

Form 62-103F1

REQUIRED DISCLOSURE UNDER THE EARLY WARNING REQUIREMENTS

State if this report is filed to amend information disclosed in an earlier report. Indicate the date of the report that is being amended.

This report amends information described in an earlier report filed on July 29, 2019.

Item 1 – Security and Reporting Issuer

1.1 State the designation of securities to which this report relates and the name and address of the head office of the issuer of the securities.

This report relates to the common shares (“**Common Shares**”) of Auxly Cannabis Group Inc. (the “**Corporation**”). The address of the Corporation’s head office is:

Auxly Cannabis Group Inc.
1055 West Hastings Street, Suite 2200
Vancouver, BC
V6E 2E9

1.2 State the name of the market in which the transaction or other occurrence that triggered the requirement to file this report took place.

Not applicable. See response to Item 2.2 below. The transaction to which this report relates did not take place through the facilities of any stock exchange or other marketplace.

Item 2 – Identity of the Acquiror

2.1 State the name and address of the acquiror.

The acquiror is 1213509 B.C. Ltd. (the “**Purchaser**”), a wholly-owned subsidiary of Imperial Brands PLC (“**Imperial**”). Imperial is a public liability company existing under the laws of the United Kingdom. The address of the Purchaser is:

c/o Imperial Brands PLC
121 Winterstoke Road
Bristol, UK
BS3 2LL

2.2 State the date of the transaction or other occurrence that triggered the requirement to file this report and briefly describe the transaction or other occurrence.

On July 25, 2019, the Corporation announced that it had entered into a subscription agreement (the “**Subscription Agreement**”) with the Purchaser, pursuant to which the Purchaser has agreed to purchase a 4.00% senior unsecured convertible debenture due September 25, 2022 (the “**Convertible Debenture**”) in an aggregate principal amount of \$122,851,094.58 (the “**Transaction**”). The Transaction closed on September 25, 2019.

The Convertible Debenture will bear interest from September 25, 2019 at 4% per annum. The Convertible Debenture will mature on September 25, 2022 (the “**Maturity Date**”).

The Convertible Debenture is convertible at the option of the holder, at any time prior to the close of business on the last business day immediately preceding the Maturity Date, into that number of Common Shares computed on the basis of the principal amount of the Convertible Debenture divided by the conversion price of \$0.81 per Common Share (the “**Conversion Price**”). The Convertible Debenture will provide for the adjustment of the Conversion Price in certain customary events.

Beginning on September 25, 2021, the Corporation has the right to prepay the principal amount outstanding under the Convertible Debenture, together with any accrued and unpaid interest owing thereon without notice, bonus or penalty.

Upon a change of control of the Corporation or an investment in the Corporation by certain specified persons, on the date that is not less than 30 days following the giving of notice of the change of control, the Purchaser may, in its sole discretion, have the right to require the Corporation to, either: (i) purchase the Convertible Debenture at 100% of the principal amount thereof plus unpaid interest to the Maturity Date; or (ii) if the change of control results in a new issuer, convert the Convertible Debenture into a replacement debenture of the new issuer.

Assuming the Convertible Debenture is exercised in full on the date hereof, the Purchaser would have beneficial ownership of approximately 19.99% of the issued and outstanding Common Shares (calculated on a non-diluted basis).

2.3 *State the names of any joint actors.*

The Purchaser and Imperial may be considered joint actors.

Item 3 – Interest in Securities of the Reporting Issuer

3.1 *State the designation and number or principal amount of securities acquired or disposed of that triggered the requirement to file the report and the change in the acquiror’s securityholding percentage in the class of securities.*

See Item 2.2 above.

3.2 *State whether the acquiror acquired or disposed ownership of, or acquired or ceased to have control over, the securities that triggered the requirement to file the report.*

See Item 2.2 above. Assuming the Convertible Debenture is exercised in full on the date hereof, the Purchaser would have beneficial ownership of 151,668,018 Common Shares (approximately 19.99% of the issued and outstanding Common Shares calculated on a non-diluted basis).

3.3 *If the transaction involved a securities lending arrangement, state that fact.*

Not applicable.

3.4 *State the designation and number or principal amount of securities and the acquiror's securityholding percentage in the class of securities, immediately before and after the transaction or other occurrence that triggered the requirement to file this report.*

The Purchaser did not hold any Common Shares or other securities of the Corporation prior to the completion of the Transaction.

For the Purchaser's holding of Common Shares following the completion of the Transaction, see Item 2.2 above.

3.5 *State the designation and number or principal amount of securities and the acquiror's securityholding percentage in the class of securities referred to in Item 3.4 over which:*

(a) the acquiror, either alone or together with any joint actors, has ownership and control,

See Item 2.2 above.

(b) the acquiror, either alone or together with any joint actors, has ownership but control is held by persons or companies other than the acquiror or any joint actor, and

Not applicable.

(c) the acquiror, either alone or together with any joint actors, has exclusive or shared control but does not have ownership.

Not applicable.

3.6 *If the acquiror or any of its joint actors has an interest in, or right or obligation associated with, a related financial instrument involving a security of the class of securities in respect of which disclosure is required under this item, describe the material terms of the related financial instrument and its impact on the acquiror's securityholdings.*

Not applicable.

3.7 *If the acquiror or any of its joint actors is a party to a securities lending arrangement involving a security of the class of securities in respect of which disclosure is required under this item, describe the material terms of the arrangement including the duration of the arrangement, the number or principal amount of securities involved and any right to recall the securities or identical securities that have been transferred or lent under the arrangement.*

Not applicable.

State if the securities lending arrangement is subject to the exception provided in section 5.7 of NI 62-104.

Not applicable.

3.8 *If the acquiror or any of its joint actors is a party to an agreement, arrangement or understanding that has the effect of altering, directly or indirectly, the acquiror's economic exposure to*

the security of the class of securities to which this report relates, describe the material terms of the agreement, arrangement or understanding.

Not applicable.

Item 4 – Consideration Paid

4.1 State the value, in Canadian dollars, of any consideration paid or received per security and in total.

See Item 2.2 above.

4.2 In the case of a transaction or other occurrence that did not take place on a stock exchange or other market that represents a published market for the securities, including an issuance from treasury, disclose the nature and value, in Canadian dollars, of the consideration paid or received by the acquiror.

See Item 2.2 above.

4.3 If the securities were acquired or disposed of other than by purchase or sale, describe the method of acquisition or disposition.

Not applicable.

Item 5 – Purpose of the Transaction

State the purpose or purposes of the acquiror and any joint actors for the acquisition or disposition of securities of the reporting issuer. Describe any plans or future intentions which the acquiror and any joint actors may have which relate to or would result in any of the following:

(a) the acquisition of additional securities of the reporting issuer, or the disposition of securities of the reporting issuer;

(b) a corporate transaction, such as a merger, reorganization or liquidation, involving the reporting issuer or any of its subsidiaries;

(c) a sale or transfer of a material amount of the assets of the reporting issuer or any of its subsidiaries;

(d) a change in the board of directors or management of the reporting issuer, including any plans or intentions to change the number or term of directors or to fill any existing vacancy on the board;

(e) a material change in the present capitalization or dividend policy of the reporting issuer;

(f) a material change in the reporting issuer's business or corporate structure;

(g) a change in the reporting issuer's charter, bylaws or similar instruments or another action which might impede the acquisition of control of the reporting issuer by any person or company;

(h) a class of securities of the reporting issuer being delisted from, or ceasing to be authorized to be quoted on, a marketplace;

- (i) the issuer ceasing to be a reporting issuer in any jurisdiction of Canada;*
- (j) a solicitation of proxies from securityholders;*
- (k) an action similar to any of those enumerated above.*

The Purchaser entered into the Subscription Agreement as part of a strategic investment in the Corporation. The Purchaser intends to review its investment in the Corporation on a continuing basis and may, subject to the terms of the Subscription Agreement and the Investor Rights Agreement (as defined below), purchase or sell Common Shares or exercise the Convertible Debenture in the future, either on the open market or in private transactions, in each case, depending on a number of factors, including general market and economic conditions and other factors and conditions the Purchaser deems appropriate.

The Purchaser may formulate other purposes, plans or proposals regarding the Corporation or any of its securities or may change its intention with respect to any and all matters referred to in this Item 5. The Purchaser, in consultation with the Corporation, may also propose or seek to effect certain corporate transactions involving the Corporation or any of its subsidiaries.

At the closing of the Transaction, the Corporation and the Purchaser also entered into an Investor Rights Agreement (the “**Investor Rights Agreement**”) pursuant to which the Purchaser will have the right to nominate one director to serve on the board of directors of the Corporation (the “**Board**”). In addition, the Purchaser will be provided with certain governance rights so long as the Purchaser and its affiliates (collectively, the “**Purchaser Group**”), collectively, meet certain specified beneficial ownership thresholds of the then issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture), including approval rights over certain Corporation actions and preemptive and top-up rights entitling the Purchaser to maintain its pro rata beneficial ownership in the Corporation.

Item 6 - Agreements, Arrangements, Commitments or Understandings With Respect to Securities of the Reporting Issuer

Describe the material terms of any agreements, arrangements, commitments or understandings between the acquiror and a joint actor and among those persons and any person with respect to securities of the class of securities to which this report relates, including but not limited to the transfer or the voting of any of the securities, finder's fees, joint ventures, loan or option arrangements, guarantees of profits, division of profits or loss, or the giving or withholding of proxies. Include such information for any of the securities that are pledged or otherwise subject to a contingency, the occurrence of which would give another person voting power or investment power over such securities, except that disclosure of standard default and similar provisions contained in loan agreements need not be included.

Pursuant to the Subscription Agreement, the Purchaser has agreed to purchase the Convertible Debenture (see Item 2.2 above). At the closing of the Transaction, the Corporation and the Purchaser also entered into the Investor Rights Agreement, pursuant to which the Purchaser will be provided with certain governance rights so long as the Purchaser Group,

collectively, meets certain specified beneficial ownership thresholds of the then issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture), including the rights set out in Items 2.2 and 5 above.

Investor Rights Agreement

For so long as the Purchaser Group continues to beneficially own at least 15% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture), the Corporation agrees to nominate for election as director to the Board one individual designated by the Purchaser.

The Investor Rights Agreement also grants the Purchaser, until the earlier of: (a) the Purchaser Group beneficially owning less than 15% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture); and (b) September 25, 2020 if the Convertible Debenture has not been converted prior to such date, approval rights over certain transactions that may be taken by the Corporation; provided, however, that such approval rights will be re-instated in the event the Purchaser converts the Convertible Debenture after September 25, 2020 and holds 15% or more of the issued and outstanding Common Shares after such conversion. The Corporation has agreed that it will not, without the prior written consent of the Purchaser: (i) consolidate or merge into or with another person or enter into any similar business combination; (ii) acquire any shares or similar equity interests, instruments convertible into or exchangeable for shares or similar equity interests, assets, business or operations with an aggregate value of more than \$70,000,000, in any fiscal year; (iii) issue any Common Shares (or other equity interests) or instruments convertible into or exchangeable for shares or other equity interests, in connection with any acquisition of shares or assets or undertake any issuance or transaction which would constitute a Triggering Event if the aggregate value of such issuances is more than \$50,000,000 in any fiscal year of the Purchaser; (iv) subject to certain exceptions, adopt any plan or proposal for a complete liquidation, dissolution or winding up of the Corporation or any of its subsidiaries, or any reorganization or recapitalization of the Corporation or any of its subsidiaries, or commence any claim seeking relief under any applicable laws relating to bankruptcy, insolvency, conservatorship or relief of debtors; (v) sell, transfer, caused to be transferred, exclusively license, lease, pledge or otherwise dispose of any of its or any of its significant subsidiaries' assets, business or operations in the aggregate with a value of more than \$25,000,000 in any fiscal year; (vi) subject to applicable law, make any changes to the Corporation's policy with respect to the declaration and payment of any dividends on the Common Shares; (vii) amend the articles or other constating documents of the Corporation or any of its Subsidiaries; (viii) redeem, repurchase, or otherwise acquire or offer to redeem, repurchase or otherwise acquire any shares or capital stock of the Corporation or any of its subsidiaries; (ix) create, incur, assume or otherwise become liable with respect to any indebtedness or guarantees thereof that would cause the aggregate indebtedness of the Corporation and its subsidiaries (including in respect of any guarantees) to exceed an amount of \$250,000,000 (subject to certain exceptions); (x) enter into or materially modify the financial terms of any contract or other agreement, arrangement, understanding between the Corporation and any related party or certain specified persons; (xi) enter into or materially modify the financial terms of any contract or other agreement, arrangement, understanding which provided for expenditures of more than \$70,000,000 in any fiscal year; (xii) waive the

repayment of indebtedness owed to the Corporation or any of its subsidiaries in excess of \$5,000,000 in any 12-month period; (xiii) engage in the production, cultivation, advertisement, marketing, promotion, sale or distribution of cannabis or any related products and services in any jurisdiction, including the United States, where such activity is prohibited by applicable law (subject to certain limitations); or (xiv) issue more than 7,500,000 incentive securities in the aggregate in any fiscal year.

Pursuant to the Investor Rights Agreement, until the earlier of (i) the date that the Purchaser Group beneficially owns less than 10% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture); (ii) a change of control of the Corporation; or (iii) an investment in the Corporation by certain specified persons, the Purchaser Group has agreed to make the Corporation its exclusive partner for the development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world (subject to certain limited exceptions).

Pursuant to the terms of the Investor Rights Agreement, the Purchaser, provided the Purchaser Group continues to beneficially own at least 10% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture), will have a right of first offer over any future non-brokered equity financings (provided that the Purchaser accepts to purchase all, but not less than all, of the securities offered pursuant to such financing) and a right of first refusal over any future brokered equity financing of the Corporation.

Pursuant to the terms of the Investor Rights Agreement, the Purchaser will be granted certain pre-emptive rights, provided the Purchaser Group continues to beneficially own at least 15% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture). The pre-emptive rights provide the Purchaser with the right to purchase, directly or indirectly by another member of the Purchaser Group, upon the occurrence of certain issuances of Common Shares by the Corporation (a “**Triggering Event**”), up to such number of Common Shares issuable in connection with the Triggering Event which will, when added to the Common Shares beneficially owned by the Purchaser Group immediately prior to the Triggering Event (assuming the conversion of the Convertible Debenture), result in the Purchaser Group beneficially owning the percentage of issued and outstanding Common Shares that the Purchaser Group beneficially owned prior to the Triggering Event (assuming the conversion of the Convertible Debenture).

In addition, the Investor Rights Agreement provides the Purchaser with top-up rights, whereby, subject to obtaining the necessary approvals and for so long as the Purchaser Group beneficially owns at least 10% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture), the Purchaser shall have the right to subscribe for Common Shares in connection with any Top-Up Securities (as defined below) that the Corporation may, from time to time, issue after the date of the Investor Rights Agreement. “**Top-Up Securities**” means any Common Shares issued: (i) on the exercise, conversion or exchange of convertible securities of the Corporation issued prior to the date of the Subscription Agreement, excluding any convertible securities of the Corporation owned by any member of the Purchaser Group; (ii) on the exercise of options issued prior to the date of the Subscription Agreement pursuant to any share incentive plan

of the Corporation; and (iii) in connection with certain specified issuances disclosed to the Purchaser.

For a period of 12 months following the closing date, the Purchaser Group has also agreed not to, without the prior written consent of the Corporation: (i) acquire, offer to acquire or agree to acquire any securities of the Company or any material asset of the Corporation or rights or options to acquire same; (ii) propose, offer or seek to enter into any merger, take-over bid, arrangement, amalgamation or other similar transaction involving the Company; or (iii) advise or encourage any person in doing any of the foregoing (including, without limitation, by providing or arranging financing), subject to certain limited exceptions.

The Investor Rights Agreement provides the Purchaser with the right, subject to certain limitations and to the extent permitted by applicable law, to require the Corporation to use reasonable commercial efforts to file a prospectus under applicable securities laws and/or a registration statement, qualifying Common Shares held by the Purchaser Group for distribution in Canada. In addition, the Investor Rights Agreement provides the Purchaser with the right to require the Corporation to include Common Shares held by the Purchaser Group in any proposed distribution of Common Shares in Canada by the Corporation for its own account.

The Investor Rights Agreement contemplates that it will terminate automatically on the earliest of: (i) the point in time when the Purchaser Group beneficially owns less than 10% of the issued and outstanding Common Shares (on a partially diluted basis assuming the conversion of the Convertible Debenture); (ii) upon written notice of the Corporation or the Purchaser upon the involuntary bankruptcy or reorganization or the material breach of certain provisions of the Investor Rights Agreement by Imperial or the Corporation, respectively; (iii) upon mutual consent of the Corporation and the Purchaser; or (iv) upon the transfer or assignment of the Convertible Debenture to another person other than another member of the Purchaser Group.

Item 7 – Change in material fact

If applicable, describe any change in a material fact set out in a previous report filed by the acquiror under the early warning requirements or Part 4 in respect of the reporting issuer's securities.

Not applicable.

Item 8 – Exemption

If the acquiror relies on an exemption from requirements in securities legislation applicable to formal bids for the transaction, state the exemption being relied on and describe the facts supporting that reliance.

Not applicable.

Item 9 - Certification

Certificate

I, as the acquiror, certify to the best of my knowledge, information and belief, that the statements made in this report are true and complete in every respect.

DATED September 26, 2019.

1213509 B.C. LTD.

By: (signed) "Conrad Tate"

Name: Conrad Tate

Title: Director