shares, where 5,369,126 Shares were issued upon closing, 2,013,421 Shares were issued to be held in escrow and to be released upon Robinsons obtaining a Cultivation Licence, and 2,013,421 Shares were issued to be held in escrow and to be released upon Robinsons obtaining an amendment to its Cultivation Licence authorizing the sale of cannabis. The milestones have since been met and all Shares have been released from escrow. See "*Description of the Business – Cannabis Input Materials and Supply – Robinsons*".
- *FSD Pharma.* On March 5, 2018 the Company entered into a definitive agreement with FV Pharma Inc. ("**FV**"), a wholly owned subsidiary of FSD Pharma Inc. ("**FSD Pharma**") to finance the construction of a portion of an indoor cultivation facility in Cobourg, Ontario. On September 19, 2018 the Company subscribed for 7,500,000 common shares of FSD Pharma for \$7.5 million. On February 7, 2019, the Company terminated the definitive agreement with FV on the basis of contractual breaches, relating to, among other things, FV's management and staffing obligations of the facility.
- *Sundial.* On March 1, 2018, the Company advanced \$7 million to Sundial Growers Inc. ("**Sundial**") by way of a promissory note for a period of 6 months. Sundial was to repay the promissory 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 dried cannabis. The Company extended the loan for an additional six months and as a result, the principal amount due on maturity increased to \$8.78 million. On February 22, 2019, \$8.895 million was received by the Company to fully settle the Sundial promissory note.
- *Acquisition of Kolab.* On October 31, 2017, the Company acquired 100% of the issued and outstanding securities of Kolab (then called RockGarden Medicinals (2017) Inc.), for an aggregate purchase price of 27,499,912 Shares at a price per Share of \$0.80, of which 17,499,970 Shares were issued on closing, 9,999,942 Shares were issued and held in escrow to be released upon Kolab achieving certain performance milestones. The milestones have since been met and all Shares have been released from escrow.

Financings and Other Corporate Actions

The Company has completed the following equity offerings, financings activities and other corporate actions since January 1, 2018:

- *Uplist to TSX.* On April 20, 2021, the Company's Shares commenced trading on the TSX under its existing symbol "XLY". In connection with listing on the TSX, the last day of trading on the TSXV was April 19, 2021 and the Company's Shares were delisted from the TSXV upon commencement of trading on the TSX.
- *ATM Offering.* On March 23, 2021, the Company announced the establishment of an at-the-market equity program (the "**ATM Program**") that allows the Company to issue and sell up to \$30,000,000 of Shares from the treasury to the public, from time to time, at the Company's discretion. The volume and timing of distributions under the ATM Program, if any, will be determined at the sole discretion of the Company. Distribution of the Shares under the ATM Program will be made pursuant to the terms of an equity distribution agreement between the Company and ATB Capital Markets. The ATM Program will be effective until the earlier of the issuance and sale of all of the Shares issuable pursuant to the ATM Program and the date on which the receipt issued for the Company's Base Shelf Prospectus ceases to be effective in accordance with Canadian securities laws, unless terminated prior to such date by the Company or ATB Capital Markets. As Shares sold in the ATM Program will be issued and sold at the prevailing market price at the time of the sale, prices may vary among purchasers during the period of distribution. The offering under the ATM Program will be made pursuant to a prospectus supplement to the Base Shelf Prospectus dated March 23, 2021.
- *Base Shelf Prospectus.* On March 18, 2021, the Company filed a final short form base shelf prospectus (the "**Base Shelf Prospectus**") with the securities regulatory authorities in each of provinces and territories of Canada. The Base Shelf Prospectus allows the Company to offer, from time to time over a 25-month period, up to an aggregate amount of \$200 million in Shares, preferred shares, debt securities, subscription receipts, Warrants and/or units of the Company.
- *February 2021 Offering.* On February 8, 2021, the Company closed a bought deal short form prospectus offering pursuant to which the Company sold a total of 54,395,000 units of the Company, at a price of \$0.37 per unit, for gross proceeds to the Company of \$20,126,150, which included the full exercise of the over-allotment option granted to the underwriters (the "**February 2021 Offering**"). Each unit consisted of one Share and one-half of one Warrant, with each whole Warrant entitling the holder thereof to purchase one Share at a price of \$0.46 per Share at any time until February 8, 2024. The warrants are governed by a warrant indenture dated February 8, 2021 between the Company and Computershare Trust Company of Canada, as warrant agent. The bought deal was completed by way of a short form prospectus offering in each of the provinces of Canada, except Quebec.
- *December 2020 Offering.* On December 15, 2020, the Company closed a bought deal short form prospectus offering pursuant to which the Company sold a total of 46,000,000 units of the Company, at a price of \$0.30 per unit, for gross proceeds to the Company of \$13,800,000, which included the full exercise of the over-allotment option granted to the sole underwriter (the "**December 2020 Offering**"). Each unit consisted of one Share and one-half of one Warrant, with each whole Warrant entitling the holder thereof to purchase one Share at a price of \$0.40 per Share at any time until December 15, 2023. The warrants are governed by a warrant indenture (the "**Warrant Indenture**") dated December 15, 2020 between the Company and Computershare Trust Company of Canada, as

warrant agent. The bought deal was completed by way of a short form prospectus offering in each of the provinces of Canada, except Quebec.

- *Lease of Dosecann Facility and Real Property.* On November 27, 2020, the Company entered into a new long-term lease for its Dosecann facility. Under the terms of the new lease, Dosecann has the option to purchase the real property for the amortized lease amount of \$8M (plus 4% interest) at any time throughout the 21-year term. Prior to this new lease, Dosecann was in the process of purchasing the real property from the original landlord; however, a new purchaser (and now landlord) agreed to purchase the property and fulfill conditions precedent thereby allowing Dosecann to be refunded \$2 million and to save an additional \$6 million in capital expenditures, thereby effectively providing the Company with \$8 million in proceeds.
- *\$25 Million Convertible Debenture Standby Financing:* On April 28, 2020, the Company entered into an investment agreement (the "**Investment Agreement**") for the issuance of convertible debentures for a maximum principal amount of \$25 million (the "**CD Offering**") with an institutional investor (the "**Investor**"). The CD Offering will be completed in tranches with each convertible debenture having a maturity date of 24 months from the date of issue and guaranteed interest from the date of issue at 7.5% per annum, payable semi-annually. In addition, Warrants will be issued equal to 55% of the number of Shares into which the principal amounts of a convertible debenture may be converted based on the applicable conversion price. The conversion price under a convertible debenture will be based on the closing price of the Shares on the TSXV on the trading date immediately prior to the closing date for such tranche. Each Warrant will be exercisable to purchase one Share for a period of 24 months from the date of issuance at an exercise price equal to 120% of the applicable conversion price. The convertible debentures will be issuable in tranches at the request of the Company at an amount per convertible debenture that must be mutually agreeable to the Company and the Investor. As of the date hereof, the Company has completed five tranches under the CD Offering and issued an aggregate of 20,031,747 Share purchase warrants and \$11.25 million of convertible debentures, which are convertible into 36,421,359 Shares (the details of each tranche are set out below). In connection with the completion of each tranche, the Company has agreed to indemnify certain of its directors and officers for any and all losses not otherwise recoverable from the collateral provided by the investor for the Shares provided by such directors and officers to the investor pursuant to the terms of the Investment Agreement.
 - In connection with the initial tranche of the CD Offering completed on April 28, 2020, the Company issued to the Investor \$1.25 million of convertible debentures with a conversion price of \$0.435 per Share and 1,580,460 Warrants with an exercise price of \$0.522.
 - In connection with the second tranche of the CD Offering completed on May 20, 2020, the Company issued to the Investor \$2 million of convertible debentures with a conversion price of \$0.425 per Share and 2,588,235 Warrants with an exercise price of \$0.51.
 - In connection with the third tranche of the CD Offering completed on June 8, 2020, the Company issued to the Investor \$3 million of convertible debentures with a conversion price of \$0.38 per Share and 4,342,105 Warrants with an exercise price of \$0.46.
 - In connection with the fourth tranche of the CD Offering completed on June 26, 2020, the Company issued to the Investor \$3 million of convertible debentures with a conversion price of \$0.305 per Share and 5,409,836 Warrants with an exercise price of \$0.366.

- In connection with the fifth tranche of the CD Offering completed on September 8, 2020, the Company issued to the Investor \$2 million of convertible debentures with a conversion price of \$0.18 per Share and 6,111,111 Warrants with an exercise price of \$0.216.
- *Debenture Prepayment and Settlement.* On January 16, 2020, the Company settled the remaining January Convertible Debentures for approximately \$2.7 million, having settled the principal amount of approximately \$96 million to holders on October 30, 2019. The Company notified the holders on October 18, 2019 of an amendment to the conversion price to \$0.74 per Share, which resulted in the conversion of approximately \$16 million of the principal amount into 21,602,460 Shares. Other holders of the January Convertible Debentures had previously converted the principal amount of approximately \$1.3 million into shares of the Company. The January 2018 Warrants expired on January 16, 2020 and were delisted.
- *BMO Credit Agreement.* On September 24, 2019, Sunens entered into syndicated credit facilities with the Bank of Montreal ("**BMO**") as lead underwriter and received debt financing in the aggregate amount of approximately \$84.0 million. The syndicated senior debt facility will be for \$71.5 million for a three-year term together with a \$12.5 million leasing facility provided by BMO. The facilities contain customary financial and restrictive covenants, and are secured by the Sunens facility and the Corporation has guaranteed payments up to \$33 million in the event of default.
- *May 2018 Offering.* On May 31, 2018, the Company closed a bought deal offering pursuant to which the Company sold a total of 82,225,000 units of the Company, at a price of \$1.40 per unit, for aggregate gross proceeds of \$115.1 million (which included the full exercise of the 15% over-allotment option granted to the underwriters) (the "**May 2018 Offering**"). Each unit consisted of one Share and one-half of one Warrant, with each whole Warrant entitling the holder thereof to purchase one Share at a price of \$1.85 per Share until May 31, 2020 (the "**May 2018 Warrants**"). The bought deal was completed by way of a short form prospectus supplement offering in each of the provinces of Canada, except Quebec. The May 2018 Warrants traded on the TSXV under the symbol "XLY.WT" until their expiry and delisting on May 31, 2020.
- *January 2018 Offering.* On January 16, 2018, the Company completed a non-brokered private placement of 100,000 convertible debenture units at a price of \$1,000 per unit, for aggregate gross proceeds of \$100 million (the "**January 2018 Offering**"). Each unit consisted of \$1,000 principal amount of 6% senior unsecured convertible debentures (the "**January Convertible Debentures**") and 322 Warrants (the "**January 2018 Warrants**"). The January Convertible Debentures had a maturity date of January 16, 2020, and bore interest at 6% per annum, calculated semi-annually on June 30 and December 31 of each year. Each January Convertible Debenture was convertible at a conversion price of \$1.55 per Share. Each January 2018 Warrant was exercisable to acquire one Share at an exercise price of \$1.80 per Share until January 16, 2020. The January Convertible Debentures have been settled. January 2018 Warrants traded on the TSXV under the symbol "XLY.WT.A" and were delisted on January 16, 2020.
- *Base Shelf Prospectus.* On January 9, 2018, the Company filed a final short form base shelf prospectus with the securities regulatory authorities in each of provinces of Canada, except Quebec. The final short form base shelf prospectus was subsequently amended, restated and refiled on March 2, 2018. The short form base shelf prospectus allows the Company to offer, from time to time over a 25-month period, up to an aggregate amount of \$250 million in Shares, preferred shares, debt securities, subscription receipts, Warrants and/or units of the Company.

DESCRIPTION OF THE BUSINESS

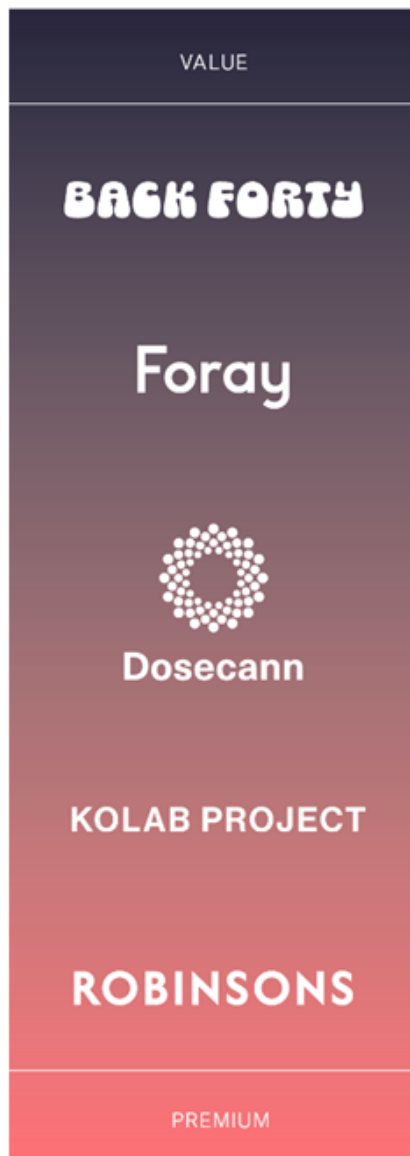
Overview

Auxly is a leading Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada. Auxly's focus is on developing, manufacturing and distributing branded cannabis products that delight wellness and recreational consumers.

Auxly's vision is to be a global leader in branded cannabis products that deliver on its consumer promise of quality, safety and efficacy.

Brand Portfolio

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



Back Forty. *Take a trip and explore the Back Forty.*

Back Forty requires no introduction because it already feels familiar, with a product suite that fits seamlessly into the day-to-day with the simple purpose of providing a better experience for less.

Foray. *See cannabis differently.*

Foray is an accessible entry point for anybody, at any stage of their cannabis journey. Designed for the curious, Foray is approachable and wants to celebrate and guide one's foray into cannabis.

Dosecann. *Cannabis – down to a science.*

Dosecann is a world-class developer of innovative cannabis products for the wellness-focused consumer. Built on the pillars of quality, safety and efficacy.

Kolab Project. *Embrace the unexpected.*

Kolab Project is dedicated to supporting and celebrating the intersection of cannabis and culture. The Kolab Project mission is to provide cannabis enthusiasts with a carefully curated selection of exceptional cannabis, accessories and experiences.

Robinsons. *Canada's premier producer of fine-crafted cannabis.*


Nestled in the heart of Nova Scotia's Annapolis Valley, Robinsons cultivates fine cannabis. Always small-batch and hand-tended, Robinsons is grown for and best enjoyed by the discerning consumer. Driven by an unwavering commitment to craft and relentless pursuit of growing the best cannabis — cannabis that is known simply as Robinsons.


Current Products

On October 17, 2018, the Cannabis Act came into force, initially permitting the recreational sale of certain classes of cannabis products, including dried cannabis, fresh cannabis, cannabis plants, cannabis seeds, and cannabis oil (collectively referred to as “**Cannabis 1.0 Products**”). On October 17, 2019, edible cannabis, cannabis extracts and cannabis topicals were added to the authorized classes of cannabis products (collectively referred to as “**Cannabis 2.0 Products**” and together with Cannabis 1.0 Products, collectively referred to as “**Cannabis Products**”) and such Cannabis 2.0 Products were first available for sale on December 16, 2019. See “*Canadian Regulatory Environment*” for more details on the development of cannabis regulations in Canada.

Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. The Company has focused on the development of Cannabis 2.0 Products and was one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada starting in mid-December 2019, and was the top-selling licensed producer of Cannabis 2.0 Products nationally in 2020.

Our Cannabis Products available as at December 31, 2020 are described below by brand and product format:



Products Available by Brand				
KOLAB PROJECT	 Dosecann Cannabis Solutions	BACK FORTY	ROBINSONS	Foray
Chocolates Vape cartridge starter packs 510 Vape cartridges All-in-one vape pens Pre-rolled cannabis Dried Flower	Cannabis oil drops Capsules	510 Vape cartridges	Dried Flower*	Soft Chews Chocolates Vape cartridge starter packs 510 Vape cartridges All-in-one vape pens Hard Candy

*Currently only available in Alberta, Nova Scotia, Ontario and Newfoundland

Product Development

In-House Development - Dosecann

The Company conducts its primary extraction, product development, manufacturing and R&D activities for its Cannabis Products in-house at its purpose-built, GMP-compliant Dosecann facility. Dosecann holds Licences for processing, analytical testing and research under the Cannabis Act. The majority of the first floor of the two-story, 52,000 square foot facility is licenced under the Cannabis Regulations for the production, storage and sale of Cannabis Products. Construction of the interior of the second floor of the Dosecann facility

is complete. During the third quarter of 2020, operational activities began to transition from the first to second floor with chews, capsules and hard candy production being moved to the newly constructed second floor, and with vapes and oils remaining in production on the first floor. With the additional space and equipment at the Dosecann facility to produce products at commercial scale, combined with the continued development of automation and on-going efforts to reduce the cost of input materials and packaging, the Company anticipates that improvements in gross margins will be achieved.

Product development is led by Dosecann's skilled team, who have experience in the pharmaceutical, food, scientific research and product development fields. As the Company's manufacturing hub, the Dosecann facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. On June 25, 2020, Dosecann was granted a research licence from Health Canada pursuant to the Cannabis Act, which permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing. With the research licence, Dosecann can conduct broader in-house testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations. Product development is overseen by Auxly's Safety Board, comprised of members from Auxly, Dosecann, KGK and Imperial Brands, which has oversight of the controls in place to ensure the safety, quality and efficacy of the Company's products.

Since 2019, Health Canada undertook a consultation, established a Scientific Advisory Committee, and has been engaged in discussions regarding the possible legalization of Cannabis Health Products ("**CHPs**"), which would permit the making of health claims in respect of cannabis products without the required oversight of a practitioner such as a doctor. The Company submitted a response to the consultation, is actively participating in those discussions with Health Canada and is looking forward to the possibility that the authorized classes of cannabis will expand to include CHPs and other derivative product formats (see "*Canadian Regulatory Environment*" below).

In-House Development – Kolab

In October 2017, the Corporation acquired Kolab and its facility located just outside of Ottawa in Carleton Place, Ontario. Kolab holds Licences for cultivation and processing under the Cannabis Act. In 2020, the Company made the strategic decision to cease cultivation at the Kolab facility and shift its focus to the manufacturing, processing and distribution of pre-rolled and dried flower Cannabis Products. In addition to its current operations, Kolab provides the Company with flexibility to manufacture, produce and distribute other Cannabis Products as necessary. Kolab's curated Growers Series has included successful product launch collaborations with Lotus Cannabis Co., Safari Flower Co. and Robinsons. These Kolab Project collaborations strive to deliver a curated selection of unique strains to cannabis enthusiasts across the country while transparently showcasing the craftsmanship of talented cultivators of incredible cannabis by acknowledging the cultivator on our packaging.

The Company has undertaken a new capital project to increase pre-roll production volumes at Kolab through the purchase, installation and commissioning of automated manufacturing and packaging equipment and minor associated building alterations, which is expected to quintuple output from the facility. The manufacturing equipment will be installed and commissioned during the second quarter of 2021, with packaging automation expected to occur in the third quarter of 2021.

Potential In-House Development - Curative Facility

The Company acquired substantially all the shares and assets of Curative pursuant to a foreclosure order issued on November 27, 2019 (see "*Bankruptcy and Similar Procedures*" below), including an approximately

30,000 square foot cannabis cultivation facility situated on 33 acres of land in Chatham-Kent, Ontario. Curative currently holds Licences for cultivation and processing under the Cannabis Act. The Company is currently exploring all possible options with respect to the use, commercialization and/or sale of the Curative facility.

Strategic Partnership with Imperial Brands

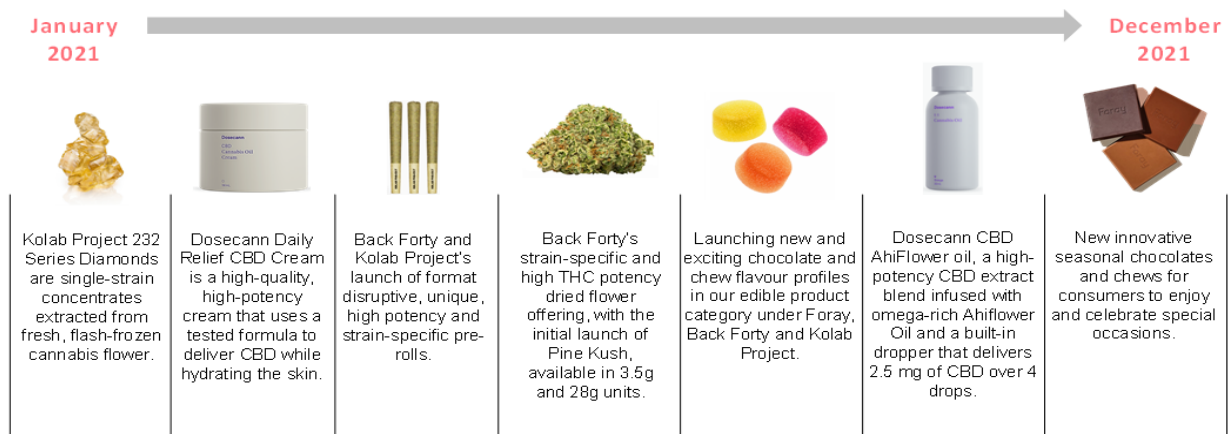
Through its strategic partnership with Imperial Brands, Auxly was granted global licenses to Imperial Brands' vaping technology for cannabis uses, and access to its vapour innovation business, Nerudia, and Imperial Brands will use Auxly as its exclusive partner for the future development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world. Auxly has elected to its board of directors one out of five director nominees and one non-voting observer, each designated by Imperial Brands, and in addition Imperial Brands' Group Science and Regulatory Affairs Director sits on Auxly's Safety Board. Auxly will continue to leverage the expertise of these Imperial Brands representatives to improve its corporate and product stewardship governance practices.

Current Services

KGK, the Company's wholly owned contract research organization located in London, Ontario provides regulatory, research and clinical trial services to the nutraceutical, natural health product and cannabis industries. KGK has an active Research Licence allowing the possession and administration of cannabis for the purposes of a clinical trial. On September 22, 2020, KGK received its second Research Licence, which permits KGK to conduct product palatability and sensory testing of cannabis extracts, edible cannabis topicals with human subjects. On December 21, 2020, KGK received an Institutional Cannabis Research Licence from Health Canada which provides the broad approval to conduct multiple cannabis research projects, removing the need to obtain individual Research Licences for each project. KGK works with their clients in substantiating claims for their products through randomized clinical trials in addition to providing other research services such as participant recruitment, regulatory compliance solutions, research support services and consulting.

New Products

The Company plans to further strengthen its brand recognition and use consumer insights to drive innovation as it continues to introduce new cannabis product formats to the Canadian market over the course of 2021. Such products are at various stages of development, and include cannabis concentrate products, a CBD cream, expanded pre-roll and dried cannabis offerings, and new edible flavours, as outlined in the image below:



Under the Cannabis Regulations, for each new cannabis product intended to be offered, Licence Holders are required to submit a new product notification to Health Canada at least 60 days before such product can be made available for sale. No assurance can be given that the Company will be successful in bringing these products to the market. See "*Risk Factors – Development of New Products*".

Distribution

Given the current provincial legislative framework in Canada, the Company has pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and retailers, including a partnership with Medical Cannabis by Shoppers Drug Mart Inc., a brokerage agreement with Kindred to act as the Company's strategic sales agent, and strong relationships with leading retailers such as Inner Spirit and Delta 9.

The Company has secured listings and sold its Cannabis Products in all provinces except Quebec (where the regulations for Cannabis 2.0 Products are more restrictive). Auxly has obtained the necessary pre-authorization to enter into public contracts in Quebec and continues to explore listings for certain products that comply with Quebec's regulatory requirements. Auxly's products are now widely available at retailers across the country, but the Company's product offering varies across the provinces depending on a variety of factors, including whether certain product formats are legally permitted to be sold in those provinces.

In order to aid in the distribution of its products, the Company entered into a brokerage agreement with Kindred, a Toronto-based specialty cannabis brokerage serving the recreational market, and a wholly owned subsidiary of Breakthru Beverage Group. Kindred leverages the deep experience of its sister company, Breakthru Beverage Canada, working with Canadian provincial control boards, licenced distributors and retailers to broker regulated cannabis products for the recreational market. Kindred supplies its brokerage services to Auxly and uses its national presence to market the Company's portfolio of brands nationwide while working closely with Auxly's relationship managers.

Revenue

For the fiscal year ended December 31, 2020, approximately 92% of the Company's revenue was derived from the sale of cannabis products to customers, with sales of vape and cannabis oil products representing approximating two-thirds of such revenue. For the fiscal year ended December 31, 2019, approximately 75% of the Company's revenue was derived from the performance of third-party research contracts.

Cannabis Input Materials and Supply

Auxly has established a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of wholly owned subsidiaries, a joint venture and offtake agreements. Having a flexible cultivation platform allows for a consistent source of raw input material for the manufacture of the Company's Cannabis Products. To meet its commercial objectives for Cannabis Product sales while the Company's joint venture project Sunens was under development, the Company opportunistically purchased 81% of its cannabis inventory (dried flower and resin) in the open market during 2020. The majority of the Company's current CBD inventory was purchased from licenced hemp sellers in Prince Edward Island. A summary of the Company's key cultivation sources is set out below.

Sunens

Sunens is the Company's large-scale joint venture with partner Peter Quiring, which is comprised of a 1.1 million square foot greenhouse in Leamington, Ontario. In June of 2020, Sunens received a standard

cultivation licence from Health Canada for approximately 360,000 square feet of cultivation, processing and storage space. The Company determined that the most expedited licensing pathway for the remaining space would be achieved by submitting two additional licensing amendment applications for Health Canada's review and approval to expand the site perimeter for the remaining cultivation and additional processing and storage space in the facility. The first of these two licensing amendments was submitted and approved, granting Sunens the use of an additional 409,684 square feet of cultivation and storage space. The Company is currently evaluating the site perimeter expansion that would be necessary to meet Sunens' requirements for additional processing and storage space, and anticipates the second licensing amendment application to expand the site perimeter will be submitted in the second half of 2021. In order to provide further commercial flexibility, Sunens also applied for a processing licence, which was issued by Health Canada on November 13, 2020. Sunens commenced cultivation within the licenced area upon receiving its licence in June 2020, and during the first quarter of 2021 has sold products to the Company and other licenced producers.

Robinsons

Robinsons holds Licences for cultivation and processing under the Cannabis Act for its purpose-built 27,700 sq. ft. indoor cannabis cultivation facility located in Kentville, Nova Scotia, and is focused on the production of high-quality craft cannabis. Initial shipments of Robinsons dried cannabis products commenced in July 2020. Robinsons has entered into supply arrangements with Alberta, Ontario, Nova Scotia, Newfoundland and Labrador, and Saskatchewan.

Robinsons OG

Robinsons OG is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land and uniquely located in Hortonville, Nova Scotia. The Company anticipates that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG will be used for product development initiatives at Dosecann and to create Robinsons-branded derivative cannabis products. Robinsons OG holds standard Cultivation and Processing Licences under the Cannabis Act from Health Canada. However, given the timing for the optimal outdoor planting season and the operational challenges posed by the COVID-19 pandemic, the Company has made the strategic decision to delay the commencement of cultivation activities at the Robinsons OG site and instead focus its efforts on the continued development of the Robinsons OG land and facility in preparation for whenever the Company determines should be the next cultivation season. The facility is currently being used for additional storage and processing capacity for the Company to manage its flower inventory.

PEI Hemp

The Company acted as the financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp was cultivated in Prince Edward Island by six individual hemp licence holders, which resulted in approximately 98,000 kg of hemp biomass from the 2019 cultivation season. Dosecann secured the right of first refusal to offtake the biomass produced in 2019 at preferential prices. The biomass available for purchase was subject to final inspection and validation of a minimum cannabinoid content to ensure extraction efficiency. Based upon the negotiated pricing and the Company's sponsorship of the project to date, the Company has purchased (after inspection and validation) approximately 55,000 kilograms of hemp biomass. The purchase price for the biomass was previously provided to the hemp farmers as a loan to commence the project. During the fourth quarter of 2020, the Corporation purchased an additional 14,300 kilograms of hemp biomass, but all parties have since agreed to terminate and mutually release each other

from any further purchases under the arrangement. The Company intends to use the biomass to extract CBD for use in its own products or for the sale of CBD distillate to other regulated industry participants.

Specialized Skill and Knowledge

The Company's business requires specialized skills and knowledge. A primary specialized skill unique to the cannabis industry is with respect to the growing of cannabis. While a background in the growing of cannabis specifically may be helpful, the nature of growing cannabis at scale in a tightly regulated environment differs from the nature of growing other agricultural products. The Company has recruited a production team with specialized skill sets unique to indoor and outdoor agricultural cultivation and processing of cannabis plants and products at industrial scale.

In order to comply with the Cannabis Act, which includes strict security measures, equipment required to manage production, HVAC systems, odour control systems and laboratory equipment to monitor and test product quality, the Company employs a number of regulatory personnel to assist the Company to remain compliant with the complex and rapidly evolving regulations applicable to the industry.

The Company also requires and employs scientists and other product development, extraction and formulation specialists in order to conduct research and development activities and to develop new derivative cannabis products. See "*Product Development*" above.

The Company's management is comprised of individuals who have extensive experience in the cannabis industry or have significant business experience in large organizations. See "*Directors and Officers*" and "*Risk Factors – Key Personnel Risks and Security Clearances*" for additional information.

Competitive Conditions

As of the date of this AIF, Health Canada has a total of 657 listed Licence Holders, which includes duplicate sites for some Licence Holders as well as many "micro" class Licence Holders. There are also many applicants that are currently pursuing licensing under the Cannabis Act. However, on May 8, 2019, Health Canada introduced changes to the cannabis licensing process. Under the new system, Health Canada will require new applicants for Licences to have a fully built site that meets all the requirements of the Cannabis Regulations at the time of their application. The Company believes that this requirement in addition to the extensive regulatory restrictions and high capital and operating expenditures, may prove too onerous or expensive for some of those existing unlicensed applicants. There are also a number of unlicensed growers and retailers of cannabis operating in the illicit market that, while operating illegally, still continue to hold significant market share and compete with the legal market.

As the demand for cannabis and cannabis products increases, the Company believes new competitors will enter the market. The principal aspects of competition between the Company and its competitors will be the price, format and quality of the cannabis products offered and level of service provided to consumers, government entities and private retailers.

There is potential that the Company will face competition from other cannabis products companies, some of which can be expected to have longer operating histories and more financial resources than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the Company's business, financial condition and results of operations.

See "*Risk Factors*" for further relevant information.

Cycles

The Company's outdoor cannabis cultivation operations at Robinsons OG are seasonal and can support one grow and harvest per year. Unique risks are associated with growing cannabis outdoors, see *"Risk Factors – Agricultural Operations"*.

Intangible Properties

The ownership and protection of the Company's intellectual property is a significant aspect of its future success. In addition to the Company's brand portfolio, described above, and the trademarks associated therewith, the Company relies on trade secrets, technical know-how and proprietary information. The Company protects its intellectual property by seeking and obtaining applicable registrations where possible, developing and implementing standard operating procedures to protect trade secrets, technical know-how and proprietary information. The Company has also entered into agreements with parties, such as Imperial Brands, Lonza, and Natures Crops International, which enable the Company to leverage their intellectual property portfolio including patents, inventions, trade secrets, technical know-how and proprietary information. The Company also seeks to preserve the integrity and confidentiality of its inventions, trade secrets, trademarks, technical know-how and proprietary information by maintaining physical security of the Company's premises and physical and electronic security of the Company's information technology systems.

The Company is exploring trademark protection in countries outside of Canada, however, its ability to obtain registered trademark protection for cannabis and related goods and services may be limited outside of Canada, as registered federal trademark protection in many jurisdictions is not uniform, and trademarks cannot necessarily be obtained. Accordingly, the Company's ability to obtain intellectual property rights or enforce intellectual property rights against third party uses of similar trademarks may be limited in certain countries.

Economic Dependence

The Company's supply arrangements with the various Canadian provinces are a critical element of the Company's current revenues. If any of the larger Canadian provinces change the material terms of agreements or otherwise alter the supply arrangement with the Company, such a change may have a material adverse effect on the Company's revenue. See *"Risk Factors – Supply Arrangements with Provincial and Territorial Governments"* for additional details.

Employees

As of December 31, 2020, the Company employed approximately 431 employees.

Foreign Operations

Presently the Company does not have any active international operations.

Inverell (Uruguay)

Given the slower than anticipated pace of cannabis-specific regulatory development in Latin America and, consequently, the slower development of viable near-term commercial channels in the region, the Company has chosen to explore strategic alternatives for Inverell, the Company's 80% owned subsidiary located in

Montevideo, Uruguay. While exploring strategic alternatives, including the sale of the asset, the Company has ceased all operations at Inverell.

Other Jurisdictions

The Company is also focused on additional opportunities in Europe and North America, in markets with legal cannabis regimes. The business strategies for each region may differ depending upon a multitude of factors, including local ownership requirements, applicable international trade restrictions, the pace of regulatory development, the availability of mature and secure infrastructure and requirements for local cultivation.

Bankruptcy and Similar Procedures

On November 27, 2019, Auxly accepted certain share collateral of Curative in satisfaction of secured debt obligations owing to Auxly by Curative pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) made in foreclosure proceedings under the *Ontario Personal Property Security Act*, RSO 1990. As a result, the Company holds a 96% share interest in Curative.

Canadian Regulatory Environment

Regulatory Framework of Cannabis in Canada

Cannabis in Canada is subject to a complex regulatory framework arising from federal, provincial and territorial legislation. The federal Cannabis Act and Regulations provide the framework for legal access to medical and recreational cannabis, and control and regulate its production, distribution, sale, import and export. The provinces and territories have enacted legislation to control and regulate how cannabis is distributed and sold within their respective jurisdictions.

Canada's regulatory framework for cannabis is constantly evolving. Health Canada, provincial and territorial regulators frequently release and update guidance to assist industry in interpreting and applying the regulatory framework to their operations.

Federal Licensing

The Cannabis Regulations establish six classes (and various subclasses) of Licences that authorize specific activities pertaining to cannabis: Cultivation Licence (standard cultivation, micro-cultivation, nursery), Processing Licence (standard processing, micro-processing), Sale Licence (sale for medical purposes), Analytical Testing Licence, Research Licence, and Cannabis Drug Licence. Licensing requirements and authorized activities vary by Licence class and subclass. These authorized activities can also be narrowed by conditions described in individual Licences when they are issued.

Health Canada is responsible for reviewing and approving all federal licensing applications. While Health Canada does provide service standards for the review of some new applications, application renewals and application amendments, these service standards are not guaranteed and may not always be met. The volume of applications in queue or under review by Health Canada, the complexity of an application or amendment, and the quality of the submission, among other factors, can impact the duration of the review process. This introduces uncertainty into the timelines to obtain new Licences or amend existing Licences.

After a Licence is issued, it is the Licence Holder's responsibility to comply with all applicable requirements in the Cannabis Act and its Regulations. Licence Holders are subject to periodic inspections by Health Canada to ensure continued compliance.

Security Clearances

Certain individuals and entities associated with Licence Holders must hold a valid security clearance issued by the Minister of Health (the “**Minister**”), including, but not limited to, directors and officers of a Licence Holder and any organization that controls the Licence Holder, individuals in key positions identified by Licence class (e.g., master grower, quality assurance person and head of security), and individuals identified by the Minister. Under the Cannabis Regulations, the Minister may refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences, among other reasons.

Permitted Classes of Cannabis

The Cannabis Act differentiates between cannabis depending on its form (referred to as “classes” of cannabis in the Cannabis Act) and only permits the sale of specified classes of cannabis. Upon enactment of the Cannabis Act on October 17, 2018, these classes included: dried cannabis, fresh cannabis, cannabis plants, cannabis seeds, and cannabis oil. On October 17, 2019, edible cannabis, cannabis extracts and cannabis topicals were added to the authorized classes of cannabis. Cannabis oil was subsumed into cannabis extracts and ceased to exist as a standalone class as of October 17, 2020.

Potential Cannabis Health Products

The legalization of CHPs would permit the making of certain health claims in respect of cannabis products without the required oversight of a practitioner such as a doctor. Between June 19 and September 3, 2019, Health Canada held a public consultation seeking feedback from consumers and industry about the kinds of products they would be interested in manufacturing, selling or purchasing, should a legal pathway to market for CHPs be established. On September 25, 2020, Health Canada published a report summarizing the results of the public consultation. Of the consumer participants, 93% demonstrated a positive level of interest in purchasing or learning more about CHPs to treat minor ailments, 5% indicated interest conditional on having further information, and 2% of were strongly opposed. Approximately 78% of industry respondents expressed an interest in manufacturing or selling CHPs, 12% were not interested in those specific activities, and 11% preferred not to say.

As part of the consultation, Health Canada made a commitment to seek external scientific advice on the appropriate evidence standards for CHPs. In November 2020, Health Canada established a new Science Advisory Committee on Health Products Containing Cannabis. The Committee will provide independent scientific and clinical advice to support Health Canada’s consideration of appropriate safety, efficacy, and quality standards for health products containing cannabis, including the conditions under which these products would be suitable to be used without practitioner oversight (e.g., dose and indication).

The Committee will review available evidence regarding the use of cannabis and health products containing cannabis, address specific scientific questions, review current and emerging scientific and clinical issues, and provide evidence-based advice to help inform a potential regulatory path forward.

Cannabis Tracking System

The Cannabis Tracking and Licensing System (CTLS) was established by Health Canada to, among other objectives, track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the illicit market. Under this tracking system, holders of a Cultivation Licence, Processing Licence and/or Sale for Medical Purposes Licence are required to submit monthly reports to Health Canada setting out inventory levels of finished and unfinished cannabis for each cannabis class.

Promotion

The Cannabis Act provides for a general prohibition on the promotion of cannabis, cannabis accessories and services related to cannabis, and contains only limited exceptions to that general prohibition. Health Canada assesses compliance with promotion restrictions on a case-by-case basis. The particular facts of each circumstance are examined and considered. The purpose, content and context of a communication or message and the intended audience are examples of factors that may be taken into consideration by Health Canada in assessing whether an activity is prohibited.

Packaging and Labelling

The Cannabis Regulations set out a comprehensive approach to the packaging and labelling of cannabis products, with the goals of protecting the health of young persons by restricting their access to cannabis and protecting young persons and others from inducements to use cannabis, while promoting informed consumer choice and encouraging the safe handling and storage of cannabis. All cannabis products must be packaged in plain packaging that is child-resistant and tamper-evident and displays a variety of information such as the standardized cannabis symbol, THC and CBD potency, and prescribed health warning messages.

Cannabis for Medical Purposes

The Cannabis Regulations set out the regime for medical cannabis under the Cannabis Act. Patients who obtain the authorization of their healthcare practitioner have access to medical cannabis, either purchased directly from the holder of a Sale for Medical Purposes Licence, or by registering to produce a limited amount of cannabis for their own medical purposes or designating someone to produce cannabis for them. Starting materials for personal production, such as plants or seeds, must be obtained from a Licence Holder.

The Role of Provinces and Territories

Provinces and territories are authorized to licence and oversee the distribution and sale of non-medical cannabis to adult consumers in their respective jurisdictions. As a result, regulations pertaining to the sale and distribution of non-medical cannabis vary from province to province and territory to territory. This impacts where non-medical cannabis is sold, whether it is sold by government or by private entities, the availability of brick-and-mortar retail, the availability of online retail, and the operation of retail stores.

The Cannabis Act prohibits individuals aged 18 years or older from possessing more than 30 grams of dried cannabis or its equivalent in public and from the personal cultivation of more than four plants at any one time. However, provinces and territories have the flexibility to increase the minimum age of consumption, lower possession limits, and set added requirements on personal cultivation within their respective jurisdictions. Provinces and territories can also restrict where cannabis can be consumed in public.

The following chart outlines basic details regarding the current regulatory regime by province and territory. The possession limit of 30 grams remains unchanged in all provinces.

Province/ Territory	Legal Age	Sales Structure
Alberta	18	The distribution and sale of recreational cannabis in Alberta is primarily governed by the Gaming, Liquor and Cannabis Act and the related regulations. The Alberta Gaming, Liquor and Cannabis Commission is the sole wholesale distributor of cannabis in the province. Sales of cannabis are permitted through privately run retail stores and online by the Alberta Gaming, Liquor and Cannabis Commission.
British Columbia	19	The distribution and sale of recreational cannabis in British Columbia is primarily governed by the Cannabis Control and Licensing Act and the related regulations. The BC Liquor Distribution Branch is the sole wholesale distributor of cannabis in the province. Sales of cannabis are permitted through privately run retail stores, as well as publicly run retail stores operated by BC Liquor Distribution Branch or online by BC Liquor Distribution Branch.
Manitoba	19	The distribution and sale of recreational cannabis in Manitoba is primarily governed by the Liquor, Gaming and Cannabis Control Act and the related regulations. Cannabis in the province is distributed by the Manitoba Liquor and Lotteries Corporation. Retail and online sales of cannabis are conducted by private retailers under the regulation of the Liquor, Gaming and Cannabis Authority of Manitoba.
New Brunswick	19	The distribution and sale of recreational cannabis in New Brunswick is primarily governed by the Cannabis Control Act and the related regulations. To date, the distribution and sale of cannabis, both online and instore, has been exclusively conducted by the New Brunswick Cannabis Management Corporation. On November 14, 2019, the New Brunswick government issued a request for proposals for a single private operator to undertake the operation, distribution and sales of recreational cannabis in New Brunswick. Eight proposals were submitted in response to the request, which has now closed. These proposals are currently being evaluated.
Newfoundland and Labrador	19	The distribution and sale of recreational cannabis in Newfoundland and Labrador is primarily governed by the Cannabis Control Act and the related regulations. Recreational cannabis is sold through private stores, with the Newfoundland and Labrador Liquor Corporation conducting online sales and regulating distribution. The Newfoundland and Labrador Liquor Corporation also has the option to open public stores in areas that do not attract private retailers.
Northwest Territories	19	The distribution and sale of recreational cannabis in the Northwest Territories is primarily governed by the Cannabis Products Act and related regulations. The Northwest Territories Liquor Commission is responsible for the distribution and sale of cannabis through existing liquor stores and online sales.
Nova Scotia	19	The distribution and sale of recreational cannabis in Nova Scotia is primarily governed by the Cannabis Control Act and the related regulations. Recreational cannabis is distributed and sold at retail locations and online by the Nova Scotia Liquor Corporation.
Nunavut	19	The distribution and sale of recreational cannabis in Nunavut is primarily governed by the territorial Cannabis Act. The Nunavut Liquor and Cannabis Commission has designated two agents to provide cannabis in the territory through online sales.

Province/ Territory	Legal Age	Sales Structure
Ontario	19	The distribution and sale of recreational cannabis in Ontario is primarily governed by the Cannabis Control Act, 2017, the Cannabis Licence Act, 2018 and the related regulations. The Ontario Cannabis Retail Corporation is the wholesale distributor of cannabis and conducts all online sales in the province. Sales of cannabis are also permitted through privately run retail stores. The number of private retail stores in Ontario was initially restricted. As of March 2, 2020, no such restriction remains.
Prince Edward Island	19	The distribution and sale of recreational cannabis in Prince Edward Island is primarily governed by the Cannabis Control Act and the related regulations. Cannabis is sold at retail locations and online by the PEI Cannabis Management Corporation.
Quebec	21	The distribution and sale of recreational cannabis in Quebec is primarily governed by the Cannabis Regulation Act and the related regulations. The Société Québécoise du Cannabis is the exclusive distributor of cannabis in the province and is the sole retail and online vendor.
Saskatchewan	19	The distribution and sale of recreational cannabis in Saskatchewan is primarily governed by The Cannabis Control (Saskatchewan) Act and the related regulations. The wholesale and retail sale of cannabis (both instore and online) is conducted by private companies in Saskatchewan, which is regulated by the Saskatchewan Liquor and Gaming Authority.
Yukon	19	The distribution and sale of recreational cannabis in Yukon is primarily governed by the Cannabis Control and Regulation Act and the related regulations. The Yukon Liquor Corporation is the wholesale distributor of cannabis and conducts all online sales in the province. Sales of cannabis are also permitted through privately run retail stores.

Industrial Hemp

The regulatory framework for industrial hemp is set out in the Industrial Hemp Regulations, which are enacted under the Cannabis Act. Industrial hemp is defined under the Industrial Hemp Regulations as a cannabis plant – or any part of the plant – in which the concentration of THC is 0.3% (weight by weight) or less in the flowering heads and leaves.

Under this framework, a licence from Health Canada is required in order to conduct various activities with industrial hemp. These activities include the cultivation, sale, import, export, cleaning, preparing and processing of certain parts of the industrial hemp plant. However, not every activity that involves industrial hemp falls within the scope of the Industrial Hemp Regulations and may instead fall under the Cannabis Regulations. For example, the extraction of phytocannabinoids from the flowering heads, leaves and branches of the plant requires a Processing Licence under the Cannabis Regulations. Additionally, only seeds of approved industrial hemp varieties (present on the List of Approved Cultivars), which have a THC level lower than 0.3% in their leaves and flowering heads, can be planted.

In addition to obtaining a licence, industrial hemp licence holders must comply with the Cannabis Act and Regulations, and with other applicable federal, provincial and territorial legislation and municipal by-laws.

See “Risk Factors” for further relevant information.

RISK FACTORS

There are a number of risk factors that could cause future results to differ materially from those described herein. The risks and uncertainties described in this AIF are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected.

Risks Relating to the Company's Business and the Cannabis Industry

Reliance on Licences and Licensing Risks

The Company's subsidiaries' and partners' ability to cultivate, process, store and sell cannabis in Canada is dependent on their respective Licences. Failure to comply with the requirements of any Licence or any failure to maintain a Licence could have a material adverse impact on the business, financial condition and operating results of the Company. Further, there is no guarantee that Health Canada will extend or renew a Licence or, if they are extended or renewed, that they will be extended or renewed on the same or similar terms or that Health Canada will not revoke the Licence. Should a Licence not be extended or renewed, or should a Licence be renewed on different terms, or should a Licence be revoked, there could be a material adverse impact on the business, financial condition, and operating results of the Company.

Certain of the Company's projects may from time to time require a Licence amendment under the Cannabis Regulations and there is a risk that such Licence amendment may never be obtained or that they are not obtained on the timeline anticipated by the Company. The timing and success a Licence amendment is, to an extent, beyond the Company's control and the sole discretion therefore lies with Health Canada. Licence Holders must strictly adhere to the regulations and applicable law in order to maintain the Licence, once granted, and to secure annual renewals. Licences must be renewed at least every three years, or such shorter period as set out on the Licence. In addition, licenced activities will be limited solely to the authorized activities specified in a License.

Changes in Laws, Regulations and Guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the cultivation, manufacture, processing, distribution, management, transportation, storage and disposal of cannabis, including the Cannabis Act, any regulations thereunder and applicable stock exchange rules and regulations, but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment in the jurisdictions in which they operate. Any amendment to or replacement of existing laws, regulations and guidelines are matters beyond the control of the Company that may cause adverse effects to the operations and financial conditions of the Company and, therefore, on the Company's prospective returns. The risks to the business of the Company represented by subsequent regulatory changes may reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations for the Company, and, therefore, the Company's prospective returns.

The Company operates in a new industry which is highly regulated, highly competitive and evolving rapidly. In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce Company's earnings and could make

future capital investments or Company's operations uneconomic and, therefore, could materially and adversely affect the Company's prospective returns.

Furthermore, the legislative framework pertaining to the Canadian recreational cannabis market is subject to significant provincial and territorial regulation, which varies across the respective provinces and territories and can result in an asymmetric regulatory and market environment, different competitive pressures and significant additional compliance and other costs and/or limitations on the Company's ability to participate in such market. Any of the foregoing could result in a material adverse effect on the Company's business, financial condition and operating results and, therefore, on the Company's prospective returns.

Legislation Governing Cannabis

There is no guarantee that the existing legislation in the markets in which the Company operates regulating the cultivation, processing, distribution and sale of cannabis, among other things, will not be amended or repealed or that new legislation may come into force that may not provide or may restrict the growth opportunities that are anticipated. While the impact of any new legislative framework for the regulation cannabis in such markets is uncertain, any of the foregoing could result in a material adverse effect on the Company's business, financial condition and results of operations.

Further, as the commercial cannabis industry is a relatively new industry in Canada, the Company anticipates that regulations governing cannabis in Canada will be subject to change as the Canadian federal government monitors Licence Holders in action. Health Canada may change their administration, interpretation or application of the applicable regulations or their compliance or enforcement procedures at any time. Any such changes could require the Company to revise its ongoing compliance procedures, requiring the Company to incur increased compliance costs and expend additional resources. There is no assurance that the Company will be able to comply or continue to comply with applicable regulations.

In addition, the introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of, existing tax laws, regulations or rules in Canada or any of the jurisdictions in which the Company operates could result in an increase in taxes, or other governmental charges, duties or impositions. No assurance can be given that new tax laws, regulations or rules will not be enacted or that existing tax laws, regulations or rules will not be changed, interpreted or applied in a manner which could result in the Company's profits being subject to additional taxation or which could otherwise have a material adverse effect. Due to the nature of the Company's operations, various legal and tax matters may be outstanding from time to time. If the Company is unable to resolve any of these matters favorably, it may have a material adverse effect on the Company.

COVID-19 Pandemic

A public health crisis, such as a such as local, regional, national or international epidemics, pandemics (including COVID-19) or outbreaks of illnesses, infectious diseases or viruses (including COVID-19), could cause interruptions to the Company's operations, increase operating expenses, result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred, all of which could adversely impact the Company's business, financial condition, and operating results. In December 2019, COVID-19, a novel strain of coronavirus, was reported to have surfaced in Wuhan, China. On January 30, 2020, the WHO declared the outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of COVID-19 to a worldwide pandemic and federal, provincial and municipal governments in Canada have enacted measures to combat the spread of COVID-19.

The Company expects to experience some short to medium term negative impacts from the COVID-19 outbreak; however, the extent of such impacts is currently unquantifiable, but may be significant. Such impacts include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, public health emergency and similar declarations and could include other increased government regulations, a material reduction in demand for the Company's products and services, reduced sales, higher costs for new capital, licencing delays, increased operating expenses, delayed performance of contractual obligations, and potential supply and staff shortages, all of which are expected to negatively impact the business, financial condition and results of operations of the Company and thus may impact the ability of the Company to comply with financial covenants, and its ability satisfy its obligations to its lenders and other parties, which may in turn may adversely impact, among other things, the ability the Company to access debt or equity capital on acceptable terms or at all. In addition, at this time, persistent social distancing measures and restrictions imposed by the federal, provincial and territorial governments in Canada on the movement of individuals and the distribution of cannabis in the country may adversely affect the Company's cannabis sales. It is difficult to predict how the COVID-19 pandemic may affect the Company's business in the future, including the effect it may have (positive or negative; long or short term) on the price of, and demand for, cannabis. It is possible that the COVID-19 pandemic could have a material adverse effect on the Company's business, financial condition, results of operations and prospects as well as the market for its securities and/or its ability to obtain financing. The extent to which the COVID-19 pandemic impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus, the duration of the outbreak and the actions to contain its impact.

The COVID-19 pandemic has significantly impacted cannabis retail across Canada. Some provinces have permitted cannabis retail to continue in-store with social distancing measures in place, some have permitted cannabis retail stores to remain open only for curbside pick-up and delivery, while other provinces have opted to temporarily shut down brick and mortar cannabis retail stores. However, online recreational cannabis sales have been permitted to continue in most jurisdictions. These provincial cannabis retail policies are subject to ongoing change and modification and the impact of such policies may have a material impact on the Company's business, financial condition, and operating results.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Company's facilities. Should an employee or visitor in any of the Company's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The 2020 outbreak of COVID-19 is one example of such an illness. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines and applicable health authority recommendations.

Such public health crises can result in volatility and disruptions in supply and demand, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk, inflation and, as a result, demand for the Company's products and its operating results.

Regulatory Regime Relating to the Company

The Company currently incurs and will continue to incur ongoing costs and obligations related to regulatory compliance. While management believes that the Company has all licences, permits, authorizations and approvals necessary to conduct its business and that the Company is properly operating within all applicable

regulatory regimes and is in material compliance with all Licences, there can be no assurance that these beliefs are accurate or that laws or regulatory regimes will not be changed in a manner that would adversely impact the Company, including by requiring it to obtain certain licences, permits, authorizations or approvals or requiring it to operate subject to a regulatory regime. Any failure to comply with the regulatory requirements applicable to the Company's operations may lead to possible sanctions including the revocation or imposition of additional conditions on licences to operate its business, the suspension or expulsion from a particular market or jurisdiction or of the Company's key personnel, the imposition of additional or more stringent inspection, testing and reporting requirements, and the imposition of fines and censures.

Health Canada inspectors routinely assess the Company's facilities against the Cannabis Act and its regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures and facilities both proactively and in response to routine inspections. The Company follows all regulatory corrections in response to inspections in a timely manner. If the Company fails to comply with applicable laws, regulations and guidelines, the Company may incur additional costs or penalties, or the Company's operations may be restricted or shut down.

Financing

There is no guarantee that the Company will be able to execute on its strategy. The continued development of the Company may require additional financing. While the Company will actively pursue new sources of funding and expects to have sufficient cash flow from operations, there can be no assurance that such funding will be available at all or in a timely manner to finance all aspects of the Company's business. The failure to raise such capital could result in the delay or indefinite postponement of the current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities. Debt financings may also contain provisions which, if breached, may entitle lenders or their agents to accelerate repayment of loans and/or realize upon security over the assets of the Company, and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

Disruption of Supply Chain

Conditions or events including, but not limited to, those listed below could disrupt the Company's, and other industry participant's, supply chains, interrupt operations, increase operating expenses, and thereby result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory

Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see *“Risk Factors – COVID-19 Pandemic”*); (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road. The extent to which COVID-19 or any other contagious disease impacts the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other outbreak and the actions to contain those outbreaks or treat its impact, among others.

Restrictions on Promotion and Marketing

The Cannabis Act and Cannabis Regulations contain restrictions on marketing, advertising and promotional activities, including the prohibition of testimonials, lifestyle branding and packaging that is appealing to youth. The restrictions on advertising, promotion, marketing and the use of logos and brand names may hinder the Company’s sales and marketing activities which could have a material adverse impact on the Company’s business, financial condition, results of operations and prospects. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company’s sales and results of operations could be adversely affected.

Additionally, the Company's success depends on its ability to attract and retain customers, and the restrictions on marketing, advertising and promotion of the Company's cannabis products may adversely impact its ability to establish brand presence, acquire new customers, retain existing customers and maintain a loyal customer base. The failure to acquire and retain customers could have a material adverse effect on the Company’s business, financial condition and results of operations.

Unfavorable Publicity or Negative Consumer Perception

The cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, market rumours or speculation and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company’s business, financial condition and results of operations. Adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company’s business, financial condition and results of operations, the demand for products, and the Company’s business, results of operations, financial condition and cash flows.

The speed with which negative publicity (whether true or not) can be disseminated has increased dramatically with the expansion of the usage of social media and other web-based tools used to generate and disseminate opinions and views. The dissemination of negative or inaccurate posts, comments or other user-generated content about the Company, the cannabis industry and/or competitors on social media (including those published by third-parties) could damage the Company’s brand, image and reputation or how the cannabis industry is perceived generally, which could have a detrimental impact on the Company and thus on its business, financial condition and results of operations.

Reputational Risk to Third Parties

The parties with which the Company does business with may perceive that they are exposed to reputational risk as a result of the Company's cannabis-related business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company's business, financial condition and results of operations. Any third-party service provider could suspend or withdraw its services to the Company if it perceives that the potential risks exceed the potential benefits to such services. For example, the Company may face challenges making U.S. dollar wire transfers or engaging any third-party supplier with a substantial presence where cannabis is not federally legal (including the U.S.). While the Company have other banking relationships and believe that the services can be procured from other institutions, the Company may in the future have difficulty maintaining existing, or securing new, bank accounts or clearing services.

Imperial Brands is a Significant Investor

Imperial Brands is a significant investor in the Company, and the Company's business and future operations may be adversely affected by changes in the business, market price, directors, officers or employees of Imperial Brands. Imperial Brands has the ability to exercise significant influence over the Company's business and operations due to its ownership interest and its rights under an investor rights agreement.

Imperial Brands, through its pre-emptive rights and top-up rights, has the ability to maintain its ownership level in the Company. Imperial Brands is also entitled to designate one nominee for election or appointment to the Company's. As such, Imperial Brands is in a position to exercise influence over the Company, including matters requiring shareholder approval, such as the election of directors, change of control transactions and the determination of other significant corporate actions. There can also be no assurance that the interests of Imperial Brands will align with the interests of the Company or the Company's shareholders. The presence of Imperial Brands could limit the price that investors or an acquirer may be willing to pay for Shares and may therefore delay or prevent a change of control or take-over bid of Imperial Brands.

Pursuant to the investor rights agreement, Imperial Brands also has certain consent rights which could delay or prevent the completion of certain transactions that may otherwise be beneficial to the Company's shareholders. The Company may also enter into other arrangements with Imperial Brands, and as a result, the Company may be dependent on Imperial Brands, which could be a material adverse effect on the Company's business, financial condition and results of operations.

Limited Operating History

The Company has a limited operating history in the cannabis industry. Therefore, the Company is subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the Company's early stage of operations.

Negative Cash Flow

The Company has not generated positive cash flows. As a result of the Company's negative cash flow, the Company continues to rely on the issuance of securities or other sources of financing to generate the funds required to fund its business. There can be no assurance that the Company will be able to generate positive cash flow from its operations, that additional capital or other types of financing will be available when needed, or that these financings will be on terms favourable to the Company. The Company may continue to have negative operating cash flow for the foreseeable future. The Company expects to continue to increase

operating expenses as it implements initiatives to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

Competition

As the recreational cannabis market continues to mature, the Company expects significant competition from other companies in the cannabis industry. Some of these companies may have longer operating histories, possess greater financial, production, marketing, research and development and technical and human resources than the Company, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships. Such competition may make it difficult for the Company to enter into desirable supply agreements or similar transactions, negotiate favourable prices, to recruit or retain qualified employees, and to acquire the capital necessary to fund its investments. Existing or future competition in the cannabis industry could materially adversely affect the Company's business, financial condition and results of operations. The Company's future success depends upon its ability to achieve competitive per unit costs through increased production and on its ability to recognize higher margins through the sale of higher margin products. To the extent that the Company is not able to produce its products at competitive prices or consumers prioritize established low margin products over innovative, higher margin products, the Company's business, financial condition and results of operations could be materially and adversely affected. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, production expansion, distribution channels, sales and client support. If the Company is not successful in obtaining sufficient resources to invest in these areas, the Company's ability to compete in the market may be adversely affected, which could materially and adversely affect the business, financial condition and results of operations of the Company.

Competition from the Illicit Market

The Company also faces competition from unlicensed and unregulated market participants, including individuals or groups that process cannabis without a Licence under the Cannabis Act, including illicit medical and recreational dispensaries and other illicit participants selling cannabis in Canada. These competitors may be able to offer products with higher concentrations of active ingredients than the Company is authorized to produce and sell and use delivery methods which are currently prohibited from being produced or sold in Canada. The competition presented by these participants, and any unwillingness by consumers currently using these illicit distribution channels to begin purchasing from the regulated market for any reason, or any inability of law enforcement authorities to enforce existing laws prohibiting the unlicensed cultivation, processing, distribution and sale of cannabis and derivative cannabis products, could adversely affect the Company's market share, result in increased competition through the illicit market for cannabis or have an adverse impact on the public perception of cannabis use, and of Canadian Licence Holders.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are, with certain exceptions, not generally available from other sources at this early stage of the cannabis industry. A failure in the demand for the Company's products to materialize as a result of competition, technological change, change in the regulatory or legal landscape or other factors could have a material adverse effect the Company's business, financial condition and results of operations.

Customer Acquisition and Retention

The Company's success depends on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to the Company's brand awareness, its ability to continually produce desirable and effective Cannabis Products and the successful implementation of customer-acquisition plans. The failure to acquire and retain customers could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In addition to being subject to general business risks applicable to a business involving a regulated consumer product, the Company will need to make significant investments in its business strategy. These investments include the procurement of raw material, extraction equipment, site improvements and research and development projects. The Company expects that competitors will undertake similar investments to compete with it. Competitive conditions, consumer preferences, customer requirements and spending patterns in the cannabis industry and market are relatively unknown and may have unique circumstances that differ from other existing industries and markets and cause the Company's future efforts to develop its business to be unsuccessful or to have undesired consequences for it. As a result, the Company may not be successful in its efforts to attract customers or to develop new cannabis products and produce and distribute these cannabis products, or these activities may require significantly more resources than it currently anticipates in order to be successful.

Supply Arrangements with Provincial and Territorial Governments

The Company expects to derive a significant portion of its future revenues from its supply arrangements with the various Canadian provinces and territories. There are many factors which could impact the Company's contractual and other arrangements with the provinces and territories, including but not limited to availability of supply, product selection and the popularity of the Company's products with retail customers. If the Company's supply arrangements with certain Canadian provinces and territories are amended, terminated or otherwise altered, the Company's sales and results of operations could be adversely affected, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Not all of the Company's supply arrangements with the various Canadian provinces and territories contain purchase commitments or otherwise obligate the provincial or territorial wholesaler to buy a minimum or fixed volume of cannabis products from the Company. The amount of cannabis products that the provincial or territorial wholesalers may purchase under the supply arrangements may therefore vary from what the Company expects or has planned for. As a result, the Company's revenues could fluctuate materially in the future and could be materially and disproportionately impacted by the purchasing decisions of the provincial or territorial wholesalers. If any of the provincial or territorial wholesalers decide to purchase lower volumes of products from the Company than the Company expects, requires, imposes or expects a reduction on the price at which the product may be purchased, alters its listing requirements or product call policies, alters its purchasing patterns at any time with limited notice or decides not to continue to purchase the Company's cannabis products at all, the Company's revenues could be materially adversely affected, which could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company cannot accurately predict the quantities of its products that will be purchased by the provincial or territorial wholesalers, or if they will purchase any products at all. Any inability to secure purchase orders could have a material adverse effect on the Company's business, financial condition or results of operations.

Risks Arising from Provincial Legislative Controls

The provincial recreational markets are end consumer driven. It is not possible to predict which products will be purchased and made available to the end consumer in the provincial recreational markets. Further, governmental actions and regulations such as the ban on vape products through adult use channels enacted in certain provinces including Newfoundland, PEI and Quebec, or any other provincial restriction or reduction of legal cannabis products available for sale in a province, may limit the marketability of some of the Company's products and the Company's number of end consumers. These factors may have a material adverse effect on the Company's business, financial condition or results of operations.

Restrictions on Investment

Certain provinces have limited the interest that a Licence Holder, an affiliate or related party can have in a licensed retailer. In such provinces, having an interest greater than the threshold can limit the ability to obtain a provincial retail licence, limit the ability to obtain more than one such licence or restrict the ability to stock the Licence Holder's products. Certain of the Company's arrangements with licensed retailers and their affiliates may result in such counterparty being prevented from entering a market in a retail capacity, limiting their market penetration or restricting their ability to stock the Company's which may have a material adverse effect on the Company's business, financial condition or results of operations.

Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if their products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, or unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury, illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, adversely affect the Company's reputation with clients and consumers generally, and adversely affect the results of operations and financial conditions of the Company, and the Company's prospective returns.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If one or more of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin, or at all. In addition, a product recall may require significant management attention. Although the Company makes efforts to keep detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Company could have a material adverse effect on the Company's business, financial

condition and results of operations. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Wholesale Price of Cannabis Volatility

The Company's revenues are in a large part derived from the production, sale, and distribution of cannabis and cannabis products. The cost of production, sale, and distribution of cannabis and cannabis products is dependent on a number of key inputs and their related costs, including equipment and supplies, labour and raw materials related to the Company's operations, as well other overhead costs such as electricity, water, and utilities. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on our business, financial condition, results of operations and prospects. This includes any change in the selling price of products set by the applicable province or territory. There is currently no established market price for cannabis and given the highly regulated nature of the industry, the price of cannabis is affected by numerous factors beyond the Company's control, including but not limited to, government regulation, interest rates, inflation or deflation, supply and demand, and general prevailing political and economic conditions. Any price decline may have a material adverse effect on our business, financial condition and operations, and a general downturn in the cannabis market could result in a significant decrease in the Company's revenue.

Unknown Health Impact of Use of Cannabis Products

There is little in the way of longitudinal studies on the short-term and long-term effects of cannabis use on human health, whether used for recreational or medicinal purposes. As such, there are inherent risks associated with using the Company's Cannabis Products. Previously unknown or unforeseeable adverse reactions arising from human consumption of cannabis products may occur which could have an adverse effect on the social acceptance of cannabis and the demand for the Company's products.

Development of New Products

It is likely that the Company, and its competitors, will seek to introduce new products in the future, including additional edible cannabis product formats and cannabis derivatives. In attempting to keep pace with any new market developments, the Company may need to deploy significant amounts of capital in order to successfully develop and generate revenues from new products introduced by the Company. As well, the Company may be required to obtain and maintain additional regulatory approvals from Health Canada and any other applicable regulatory authority, which may take significant amounts of time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

Sufficiency of Insurance

The Company maintains various types of insurance to protect its assets, operations, directors and employees, which may include directors' and officers' insurance; property coverage; product liability recall insurance; and, general commercial and liability insurance. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, there is no assurance that claims will not exceed the limits of available coverage, if any, that any insurer will remain solvent or willing to continue providing insurance coverage with sufficient limits or at a

reasonable cost, or that any insurer will not dispute coverage of certain claims. There is also no assurance that coverage will be available to cover any or all claims. A judgment against the Company or any subsidiary of the Company in excess of available coverage could have a material adverse effect on the Company in terms of damages awarded and the impact on the reputation of the Company. There can also be no assurance that the Company will be able to secure insurance coverage on commercially reasonable terms, or at all, as it may require to implement its business objectives, including with respect to derivative products.

Uninsured or Uninsurable Risks

While the Company may have insurance to protect its assets, operations, and employees, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. No assurance can be given that such insurance will be adequate to cover the Company's liabilities or that it will be available in the future or at all, and that it will be commercially justifiable. The Company may be subject to liability for risks against which it cannot insure or against which it may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for its normal business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

Joint Ventures, Partnerships and Strategic Alliances

The Company operates parts of its business through joint ventures, partnerships and strategic alliances with other companies, and the Company may enter into additional joint ventures, partnerships and strategic alliances in the future. The Company's ability to complete joint ventures, partnerships and strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, such arrangements could present unforeseen integration obstacles or costs, may not enhance the Company's business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such arrangements. Future joint ventures, partnerships and strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future arrangements will achieve, or that the Company's existing arrangements will continue to achieve, the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, joint venture investments may involve risks not otherwise present for investments made solely by the Company, including: (a) lack of control the joint ventures; (b) joint venture partners not agreeing to distributions that are appropriate; (c) lack of substantial decision-making authority and resulting impasses or disputes on certain decisions; (d) insolvency or bankruptcy of joint venture partners, failure to fund their share of required capital contributions or fail to fulfil their obligations as a joint venture partner; (e) the arrangements governing the joint ventures may contain certain conditions or milestone events that may never be satisfied or achieved; (f) joint venture partners may have business or economic interests that are inconsistent with ours and may take actions contrary to the Company's interests; (g) the Company may suffer losses as a result of actions taken by the Company's joint venture partners with respect to the Company's joint venture investments; and (h) it may be difficult for the Company to exit a joint venture if it desires to sell its interest for any reason. Any of the foregoing risks could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company may, in certain circumstances, be liable for the actions of the Company's joint venture partners.

Failure to Realize Expected Rate of Return on the Company's Investments

While the Company has conducted, and continues to conduct, due diligence in connection with its investments in other cannabis companies, including its investments in its partners, such investments inherently involve risks that could materially and adversely affect the Company's business plan, including without limitation, the failure of its partners to: (i) realize the results the Company expects; (ii) obtain and/or maintain regulatory approvals; and (iii) successfully compete in the cannabis industry. In addition, there could be unknown or undisclosed risks or errors in the various estimates provided by the Company's partners that could materially and adversely affect the Company and its financial results. There can be no assurances that the Company will be able to realize its projected rate of return on the Company's investments, including its investments in its partners.

Future Acquisitions or Dispositions

The Company may undertake material acquisitions, dispositions and other strategic transactions in the future, which involve a number of risks, including: (i) potential disruption of the Company's ongoing business; (ii) distraction of management; (iii) the Company may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Company's operations; and (vi) loss or reduction of control over certain of the Company's assets.

The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the results of operations, business prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

Lack of Control Over Operations of Supply Partners

A part of the Company's business requires the Company to rely on its supply partners to execute on their business plans and produce cannabis products, and the Company may hold contractual rights and/or minority equity interest relating to the operation of its partners. The operators of its partners have significant influence over the results of operations of the partners. Further, the interests of the Company and the operators of the partners may not always be aligned. As a result, there is a risk to the Company that at any time those third parties may: (a) have business interests or targets that are inconsistent with those of the Company; (b) take action contrary to the Company's policies or objectives; (c) be unable or unwilling to fulfill their obligations under their agreements with the Company; or (d) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations. In addition, failure to receive payments in a timely fashion, or at all, under the agreements to which the Company is entitled may have a material adverse effect on the Company. The Company must also rely, in part, on the accuracy and timeliness of the information it receives from the supply partners, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by its partners to the Company contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

No Security Granted

The Company generally does not have a security interest or other collateral pursuant to its supply agreements with its partners. As such, the Company may be limited in its ability to enforce in the event of a default by a supply partner.

Bankruptcy or Insolvency of Supply Partners

There is no guarantee that the Company will be able to effectively enforce any interests it may have in its supply partners. A bankruptcy or other similar event relating to one of the supply partners which precludes such party from performing its obligations under an agreement may have a material adverse effect on the Company. Further, as an equity investor, should a supply partner have insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities owed to the Company. In addition, bankruptcy or other similar proceedings are often a complex and lengthy process, the outcome of which may be uncertain and could result in a material adverse effect on the Company.

Production Capacity

The current projected production capacity of the Company's and its partners' facilities is only an estimate and is subject to a number of factors including plant design errors, dependence on certain cultivation technologies and key personnel, among others. The failure of the Company to achieve full production capacity at any of its current or proposed facilities could have a material adverse effect on the Company.

Expansion Efforts and Operations

There is no guarantee that the Company's expansion strategy (including receiving any required Health Canada or other regulatory approvals, licences and permits in a timely fashion, if at all) will be completed in the currently proposed form, if at all, nor is there any guarantee that the Company will be able to expand into additional jurisdictions. The current projected size of the Company's and its partners' facilities and expansions are only estimates and are subject to due diligence, regulatory approvals and market demand. Any delay or failure to build out proposed facilities and/or expand current facilities, in a timely manner, including securing any required regulatory consents, could have a material adverse effect on the Company. Additionally, the risk of failure to execute on expansion plans is a risk that the Company may not have product, or sufficient product, available for shipment, to meet the expectations of its potential customers or in its business plan.

Environmental and Employee Health and Safety Regulations and Risks

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, financial condition, and operating results of the Company. Government approvals and permits are currently and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company

may be curtailed or prohibited from its production of recreational cannabis products or from proceeding with the development of its operations as currently proposed.

Unknown Defects and Impairments

A defect in any business arrangement may arise to defeat or impair the Company's claim to such transaction, which may have a material adverse effect on the Company. It is possible that material changes could occur that may adversely affect management's estimate of the recoverable amount for any agreement the Company enters into. Impairment estimates, based on applicable key assumptions and sensitivity analysis, will be based on management's best knowledge of the amounts, events or actions at such time, and the actual future outcomes may differ from any estimates that are provided by the Company. Any impairment charges on the Company's carrying value of business arrangements could have a material adverse effect on the Company.

Cultivation Operations

Cannabis cultivation operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may have a material adverse effect on the Company's business, financial condition and results of operations. In addition, cannabis businesses are dependent on a number of key inputs and their related costs including raw materials and supplies related to cultivation operations, as well as electricity, water and other utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the Company's financial condition and results of operations. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the Company's business, financial condition and results of operations.

Agricultural Operations

Since the Company's business involves the cultivation of cannabis, an agricultural product, the risks inherent with agricultural businesses will apply. Such risks may include plant diseases and insect pests, among other similar agricultural risks that may create crop failures and supply interruptions.

Although the Company currently grows and expects to grow the majority of its product in climate controlled, monitored, indoor locations, some of the production will take place outdoors and there is no guarantee that changes in outside weather and climate will not adversely affect such production. Like other agricultural products, the quality of cannabis grown outdoors is affected by weather and the environment, which can change the quality or size of the harvest. If a weather event is particularly severe, such as a major drought or hurricane, the affected harvest could be destroyed or damaged to an extent that results in lost revenues. In addition, other items may affect the marketability of cannabis grown outdoors, including, among other things, the presence of non-cannabis related material, genetically modified organisms and excess residues of pesticides, fungicides, and herbicides. High degrees of quality variance can affect processing velocity and capacity utilization, as the process required to potentially upgrade lower quality product requires significant time and resources. There can be no assurance that natural elements will not have a material adverse effect on the production of the Company's products and ultimately the Company's business, financial condition and results of operations.

Canadian Excise Duty Framework

Canada's excise duty framework imposes an excise duty and various regulatory-like restrictions on certain cannabis products sold in Canada. The Company currently hold all licences issued by the Canada Revenue

Agency (“CRA”) required to comply with this excise framework. Although the Company believes it will meet the requirements of the *Excise Act, 2001* and the regulations thereunder for maintenance and extension of its licences, there can be no guarantee that CRA will extend or renew the licences or that CRA will not revoke the licences. Should CRA not extend or renew the licences, or should the licences be revoked, the Company's business, financial condition and results of operations will be materially adversely affected. Additionally, any change in the rates or application of excise duty to cannabis products sold by the Company, and any restrictive interpretations by the CRA or the courts of the regulatory-like restrictions contained in the *Excise Act, 2001* (which may be different than those contained in the Cannabis Act) may affect the Company's profitability and ability to compete in the market.

Key Personnel Risks and Security Clearances

The Company's efforts are dependent to a large degree on the skills and experience of certain of its key personnel, including the Board. The Company does not maintain “key man” insurance policies on these individuals. Should the availability of these persons' skills and experience be in any way reduced or curtailed, this could have a material adverse outcome on the Company and its securities. The Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them.

Further, certain shareholders, directors, officers and employees may require security clearance from Health Canada. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by an employee to maintain or renew his or her security clearance may result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if an employee with security clearance leaves and the Company is unable to find a suitable replacement that has a security clearance required by the Cannabis Act in a timely manner, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its directors and executive officers may be engaged in a range of business activities. In addition, the Company's directors and executive officers may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company and subject to any contractual restrictions restricting such activities. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with business interests that interfere with their ability to devote time to the Company's business and affairs, which could adversely affect the Company's operations.

Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws and policies of the Company. For example, a director who has a material interest in a matter before the Board or any committee on which he or she serves is required to disclose such interest as soon as the director becomes aware of it and absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. In accordance with applicable laws, the directors of the Company are required to act honestly and in good faith with a view to the best interests of the Company.

Anti-Money Laundering Laws and Regulation Risks

The Company is subject to a variety of domestic and international laws and regulations pertaining to money laundering, financial recordkeeping and proceeds of crime, including the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities internationally. In the event that any of the Company's operations or investments, any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations or investments were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the Company's ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends in the foreseeable future, in the event that a determination was made that proceeds obtained by the Company could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Corruption and Anti-Bribery Law Violations

The Company's business is subject to Canadian laws which generally prohibit companies and employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, the Company is subject to the anti-bribery laws of any other countries in which it conducts business now or in the future. The Company's employees or other agents may, without its knowledge and despite its efforts, engage in prohibited conduct under the Company's policies and procedures and anti-bribery laws for which the Company may be held responsible. The Company's policies mandate compliance with these anti-corruption and anti-bribery laws. However, there can be no assurance that the Company's internal control policies and procedures will always protect it from recklessness, fraudulent behaviour, dishonesty or other inappropriate acts committed by its affiliates, employees, contractors or agents. If the Company's employees or other agents are found to have engaged in such practices, the Company could suffer severe penalties and other consequences that may have a material adverse effect on its business, financial condition and results of operations.

Listing Standards of Exchanges

The Company's Shares commenced trading on the TSX on April 20, 2021 following the Company's graduation from the TSXV. The Company must meet continuing listing standards to maintain the listing of the Shares on the TSX. As the Company operates in the cannabis industry, it may from time to time, be subject to additional listing requirements that are not applicable to companies in other industries. If the Company fails to comply with listing standards, and an exchange were to initiate a delisting review in respect of the Company, the Company could face significant material adverse consequences.

TSX Restrictions

On October 16, 2017, the TSX provided clarity regarding the application of Sections 306 (Minimum Listing Requirements) and 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "**Requirements**") to TSX listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017 0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is

engaging in activities contrary to the Requirements, the TSX maintains the discretion to initiate a delisting review. Failure to comply with the Requirements could have an adverse effect on the Company.

While the Company currently does not engage in any activities related to the cultivation, distribution or possession of cannabis in the U.S., other companies with which the Company has entered into agreements or in which the Company has invested, may at some point in time, without the Company's knowledge, initiate cross-border marijuana-related activities. If any such other company was to initiate such activities, it may cause the Company to no longer be compliant with the Requirements or cause the Company to terminate its existing relationships or divest of any such companies on terms that are not favourable to the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations.

U.S. Concerns

Because cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Business or financial involvement in the legal cannabis industry in Canada or in the U.S. could also be reason enough for U.S. border guards to deny entry. Also in light of cannabis remaining illegal under U.S. federal law, any engagement in cannabis-related activities, both in Canada as well as in foreign jurisdictions, may lead to heightened scrutiny by regulatory bodies and other authorities that could negatively impact the Company and/or its personnel.

Expansion into Jurisdictions outside of Canada

The Company may further expand its business and operations into jurisdictions outside of Canada. The Company's investments and joint ventures outside of Canada as well as any future investments and joint ventures are subject to the risks normally associated with any conduct of business in foreign and/or emerging countries including political; civil disturbance risks; changes in laws or policies of particular countries, including those relating to royalties, duties, imports, exports and currency; the cancellation or renegotiation of contracts; the imposition of royalties, net profits payments, tax increases or other claims by government entities, including retroactive claims; a disregard for due process and the rule of law by local courts; the risk of expropriation and nationalization; delays in obtaining or the inability to obtain necessary governmental permits or the reimbursement of refundable tax from fiscal authorities. Threats or instability in a country caused by political events including elections, change in government, changes in personnel or legislative bodies, foreign relations or military control present serious political and social risk and instability causing interruptions to the flow of business negotiations and influencing relationships with government officials. Changes in policy or law may have a material adverse effect on the Company's business, financial conditions and results of operations. The risks include increased "unpaid" state participation, higher energy costs, higher taxation levels and potential expropriation.

Other risks include the potential for fraud and corruption by suppliers or personnel or government officials which may implicate us, compliance with applicable anti-corruption laws, including the *Corruption of Foreign Public Officials Act* (Canada) by virtue of the Company's operating in jurisdictions that may be vulnerable to the possibility of bribery, collusion, kickbacks, theft, improper commissions, facilitation payments, conflicts of interest and related party transactions and the Company's possible failure to identify, manage and mitigate

instances of fraud, corruption, or violations of the Company's code of conduct and applicable regulatory requirements. There is also the risk of increased disclosure requirements; currency fluctuations; restrictions on the ability of local operating companies to hold Canadian dollars, U.S. dollars or other foreign currencies in offshore bank accounts; import and export regulations; increased regulatory requirements and restrictions; limitations on the repatriation of earnings or on the Company's ability to assist in minimizing the Company's expatriate workforce's exposure to double taxation in both the home and host jurisdictions; and increased financing costs.

These risks may limit or disrupt the Company's joint ventures, strategic alliances or investments, restrict the movement of funds, cause the Company to have to expend more funds than previously expected or required, or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation, and may materially adversely affect the Company's financial position and/or results of operations. In addition, the enforcement by the Company of its legal rights in foreign countries, including rights to exploit the Company's properties or utilize the Company's permits and licences and contractual rights may not be recognized by the court systems in such foreign countries or enforced in accordance with the rule of law. The Company may invest in companies, or engage in joint ventures, in countries with developing economies. It is difficult to predict the future political, social and economic direction of the countries in which the Company operates, and the impact government decisions may have on the Company's business. Any political or economic instability in the countries in which the Company may operate could have a material and adverse effect on the Company's business, financial condition and results of operations.

The Company may not be able to successfully identify suitable acquisition and expansion opportunities or integrate such operations successfully with the Company's existing operations as anticipated. There is also no guarantee that the Company will be able to complete any of the foregoing activities at all. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit the Company's capability to successfully expand its operations into such jurisdictions and may have a material adverse effect on its business, financial condition and results of operations.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business including as a result of contractual or other disputes or as a consequence of the Company's Exchange listing and reporting issuer status. Additionally, securities class action litigation is often brought against companies following a period of volatility in the market price of their securities. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can result in significant costs and divert management attention and resources. Litigation may also create a negative perception of the Company's brand.

Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products and technology. Policing the unauthorized use of the Company's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against

unauthorized use by others. Identifying unauthorized use of intellectual property rights is difficult as the Company may be unable to effectively monitor and evaluate the products being distributed by its competitors, including parties such as unlicensed dispensaries, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of the Company's trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same for the benefit of the Company, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of the Company's trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect the Company's business, financial condition and results of operations.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. As well, the Company may need to obtain licences from third parties who allege that the Company has infringed on their lawful rights. However, such licences may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licences or other rights with respect to intellectual property that it does not own.

Security Breaches and Unpermitted Data Access

Given the nature of cannabis product and the lack of legal availability outside of channels approved by the Government of Canada, as well as the potential concentration of inventory in the Company's facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may affect the Company's brand and reputation.

In addition, the Company may collect and store personal information about its customers and suppliers and are responsible for protecting that information from privacy breaches. A privacy breach may occur through a variety of sources, including, without limitation procedural or process failure, information technology malfunction, deliberate unauthorized intrusions, computer viruses, cyber-attacks and other electronic security breaches. Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is dependent upon information technology systems in the conduct of its operations and may collect, store and use certain sensitive data, intellectual property, the Company's proprietary business information and certain personally identifiable information of the Company's employees and customers on the Company's networks. Any fraudulent, malicious or accidental breach of the Company's data security could result in unintentional disclosure of, or unauthorized access to, third party, customer, vendor, employee other confidential or sensitive data or information, which could potentially result in additional costs to the Company to enhance security or to respond to occurrences, lost sales, violations of privacy or other laws, penalties, fines, regulatory action or litigation, in addition, media or other reports of perceived security vulnerabilities to the Company's systems of those of the Company's third party suppliers, even if no breach has been attempted or occurred, could adversely impact the Company's brand and reputation and patients could lose confidence in the Company's security measures and reliability, which would harm the

Company's ability to retain patients and gain new ones. If any of these were to occur, it could have a material adverse effect on the Company's business and results of operations.

In addition, there are a number of federal and provincial laws protecting the confidentiality of certain information and restrict the use and disclosure of such protected information. The privacy rules under the *Personal Information Protection and Electronics Documents Act* (Canada) protect certain records including medical records and other personal health information, by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company were to be found to be in violation of the privacy or security rules under the *Personal Information Protection and Electronics Documents Act* (Canada) or other laws protecting the confidentiality of patient health information, the Company could be subject to sanctions and civil or criminal penalties, which could increase the Company's liabilities, harm the Company's reputation and have a material adverse effect on the Company's business, results of operations and financial condition. International jurisdictions in which the Company operates may also have similar privacy and security laws to which the Company is subject to.

Third Party Transportation and Distribution

In order for customers of the Company to receive their products, the Company relies on third party transportation and distribution services. This may cause logistical problems with and delays in customers obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance. Furthermore, if these third parties damage the products, it could negatively impact the Company's revenue from sales. Any damage to products, such as product spoilage, could expose the Company to potential liability, damage the Company's reputation and otherwise harm the Company's business.

Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach, including any failure to comply with recommendations or requirements of Health Canada for the transportation of cannabis, could impact the Company's ability to continue operating under its Licences or the prospect of renewing its Licences.

Reliance on Third Party Suppliers, Manufacturers and Contractors

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the novel regulatory landscape for regulating cannabis in Canada and the variability surrounding the regulation of cannabis in the U.S., the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors, including for non-cannabis based products coming from the U.S., may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, any significant interruption, negative change in the availability or economics of the supply chain or increase in the prices for the products or services provided by any such third party suppliers, manufacturers and contractors could materially impact the Company's business, financial condition and results of operations. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the Company's business, financial condition and results of operations.

Private Companies and Illiquid Securities

The Company has made equity investments in some private companies and the Company may make further investments in securities of private companies. In some cases, the Company may be restricted by contract or

generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

Challenging Global Financial Conditions

In recent years, global credit and financial markets have experienced extreme disruptions, including with respect to, at times, severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that significant deterioration in credit and financial markets and confidence in economic conditions will not occur in the future. Any such economic downturn, volatile business environment or continued unpredictable and unstable market conditions could have a material adverse effect on the Company's business, financial condition and results of operations.

Further, global credit and financial markets have displayed arguably increased volatility in response to global events. Since November 30, 2019, the COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic are unknown at this time, as is the efficacy of government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the Company's business, financial condition, results of operations and prospects.

Future crises may be precipitated by any number of causes, including natural disasters, geopolitical instability, changes to energy prices or sovereign defaults. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. Increased levels of volatility and market turmoil can adversely impact the Company's operations and the value, and the price of the Shares could be adversely affected. In addition, there is a risk that one or more of the Company's current service providers may themselves be adversely impacted by difficult economic circumstances, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Relating to the Shares

Volatile Market Price of Shares

The market price for Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly and/or annual results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- departure of the Company's executive officers and other key personnel;

- release or expiration of transfer restrictions on outstanding Shares;
- sales or perceived sales of additional Shares or other securities;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the industries in which the Company operates;
- announcements of developments and other material events by the Company or its competitors;
- changes in global financial markets and global economies and general market conditions, such as interest rates and price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Shares may be materially adversely affected.

Dividends

The Company has not paid any dividends on the outstanding Shares, and the Company maintains no current intention to declare dividends on the Common Shares in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's Board may deem relevant. As a result, investors may not receive any return on an investment in the Shares unless they sell their Shares for a price greater than that which such investors paid for them.

Future Sales or Issuances of Securities

The Company may issue additional securities to finance future activities. The Company cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Shares. Sales or issuances of substantial numbers of Shares, or the perception that such sales could occur, may adversely affect prevailing market prices of the Shares. With any additional sale or issuance of Shares, investors will suffer dilution to their voting power and the Company may experience dilution in its earnings per Share. Exercises of presently outstanding share options or warrants may also result

in dilution to security holders. A decline in the market prices of the Company's securities could impair the Company's ability to raise additional capital through the sale of securities should the Company desire to do so.

Equity Price Risk

The Company is exposed to equity price risk as a result of holding equity investments in other cannabis companies. Just as investing in the Company has inherent risks, by investing in these other companies, the Company is exposed to the risks associated with owning equity securities and those risks inherent in other cannabis companies.

DIVIDENDS

As of the date of this AIF, the Company has not declared dividends since inception and has no current intention to declare dividends on its Shares in the foreseeable future. Any decision to pay dividends on its Shares in the future will be at the discretion of the Board and will depend on, among other things, the Company's results of operations, current and anticipated cash requirements and surplus, financial condition, any future contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Shares. As of the date of this AIF, there were 749,712,690 Shares issued and outstanding. The holders of Shares are entitled to one vote per Share at all meetings of the shareholders of the Company either in person or by proxy. The holders of Shares are also entitled to dividends, if and when declared by the Company's Board, and the distribution of the residual assets of the Company in the event of a liquidation, dissolution or winding up of the Company.

All Shares rank equally as to all benefits which might accrue to the holders thereof, including the right to receive dividends, voting powers, and participation in assets and in all other respects, on liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other disposition of the assets of the Company among its shareholders for the purpose of winding up its affairs after the Company has paid out its liabilities. The Shares are not subject to any call or assessment rights, any conversion or any exchange rights. The Shares are not subject to any redemption, retraction, purchase for cancellation, surrender, sinking or purchase fund provisions. Additionally, the Shares are not subject to any provisions permitting or restricting the issuance of additional securities and any other material restrictions or any provisions requiring a securityholder to contribute additional capital to the Company. Pursuant to an investor rights agreement, Imperial Brands has certain pre-emptive rights as well as a top-up right in order to maintain its pro rata ownership position in the Company in connection with any offering or distribution of securities by the Company (subject to certain exceptions).

The Company adopted an equity incentive plan (the "**Equity Incentive Plan**") under which it is authorized to grant a variety of equity-based awards that provide different type of incentives to its directors, officers, employees and consultants. The Equity Incentive Plan is a rolling option plan that provides for the grant of incentive stock awards, including incentive stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and other awards based on Shares (collectively, the "**Stock Awards**").

Subject to the terms and conditions of the Equity Incentive Plan, the maximum number of Shares which may be reserved and set aside for issuance upon the grant or exercise of Stock Awards under the Equity Incentive Plan is 10% of the Company's issued and outstanding share capital at the time of any grant. The Equity

Incentive Plan is a "rolling" maximum option plan, and any increase or decrease or reduction in the number of outstanding Shares will result in an increase or decrease, respectively, in the number of Shares that are available to be issued under the Equity Incentive Plan. As of the date of this AIF, the Company has 30,755,875 incentive stock options outstanding which entitles the holders thereof to purchase 30,755,875 Shares.

As of the date of this AIF, the Company has 82,482,321 common share purchase warrants (each, a “**Warrant**”) outstanding to purchase up to an aggregate of 82,482,321 Shares. Each Warrant is exercisable for one Share of the Company.

MARKET FOR SECURITIES

The issued and outstanding Shares of the Company are listed and posted for trading on the TSX under the symbol “XLY”, on the OTC Market’s OTCQX under the symbol “CBWTF”, and on the Frankfurt Stock Exchange under the symbol “3KF”. The following table summarizes the particulars of the trading of the Company’s Shares on the TSXV up until the Company’s graduation date to the TSX on April 20, 2021. For the period beginning on and after April 20, 2021, the table below summarizes the particulars of the trading of the Company’s Shares on the TSX:

Month	High (\$)	Low (\$)	Volume
April 2021 ⁽¹⁾	0.395	0.355	27,714,849
March 2021	0.40	0.325	53,586,325
February 2021	0.51	0.30	91,834,368
January 2021	0.45	0.245	44,627,893
December 2020	0.375	0.23	46,492,700
November 2020	0.430	0.225	65,092,300
October 2020	0.365	0.125	55,628,600
September 2020	0.19	0.12	14,355,800
August 2020	0.26	0.16	21,535,700
July 2020	0.305	0.225	15,797,900
June 2020	0.43	0.28	31,004,100
May 2020	0.45	0.315	25,048,700
April 2020	0.44	0.315	33,940,947
March 2020	0.48	0.22	54,433,995
February 2020	0.62	0.43	45,588,391
January 2020	0.75	0.57	38,325,140

Note:

1. From April 1 to April 23, 2021.

The issued and outstanding May 2018 Warrants issued under the May 2018 Offering were listed and posted for trading on the TSXV under the symbol “XLY.WT” until their expiry date on May 31, 2020. The following table summarizes the particulars of the trading of the May 2018 Warrants on the TSXV for the months indicated:

Month	High (\$)	Low (\$)	Volume
May 2020	0.005	0.005	232,700
April 2020	0.005	0.005	105,575
March 2020	0.015	0.005	1,001,155
February 2020	0.025	0.015	1,077,526
January 2020	0.03	0.015	2,211,182

The issued and outstanding January 2018 CD Warrants issued under the January 2018 Offering were listed and posted for trading on the TSXV under the symbol "XLY.WT.A" until their expiry date on January 16, 2020. The following table summarizes the particulars of the trading of the January 2018 CD Warrants on the TSXV for the months indicated:

Month	High (\$)	Low (\$)	Volume
January 2020 ⁽¹⁾	0.005	0.005	134,000

Note:

1. From January 1 to January 16, 2020. The January 2018 CD Warrants were delisted on January 16, 2020.

PRIOR SALES

The following tables summarize the details of the following securities that are not listed or quoted on a marketplace issued by the Company during the period between January 1, 2020 and the date hereof:

Security/Date	Number of Securities	Issue Price Per Security
Warrants		
February 8, 2021.....	27,197,500	\$0.46
February 8, 2021.....	2,719,740	\$0.37
December 15, 2020.....	23,000,000	\$0.40
December 15, 2020.....	2,990,000	\$0.30
September 8, 2020.....	6,111,111	\$0.216
June 26, 2020.....	5,409,836	\$0.366
June 8, 2020.....	4,342,105	\$0.460
May 20, 2020.....	2,588,235	\$0.510
April 28, 2020.....	1,580,460	\$0.522

Security/Date	Number of Securities	Exercise Price Per Security
Options		
December 21, 2020 ..	1,750,000	\$0.33
December 21, 2020 ..	45,000	\$0.31
June 29, 2020.....	4,555,692	\$0.30
June 29, 2020.....	125,000	\$0.38
June 29, 2020.....	39,000	\$1.00
January 31, 2020	151,000	\$1.00
January 31, 2020	15,000	\$1.24

Security/Date	Principal Amount	Conversion Price Per Share
Convertible Debentures		
September 8, 2020.....	\$2,000,000	\$0.180
June 26, 2020.....	\$3,000,000	\$0.305
June 8, 2020.....	\$3,000,000	\$0.380
May 20, 2020.....	\$2,000,000	\$0.425
April 28, 2020.....	\$1,250,000	\$0.435

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

The following table sets out the number of Shares and other securities held, to the knowledge of the Company, in escrow or that are subject to a contractual restriction on transfer as at the date of this AIF:

Designation of class	Number of securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of class
Shares ⁽¹⁾	10,994,190	1.47%
Restricted Shares ⁽²⁾	3,659,837	0.49%

Notes:

1. Represent Shares held in escrow related to the contingent considerations in acquisitions and investments which are to be released upon completion of milestones. 1,888,421 of the escrowed Shares are held by Computershare Trust Company of Canada. The Shares held in escrow are to be released in the following manner: (a) 5,105,769 Shares are to be released to Raul Urbina upon the completion of certain performance milestones pursuant to the Inverell Acquisition agreement; (b) 4,000,000 Shares are to be released to Peter Quiring upon the completion of certain operational performance milestones by Sunens in accordance with a Strategic Alliance Agreement; and (c) 1,888,421 Shares are to be released to the former shareholders of Dosecann upon the completion of a certain facility performance milestone in accordance with the Dosecann Acquisition agreement.
2. Represent the Restricted Shares issued to non-executive employees of the Company on September 23, 2019 as compensation, as part of their employment agreements related to services performed in 2019. All Restricted Shares vested immediately upon grant and as otherwise subject to the terms of the Equity Incentive Plan.

DIRECTORS AND OFFICERS**Name, Address, Occupation and Security Holding**

The following table sets out the names of the directors and officers of the Company, the municipality and province of residence, their position with the Company, their principal occupation during the past five years, and the number and percentage of Shares beneficially owned, directly or indirectly, or over which control or direction is proposed to be exercised, by each of the directors and officers as of the date of this AIF:

Name, Municipality of Residence and Position with Company	Director/Officer Since	Principal Occupation During Last 5 Years	Number of Shares Owned or Controlled
Hugo Alves (Toronto, Ontario) <i>Chief Executive Officer, Director</i>	June 8, 2017 (Director) August 10, 2017 (Officer)	Chief Executive Officer of the Company since August 27, 2019; President of the Company from August 10, 2017 – August 27, 2019. Formerly senior corporate and commercial Partner at Bennett Jones LLP where he founded and led the firm's cannabis group, September 2014 – July 2017.	26,645,902 ⁽¹⁾
Brian Schmitt (Aurora, Ontario) <i>Chief Financial Officer</i>	February 11, 2019	Interim CFO at EnerCare Inc. in 2018, VP Finance at EnerCare Inc. from 2008 to 2018.	600,000
Michael Lickver (Toronto, Ontario) <i>President</i>	October 1, 2020	President of the Company since October 1, 2020; SVP, Strategy of the Company from July 2017 – October 2020. Associate at Bennett Jones LLP, 2011 – 2017.	6,432,056

Name, Municipality of Residence and Position with Company	Director/Officer Since	Principal Occupation During Last 5 Years	Number of Shares Owned or Controlled
Ian Rapsey (Ottawa, Ontario) <i>Chief Creative Officer</i>	May 5, 2017	Co-founder and Chief Creative Officer for Nesta Holding Co., from January 2016 to May 2017; and Creative Lead for Tweed Marijuana Inc., October 2013 – January 2016.	1,622,000
Genevieve Young ⁽²⁾⁽³⁾ (Ottawa, Ontario) <i>Chair of the Board</i>	Dec. 28, 2018	President and Chief Operating Officer of Global Public Affairs, since January 2017, and Chief Operating Officer of Global Public Affairs since January 2015.	Nil
Troy Grant ⁽²⁾⁽³⁾ (Bedford, Nova Scotia) <i>Director</i>	Dec. 21, 2016	Founder and Chief Executive Officer of Elcora Advanced Materials Corp., a TSXV listed graphene materials company, since June 2011.	11,250
Conrad Tate ⁽²⁾⁽³⁾ (Bristol, UK) <i>Director</i>	Sept. 25, 2019	Corporate Development Director at Imperial Brands PLC since 2010.	Nil
Vikram Bawa ⁽³⁾ (Mississauga, Ontario) <i>Director</i>	October 1, 2020	Managing Partner at Terrene Ltd. since August 2020; VP Marketing, Asia Pacific & EMEA at Logitech S.A. from November 2016 – June 2020.	Nil

Notes:

1. Includes 12,000,000 Shares held through Grandville Asset Management Limited, a private company wholly owned by Mr. Alves.
2. Member of the audit committee of the Company (the “**Audit Committee**”).
3. Member of the compensation committee of the Company.

As at the date of this AIF, the directors and executive officers of the Company as a group beneficially owned, or controlled or directed, directly or indirectly, a total of 35,311,208 Shares, representing approximately 4.71% of the total number of Shares outstanding. The statement as to the number of Shares beneficially owned directly or indirectly, or over which control or direction is exercised by the director and executive officers of the Company as a group is based upon information furnished by the directors and executive officers.

The term of office for each director of the Company expires immediately before each annual meeting of the shareholders of the Company.

Management

The following is a brief description of the directors and officers of the Company:

Hugo Alves*Chief Executive Officer & Director*

Hugo Alves is the Co-Founder and Chief Executive Officer of the Company, where he has overall responsibility for driving the Company's strategic vision. A cannabis industry pioneer, Hugo has played a key role in shaping the regulated cannabis industry in Canada, including acting as counsel and advisor to many of the industry's leading companies, brands, industry associations, patient access groups and cannabis focused events and conferences. Hugo is an adjunct professor at Western University Law School, where he co-created and teaches Cannabis Law and Practice, the first cannabis-focused course ever offered at a Canadian law school. Prior to founding Auxly, Hugo was a senior corporate and commercial Partner at Bennett Jones LLP, where he built the firm's cannabis practice group and advised Canadian and foreign clients in connection with private mergers and acquisitions, public and private financings, public procurements, outsourcing transactions, joint ventures and strategic alliances. Hugo obtained his BA from Carleton University, where he won the Senate Medal for Outstanding Academic Achievement and obtained his Doctor of Law from the University of Toronto.

Brian Schmitt*Chief Financial Officer*

Brian Schmitt, CFO, is an accomplished finance and accounting executive with approximately 30 years of experience in both private and publicly traded companies. Most recently, Mr. Schmitt acted as the CFO at EnerCare Inc., where during his tenure with the company he played a large part in growing the company through acquisition and helped carve out their strategy, systems integration and operating plan. He also served as Vice President Planning & Administration for Wells Fargo Financial and held senior finance and accounting roles with Citi Financial and Ernst & Young. Mr. Schmitt is a Certified Public Account (CPA), a Chartered Accountant (CA) and a Certified Financial Analyst (CFA) charterholder.

Mike Lickver*President*

Mike Lickver is co-founder and President of the Company, where he is responsible for overseeing the commercial, operations and regulatory departments and implementing Auxly's corporate strategy. Prior to assuming his current role, Mike was the Senior Vice President of Strategy working alongside senior management to develop and implement corporate strategy. Prior to founding Auxly, Mike was a senior corporate and commercial lawyer at a large international Bay Street law firm where he co-founded the cannabis practice in 2013 and helped grow it into a global leader. As a leading advisor and pioneer in the Canadian cannabis industry, he represented a variety of global industry participants and played a key role in a wide variety of domestic and international corporate and commercial transactions since the inception of the cannabis industry in Canada. Mike is also an adjunct professor at Western Law where he teaches "Cannabis Law and Practice", a course he designed and developed in 2014 and was the first of its kind in Canada. Mike has also held several directorships with the Arts and Culture Committee for the UJA Federation of Greater Toronto, various not-for-profits as well as public and private cannabis companies. Mike earned Law (J.D.) and MBA degrees from the University of Western Ontario and the Richard Ivey School of Business.

Ian Rapsey*Chief Creative Officer*

Ian is an award-winning creative director that has worked closely with major local and international brands. Prior to joining Auxly, Ian worked at Canopy Growth Corporation (formerly Tweed Marijuana Inc.), a globally recognized and industry leading cannabis brand. While at Canopy Growth Corporation, Ian was also the creative lead for the rebrand of Bedrocan Canada. Prior to his work in the cannabis industry, Ian was a creative lead in Toronto at several design and branding agencies - most notably Bruce Mau Design Inc. While at Bruce Mau Design Inc., Ian was responsible for the creative and strategic development of several branding initiatives including: SOM Architects, the Ontario Science Centre, Ask.com, and LEGO's VisionLAB. He was also the lead creative on NBBJ Architects publication series and design manifesto – Change Design. Ian obtained his diploma in graphic design from Algonquin College.

Genevieve Young*Chair of the Board, Chair of the Audit Committee*

Genevieve is the President and Chief Operating Officer of Global Public Affairs, Canada's leading privately held strategic communications and government advocacy consultancy representing some of Canada's largest and most dynamic organizations. Genevieve has two decades of experience in public affairs, leading national mandates and campaigns across jurisdictions and managing multiple stakeholders, government(s) and media. Genevieve's focus has expanded to the emerging cannabis industry as the executive champion of Global Public Affairs' Cannabis team guiding the practice as they rapidly scale to meet market and service evolution demand. Genevieve is responsible for all Global Public Affairs' corporate functions, driving an aggressive growth trajectory across all existing and potential markets, practice and service lines. Genevieve holds a Bachelor of Arts in Canadian Politics and an MBA from the Smith School of Business at Queen's University.

Conrad Tate*Director*

Since 1998, Conrad has held a number of senior legal and commercial roles in Imperial Brands and was appointed Corporate Development Director in 2010. Conrad has played a key role in a number of significant transactions over the years, including the acquisition of Altadis, Commonwealth Brands, assets purchased by Imperial as part of the Reynolds American takeover of Lorillard and Nerudia. He has led Imperial Brands' investigation, analysis and entry into the legal cannabis sector and is currently leading a major divestment program for Imperial Brands, which will realize proceeds of up to £2 billion.

Vikram Bawa*Director*

Vikram Bawa is a senior global marketing leader with an extensive record of delivering results with first-hand experience in both mature and emerging markets with a single-minded focus on the consumer. He has lived and worked across North America, Asia and Europe with top-tier fast-moving consumer goods, electronics and advertising companies. Mr. Bawa has led multifunctional and diverse organizations across categories (Health and Beauty, Food and Consumer Electronics) and has developed long term business strategy at both the local and global levels, helping execute with excellence. Mr. Bawa brings decades of experience in

consumer insights, brand building and marketing to Auxly's Board, having served most recently as the Vice President and Head of Marketing – Asia Pacific, Europe, Middle East and Africa (EAMEA) for Logitech S.A. (based out of China and Switzerland). Prior to that, Mr. Bawa was Vice President Marketing at McCain Foods Canada, where he was responsible for all marketing functions including Retail, Food Service, Innovation and Consumer Insights. He has also held senior roles with Nestle (Switzerland and Canada), Wrigley USA and Colgate Palmolive (Canada, USA and Philippines).

Troy Grant

Director

Mr. Grant is currently the Chief Executive Officer and director of Elcora Advanced Materials Corp., a TSXV-listed graphene materials company. Since 2000, Troy has held senior positions in the financial service sector, including head of corporate finance at Citadel Securities, focusing on the resource sector, and more recently as head of institutional European sales. He has also been instrumental in venture formation, financing and development of a number of resource, technology and agriculture companies operating globally. Troy has also served as a Director of Black Isle Resources Corporation since July 16, 2018. Troy holds a BBA, economics, from Saint Francis Xavier University.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the Company's knowledge, no director or officer of the Company, within 10 years of the date of this AIF, has been a director or officer of an organization that, while that person was acting in that capacity,

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under applicable securities law, for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the Company's knowledge, no director or officer, has:

- (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body that would be likely to be considered important to a reasonable securityholder.

To the Company's knowledge, within the 10 years before the date of this AIF, no director or officer of the Company has declared bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

Conflicts of Interest

Some of the directors and officers of the Company are also directors and/or officers of other reporting and non-reporting issuers. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of the Company, notwithstanding that they are bound by the provisions of the *Business Corporations Act* (British Columbia), as amended, to act at all times in good faith in the interest of the Company and to disclose such conflicts to the Company if and when they arise. To the best of their knowledge, the management of the Company is not aware of the existence of any conflicts of interest between any of the directors and officers of the Company as of the date of this AIF, other than as disclosed herein.

See “*Risk Factors – Conflicts of Interest*”.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Other than as disclosed below, the Company is not aware of: (a) any legal proceedings to which the Company is or was a party, or to which any of the Company’s property is subject, during the financial year ended December 31, 2020, which would be material to the Company or of any such proceedings being contemplated, (b) any penalties or sanctions imposed by a court or securities regulatory authority relating to securities legislation during the financial year ended December 31, 2020, or other penalties or sanctions imposed by a court or securities regulatory authority against the Company that would likely be considered important to a reasonable investor making an investment decision, or (c) any settlement agreements that the Company has entered into before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2020.

On March 28, 2019, a proposed class action was commenced in the Ontario Superior Court of Justice against the Company which asserts various statutory and common law claims related to, among other things, alleged misrepresentations and/or failure to make timely disclosure of material information relating to the Company’s now-terminated agreement with FSD Pharma. The plaintiff seeks, among other relief, an unspecified amount of damages on behalf of a putative class comprising persons who acquired securities of the Company between September 20, 2018 and February 8, 2019. The Company believes the action is without merit and intends to vigorously defend the action.

On April 22, 2020, an action was commenced in the Ontario Superior Court of Justice against the Company by 346 Spadina Inc. for the purported breach of a lease agreement. The Company strongly disputes the claims and the termination of the lease and intends to vigorously defend the action.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of management of the Company, there are no material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any informed persons of the Company, directors, proposed directors or officers of the Company, any shareholder who beneficially owns more than ten percent (10%) of the Shares of the Company, or any associate or affiliate of these persons in any transaction in the Company’s last three completed financial years or in any proposed transaction, which has materially affected or would materially affect the Company other than as disclosed herein or in the financial statements of the Company for the three most recently completed financial years. Reference should be made to the notes to the audited financial statements for a more detailed description of any material transaction.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Company is Computershare Trust Company of Canada, in its offices in Vancouver, British Columbia.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, there were no contracts entered into by the Company during the twelve month period ending December 31, 2020 which are material or entered into before the twelve month period ending December 31, 2020 but are still in effect, other than the contracts listed below:

- Subscription Agreement dated July 25, 2019 between the Company, 1213509 B.C. Ltd. a wholly owned subsidiary of Imperial Brands, and solely for certain limited purposes set forth therein, Imperial Tobacco Overseas Holdings Limited. See "*General Development of the Business – Imperial Brands Investment*";
- the Warrant Indenture; and
- the Investment Agreement.

Copies of these material contracts are available under the Company's corporate profile on SEDAR.

AUDIT COMMITTEE INFORMATION

The Audit Committee is governed by an Audit Committee Charter, a copy of which is attached hereto as Schedule "A".

Composition of the Audit Committee

As of the date of this AIF, the following were the members of the Audit Committee:

<u>Name</u>	<u>Independent</u>	<u>Financial Literacy</u>
Genevieve Young ⁽¹⁾	Yes	Yes
Troy Grant	Yes	Yes
Conrad Tate	Yes	Yes

Note:

1. Chair of the Audit Committee.

Relevant Education and Experience

The Board believes that the composition of the Audit Committee reflects financial literacy and expertise. Currently, all members of the Audit Committee have been determined by the Board to be "independent" and "financially literate" as such terms are defined under National Instrument 52-110 – *Audit Committees*. The Board has made these determinations based on the education as well as breadth and depth of experience of each member of the Audit Committee.

All the members of the Audit Committee have the education and/or practical experience required to understand and evaluate financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements. Information concerning the relevant education and experience of the Audit Committee members can be found in "*Directors and Officers*" above.

Pre-Approval Policies and Procedures

The Audit Committee of the Company has adopted specific policies and procedures for the engagement of audit and non-audit services. For all audit and non-audit services, management is required to seek preapproval from the Audit Committee.

External Auditor Service Fees (By Category)

The following table summarizes the fees paid to the external auditors of the Company, in each of the last two fiscal years.

<u>Fiscal Year</u>	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>All Other Fees</u>
2020	\$657,500	\$-	\$65,300	\$-
2019	\$450,000	\$-	\$24,500	\$-

Notes:

1. “**Audit Fees**” include fees necessary to perform the annual audit of the Company’s consolidated financial statements.
2. “**Audit-Related Fees**” include other services that are performed by the auditor such as consultations or internal control reviews.
3. “**Tax Fees**” include fees for tax compliance, tax planning and tax advice. These services include preparing tax returns and corresponding with government tax authorities.
4. “**All Other Fees**” include all other non-audit services.

INTERESTS OF EXPERTS

Ernst & Young LLP was the independent auditor of the Company for the fiscal year ended December 31, 2020 and was independent within the meaning of the CPA Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information concerning the Company, including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under the Company’s equity compensation plans, is contained in the information circular of the Company dated June 5, 2020 prepared in connection with the annual and special meeting of the shareholders of the Company held on July 15, 2020.

Additional financial information concerning the Company, including the Company’s audited financial statements, the notes thereto, the auditor’s report thereon and related management’s discussion and analysis for the year ended December 31, 2020, can be found on the Company’s profile on SEDAR at www.sedar.com.

Additional information relating to the Company may be found on the Company’s profile on SEDAR at www.sedar.com.

GLOSSARY

In this AIF, the following terms have the following meanings:

"ACMPR"	means the <i>Access to Cannabis for Medical Purposes Regulations</i> (Canada), issued pursuant to the <i>Controlled Drugs and Substances Act</i> (Canada) and since repealed.
"AIF"	means this annual information form of the Company dated May 13, 2020 prepared pursuant to Part 6 of National Instrument 51-102 – <i>Continuous Disclosure Obligations</i> .
"Amendments"	has the meaning ascribed thereto in <i>"General Development of the Business – Imperial Brands Investment"</i> .
"Analytical Testing Licence"	means a licence to engage in the testing of cannabis issued under the Cannabis Act.
"Atlantic"	means Atlantic Cultivation Inc.
"ATM Program"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"Audit Committee"	means the audit committee of the Company.
"Base Shelf Prospectus"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"BMO"	means Bank of Montreal.
"Board"	means the board of directors of the Company.
"cannabis"	has the meaning given to such term in the Cannabis Act.
"Cannabis Act"	means the federal <i>Cannabis Act</i> , S.C. 2018, c.16.
"cannabis oil"	has the meaning given to such term in the Cannabis Act.
"Cannabis 1.0 Products"	has the meaning ascribed thereto in <i>"Description of the Business – Current Products"</i> .
"Cannabis 2.0 Products"	has the meaning ascribed thereto in <i>"Description of the Business – Current Products"</i> .
"Cannabis Products"	has the meaning ascribed thereto in <i>"Description of the Business – Current Products"</i> .
"Cannabis Regulations"	means the <i>Cannabis Regulations</i> enacted pursuant to the Cannabis Act.
"Capsugel"	means Capsugel Inc.
"CBD"	means cannabidiol.
"CD Offering"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"CHPs"	means Cannabis Health Products.
"Company", "Auxly", "we" or "us"	means Auxly Cannabis Group Inc.

"CRA"	means the Canada Revenue Agency.
"Cultivation Licence"	means a licence to cultivate cannabis issued under the Cannabis Act or previous ACMPR, as applicable.
"Curative"	means 2368523 Ontario Inc. (d/b/a Curative Cannabis).
"Dealer's Licence"	means a licence issued under Section 9 of the <i>Narcotic Control Regulations</i> (Canada), as issued prior to the implementation of the Cannabis Act.
"Debenture"	has the meaning ascribed thereto in <i>"General Development of the Business – Imperial Brands Investment"</i> .
"December 2020 Offering"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"Delta 9"	means Delta 9 Cannabis Inc.
"Dixie"	means Dixie Brands, Inc.
"Dosecann"	means Dosecann LD Inc.
"Dosecann Acquisition"	has the meaning ascribed thereto in <i>"General Development of the Business – Acquisitions, Dispositions, Investments, Partnerships and Cannabis Supply Arrangements"</i> .
"Dosecann Replacement Warrants"	has the meaning ascribed thereto in <i>"General Development of the Business – Acquisitions, Dispositions, Investments, Partnerships and Cannabis Supply Arrangements"</i> .
"Equity Incentive Plan"	means the equity incentive plan of the Company.
"February 2021 Offering"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"FSD Pharma"	means FSD Pharma Inc.
"forward-looking information"	has the meaning ascribed thereto in <i>"Forward-Looking Statements"</i> .
"FV"	means FV Pharma Inc.
"ICC"	means ICC International Cannabis Corp.
"Imperial Brands"	means Imperial Brands PLC.
"Imperial Transaction"	has the meaning ascribed thereto in <i>"General Development of the Business – Imperial Brands Investment"</i> .
"Industrial Hemp Regulations"	means the <i>Industrial Hemp Regulations</i> enacted pursuant to the Cannabis Act.
"Inner Spirit"	means Inner Spirit Holdings Inc.
"Inverell"	means Inverell S.A.
"Inverell Acquisition"	has the meaning ascribed thereto in <i>"General Development of the Business – Acquisitions, Dispositions, Investments, Partnerships and Cannabis Supply Arrangements"</i> .

"Investment Agreement"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"Investor Rights Agreement"	has the meaning ascribed thereto in <i>"General Development of the Business – Imperial Brands Investment"</i> .
"January 2018 Warrants"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"January Convertible Debentures"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"January 2018 Offering"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"kg"	means kilograms.
"KGK"	means KGK Science Inc.
"Kindred"	means Kindred Partners Inc.
"Kolab"	means Kolab Project Inc.
"Licence"	means a licence issued under the Cannabis Regulations in relation to cannabis.
"Licence Holder"	means the holder of a licence issued under the Cannabis Act or previous ACMPR, as applicable.
"Lonza"	means Lonza Group Ltd.
"Lotus"	means Lotus Ventures Inc.
"May 2018 Offering"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"May 2018 Warrants"	has the meaning ascribed thereto in <i>"General Development of the Business – Financings and Other Corporate Actions"</i> .
"Minister"	means the Minister of Health for Canada.
"NL Government Agreement"	has the meaning ascribed thereto in <i>"General Development of the Business – Acquisitions, Dispositions, Investments, Partnerships and Cannabis Supply Arrangements"</i> .
"Processing Licence"	means a licence to process cannabis issued under the Cannabis Act.
"Research Licence"	means a licence to engage in cannabis research issued under the Cannabis Act.
"Robinsons"	means Robinson's Cannabis Incorporated.
"Robinsons Acquisition"	has the meaning ascribed thereto in <i>"General Development of the Business – Acquisitions, Dispositions, Investments, Partnerships and Cannabis Supply Arrangements"</i> .
"Robinsons OG"	means Robinson's Outdoor Grow Incorporated.
"Restricted Shares"	means Shares of restricted stock in the capital of the Company issued pursuant to the Equity Incentive Plan.

“Safari”	means Safari Cannabis Co.
“Sale for Medical Purposes Licence”	means a licence for sale for medical purposes issued under the Cannabis Act or the equivalent under the previous ACMPR, as applicable.
“SEDAR”	means the System for Electronic Document Analysis and Retrieval.
“SG&A”	means selling, general and administrative expenses.
“Share”	means a common share without par value in the capital stock of the Company.
“Spirit Leaf”	means Spirit Leaf Inc.
“Stock Awards”	has the meaning ascribed thereto in <i>“Description of Capital Structure”</i> .
“subsidiary”	has the meaning ascribed thereto under the <i>Securities Act</i> (British Columbia).
“Sundial”	means Sundial Growers Inc.
“Sunens”	means Sunens Farms Inc.
“TSX”	means the Toronto Stock Exchange.
“TSXV”	means the TSX Venture Exchange.
“U.S.”	means the United States of America.
“Warrant”	means a common share purchase warrant of the Company.
“Warrant Indenture”	has the meaning ascribed thereto in <i>“General Development of the Business – Financings and Other Corporate Actions”</i> .

SCHEDULE "A"
AUDIT COMMITTEE CHARTER
AUXLY CANNABIS GROUP INC.

Purpose and Objectives

The Audit Committee is a committee of the Board. Its primary functions are to assist the Board in fulfilling its oversight responsibilities relating to the integrity of the Company's financial statements, its management's discussion and analysis, material press releases, the engagement and recommendation of compensation of independent auditors, the evaluation of the independent auditors' qualifications, independence and performance, and the performance of the Company's internal accounting procedures. The Audit Committee also prepares reports, if and when required, for inclusion by the Audit Committee in the Company's disclosure documents and enhances communication between management, independent auditors and the Board.

Composition and Process

- The Board shall appoint members of the Audit Committee annually. The Audit Committee shall be composed of not less than three members of the Board, a majority of whom shall be, in the determination of the Board, "independent" as that term is defined by National Instrument 52-110 – *Audit Committees*, as amended from time to time. Members shall be appointed by the Board on an annual basis, shall serve a one-year term and may serve consecutive terms, which are encouraged to ensure continuity of experience. The Board shall fill any vacancy in the event the Audit Committee has less than three members and may remove members by resolution.
- Each member of the Audit Committee shall, by virtue of education or experience, be financially literate. Financial literacy is the ability to read and understand a balance sheet, income statement and cash flow statement that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.
- A quorum for a meeting of the Audit Committee shall be a majority of the members present in person or, by telecommunications device. The Audit Committee shall meet quarterly or more frequently at the discretion of the members of the Audit Committee as circumstances require.
- The Audit Committee shall select a Chairman from amongst their members. The Chair of the Committee shall be appointed by the Board for a one-year term, and may serve any number of consecutive terms. If the Chairman is not present at a meeting of the Audit Committee, a Chairman shall be selected from amongst the members present.
- The Audit Committee shall, as it determines necessary, have the authority to select, engage and remunerate independent counsel and other advisers to assist in carrying out the Audit Committee's duties at the expense of the Company.
- In discharging its duties under this Charter, the Audit Committee may investigate any matter brought to its attention and shall have access to all books, records, facilities and personnel of the Company, may conduct meetings or interview any officer or employee of the Company, the

Company's legal counsel, independent auditors and consultants and may invite any such persons to attend any part of any meeting of the Audit Committee.

- The Audit Committee may designate one or more subcommittees consisting of at least one member to address specific issues on behalf of the Audit Committee.
- The Audit Committee shall regularly report to the Board on its activities.
- The Audit Committee shall review and reassess the adequacy of the Charter annually and submit any proposed changes to the Board for approval.
- The Audit Committee shall perform such other functions as are assigned by law and the, and on the instructions of the Board.
- The Audit Committee has neither the duty nor the responsibility to conduct audit, accounting or legal reviews. The Company's independent auditors are responsible for auditing those financial statements.

Functions

- Independent Auditor
 - The Audit Committee shall be directly responsible for the appointment, termination, compensation, retention and oversight of the work of the independent auditing firm employed by the Company (including resolution of disputes between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee's independent auditor is subject to shareholder approval as required by law.
 - The independent auditor shall report directly to the Audit Committee.
 - All auditing services and permitted non-audit services provided to the Company by the independent auditor shall be pre-approved by the Audit Committee and the Audit Committee shall consider whether the provision of any non-audit services is compatible with the auditor's independence.
 - The Audit Committee shall evaluate, at least annually, the auditor's qualifications, performance and independence. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
 - Employees or former employees of the independent auditor shall not be hired by the Company without the prior approval of the Audit Committee.
- Authority
 - Primary responsibility for the Company's financial reporting, accounting systems and internal controls is vested in senior management and is overseen by the Board. The Audit Committee is a standing committee of the Board established to assist it in fulfilling its responsibilities in this regard. The Audit Committee shall have responsibility for overseeing management

reporting on internal controls. While it is management's responsibility to design and implement an effective system of internal control, it is also the responsibility of the Committee to ensure that management has done so.

- The Audit Committee shall have unrestricted access to the Company's personnel and documents and will be provided with the resources necessary to carry out its responsibilities.
- The Audit Committee shall have direct communication channels with the internal auditors (if any) and the external auditors to discuss and review specific issues as appropriate.
- The Audit Committee shall have the sole authority to retain (or terminate) advisors or consultants as it determines necessary to assist the Committee in discharging its functions hereunder. The Committee shall be provided with the necessary funding to compensate the advisors or consultants retained by the Committee.
- Accounting Systems, Internal Controls and Procedures
 - The Audit Committee shall obtain reasonable assurance from discussions with and/or reports from management, and reports from external auditors that accounting systems are reliable and that the prescribed internal controls are operating effectively for the Company and its subsidiaries and affiliates.
 - The Audit Committee shall review to ensure to its satisfaction that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and will periodically assess the adequacy of those procedures.
 - The Audit Committee shall review with the external auditor the quality and not just the acceptability of the Company's accounting principles and direct the external auditor's examinations to particular areas.
 - The Audit Committee will review control weaknesses identified by the external auditors, together with management's response and review with external auditors their view of the qualifications and performance of the key financial and accounting executives.
 - The Audit Committee will review with management and with the external auditor any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting.
 - The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
 - The Audit Committee shall review and approve the Company's hiring policies regarding employees and employees of the present and former external auditor of the Company.