



**AUXLY CANNABIS GROUP INC.**

**ANNUAL INFORMATION FORM**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

**March 24, 2024**

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## 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, 2023, as updated to March 24, 2024. Capitalized terms have meanings assigned to them in the “Glossary” on page 58.

## 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 ability of the Company to continue as a going concern;
- future liquidity and financial position;
- the Company’s growth strategy, targets for future growth and projections of the results of such growth;
- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;
- the sufficiency of the Company’s resources to fund continued operations;
- the Company’s expectations regarding its future sales;
- the impact of the COVID-19 pandemic on the Company’s current and future operations;
- the success, and integration of operations, of the entities the Company acquires and the Company’s collaborations;
- any ongoing construction, expansions, consolidations, improvements, or commissioning of the Company’s facilities, equipment or assets, including those of Auxly Charlottetown, Auxly Leamington and Auxly Ottawa (as are all defined below) and the timing thereof;
- the intention of the Company to sell the Auxly Ottawa assets and the proposed use of any proceeds;

- expectations regarding the Imperial Debt Conversion and the timing and anticipated benefits thereof;
- inventory and production capacity, including discussions of anticipated yields or plans or potential for expansion of capacity at existing facilities;
- the market for the Company's current and proposed product offerings, as well as the Company's ability to capture and maintain market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's current and proposed product offerings and expected sales mix thereof;
- development of brands, product diversification and future corporate development;
- the competitive landscape in which the Company operates and the Company's market expertise;
- expectations regarding the Company's ability to raise additional financing to further the Company's investment in the business;
- the applicable legislation, regulations and licensing, and any amendments thereof, related to the cultivation, production, processing, distribution and sale of cannabis products by the Company's subsidiaries and other business interests;
- the ability of the Company to use consumer insights to drive innovation; continuously innovate new cannabis products; and introduce innovative cannabis products to the market;
- the ability of the Company, its subsidiaries and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- the ability of the Company to maintain and/or increase its wholesale bulk cannabis sales;
- expectations regarding the Company's licences, including in respect of the grant and maintenance of Licences under the Cannabis Act, the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act, and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- expectations regarding the costs and benefits associated with third party contract manufacturing agreements;
- expectations regarding the Company's expansion of sales, operations and investment into foreign jurisdictions;
- the performance of the Company's business and operations;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- the Company's competitive position.

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:

- the Company will be able to continue as a going concern, will have sufficient working capital and be able to secure adequate financing required in the future on acceptable terms to develop its business and continue operations;
- current and future management will abide by the business objectives and strategies outlined herein;
- the Company will retain and supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which the Company participates;
- 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 or achieve its goals;
- the Company will be able to maintain and/or grow its market share;
- the Company's subsidiaries will be able to meet the governmental and regulatory requirements necessary to maintain their Licences;
- general economic, financial market, regulatory and political conditions in which the Company operates will remain the same;
- the Company will be able to compete in the cannabis industry;
- the Company will be able to manage anticipated and unanticipated costs;
- the Company will be able to sell the Auxly Ottawa assets and achieve the anticipated cost savings from the closure of the facility;

- the Company will be able to complete the Imperial Debt Conversion on the terms and timeline expected, or at all;
- the expected benefits of the Imperial Debt Conversion materialize in the manner expected, or at all;
- Auxly Leamington will generate sufficient cash flow to satisfy its payment obligations under the amended and restated credit facility; and whether Auxly Leamington will remain in compliance with its operating covenants under the amended and restated credit facility;
- the Company will be able to maintain effective internal controls over financial reporting and disclosure, controls and procedures;
- there will not be material price compression in the cannabis industry;
- the Company will be able to continue to achieve and maintain its target selling, general and administrative expenses (“SG&A”);
- the Company will be able to continue to further expand production capacity and introduce new products and product formats;
- the Company will be able to increase revenues and improve product margins;
- the Company will be able to maintain and/or increase its wholesale bulk cannabis sales;
- the Company will be able to successfully launch and commercialize new brands, create new products and product formats and enter into new markets; and
- there is acceptance and demand for current and future Company products by consumers and provincial purchasers.

Although 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, the Company's 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 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 July 11, 2017, the Company adopted an advance notice policy, which was approved by its shareholders on September 8, 2017. 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 OTCQB under the symbol "CBWTF" and on the Frankfurt Stock Exchange under the symbol "3KF".

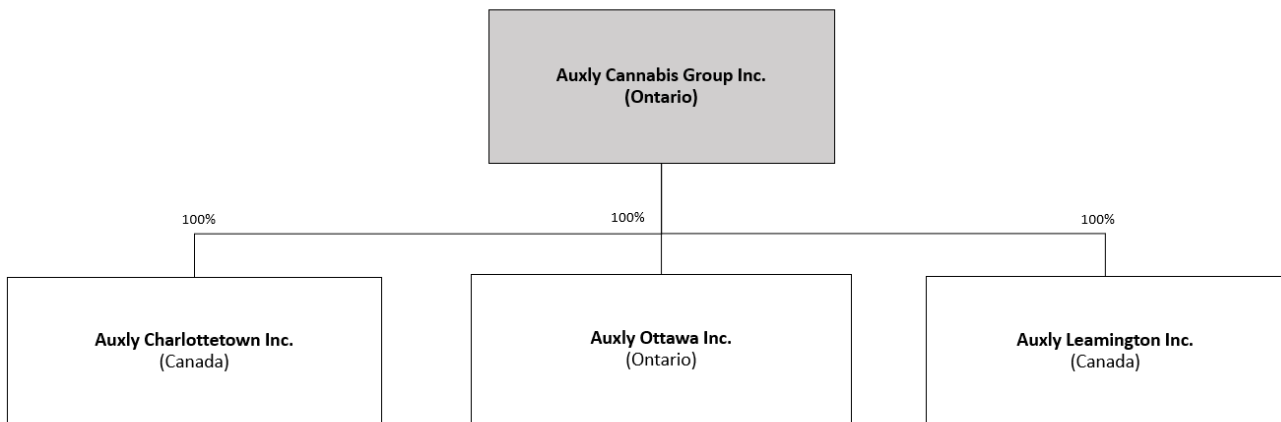
On May 20, 2021, the Company continued from British Columbia to Ontario pursuant to the *Business Corporations Act* (Ontario) which was approved by the Company's shareholders on July 15, 2020.

The Company's head office and registered office is located at 777 Richmond St. W., Unit 002, Toronto, Ontario, M6J 0C2. The Company's corporate website is [www.auxly.com](http://www.auxly.com).

### Intercorporate Relationships

The Company's material subsidiaries are: Auxly Charlottetown Inc. ("**Auxly Charlottetown**"), Auxly Ottawa Inc. ("**Auxly Ottawa**") and Auxly Leamington Inc. ("**Auxly Leamington**").

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

#### *Developments During the Financial Year Ended December 31, 2021*

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. 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.

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.

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.

On March 23, 2021, the Company established an at-the-market equity program (the "**ATM Program**") allowing 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 Inc. 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 Inc. 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.

On March 24, 2021, the Company announced the release 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.

On April 19, 2021, the Company entered into an amending agreement (the "**Amending Agreement**") with Imperial Brands PLC ("**Imperial Brands**") to amend certain terms of the \$123 million convertible debenture issued to Imperial Brands (the "**Imperial Debenture**") and the investor rights agreement entered into by the

Company and Imperial Brands (the “**Investor Rights Agreement**”), both of which were part of Imperial Brands’ strategic investment in the Company which occurred on September 25, 2019 (the “**Imperial Transaction**”). The terms of the Amending Agreement are described below.

On April 20, 2021, the Company’s Shares commenced trading on the TSX under its existing symbol “XLY”. 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.

On May 3, 2021, the Company announced the release of Dosecann Daily Relief CBD Cream, a high-strength, differentiated cannabis topical cream for Canadian wellness consumers.

On May 5, 2021, the Company announced the appointment of Andrea Fraser as Auxly’s first Chief People Officer.

On May 20, 2021, the Company closed a private placement offering of units to an institutional investor for gross proceeds of approximately \$8 million. Pursuant to the offering, the Company issued 23,880,597 units of the Company at a price of \$0.335 per unit. ATB Capital Markets Inc. acted as exclusive agent on the offering. Each unit is comprised of one Share and one-half of one Warrant, with each whole Warrant entitling the investor to purchase one Share at a price of \$0.42 per Share at any time until May 20, 2024.

On June 14, 2021, the Company closed a bought deal short form prospectus offering pursuant to which the Company sold a total of 54,763,000 units of the Company at a price of \$0.315 per unit for gross proceeds to the Company of \$17,250,345, which included the full exercise of the over-allotment option granted to the underwriters (the “**June 2021 Offering**”). Each unit consisted of one Share and one-half of one Warrant, for a total of 27,381,500 Share purchase warrants, with each whole Warrant entitling the holder thereof to purchase one Share at a price of \$0.38 per Share at any time until June 14, 2024 (the “**June 2021 Warrants**”).

On June 2, 2021, the Company completed the sale of all of the issued and outstanding shares of its subsidiary KGK Science Inc. (“**KGK**”) to Wellbeing Digital Sciences Inc. (formerly KetamineOne Limited, and prior to that, Myconic Capital Corp.) (“**Wellbeing**”) for up to \$16.5 million in value comprised of: (i) \$12.5 million purchase price in the form of: (A) \$1.5 million in cash payable on the closing date of the transaction; (B) \$1 million in cash payable six months after the closing date of the transaction; and (C) \$10 million in common shares of Wellbeing at a price per share of \$1.55 (being 6,451,612 shares) all to be issued on the closing date of the transaction, with equal tranches becoming freely tradeable on the four, six, nine and 12 month anniversaries of the closing date of the transaction; (ii) \$1.5 million milestone payment, payable in cash or Wellbeing shares, at the option of Wellbeing, if KGK achieves gross revenues of \$8 million in any 12-month period during the two years following the closing date of the transaction; and (iii) a \$2.5 million credit against future KGK services, reflected in a 10-year service agreement between Auxly and KGK.

On July 6, 2021, pursuant to the Amending Agreement, the Company and Imperial Brands amended certain provisions of the Imperial Debenture and the Investor Rights Agreement (collectively, the “**Amendments**”) to:

- extend the maturity date of the Imperial Debenture by 24 months from September 25, 2022 to September 25, 2024;
- provide Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the Imperial 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;

- specify the interest rate under the Imperial 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 Imperial Debenture;
- allow the Imperial Debenture to remain convertible into Shares at an unchanged price of \$0.81 per share at any time prior to the close of business on the business day immediately preceding maturity; and
- reinstate of certain approval rights of Imperial Brands under the Investor Rights Agreement.

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

On July 6, 2021, the Company completed the sale of its interest in 2368523 Ontario Inc. (d/b/a Curative Cannabis) to a private purchaser for total proceeds to the Company of \$6 million. The disposition of this non-core asset allows the Company to strengthen its financial position with non-dilutive capital that it can deploy into its core business.

On July 12, 2021, the Company announced its summer line-up of new products, including dried flower, vapes, edibles, oil, capsules and concentrates.

On August 18, 2021, the Company announced the release of Back Forty 40s, a new, single-strain, straight pre-roll, machine rolled for consistent, even burn in two cultivars – Animal Mints and Wedding Pie.

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

On November 1, 2021, Murray McGowan, Chief Strategy and Development Officer for Imperial Brands, was appointed to the Company's Board as Imperial Brands' director nominee, pursuant to the Imperial Transaction. Mr. McGowan replaced the previous Imperial Brands' nominee Conrad Tate. Mr. Tate left Imperial Brands in October 2021, but, at the request of the Company, agreed to remain on the Board of Directors as an independent director and continues to serve on the Company's Audit Committee and Compensation Committee.

On November 10, 2021, the Company announced its fall line-up of new products including dried flower, concentrate, vape and edible SKUs under its Back Forty, Kolab Project and Foray brands.

On November 22, 2021, the Company completed the acquisition of all the issued and outstanding securities of Auxly Leamington not already owned by the Company from the holders thereof (the "**Sellers**") pursuant to a share purchase agreement (the "**Share Purchase Agreement**"), resulting in the Company having 100% ownership and control of Auxly Leamington (the "**Leamington Acquisition**"). Pursuant to the Share Purchase Agreement, Auxly completed the Leamington Acquisition for consideration consisting of: (a) \$0.5 million in cash; (b) \$1.1 million in Shares, as calculated using the 5-day volume-weighted average trading price of the Shares on the TSX on the trading day immediately preceding the closing date of the Leamington Acquisition of \$0.23 per Share, being 4,017,531 Shares; (c) an unsecured promissory note in the principal amount of \$3.4 million, which promissory note bears interest at a rate of 6% per annum and is payable by Auxly over 30 months in equal monthly installments, with the first payment being due on the first anniversary of the closing date; (d) an unsecured promissory note in the principal amount of \$2.7 million which does not bear interest, is unsecured and due on demand; and (e) certain non-core non-monetary assets of Auxly Leamington. The Company filed a Form 51-102F4 in respect of the Leamington Acquisition.

On November 22, 2021, Auxly Leamington amended and restated its secured credit facility initially entered into on September 24, 2019 (such amended and restated form being the “**Amended and Restated Credit Facility**”) which is underwritten by a syndicate of lenders led by the Bank of Montreal (“**BMO**”) (the “**Lenders**”). Upon signing the Amended and Restated Credit Facility, the Company made an immediate cash payment of \$15 million to the Lenders, to be applied to the outstanding principal balance of the associated revolving credit facility bringing the outstanding principal amount thereunder to \$62.5 million. The maturity date was also extended by one year to September 30, 2023. The obligations of Auxly Leamington under the Amended and Restated Credit Facility will continue to be supported by an unsecured \$33 million limited recourse guarantee by Auxly and a pledge by Auxly of all of its securities in the capital of Auxly Leamington with revised revenue and EBITDA covenants.

### ***Developments During the Financial Year Ended December 31, 2022***

On February 7, 2022, the Company announced the closure of its Auxly Annapolis and Auxly Annapolis OG facilities located in Kentville and Hortonville, Nova Scotia, to focus its efforts on streamlining and simplifying its cultivation platform and reducing costs. Through streamlining its cultivation footprint, the Company can focus efforts and resources on optimizing the output of high-quality cannabis from its newly acquired large-scale greenhouse cultivation facility, Auxly Leamington. The Company intends to divest of the non-core assets and apply the proceeds from any such sale to support the Company’s ongoing operations.

On June 1, 2022, Auxly was named Licensed Producer of the Year at the O’Cannabiz Industry Awards Gala. This award recognizes top service, top quality products and LPs that make a true contribution to the future as voted by the cannabis industry itself. Along with Licensed Producer of the Year, Auxly received several additional nominations for its industry-leading brands and innovative product suite.

On June 22, 2022, the Company amended and restated the unsecured convertible debentures in the capital of the Company issued under the investment agreement (“**Investment Agreement**”) with an institutional investor (the “**Investor**”) for the issuance of convertible debentures up to a maximum principal amount of \$25 million (the “**Standby Facility**”), which was previously announced on April 28, 2020. The Standby Facility allowed the Company to sell, on a private placement basis, convertible debentures in tranches for an aggregate principal amount of up to \$25 million. Under the Standby Facility, the Company sold \$11.25 million in convertible debentures in five tranches throughout 2020. As of the date of the amendment, the Company had repaid \$2.5 million of principal owing under such debentures. The Investor and the Company agreed to amend and restate the remaining original convertible debentures on the following terms: (i) \$8.75 million aggregate principal amount will remain outstanding until July 15, 2022, where on such date the Company will repay \$1.25 million thereby reducing the aggregate principal amount to \$7.5 million; (ii) extended maturity date for the balance of the \$7.5 million principal amount until August 15, 2024; (iii) guaranteed interest rate of 7.5% per annum, payable semi-annually; (iv) reduced conversion price of \$0.1380 being convertible at the option of the holder into Shares at any time prior to the maturity date; (v) removal of the Company's previous conversion rights; and (vi) inclusion of certain repayment conditions should the Company raise additional capital prior to the maturity date. As consideration for amending the convertible debentures, the Company paid the Investor an amendment fee of \$0.5 million through the issuance of 4,347,826 Shares and issued the Investor Warrants to purchase 20,000,000 Shares, with each Warrant being exercisable for a period of 36 months following the date of issuance at a price per share of \$0.1495. As of the date hereof, \$6.24 million of the principal amount of convertible debentures is outstanding.

On June 30, 2022, the Company closed the sale of its Auxly Annapolis indoor cultivation facility located in Kentville, Nova Scotia to a private purchaser for total proceeds to the Company of \$6 million. As previously announced by the Company, Auxly ceased operations at the cultivation facility in February 2022. The Company intends to apply the proceeds from the sale to support Auxly's ongoing operations.

On August 2, 2022, the Company introduced a new extension to its Foray brand: Edi's. Launching this new brand extension into the market is Edi's Gumdrops, low-dosed edibles with familiar flavours and 20 snackable pieces per pack.

On August 9, 2022, the Company closed the sale of its Auxly Annapolis OG outdoor cultivation facility located in Hortonville, Nova Scotia to a private purchaser for total proceeds to the Company of \$4.1 million. The Company intends to apply the proceeds from the sale to support Auxly's ongoing operations.

### ***Developments During the Financial Year Ended December 31, 2023***

On February 10, 2023, the Company announced that it intended to amend the terms of the June 2021 Warrants which were issued pursuant to the June 2021 Offering, described above. The purpose of the proposed amendments is to (i) reduce the exercise price of the June 2021 Warrants from \$0.38 to \$0.045 per Share, and (ii) extend the expiry date of the June 2021 Warrants from June 14, 2024 to June 14, 2026 (the "**June 2021 Warrant Amendments**"). None of the warrants are held, directly or indirectly, by insiders. The June 2021 Warrant Amendments were subject to the completion of formal documentation and the Company receiving all necessary approvals, including any required approvals from the holders of the June 2021 Warrants under the terms of the indenture governing the June 2021 Warrants. The Company subsequently received all necessary approvals required to implement the warrant amendments, and the 2021 Warrant Amendments became effective as of July 14, 2023.

On February 15, 2023, the Company closed a private placement for 96,000,000 Shares at a price of \$0.035 per Share and 96,000,000 Warrants, with each Warrant entitling the investors to purchase one Share at an exercise price of \$0.045 per Share at any time up until February 15, 2028, resulting in total gross proceeds of approximately \$3.36 million, before deducting any applicable fees or expenses.

On May 30, 2023, the Company announced the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities from its Auxly Ottawa facility in Carleton Place, Ontario to the Auxly Leamington facility. The Company will continue to wind-down its Auxly Ottawa facility in an orderly manner and intends to sell Auxly Ottawa's assets in due course and apply the proceeds from any such sale to support its ongoing operations. This strategic decision comes after careful consideration in identifying opportunities to optimize operations and effectively reduce operating costs, while increasing product quality and ensuring no material impact on the Company's manufacturing capabilities and forecasted sales revenue. The Auxly Ottawa Carleton Place facility was subsequently closed in November 2023.

On July 26, 2023, the Company announced an agreement with Imperial Brands to amend certain provisions of its previously issued \$123 million debenture dated September 25, 2019, as amended on July 6, 2021 (the "**Second Amending Agreement**"). Imperial Brands and the Company agreed to extend the maturity date of the Imperial Debenture by 24 months from September 25, 2024 to September 25, 2026. The amendment came into effect on August 21, 2023. The Imperial Debenture is convertible into 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. Auxly remains Imperial Brands' exclusive global partner for any future development, manufacture, commercialization, sale and distribution of cannabis products. In connection with the Imperial Transaction, the parties entered into the Investor Rights Agreement which provides, among other things, that for so long

as Imperial Brands holds a partially diluted percentage of outstanding common Shares in the capital of Auxly of not less than 15%, it is eligible to nominate one individual designated by Imperial Brands for election as a director to Auxly's Board. As Imperial Brands no longer holds the required percentage under the Investor Rights Agreement, its nominee, Murray McGowan, has resigned from Auxly's Board effective July 26, 2023.

On July 26, 2023, the Company also announced the resignation of Mr. Brian Schmitt from his position as Chief Financial Officer ("**CFO**") of Auxly, effective July 26, 2023. Mr. Schmitt is leaving for an opportunity outside of the cannabis industry at a non-reporting issuer. Travis Wong, Auxly's Senior Vice President of Finance, has been appointed interim CFO of Auxly effective immediately. Mr. Wong was subsequently appointed as permanent CFO as of January 1, 2024.

On September 29, 2023, the Company announced it had received an interim extension of the maturity date of the Amended and Restated Credit Facility until November 30, 2023, while the parties worked towards a formal credit amendment.

On October 19, 2023, Auxly Ottawa and Auxly Charlottetown, as borrowers, entered into an inventory financing agreement with GrassHopper Capital Inc. ("**GrassHopper**") whereby GrassHopper agreed to loan an aggregate principal amount of \$5 million which bears interest at 18% per annum payable on a monthly basis and matures in 12 months. \$2.5 million of the principal amount was advanced in October 2023, with a second tranche of \$2.5 million to be advanced upon the satisfaction of certain conditions. Obligations of the borrowers under the agreement are secured by a first-priority security interest in all cannabis inventory and is guaranteed by the Company. As of the date hereof, the second tranche of \$2.5M has also been advanced to the Company.

On October 20, 2023, the Company divested of its shares in Inverell S.A. ("**Inverell**"), the Company's 80% owned subsidiary located in Montevideo, Uruguay, having previously announced in the third quarter of 2020 that the Company had ceased all operations at Inverell due to the slower than anticipated pace of cannabis-specific regulatory development in Latin America.

On November 30, 2023, the Company announced that it had received a second interim extension of the maturity date of the Amended and Restated Credit Facility until December 31, 2023, while the parties worked towards a formal credit amendment.

On January 3, 2024, the Company announced that it had signed a non-binding term sheet to amend and restate the Amended and Restated Credit Facility upon the following revised terms: (i) extension of the maturity date by two years until December 31, 2025, with an option for Auxly Leamington to extend the maturity date for an additional year by making a \$2.5 million principal repayment by December 31, 2025; (ii) updated EBITDA and other financial and operational covenants for Auxly Leamington; (iii) increased quarterly principal payments throughout the term; and (iv) the obligations of Auxly Leamington under the Amended and Restated Credit Facility continuing to be supported by a \$33 million limited guarantee by Auxly, and a pledge by Auxly of all of its securities of Auxly Leamington. The Company also announced that it had received a third interim extension of the maturity date of the Amended and Restated Credit Facility until January 31, 2024, while Auxly and the lenders worked towards definitive documentation. On February 1, 2024, the Company announced that it had signed a definitive agreement (the "**Credit Facility Amendment Agreement**") to amend and restate the Amended and Restated Credit Facility. The terms of the Credit Facility Amendment Agreement are described above.

On March 22, 2024, Imperial Brands, through its wholly owned subsidiary, provided the Company with notice of its election to convert (i) approximately \$121.9 million of the principal amount outstanding under the Imperial Debenture and (ii) approximately \$1.6 million of accrued interest under the Imperial Debenture, which, together with Imperial Brands' existing equity holdings, will result in Imperial Brands holding an equity position in the Company of approximately 19.8% (the "**Imperial Debt Conversion**"). In connection with the Imperial Debt Conversion:

- \$121.9 million of the principal amount under the Imperial Debenture will be converted at an exercise price of \$0.81 for 150,433,450 Shares in the capital of the Company;
- approximately \$1.6 million of accrued interest under the Imperial Debenture will be converted and issued, on a private placement basis, into 90,882,667 Shares in the capital of the Company at a price of \$0.017, subject to the approval of the TSX; and
- Imperial Brands and Auxly have agreed to amend the existing Investor Rights Agreement between the parties to, among other things, remove the requirement that Imperial Brands will use the Company as its exclusive cannabis partner.

After completing the Imperial Debt Conversion: (i) a principal amount of \$1 million will remain outstanding under the Imperial Debenture convertible at \$0.81 per share and due on September 25, 2026; (ii) approximately \$20.5 million of accrued interest due September 25, 2026 will remain outstanding, without accruing further interest thereon, unless otherwise converted in accordance with the terms of the Imperial Debenture; and (iii) Imperial Brands will own approximately 19.8% of the Company's Shares. The closing of the Imperial Debt Conversion is conditional upon certain customary closing conditions for a transaction of this nature, including the approval of the TSX. The parties anticipate the Imperial Debt Conversion will close by early April 2024.

## DESCRIPTION OF THE BUSINESS

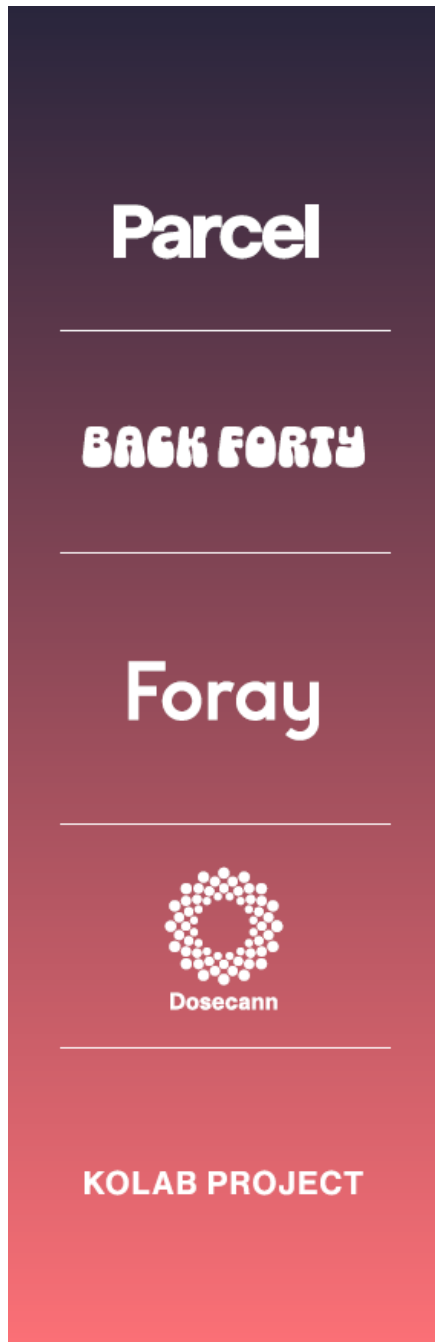
### Overview

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

Auxly's vision is to be a 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.



## Our Brands

### PARCEL

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

### BACK FORTY

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

### FORAY

Foray is a versatile, modern, and inviting cannabis brand, designed for the curious. Foray is an accessible entry point for anybody—at any stage of their cannabis journey. Designed for the curious, Foray is an approachable brand that aims to both celebrate and guide one's foray into cannabis, ultimately inviting them to see cannabis differently.

### DOSECANN

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

### KOLAB PROJECT

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

## 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’s initial focus was on the development of Cannabis 2.0 Products, and Auxly was one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada following their legalization. Auxly has maintained its position as a top-selling licensed producer of Cannabis Products, ranking as the 5th largest licensed producer in Canada by total recreational retail sales in 2023, as reported by Hifyre IQ.

Auxly’s Cannabis Products available as at December 31, 2023 are described below by brand and product format:



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

**Product Development**

***In-House Development – Auxly Charlottetown***

In May 2018, the Company acquired its subsidiary Auxly Charlottetown, and its purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. The Company conducts its primary extraction, product development, manufacturing and R&D activities for its Cannabis Products in-house at the Auxly Charlottetown facility. Auxly Charlottetown holds Licences for processing, analytical testing and research under the Cannabis Act. The full perimeter of the 52,000 square foot facility is currently licenced under the Cannabis Regulations for the production, storage and sale of Cannabis Products.

Product development is led by Auxly Charlottetown’s skilled team, who have experience in the pharmaceutical, food, scientific research and product development fields. The Charlottetown facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. Auxly Charlottetown is authorized to conduct broad in-house analytical and sensory testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations. In December 2022, the Company also obtained a research Licence to conduct sensory testing at its head office in Toronto.

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

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, but such products are not currently permitted (see "*Canadian Regulatory Environment*" below).

### ***In-House Development – Auxly Ottawa***

Auxly Ottawa holds Licences for cultivation and processing under the Cannabis Act, and conducts the Company's primary dried flower and pre-roll manufacturing, processing and distribution activities out of its own licensed space at the Company's Auxly Leamington facility. This includes the production of the Company's Cannabis 1.0 Products, including Kolab Project dried flower and pre-rolls, Back Forty 40s pre-rolls, and Back Forty and Parcel dried and milled flower. In May 2023, Auxly announced the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities from the Auxly Ottawa facility in Carleton Place, Ontario to the Auxly Leamington facility, and the Auxly Ottawa Carleton Place facility was subsequently closed in November 2023. The Company intends to sell the Auxly Ottawa facility in due course and apply the proceeds from any such sale to support its ongoing operations.

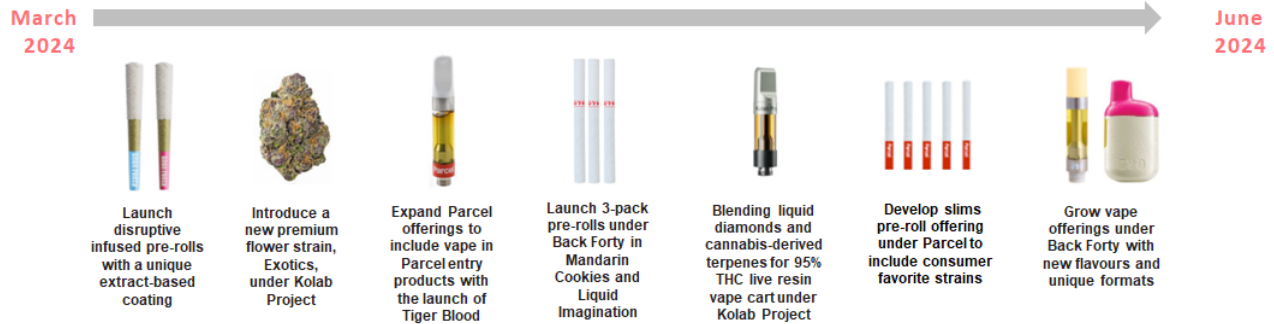
### ***Strategic Partnership with Imperial Brands***

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. In connection with the strategic partnership with Imperial Brands, the parties entered into the Investor Rights Agreement which provides, among other things, that for so long as Imperial Brands holds a partially diluted percentage of outstanding common shares in the capital of Auxly of not less than 15%, it is eligible to nominate one individual designated by Imperial Brands for election as a director to Auxly's Board and one non-voting observer. As Imperial Brands no longer holds the required percentage under the Investor Rights Agreement, its nominee, Murray McGowan, Chief Strategy and Development Officer for Imperial Brands, who was appointed to Auxly's Board of Directors on November 1, 2021, resigned from the Board on July 26, 2023.

On March 22, 2024, Imperial Brands, through its wholly owned subsidiary, provided the Company with notice of the Imperial Debt Conversion (see "*General Development of the Business – Three Year History*" above). After completing the Imperial Debt Conversion: (i) a principal amount of \$1 million will remain outstanding under the Imperial Debenture convertible at \$0.81 per share and due on September 25, 2026; (ii) approximately \$20.5 million of accrued interest due September 25, 2026 will remain outstanding, without accruing further interest thereon, unless otherwise converted in accordance with the terms of the Imperial Debenture; and (iii) Imperial Brands will own approximately 19.8% of the Company's Shares. The closing of the Imperial Debt Conversion is conditional upon certain customary closing conditions for a transaction of this nature, including the approval of the TSX. The parties anticipate the Imperial Debt Conversion will close by early April 2024.

## New Products

The Company plans to further strengthen its brand recognition by using consumer insights to drive innovation as it continues to introduce new Cannabis Products to the Canadian market, with an emphasis on expanding the Company's dried flower, vape and pre-roll offerings. Such products are at various stages of development, and are 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 distributors, medical cannabis sales channels and strong relationships with major Canadian retailers. The Company's sales are supported by an internal sales team.

The Company has secured listings and sold its Cannabis Products in all provinces except Quebec. 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. The Company currently conducts wholesale bulk sales of dried cannabis intended for sale in the Quebec market.

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.

## Wholesale

The Company is authorized to sell wholesale bulk and finished cannabis products to other licensees under the Cannabis Regulations and began its first wholesale bulk cannabis sales from the Auxly Leamington facility in the fourth quarter of 2022. The Company continued its wholesale bulk cannabis sales throughout 2023, and the Company intends to continue to increase its wholesale bulk cannabis sales through 2024, however, increasing competition in the Canadian cannabis industry and decreasing wholesale prices for dried cannabis may limit the growth of the wholesale channel. See "*Risk Factors – Wholesale Price of Cannabis Volatility*" for additional details.

**Revenue**

Currently, substantially all of the Company's revenue is derived from the sale of cannabis and Cannabis Products.

**Cannabis Input Materials and Supply**

Auxly simplified its cultivation supply chain through the acquisition of Auxly Leamington in November 2021, which provides the Company with a secure and cost-efficient source of dried cannabis, milled flower and extraction materials.

***Auxly Leamington***

The Company acquired 100% of Auxly Leamington from its former joint venture partner on November 22, 2021 (see "*General Development of the Business – Three Year History*" above). Auxly Leamington is comprised of a 1.1 million square foot automated greenhouse in Leamington, Ontario, which holds Licences for cultivation and processing under the Cannabis Act, authorizing the cultivation, processing, storage and sale of Cannabis Products. Auxly Leamington utilizes a perpetual harvest methodology resulting in a continuous supply of cannabis and flexibility to adjust production capacity to demand as required. The total area of the licensed perimeter at Auxly Leamington for cultivation, processing and storage stands at 876,270 square feet. Auxly Leamington is producing award-winning cannabis strains, including popular Back Forty strains and high-quality value strains under the Parcel brand, all of which are sold to and used by the Company in its full suite of Cannabis Products across all Auxly brands. In addition, Auxly Leamington possesses an extensive genetic library and continues to evaluate all opportunities to acquire new cultivars suited for Auxly's portfolio of Cannabis Products.

**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 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 – Suppliers, Skilled Labour and Key Personnel Risks*" for additional information.

## **Competitive Conditions**

As of the date of this AIF, Health Canada has a total of 982 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 requires 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 large amounts of capital required for operations, reduces the number of large-scale licensed producers that can compete nationally, at least in the short term. 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 intense 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. In addition, over the past year the cannabis industry has experienced, and continues to experience, price compression, which may adversely impact the Company’s profitability.

See “*Risk Factors*” for further relevant information.

## **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, 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, 2023, the Company employed approximately 369 employees.

**Foreign Operations**

Presently the Company does not have any active international operations.

***Inverell (Uruguay)***

In the third quarter of 2020, the Company ceased all operations at Inverell, the Company's 80% owned subsidiary located in Montevideo, Uruguay, due to the slower than anticipated pace of cannabis-specific regulatory development in Latin America. As of October 20, 2023, the Company is fully divested of its shares in Inverell.

***Other Jurisdictions***

The Company is continuing to monitor the progress of other jurisdictions towards recreational and medical cannabis legalization, including the United States and Europe. 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.

**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 is working to 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 has reviewed 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. The Committee published its results in July 2022, focusing on considerations for CHPs containing CBD for human and animal uses, and for the research and medical community. Recommendations for each consideration were provided, including safe and tolerable short-term doses for human and animal uses, product packaging and labeling, and for government and funding agencies to support more clinical research to demonstrate safety and efficacy of cannabis, CBD and other phytocannabinoids. Health Canada will assess the Committee's report and develop a response, and will then release a draft regulatory pathway which will be subject to stakeholder input.

### *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.

<b>Province/ Territory</b>	<b>Legal Age</b>	<b>Sales Structure</b>
<b>Alberta</b>	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. As of March 8, 2022 online sales are permitted by private retailers (instead of the Alberta Gaming, Liquor and Cannabis Commission).
<b>British Columbia</b>	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. Online sales are permitted by the BC Liquor Distribution Branch and, due to regulatory changes implemented in August 2020 and July 2021, also by private retailers.
<b>Manitoba</b>	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.
<b>New Brunswick</b>	19	The distribution and sale of recreational cannabis in New Brunswick is primarily governed by the Cannabis Control Act and the related regulations. The distribution and sale of cannabis, both online and instore, is exclusively conducted by the New Brunswick Cannabis Management Corporation.
<b>Newfoundland and Labrador</b>	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.

<b>Province/ Territory</b>	<b>Legal Age</b>	<b>Sales Structure</b>
<b>Northwest Territories</b>	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. In October 2021, the Northwest Territories Liquor Commission transitioned online sales to a private retailer.
<b>Nova Scotia</b>	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.
<b>Nunavut</b>	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 a single retail location where recreational cannabis can be purchased. Online sales are available through certain private retailers.
<b>Ontario</b>	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 in the province. Sales of cannabis are also permitted through privately run retail stores. Online sales are permitted by the Ontario Cannabis Retail Corporation and private retailers. The authority of private retailers to conduct online sales was introduced as a temporary measure due to the COVID-19 pandemic and became permanent as of March 15, 2022.
<b>Prince Edward Island</b>	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.
<b>Quebec</b>	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.
<b>Saskatchewan</b>	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.
<b>Yukon</b>	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’ ability to cultivate, process, store and sell cannabis and cannabis products 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, marketing, management, transportation, storage, sale 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.

### ***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. The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. The Company is likely to continue to face increasing and intense competition from these companies. Increased competition by larger and better financed competitors in the cannabis industry could materially adversely affect the Company's business, financial condition and results of operations. The Company expects that competition will become more intense as current and future competitors begin to offer an increasing number of diversified products to respond to increased consumer demand. 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.

Acquisitions or other consolidating transactions in the cannabis industry could harm the Company in a number of ways, including losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the cannabis industry may intensify and place downward pressure on retail prices for the Company's products and services, which could negatively impact the Company's profitability.

### ***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 used by the Company.

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.

### ***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. To the extent that there are changes to the existing laws and regulations or the enactment of future laws and regulations that affect the sale or offering of the Company's products or services in any way, the Company's revenues may be adversely affected.

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.

### ***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.

### ***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.

#### ***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 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 operating results. 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, 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 the Company's business, financial condition and operations, and a general downturn in the cannabis market could result in a significant decrease in the Company's revenue.

#### ***Reliance Primarily on a Single Cultivation Facility***

As of the date hereof, the Company's cultivation activities are primarily focused at the Auxly Leamington facility in Leamington, Ontario, and the Company will continue to primarily rely on it for the foreseeable future. Adverse changes or developments affecting Auxly Leamington could have a material and adverse effect on the Company's business, financial condition and prospects, including impacting the quantity of product produced by the Company.

#### ***Negative Cash Flow***

The Company has not consistently generated positive cash flows. As a result of the Company's history of negative cash flows, 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 continue 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 have negative operating cash flows in the 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.

### ***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.

### ***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 products produced. Consumer perception of the Company's products 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 products and the business, financial condition, results of operations and the Company's cash flows. The Company's dependence upon consumer perceptions means that 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 demand for the Company's products, and the Company's business, results of operations, financial condition and cash flows.

Any product recall affecting the cannabis industry more broadly could lead consumers to lose confidence in the safety and security of the products sold by licensed producers generally, which could have a material adverse effect on the Company's business, financial condition and results of operations. Adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis and derivative products in general, or the Company's products specifically, or associating the consumption of cannabis or use of derivative products with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

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.

#### ***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 was also entitled to designate one nominee for election or appointment to the Company's Board of Directors. 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.

#### ***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 on the Company's business, financial condition and results of operations.

### ***Customer Acquisition and Retention***

The Company is operating its business in a relatively new industry and market, and 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 an agricultural product and a regulated consumer product, the Company will need to make significant investments in its business strategy. These investments include the procurement of raw material, processing and formulation 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.

### ***Disruption of Supply Chain***

Conditions or events outside the Company's control 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 COVID-19, 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 and Other Public Health Crises*"); (iii) political instability, social and labour unrest, war, terrorism or other conflicts; 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.

### ***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. Some provinces and territories have moved to purchase orders or other listing agreements to form the basis of their distribution arrangements.

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 and territorial recreational cannabis 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 and territorial recreational cannabis markets. Further, governmental actions and regulations such as the ban on vape products through adult use channels enacted in certain provinces, including 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.

#### ***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.

***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. 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.

#### ***Partnerships and Strategic Alliances***

The Company operates parts of its business through partnerships and strategic alliances with other companies, and the Company may enter into additional partnerships and strategic alliances in the future. The Company's ability to complete 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 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.

#### ***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.

### ***Production Capacity and Targets***

The current projected production capacity of the Company's facilities is only an estimate, and actual production amounts may not achieve targeted production figures as a result of many factors including but not limited to: shifts in strains grown as a result of competitive pressure, natural variations in plant development, plant design errors, dependence on certain cultivation technologies and key personnel, inability to precisely influence growth measures as a result of numerous variables that may influence the plant growth that are varied from one growth cycle to another, and product that does not meet quality assurance specifications including but not limited to, THC potency specifications, terpene profile or visual appearance, among others. The failure of the Company to achieve full production capacity and/or meet its targeted production amounts at any of its 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, renewals 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 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.

### ***Management of Growth***

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. If the Company is unable to deal with this growth, it may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### ***Credit Risk***

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises from deposits with banks, short term investments and outstanding receivables. The Company has credit risk exposure based on the balance of its cash, accounts receivables, investments, and taxes recoverable. For trade receivables, the Company does not hold any

collateral as security but mitigates its risk by dealing only with what management believes to be financially sound counterparties, however, in the current cannabis industry environment it is difficult to fully mitigate this risk. There are no assurances that counterparties, including those to whom the Company has extended credit, or customers will meet their contractual obligations to the Company. For other receivables, out of the normal course of business, management may obtain guarantees and general security agreements.

### ***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 apply to the Company's business. Such risks include plant diseases, insects and pests, among other similar agricultural risks that may create crop failures, lower yields, potency fluctuations

or less desirable products and supply interruptions. Although the Company grows its products indoors under climate-controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that such agricultural risk 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.

### ***Suppliers, Skilled Labour and Key Personnel Risks***

The Company's ability to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, capital expenditure plans. This could have an adverse effect on the Company's financial results.

The Company's success will depend on the ability of its directors and officers to develop and execute on the Company's business strategies and manage its ongoing operations, and on the Company's ability to attract and retain highly qualified and skilled employees, including key quality assurance, scientific, sales, and marketing staff or consultants. 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. The loss of any key personnel or the inability to find and retain new key persons could have a material adverse effect on the Company's business and its securities. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and the Company may incur significant costs to attract and retain them. There can be no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact the Company's operations.

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.

#### ***Fraudulent or Illegal Activity by the Company's Employees, Contractors and Consultants***

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct that violates: (i) government regulations, (ii) manufacturing standards, (iii) federal and provincial healthcare fraud and abuse laws and regulations, or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a

failure to comply with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's 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 comply with TSX rules, policies and guidelines and meet continuing listing standards to maintain the listing of the Shares on the TSX. As a public company, the business is subject to corporate governance and public disclosure requirements that may at times increase the Company's compliance costs and risk of non-compliance. These regulations, rules, policies and guidelines may change over time, and failure to continue to meet them could result in significant material adverse consequences. 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.

The Company must meet continuing listing standards to maintain the listing of the Shares on the TSX. If the Company fails to comply with listing standards and the TSX were to initiate a delisting review in respect of the Company or delist the Shares, the Company and its shareholders could face significant material adverse consequences, including: (i) a limited availability of market quotations for the Shares, (ii) reduced liquidity for the Shares, (iii) a determination that the Shares are "penny stock," which would require brokers trading in the Shares to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for the Shares, (iv) a limited amount of news about the Company and analyst coverage, and (v) a decreased ability for the Company to issue additional equity securities or obtain additional equity or debt financing in the future.

### ***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.

***Limited Market for Securities***

The Shares are listed on the TSX, however, there can be no assurance that an active and liquid market for the Shares will be maintained, and an investor may find it difficult to resell any securities of the Company. The market price for Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are outside of the Company's control.

***Expansion into Jurisdictions outside of Canada***

The Company may expand its business and operations into jurisdictions outside of Canada. The Company's future investments outside of Canada would be 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 the Company, 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 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 regulatory proceedings, litigation, mediation, and/or arbitration 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 TSX 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, and any decision resulting therefrom, may also create a negative perception of the Company.

### ***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 products 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 legislated 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 has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

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, theft, misappropriation or noncompliance with applicable laws 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.

***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 has other banking relationships and believes 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.

***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.

***COVID-19 Pandemic and Other Public Health Crises***

A public health crisis, such as a local, regional, national or international epidemic, pandemic (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, disrupt supply chains, 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. On March 11, 2020, the WHO declared the outbreak of COVID-19 to be a global pandemic, and federal, provincial and municipal governments in Canada enacted measures to combat the spread of COVID-19. On May 5, 2023, the WHO declared that the COVID-19 pandemic would no longer qualify as a global health emergency. However, the duration and full financial effects of the COVID-19 pandemic are unpredictable at this time, as are the measures taken by governments, companies and others to attempt to address any future spread of COVID-19 and its impact. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which COVID-19 may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

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 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.

***Challenging Global Financial Conditions and Global Economic Risk***

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations and the trading price of the Company's Shares on the TSX.

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, 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, including the COVID-19 pandemic and the war in Ukraine. 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. 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, war or other conflicts, 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.

***Liquidity Risk***

The Company's liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements.

***Inflationary Risk***

General inflationary pressures, such as those that have been evident in the economy since early in 2022, may affect labour and other operating costs, which could have a material adverse effect on the Company's financial condition, results of operations, and the capital expenditures required to advance the Company's business plans. While central banks in Canada, the United States, and globally have taken actions such as raising interest rates in 2022 and 2023 to combat the current inflationary environment, there can be no assurance that any governmental action that has or will be taken to control inflationary or deflationary cycles



will be effective, or whether any governmental action may contribute to economic uncertainty or a recession. Governmental action to address inflation or deflation may also affect currency values. Accordingly, inflation and any governmental response thereto may have a material adverse effect on the Company's business, results of operations, cash flow, financial condition, and the trading price of its shares.

### ***Holding Company Status***

The Company is a holding company and essentially all of its operating assets are the capital stock of its primary subsidiaries, Auxly Charlottetown, Auxly Ottawa and Auxly Leamington. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generates substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of the subsidiaries and the distribution of those earnings to the Company.

### ***Risks Related to Third-Party Data***

The Company relies on independent third-party data for market share position and there is no assurance third-party data provides an accurate representation of actual sales as some third parties use different methodologies or calculations to estimate market share position, and because market and industry data is inherently imprecise, subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process, and other limitations and uncertainties inherent in any statistical survey or data collection process. The Company also relies on its own market research and internal data to determine the accuracy of such third-party data.

### **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 but not limited to, the following: (i) actual or anticipated fluctuations in the Company's quarterly and/or annual results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of companies in the industry in which the Company operates; (iv) departure of the Company's executive officers and other key personnel; (v) release or expiration of transfer restrictions on outstanding Shares; (vi) sales or perceived sales of additional Shares or other securities; (vii) operating and financial performance that vary from the expectations of management, securities analysts and investors; (viii) regulatory changes affecting the industries in which the Company operates; (ix) announcements of developments and other material events by the Company or its competitors; (x) changes in global financial markets and global economies and general market conditions, such as interest rates and price volatility; (xi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; (xii) operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and (xiii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets. This volatility may affect the ability of holders of the Company's securities to sell their securities at an advantageous price, and these broad market fluctuations may adversely affect the market price of the Shares.

Financial markets have at times historically 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 AND DISTRIBUTIONS**

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 1,008,032,685 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 amended and restated omnibus incentive plan (the "**Equity Incentive Plan**") on June 28, 2021, 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, restricted stock awards and restricted share unit awards (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 21,684,303 incentive stock options outstanding. As of the date of this AIF, the Company has 51,286,687 restricted share unit awards outstanding.

As of the date of this AIF, the Company has 158,059,949 common share purchase warrants (each, a "**Warrant**") outstanding to purchase up to an aggregate of 158,059,949 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 OTCQB 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 TSX:

Month	High (\$)	Low (\$)	Volume
March 2024 <sup>(1)</sup> .....	0.02	0.015	13,144,364
February 2024 .....	0.02	0.015	11,021,001
January 2024 .....	0.02	0.015	8,780,744
December 2023 .....	0.02	0.01	10,493,649
November 2023.....	0.02	0.01	7,723,902
October 2023 .....	0.02	0.015	7,532,646
September 2023.....	0.02	0.015	6,293,741
August 2023 .....	0.02	0.015	8,690,871
July 2023.....	0.02	0.015	7,019,725
June 2023 .....	0.02	0.015	9,995,744
May 2023.....	0.02	0.015	30,445,599
April 2023 .....	0.02	0.015	23,254,962
March 2023 .....	0.02	0.015	11,364,627
February 2023 .....	0.04	0.015	66,642,044
January 2023 .....	0.025	0.02	8,011,234

**Note:**

1. From March 1 to March 24, 2024.

**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, 2023 and the date hereof:

Security/Date	Number of Securities	Issue Price Per Security
<b>Warrants</b>		
February 15, 2023.....	96,000,000	\$0.045
<b>Options</b>		
January 18, 2024.....	2,000,000	\$0.025
August 11, 2023.....	1,414,367	\$0.0908

**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 <sup>(1)</sup>	1,888,421	0.19%
Restricted Shares <sup>(2)</sup>	3,414,837	0.34%

**Notes:**

1. Represents Shares held in escrow related to the contingent considerations in acquisitions and investments which are to be released upon completion of milestones. The escrowed Shares are held by Computershare Trust Company of Canada. The Shares held in escrow are to be released to the former shareholders of Auxly Charlottetown upon the completion of a certain facility performance milestone in accordance with the terms of the Auxly Charlottetown acquisition agreement.
2. Represent the Restricted Shares issued to non-executive employees of the Company on September 23, 2019 and June 30, 2021 as compensation, as part of their employment agreements related to services performed in 2019 and 2020. 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
<b>Hugo Alves</b> (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.	30,227,051 <sup>(1)</sup>
<b>Travis Wong</b> (Toronto, Ontario) <i>Chief Financial Officer</i>	July 26, 2023	Chief Financial Officer of the Company since January 2024; Interim CFO from July 2023 – January 2024; SVP Finance of the Company from July 2022 – July 2023; VP Finance of the Company from May 2017 to June 2022.	762,630
<b>Michael Lickver</b> (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.	7,525,985
<b>Ian Rapsey</b> (Ottawa, Ontario) <i>Chief Creative Officer</i>	May 5, 2017	Chief Creative Officer of the Company since 2017; and Co-founder and Chief Creative Officer for Nesta Holding Co., from January 2016 to May 2017.	2,576,877
<b>Genevieve Young</b> <sup>(2)(3)</sup> (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
<b>Troy Grant</b> <sup>(2)(3)</sup> (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

<b>Name, Municipality of Residence and Position with Company</b>	<b>Director/Officer Since</b>	<b>Principal Occupation During Last 5 Years</b>	<b>Number of Shares Owned or Controlled</b>
<b>Conrad Tate</b> <sup>(2)(3)</sup> (London, UK) <i>Director</i>	Sept. 25, 2019	Independent Consultant since January 2022; and Corporate Development Director at Imperial Brands PLC from 2010 to 2021.	Nil
<b>Vikram Bawa</b> <sup>(3)</sup> (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 41,103,793 Shares, representing approximately 4.08% 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***

Mr. Alves co-founded Auxly in 2017 and has been its Chief Executive Officer since August 2019 and a member of its Board of Directors since inception. Driven by a passionate belief that cannabis can help people live happier lives, he is responsible for overseeing all aspects of the Company’s strategy, operations and culture. Under his leadership, Auxly has developed and commercialized a portfolio of consumer-favourite cannabis products and award-winning brands and has grown from a start-up to one of the largest cannabis companies in Canada, being recognized by O’Cannabiz as Licensed Producer of the Year in 2022. Prior to assuming the role of Chief Executive Officer, Mr. Alves served as Auxly’s President where he was responsible for strategically positioning the company to be a dominant first mover into the 2.0 segment of the cannabis market, which includes vapes, edibles and other derivative products; launching the #1 portfolio of branded cannabis 2.0 products in Canada, and securing a transformational \$120M strategic investment from Imperial Brands plc, one of the worlds largest tobacco companies.

A seasoned strategist and dealmaker, Mr. Alves has over 20 years of experience in highly regulated, fast-moving emerging industries and has been at the vanguard of the regulated cannabis industry in Canada for

over a decade. A sought-after speaker and thought leader on regulated cannabis, he has been a Lift Lifetime Achievement Award nominee, and was recognized by High Times as one of the 100 most influential people in global cannabis. Mr. Alves also acts as the Chair of the Cannabis Industry Forum, the cannabis industry economic advisory panel to the Canadian federal government that is managed by the Canadian Ministry of Innovation, Science and Economic Development. Prior to Auxly, Mr. Alves was a senior partner at Bennett Jones LLP, a leading international law firm where he helped establish the firm's climate change and cannabis practices and build them into global leaders. As one of the world's leading advisors in each industry, he played a key role in some of those industries' most foundational and significant transactions. Mr. Alves earned his BA from Carleton University and a law degree (J.D.) from the University of Toronto Faculty of Law.

### ***Travis Wong***

#### *Chief Financial Officer*

Mr. Wong assumed the role of Chief Financial Officer on January 1, 2024, having previously held the position of Interim CFO, and prior to that, the position of Senior Vice President of Finance where he was responsible for managing Auxly's day-to-day finance activities. Mr. Wong joined Auxly in 2017, and has more than 15 years of corporate finance, accounting and capital markets experience. Prior to joining Auxly, he worked as a natural resources investment banker at Nomura Securities based in London, England. He has advised on over \$5bn of public and private M&A transactions and has been involved in capital raising transactions for a broad range of Canadian and European corporations. Earlier in his career, he held positions at KPMG LLP in their audit and deal advisory teams. He is a Chartered Professional Accountant (CPA Canada) and holds a Bachelor of Business Administration from Simon Fraser University and an MBA from the University of Oxford.

### ***Mike Lickver***

#### *President*

Mr. Lickver assumed the role as the Company's President on October 1, 2020, having previously held the position of Senior Vice President, Strategy. With over 10 years of diversified regulated cannabis industry experience, Mr. Lickver is responsible for overseeing the commercial, operations and regulatory departments of the Company and implementing Auxly's corporate strategy. Prior to founding Auxly, Mr. Lickver was a senior corporate and commercial lawyer at a large international Bay Street law firm where he co-founded the firm's cannabis practice 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. Mr. Lickver 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*

Throughout Ian's career as a brand strategist and creative director spanning 25 years, his work has been instrumental in driving business success. With his expertise in creating impactful brand, marketing, and creative strategies, he has helped companies achieve significant growth and success. Ian has worked at top creative studios and agencies, working on campaigns for globally recognized brands. Additionally, as a part of the founding teams of several of the most successful Canadian cannabis brands, he has been able to contribute to their growth and impact on the industry. His unique background has equipped him with a versatile perspective on the world of brand and creative direction, which he's leveraged to bring tangible results to every project and challenge he undertakes.

**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 public affairs firm. Genevieve has two decades of experience in public affairs and represents organizations primarily in the innovation space. Genevieve holds a Bachelor of Arts in Canadian Politics; an MBA from the Smith School of Business at Queen's University; and holds certifications in ESG, Climate and AI from Competent Boards and MIT Sloan School of Management respectively. She is an active member of YPO (Young Presidents Organization) which she joined in 2018 and has served on its executive. She is an Independent Director of the Board of Directors for the Canadian Pharmacists Association; and a Mentor and Advisory Board Member for the University of Toronto, Faculty of Applied Science and Engineering, Hatchery Program, a start-up incubator.

**Conrad Tate***Director, Chair of the Compensation Committee*

Conrad is currently an independent consultant, providing consulting services to companies across a variety of industries. Previously, Conrad held a number of senior legal and commercial roles in Imperial Brands over 20+ years and most recently acted as Imperial's Corporate Development Director from 2010 to 2021. Conrad played a leading role in most of Imperial's 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 led Imperial's long term strategy work and as part of that, Imperial Brands' investigation, analysis, and entry into the legal cannabis sector. Prior to his decision to leave Imperial Brands he led the £1bn sale of Imperial Brands' premium cigars business.

**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 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* (Ontario), 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, 2023, 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, 2023, 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, 2023.

On March 28, 2019, a proposed class action was commenced in the Ontario Superior Court of Justice against the Company which asserted 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 Inc. The plaintiff sought, 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. On June 16, 2021, the plaintiff was granted leave to proceed with his statutory claim with a class period of November 12, 2018 to February 7, 2019. Certification on consent from the Company was granted on January 18, 2023 for the plaintiff's statutory claim, and the action was certified as a class proceeding. In July 2023, the Company reached a settlement in principle for \$4 million to be paid out entirely by the Company's insurance providers to settle all claims in the action. A Settlement Approval Hearing subsequently took place on November 14, 2023, and the settlement was approved by the Ontario Superior Court of Justice on that date. The settlement was made without any admission or finding of liability on behalf of the Company.

The Company entered into a brokerage agreement with Kindred Partners Inc. ("**Kindred**") to act as the Company's strategic sales agent in September 2019. In October 2022, the brokerage agreement with Kindred was terminated. In January 2023, Kindred commenced arbitration against the Company for an aggregate claim of \$3.44 million. The Company has filed its defence and counterclaim against Kindred and strongly disputes the claim and intends to vigorously defend the action.

#### **INTEREST OF MANAGEMENT AND OTHERS 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, 2023 which are material or entered into before the twelve month period ending December 31, 2023 but are still in effect, other than the contracts listed below:

- the Second Amending Agreement. See “*General Development of the Business – Three Year History*”;
- the Share Purchase Agreement. See “*General Development of the Business – Three Year History*”;
- the Amending Agreement. See “*General Development of the Business – Three Year History*”;
- 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.; 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 <sup>(1)</sup>	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>
2023	\$868,000	\$20,000	\$23,100	\$-
2022	\$822,500	\$90,000	\$30,000	\$-

**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, 2023 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 May 19, 2023, prepared in connection with the annual and special meeting of the shareholders of the Company held on June 29, 2023.

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, 2023, can be found on the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information relating to the Company may be found on the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## GLOSSARY

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

<b>“AIF”</b>	means this annual information form of the Company dated March 30, 2023 prepared pursuant to Part 6 of National Instrument 51-102 – <i>Continuous Disclosure Obligations</i> .
<b>“Amended and Restated Credit Facility”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“Amending Agreement”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“Amendments”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“Analytical Testing Licence”</b>	means a licence to engage in the testing of cannabis issued under the Cannabis Act.
<b>“ATM Program”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“Audit Committee”</b>	means the audit committee of the Company.
<b>“Auxly Annapolis”</b>	means Auxly Annapolis Inc..
<b>“Auxly Annapolis OG”</b>	means Auxly Annapolis OG Inc.
<b>“Auxly Charlottetown”</b>	means Auxly Charlottetown Inc.
<b>“Auxly Leamington”</b>	means Auxly Leamington Inc.
<b>“Auxly Ottawa”</b>	means Auxly Ottawa Inc.
<b>“Base Shelf Prospectus”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“BMO”</b>	means Bank of Montreal.
<b>“Board”</b>	means the board of directors of the Company.
<b>“cannabis”</b>	has the meaning given to such term in the Cannabis Act.
<b>“Cannabis Act”</b>	means the federal <i>Cannabis Act</i> , S.C. 2018, c.16.
<b>“cannabis oil”</b>	has the meaning given to such term in the Cannabis Act.
<b>“Cannabis 1.0 Products”</b>	has the meaning ascribed thereto in <i>“Description of the Business – Current Products”</i> .
<b>“Cannabis 2.0 Products”</b>	has the meaning ascribed thereto in <i>“Description of the Business – Current Products”</i> .
<b>“Cannabis Products”</b>	has the meaning ascribed thereto in <i>“Description of the Business – Current Products”</i> .
<b>“Cannabis Regulations”</b>	means the <i>Cannabis Regulations</i> enacted pursuant to the Cannabis Act.
<b>“CBD”</b>	means cannabidiol.

<b>"CHPs"</b>	means Cannabis Health Products.
<b>"Company", "Auxly", "we" or "us"</b>	means Auxly Cannabis Group Inc.
<b>"CRA"</b>	means the Canada Revenue Agency.
<b>"Credit Facility Amendment Agreement"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"Cultivation Licence"</b>	means a licence to cultivate cannabis issued under the Cannabis Act.
<b>"Equity Incentive Plan"</b>	means the equity incentive plan of the Company.
<b>"forward-looking information"</b>	has the meaning ascribed thereto in <i>"Forward-Looking Statements"</i> .
<b>"Imperial Brands"</b>	means Imperial Brands PLC.
<b>"Imperial Debenture"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"Imperial Debt Conversion"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"Imperial Transaction"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"Industrial Hemp Regulations"</b>	means the <i>Industrial Hemp Regulations</i> enacted pursuant to the Cannabis Act.
<b>"Inverell"</b>	means Inverell S.A.
<b>"Investment Agreement"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"Investor Rights Agreement"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"June 2021 Offering"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"June 2021 Warrants"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"June 2021 Warrant Amendments"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"kg"</b>	means kilograms.
<b>"KGK"</b>	means KGK Science Inc.
<b>"Leamington Acquisition"</b>	has the meaning ascribed thereto in <i>"General Development of the Business – Three Year History"</i> .
<b>"Licence"</b>	means a licence issued under the Cannabis Regulations in relation to cannabis.
<b>"Licence Holder"</b>	means the holder of a licence issued under the Cannabis Act.

<b>“Minister”</b>	means the Minister of Health for Canada.
<b>“Processing Licence”</b>	means a licence to process cannabis issued under the Cannabis Act.
<b>“Research Licence”</b>	means a licence to engage in cannabis research issued under the Cannabis Act.
<b>“Restricted Shares”</b>	means Shares of restricted stock in the capital of the Company issued pursuant to the Equity Incentive Plan.
<b>“Sale for Medical Purposes Licence”</b>	means a licence for sale for medical purposes issued under the Cannabis Act.
<b>“Second Amending Agreement”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“SEDAR”</b>	means the System for Electronic Document Analysis and Retrieval.
<b>“SG&amp;A”</b>	means selling, general and administrative expenses.
<b>“Share”</b>	means a common share without par value in the capital stock of the Company.
<b>“Share Purchase Agreement”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“Standby Facility”</b>	has the meaning ascribed thereto in <i>“General Development of the Business – Three Year History”</i> .
<b>“Stock Awards”</b>	has the meaning ascribed thereto in <i>“Description of Capital Structure”</i> .
<b>“subsidiary”</b>	has the meaning ascribed thereto under the <i>Securities Act</i> (Ontario).
<b>“TSX”</b>	means the Toronto Stock Exchange.
<b>“TSXV”</b>	means the TSX Venture Exchange.
<b>“U.S.”</b>	means the United States of America.
<b>“Warrant”</b>	means a common share purchase warrant of the Company.

**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.