

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions.

The securities offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States of America (the "United States" or the "U.S.") unless exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws are available. This short form prospectus does not constitute an offer to sell or a solicitation or an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Auxly Cannabis Group Inc. at 777 Richmond St. W, Unit 002, Toronto, Ontario, M6J 0C2, Telephone: 1-(647) 812-0121 and are also available electronically at www.sedar.com.

PRELIMINARY SHORT FORM PROSPECTUS

New Issue

November 30, 2020

Auxly

Auxly Cannabis Group Inc.

\$12,000,000
40,000,000 Units
\$0.30 per Unit

This short form prospectus (the "**Prospectus**") qualifies the distribution (the "**Offering**") of 40,000,000 units (the "**Units**") of Auxly Cannabis Group Inc. (the "**Corporation**") at a price of \$0.30 per Unit (the "**Offering Price**"). Each Unit consists of one common share in the capital of the Corporation (a "**Unit Share**") and one-half of one common share purchase warrant of the Corporation (each whole common share purchase warrant, a "**Warrant**"). Each Warrant will entitle the holder thereof, subject to adjustment in accordance with the Warrant Indenture (as defined below), to acquire one common share of the Corporation (a "**Warrant Share**") at an exercise price of \$0.40 per Warrant Share until the date that is 36 months following the Closing Date (as defined below). The Warrants will be governed by a warrant indenture to be entered into on or before the Closing Date between Computershare Trust Company of Canada (the "**Warrant Agent**") and the Corporation (the "**Warrant Indenture**"). See "Description of Securities Being Distributed".

The Offering is being made pursuant to the terms of an underwriting agreement (the "**Underwriting Agreement**") dated November 30, 2020 between the Corporation and Mackie Research Capital Corporation (the "**Underwriter**"). The Offering Price and the other terms of the Offering were determined by arm's length negotiation between the Corporation and the Underwriter. See "Plan of Distribution".

The Corporation's common shares (each, a "**Common Share**") are currently traded on the TSX Venture Exchange (the "**TSXV**") under the symbol "XLY", on the OTCQX Best Market (the "**OTCQX**") under the symbol "CBWTF", and on the Frankfurt Stock Exchange under the symbol "3KF". On November 20, 2020, the last trading day prior to the announcement of the Offering, the closing price of the Common Shares on the TSXV was \$0.355. On November 27, 2020, the last trading day prior to the date of this Prospectus, the closing price of the Common Shares on the

TSXV was \$0.305. The Corporation has applied to list the Unit Shares, the Warrant Shares and the Broker Warrant Shares (as defined below) on the TSXV. Listing will be subject to the Corporation fulfilling all of the requirements of the TSXV.

	<u>Price to the Public</u>	<u>Underwriter's Fee⁽¹⁾</u>	<u>Net Proceeds to the Corporation⁽²⁾</u>
Per Unit.....	\$0.30	\$0.0195	\$0.2805
Total.....	\$12,000,000	\$780,000	\$11,220,000

- (1) Pursuant to the Underwriting Agreement, the Corporation has agreed to pay to the Underwriter a cash fee equal to 6.5% of the gross proceeds of the Offering, including any gross proceeds raised on exercise of the Over-Allotment Option (as defined below) (the "**Underwriter's Fee**"). As additional compensation, the Corporation has agreed to issue to the Underwriter non-transferable broker warrants to purchase such number of Common Shares as is equal to 6.5% of the aggregate number of Units sold under the Offering (including pursuant to any exercise of the Over-Allotment Option) (the "**Broker Warrants**"). Each Broker Warrant entitles the holder thereof to purchase one Common Share (each, a "**Broker Warrant Share**") at an exercise price equal to the Offering Price for a period of 36 months after the Closing Date. This Prospectus also qualifies the distribution of the Broker Warrants to the Underwriter. See "Plan of Distribution".
- (2) After deducting the Underwriter's Fee, but before deducting the expenses of the Offering, estimated to be approximately \$300,000, which will be paid from the gross proceeds of the Offering.

The Underwriter has been granted an over-allotment option, exercisable in whole or in part, at the sole discretion of the Underwriter, for a period of 30 days from and including the Closing Date (the "**Over-Allotment Deadline**"), to purchase up to an additional 6,000,000 Units (the "**Over-Allotment Units**") at the Offering Price to cover the Underwriter's over-allocation position, if any, and for market stabilization purposes (the "**Over-Allotment Option**"). The Over-Allotment Option may be exercised to acquire (i) up to 6,000,000 additional Over-Allotment Units at the Offering Price, (ii) up to 6,000,000 additional Unit Shares at a price of \$0.2729 per Unit Share (the "**Over-Allotment Shares**"), (iii) up to 3,000,000 additional Warrants at a price of \$0.0543 per Warrant (or \$0.0271 per one-half Warrant) (the "**Over-Allotment Warrants**"), or (iv) any combination of Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants, provided that the aggregate number of Over-Allotment Shares which may be issued under the Over-Allotment Option does not exceed 6,000,000 and the aggregate number of Over-Allotment Warrants which may be issued under the Over-Allotment Option does not exceed 3,000,000. The Over-Allotment Warrants will have the same terms as the Warrants. The Over-Allotment Option is exercisable by the Underwriter giving notice to the Corporation prior to the Over-Allotment Deadline, which notice shall specify the number of Over-Allotment Units, Over-Allotment Shares and/or Over-Allotment Warrants to be purchased. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriter's Fee" and "Net Proceeds to the Corporation", before deducting the expenses of the Offering, will be \$13,800,000, \$897,000 and \$12,903,000, respectively. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants issuable upon exercise of the Over-Allotment Option. A purchaser who acquires Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants forming part of the Underwriter's over-allocation position acquires those Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

The following table sets out the maximum number of options and other compensation securities that have been issued or that may be issued by the Corporation to the Underwriter pursuant to the Offering:

Underwriter's Position	Maximum number of securities available	Exercise period	Exercise price
Over-Allotment Option	6,000,000 Over-Allotment Units	For a period of 30 days from and including the Closing Date	\$0.30 per Over-Allotment Unit \$0.2729 per Over-Allotment Share \$0.0543 per one Over-Allotment Warrant
Broker Warrants	2,990,000 Broker Warrants ⁽¹⁾	For a period of 36 months from and including the Closing Date	\$0.30 per Broker Warrant Share

(1) Assumes the exercise of the Over-Allotment Option in full.

Unless the context otherwise requires, when used herein, all references to "Units" include the Over-Allotment Units issuable upon exercise of the Over-Allotment Option, all references to "Unit Shares" include the Over-Allotment Shares issuable upon exercise of the Over-Allotment Option, all references to "Warrants" include the Over-Allotment Warrants issuable upon exercise of the Over-Allotment Option, all references to "Warrant Shares" include the Common Shares issuable upon exercise of the Over-Allotment Warrants, all references to "Broker Warrants" include the Broker Warrants issuable upon exercise of the Over-Allotment Option, and all references to "Broker Warrant Shares" include the Broker Warrant Shares issuable upon exercise of the Broker Warrants issuable in connection with the exercise of the Over-Allotment Option.

The Underwriter, as principal, conditionally offers the Units, subject to prior sale, if, as and when issued by the Corporation and delivered to and accepted by the Underwriter in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Owens Wright LLP and on behalf of the Underwriter by Fasken Martineau DuMoulin LLP. In connection with the Offering, and subject to applicable laws, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. The Underwriter may offer the Units at a lower price than stated above. See "Plan of Distribution".

The Underwriter proposes to offer the Units initially at the Offering Price. After the Underwriter has made a reasonable effort to sell all of the Units at the Offering Price, the offering price may be decreased and may be further changed from time to time to an amount not greater than the Offering Price, and the compensation realized by the Underwriter will be decreased by the amount that the aggregate price paid by purchasers for the Units is less than the gross proceeds paid by the Underwriter to the Corporation. See "Plan of Distribution".

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriter reserves the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about December 11, 2020, or such other date as may be agreed upon by the Corporation and the Underwriter, but in any event not later than 42 days after the date of the receipt for the final Prospectus (the "**Closing Date**").

It is anticipated that the Units will be delivered under the book-based system through CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and deposited in electronic form. A purchaser of the Units will receive only a customer confirmation from the registered dealer from or through which such Units are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold such Units on behalf of owners who have purchased such Units in accordance with the book-based system. No certificates will be issued unless specifically requested or required. See "Plan of Distribution".

Investing in the Units is speculative and involves significant risks. You should carefully review and evaluate certain risk factors contained in this Prospectus and in the documents incorporated by reference herein

before purchasing the Units. See "Cautionary Statement Regarding Forward-Looking Information" and "Risk Factors". Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal and other aspects of this investment.

You should rely only on the information contained in this Prospectus (including the documents incorporated by reference herein). Neither the Corporation nor the Underwriter have authorized anyone to provide you with information other than that contained in this Prospectus. Neither the Corporation nor any Underwriter is making an offer to sell or seeking offers to buy the Units in any jurisdiction where the offer or sale of Units is not permitted. You should not assume that the information contained or incorporated by reference in this Prospectus is accurate as of any date other than the date on the front page of this Prospectus or the respective dates of the documents incorporated by reference herein. The Corporation's business, financial condition, results of operations and prospects may have changed since that date. The Corporation does not undertake to update the information contained or incorporated by reference herein, except as required by applicable securities laws.

Unless otherwise indicated, all references to dollar amounts in this Prospectus are to Canadian dollars.

Conrad Tate (Director of the Corporation) resides outside of Canada and has appointed Owens Wright LLP, Suite 300, 20 Holly Street, Toronto, Ontario, M4S 3B1, as his agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada, or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

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

TABLE OF CONTENTS

DEFINITIONS.....	2
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION.....	2
FINANCIAL INFORMATION.....	4
MARKET AND INDUSTRY DATA.....	4
TRADEMARKS AND TRADE NAMES	4
ELIGIBILITY FOR INVESTMENT.....	5
DOCUMENTS INCORPORATED BY REFERENCE.....	5
MARKETING MATERIALS.....	6
SUMMARY DESCRIPTION OF THE BUSINESS	7
CONSOLIDATED CAPITALIZATION.....	13
USE OF PROCEEDS	13
PLAN OF DISTRIBUTION	14
DESCRIPTION OF SECURITIES BEING DISTRIBUTED.....	17
PRIOR SALES.....	18
TRADING PRICE AND VOLUME	19
RISK FACTORS	20
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	23
AUDITORS, TRANSFER AGENT AND REGISTRAR	27
LEGAL MATTERS	27
INTERESTS OF EXPERTS	27
STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION	27
CERTIFICATE OF THE CORPORATION	C-1
CERTIFICATE OF THE UNDERWRITER.....	C-2

DEFINITIONS

Unless otherwise noted or the context indicates otherwise, the "Corporation", "Auxly", "we", "us" and "our" refer to Auxly Cannabis Group Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Prospectus 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 Prospectus, including information that addresses activities, events or developments that the Corporation 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 (including grammatical variations) 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 Prospectus may include, but is not limited to:

- the competitive and business strategies of the Corporation;
- the intention to grow the business, operations and existing and potential activities of the Corporation;
- the success, and integration of operations, of the entities the Corporation acquires and the Corporation's collaborations;
- the Corporation's response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic on the Corporation's current and future operations;
- the ongoing construction and expansion of the Corporation's facilities, including Dosecann, Sunens, Kolab, Robinsons and Robinsons OG (as all are defined below), and its partners' facilities and the timing thereof;
- inventory and production capacity, including discussions of plans or potential for expansion of capacity at existing or new facilities;
- the market for the Corporation's current and proposed product offerings, as well as the Corporation's ability to capture market share;
- the distribution methods expected to be used by the Corporation to deliver its products;
- the benefits and applications of the Corporation's product offering and expected sales mix thereof;
- development of affiliated brands, product diversification and future corporate development;
- the competitive landscape in which the Corporation operates and the Corporation's market expertise;
- the applicable legislation, regulations and licensing and any amendments thereof related to the cultivation, production, processing, distribution and sale of cannabis products by the Corporation's subsidiaries and other business interests;
- the ability of the Corporation and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- expectations regarding the Corporation's licences, including in respect of the grant of licences under the

federal Cannabis Act, S.C. 2018, c.16. (the "**Cannabis Act**"), the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act (the "**Regulations**" and together with the Cannabis Act, the "**Cannabis Legislation**");

- expectations regarding the Corporation's expansion of operations and investment into foreign jurisdictions, including Uruguay;
- expectations regarding the Corporation's ability to find strategic alternatives with respect to Inverell;
- the Corporation's growth strategy, targets for future growth and projections of the results of such growth;
- the performance of the Corporation's business and operations; and
- the ability of the Corporation to generate cash flow from operations and from financing activities.

By identifying such information and statements in this manner, the Corporation 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 Corporation to be materially different from those expressed or implied by such information and statements.

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

- current and future management will abide by the business objectives and strategies outlined herein;
- the Corporation will retain and supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which the Corporation participates;
- the Corporation will have sufficient working capital, the ability to operate as a going concern and the ability to obtain the financing required in order to develop its business and continue operations;
- the Corporation 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 Corporation conducts business and any other jurisdiction in which the Corporation may conduct business in the future;
- the Corporation 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 Corporation will be able to execute on its business strategy;
- the Corporation will be able to meet the requirements necessary to obtain and/or maintain its licences;
- general economic, financial market, regulatory and political conditions in which the Corporation operates will remain the same;
- the Corporation will be able to compete in the cannabis industry;

- cannabis prices will not decline materially;
- the Corporation will be able to manage anticipated and unanticipated costs; and
- the Corporation will be able to maintain internal controls over financial reporting and disclosure, and procedures.

Although the Corporation 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 Corporation'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 Corporation'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 Prospectus and speaks only to such assumptions as of the date of this Prospectus.

The Corporation's forward-looking information is expressly qualified in its entirety by this cautionary statement. 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 Prospectus. 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 Prospectus include, but are not limited to the factors included under "Risk Factors" in the AIF (as defined below).

FINANCIAL INFORMATION

The financial statements of the Corporation incorporated by reference in this Prospectus have been prepared in accordance with International Financial Reporting Standards.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunities and market share, is based on information from independent industry organizations, other third-party sources (including industry publications, surveys and forecasts) and management studies and estimates.

Unless otherwise indicated, our estimates are derived from publicly available information released by independent industry analysts and third-party sources as well as data from our internal research, and include assumptions made by us which we believe to be reasonable based on our knowledge of our industry and markets. Our internal research and assumptions have not been verified by any independent source, and we have not independently verified any third-party information. While we believe the market position, market opportunity and market share information included in this Prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry and markets in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the heading "Cautionary Statement Regarding Forward-Looking Information" and "Risk Factors".

TRADEMARKS AND TRADE NAMES

This Prospectus includes, or may include, trademarks and trade names that are protected under applicable

intellectual property laws and are the property of the Corporation. Solely for convenience, our trade-marks and trade names referred to in this Prospectus may appear without the ® symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks, and trade names.

ELIGIBILITY FOR INVESTMENT

In the opinion of Owens Wright LLP, counsel to the Corporation, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the "**Tax Act**") as of the date hereof, the Unit Shares, Warrants and Warrant Shares, if issued on the date hereof, would be "qualified investments" under the Tax Act for a trust governed by a registered retirement savings plan ("**RRSP**"), registered retirement income fund ("**RRIF**"), deferred profit sharing plan, registered education savings plan ("**RESP**"), registered disability savings plan ("**RDSP**") and tax-free savings account ("**TFSA**") (collectively, "**Deferred Plans**") provided that: (i) the Common Shares are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the TSXV); and (ii) in the case of the Warrants, neither the Corporation, nor any person with whom the Corporation does not deal at arm's length, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of the particular Deferred Plan.

Notwithstanding that the Unit Shares, Warrants and Warrant Shares may be a "qualified investment" for a Deferred Plan, the annuitant under an RRSP or RRIF, the holder of a TFSA or RDSP, or the subscriber of an RESP will be subject to a penalty tax if such Unit Shares, Warrants and Warrant Shares are a "prohibited investment" (as defined in the Tax Act) for the RRSP, RRIF, RESP, RDSP or TFSA. The Unit Shares, Warrants and Warrant Shares will generally not be a "prohibited investment" for a particular RRSP, RRIF, RESP, RDSP or TFSA provided that the annuitant under the RRSP or RRIF, the holder of the TFSA or RDSP, or the subscriber of the RESP, as the case may be, deals at arm's length with the Corporation for purposes of the Tax Act and does not have a "significant interest" (as defined in the Tax Act) in the Corporation. In addition, the Unit Shares and Warrant Shares will not be a prohibited investment if such securities are "excluded property" (as defined in the Tax Act for purposes of these rules) for the particular TFSA, RRSP, RESP, RDSP or RRIF.

Persons who intend to hold Unit Shares, Warrants and Warrant Shares in a trust governed by a Deferred Plan should consult their own tax advisors with respect to the application of these rules in their particular circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commission or similar regulatory authority in certain Provinces of Canada are available at www.sedar.com and are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- (a) the annual information form of the Corporation for the financial year ended December 31, 2019 dated May 13, 2020 (the "**AIF**");
- (b) the audited consolidated financial statements of the Corporation as at and for the financial year ended December 31, 2019, together with the notes thereto and the report of independent auditors thereon (the "**2019 Annual Financial Statements**");
- (c) the management's discussion and analysis of the Corporation relating to the 2019 Annual Financial Statements;
- (d) the audited consolidated financial statements of the Corporation as at and for the financial year ended December 31, 2018, together with the notes thereto and the report of independent auditors thereon (the "**2018 Annual Financial Statements**");
- (e) the unaudited interim financial statements of the Corporation as at and for the three and nine month period ended September 30, 2020, together with the notes thereto (the "**Interim Financial Statements**");

- (f) the management's discussion and analysis of the Corporation relating to the Interim Financial Statements ("**Interim MD&A**");
- (g) the material change report dated November 30, 2020 announcing the Offering;
- (h) the material change report dated September 17, 2020 regarding the closing of the fifth tranche of the Corporation's Standby Facility (as hereinafter defined);
- (i) the material change report dated July 6, 2020 regarding the closing of the fourth tranche of the Corporation's Standby Facility;
- (j) the material change report dated June 12, 2020 regarding the closing of the third tranche of the Corporation's Standby Facility;
- (k) the material change report dated May 27, 2020 regarding the closing of the second tranche of the Corporation's Standby Facility;
- (l) the material change report dated May 1, 2020 regarding the Standby Facility and the closing of the first tranche thereunder;
- (m) the management information circular of the Corporation dated June 5, 2020;
- (n) the template version of the term sheet for the Offering dated November 24, 2020; and
- (o) the amended and restated template version of the term sheet for the Offering dated November 24, 2020.

Material change reports (other than confidential reports), business acquisition reports, annual financial statements, interim financial statements, the associated management's discussion and analysis and all other documents of the type referred to in section 11.1 of Form 44-101F1 of National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, filed by the Corporation with a securities commission or similar regulatory authority in Canada after the date of this Prospectus and before completion of the distribution of the Units, will be deemed to be incorporated by reference into this Prospectus. The documents incorporated or deemed to be incorporated herein by reference contain meaningful and material information relating to the Corporation and readers should review all information contained in this Prospectus and the documents incorporated or deemed to be incorporated by reference herein.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the statement or document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Copies of the documents incorporated herein by reference may also be obtained on request without charge from the Corporation at 777 Richmond St. W, Unit 002, Toronto, Ontario, M6J 0C2.

MARKETING MATERIALS

Any "template version" of any "marketing materials" (as such terms are defined under applicable Canadian securities laws) used by the Underwriter in connection with the Offering does not form a part of this Prospectus to

the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this Prospectus. Any template version of any marketing materials that has been, or will be, filed under the Corporation's profile on SEDAR at www.sedar.com before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated by reference into this Prospectus.

SUMMARY DESCRIPTION OF THE BUSINESS

Summary Description of Business

Auxly is a consumer packaged goods company in the cannabis products market. The Corporation's focus is on developing, manufacturing and distributing branded cannabis products to medical, wellness and recreational consumers.

The Corporation's in-house brands are Kolab Project, Foray, Robinsons, Dosecann and Back Forty, which were designed to target a broad market of cannabis consumers, with differentiation in price points across targeted consumer segments.

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**") in the Cannabis Act.

The Corporation has developed a broad initial portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. The Corporation has focused on the development of Cannabis 2.0 Products and was one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada following their legalization. The Corporation's products have been formulated, developed and packaged to meet the regulatory requirements set out by Health Canada.

Product Development

In-House Development – Dosecann

The Corporation conducts its extraction, product development, manufacturing and R&D activities for its derivative Cannabis Products in-house at its purpose-built, GMP-compliant Dosecann LD Inc. ("**Dosecann**") facility. Dosecann holds licences for processing, analytical testing and research and development under the Cannabis Act. The majority of the first floor of the two-story, 52,000 square foot facility is currently licensed under the Cannabis Legislation for the production, storage and sale of Cannabis Products. As of May 12, 2020, Health Canada streamlined its site expansion process whereby licence holders are no longer required to submit certain amendments for approval by Health Canada. This reduces the regulatory burden for site expansion and increases Health Canada's capacity to review applications that must be submitted. Under the revised site expansion process, Dosecann will not be required to seek further Health Canada approval for operational areas on the second floor of the facility, but any additional secure storage areas will require a formal licence amendment submission and approval. Construction of the interior of the second floor of the Dosecann facility is complete. During the third quarter of 2020, operational activities began to transition from the first to second floor with chews, capsules and hard candy production being moved to the newly constructed second floor, and vapes and oils remaining in production on the first floor. As at September 30, 2020, the Corporation had contributed approximately \$48.8 million towards the construction and development of the Dosecann facility and is considering approximately \$5.6 million of additional expenditures. The Corporation anticipates that approximately \$2.4 million will be spent on expanding extraction capabilities and throughput and on several pieces of automation equipment across several product categories within the next 6

months, and another \$1.3 million in March of 2022. The remaining \$1.9 million has been allocated, but not committed to, ethanol extraction.

Product development is led by Dosecann's team, who have experience in the pharmaceutical, food, scientific research and product development fields. As the Corporation's manufacturing hub, the Dosecann facility provides the Corporation with the ability to be responsive to changing industry regulation and evolving consumer preferences. On June 25, 2020 Dosecann was granted a research licence from Health Canada pursuant to the Cannabis Act, which permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing. Product development is overseen by the Corporation's safety board, comprised of members from Auxly, Dosecann, KGK Science Inc. ("**KGK**") and Imperial Brands PLC ("**Imperial Brands**"), which has oversight of the controls in place to ensure the safety, quality and efficacy of the Corporation's products.

In-House Development - Kolab

In November 2017, the Corporation acquired Kolab Project Inc. ("**Kolab**") and its facility located just outside of Ottawa in Carleton Place, Ontario. Kolab holds licences for cultivation, processing and sale for medical purposes under the Cannabis Act. In 2020, the Corporation made the strategic decision to cease cultivation at the Kolab facility and focus on manufacturing, processing and distributing pre-rolled and dried flower Cannabis Products. In addition to its current operations, Kolab provides the Corporation with flexibility to manufacture, produce and distribute other Cannabis Products as necessary. Although Kolab has ceased its cultivation activities, the Corporation plans to continue to maintain its cultivation licence under the Cannabis Act, and has the ability to recommence the cultivation of cannabis if required.

The Corporation plans to undertake a new capital project, at an estimated cost of \$3 million to \$4 million, to increase pre-roll production volumes at Kolab through the purchase, installation and commissioning of automated manufacturing and packaging equipment and through minor building alterations. The manufacturing equipment will be installed and commissioned prior to the second quarter of 2021, with packaging automation expected to occur during the second half of 2021, depending upon final equipment selection.

Potential In-House Development - Curative Facility

On November 27, 2019, Auxly accepted certain share collateral of 2368523 Ontario Inc. (d/b/a Curative Cannabis) ("**Curative**") in satisfaction of secured debt obligations owing to Auxly by Curative pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) made in foreclosure proceedings under the *Ontario Personal Property Security Act*, RSO 1990. As a result, the Corporation holds a 96% share interest in Curative. Curative's assets include an approximately 30,000 square foot cannabis cultivation facility situated on 33 acres of land in Chatham-Kent, Ontario. Curative currently holds licences for cultivation, processing and sale for medical purposes under the Cannabis Act. To date, the Corporation has contributed approximately \$20.4 million towards the construction and development of the Curative facility. The Corporation is currently exploring all possible options with respect to the use and commercialization of the asset. No further material expenditures are required by the Corporation at this time, but if and when the Corporation decides to begin active operations at the Curative facility, the Corporation estimates additional capital expenditures of approximately \$0.3 million would be required to finish the facility for the purpose of cannabis cultivation; however, such expenditures may increase depending on the Corporation's final intended use of the facility.

Strategic Partnership with Imperial Brands

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

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

Current Services

KGK, the Corporation's wholly owned contract research organization located in London, Ontario, provides regulatory, research and clinical trial services to the nutraceutical, natural health product and cannabis industries. KGK has an active Cannabis Research licence allowing the possession and administration of cannabis for the purposes of a clinical trial. On September 22, 2020, KGK received its second cannabis research licence, which permits KGK to conduct product palatability and sensory testing of cannabis extracts, edible cannabis topicals with human subjects. KGK works with their clients in substantiating claims for their products through randomized clinical trials in addition to providing other research services such as participant recruitment, regulatory compliance solutions, research support services and consulting.

Cannabis Input Materials and Supply

The Corporation has a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of wholly owned subsidiaries, joint ventures and offtake agreements. Having a flexible cultivation platform allows the Corporation to ensure a consistent source of raw input material for the manufacture of its Cannabis Products. The Corporation opportunistically purchased approximately 81% of its cannabis inventory (dried flower and resin) in the open market throughout 2020, as the Corporation's cultivation facilities were not yet completed or were completed and awaiting licensing. The Corporation will always be dependent upon some level of open market purchases, but the Corporation anticipates that it will transition Sunens Farms Inc. ("**Sunens**") to become one of its primary suppliers of cannabis inventory over the course of 2021.

A summary of the Corporation's cultivation supply is set out below.

Sunens

Sunens is the Corporation's large-scale joint venture with partner Peter Quiring, CEO of Nature Fresh Foods. The 1.1 million square foot greenhouse project in Leamington, Ontario is nearing completion. In June of 2020, Sunens received a standard cultivation licence from Health Canada for the first phase of the project. The first phase includes approximately 360,000 square feet of cultivation, processing and storage space. The Corporation has determined that the most expedited licensing pathway will be achieved by submitting two independent amendment applications for Health Canada's review to expand the site perimeter for the remaining two phases, which will permit Sunens to commence operations within such areas following Health Canada's approval. The first of these two amendments has been submitted and the second is anticipated to be submitted in the first quarter of 2021. Upon approval of both amendments by Health Canada, the entire cultivation footprint for the project will be licensed. In order to provide further commercial flexibility, Sunens also applied for a processing licence, which was issued by Health Canada on November 13, 2020.

Since receiving its cultivation licence in June 2020, Sunens has commenced cultivation within the licensed area and anticipates having product available for sale to other licensed producers in Q4 2020.

The Corporation has contributed approximately \$98.5 million towards the Sunens project since inception, with the balance of the budget, being approximately \$84 million, underwritten by the Bank of Montreal ("**BMO**") and a syndicate of lenders in the third quarter of 2019. The Corporation's contribution along with the BMO credit facility comprise all the required expenditures for the entire first phase of the project. As of the date of this Prospectus, the Corporation is not expected to advance any additional funding to Sunens within the next 12 months.

Robinsons

Robinson's Cannabis Incorporated ("**Robinsons**") holds licences for cultivation, processing, and sale for medical purposes under the Cannabis Act for its purpose-built 27,700 square foot indoor cannabis cultivation facility located in Kentville, Nova Scotia, and is focused on the production of high-quality craft cannabis. Robinsons has entered into supply arrangements with Alberta, Ontario, Nova Scotia and Newfoundland and Labrador, and initial shipments of Robinsons dried cannabis products commenced in July 2020. To date, the Corporation has contributed approximately \$12.4 million towards the construction and development of the Robinsons facility and anticipates a further \$0.5 million in capital expenditures for equipment upgrades and related minor facility upgrades to accommodate equipment and related commissioning expenses, as part of a plan of continuous improvement to improve overall facility efficiency and increase product yields, will be required over the next 12 months. The equipment is expected to arrive and be operational in the third quarter of 2021.

Robinsons OG

Robinson's Outdoor Grow Incorporated ("**Robinsons OG**") is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land and uniquely located in Hortonville, Nova Scotia. The Corporation anticipates that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG will be used for product development initiatives at Dosecann and to create Robinsons-branded derivative cannabis products. Robinsons OG holds a standard cultivation licence under the Cannabis Act from Health Canada. However, given the timing for the optimal outdoor planting season and the operational challenges posed by the COVID-19 pandemic, the Corporation has made the strategic decision to delay the commencement of cultivation activities at the Robinsons OG site and instead focus its efforts on the continued development of the Robinsons OG land and facility in preparation for whenever the Corporation determines should be the next cultivation season. Robinsons OG has applied for a processing licence, which is currently under active Health Canada review. To date, the Corporation has contributed approximately \$11.4 million towards the construction and development of the Robinsons OG project and anticipates a further \$3.5 million in capital expenditures will be required to complete the Robinsons OG project prior to the next cultivation season.

PEI Hemp

The Corporation acted as the financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp was cultivated in Prince Edward Island by six individual hemp licence holders, which resulted in approximately 98,000 kg of hemp biomass from the 2019 cultivation season. Dosecann secured the right of first refusal to offtake the biomass produced in 2019 at preferential prices. The biomass available for purchase was subject to final inspection and validation of a minimum cannabinoid content and quality specifications to ensure extraction efficiency. Based upon the negotiated pricing and the Corporation's sponsorship of the project to date, the Corporation has purchased (after inspection and validation) approximately 55,000 kilograms of hemp biomass for \$6.2 million. The purchase price of \$6.2 million was previously provided to the hemp farmers as a loan to commence the project. During the fourth quarter of 2020, the Corporation purchased an additional 14,300 kilograms of hemp biomass for \$2.0 million. All parties have since agreed to terminate and mutually release each other from any further purchases under such arrangement. The Corporation intends to use the biomass to extract CBD for use in its own products or for the sale of CBD distillate to other regulated industry participants.

Distribution

Given the current provincial legislative framework in Canada, the Corporation has pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and retailers, a brokerage agreement with Kindred Partners Inc. ("**Kindred**") to act as the Corporation's strategic sales agent, and strong relationships with retailers, including Inner Spirit Holdings Ltd. and Delta 9 Cannabis Inc.

The Corporation has secured listings and sold its Cannabis Products in all provinces except Quebec (where the regulations for Cannabis 2.0 Products are more restrictive). The Corporation 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.

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

International Operations

Presently the Corporation does not have any active international operations.

Given the slower than anticipated pace of cannabis-specific regulatory development in Latin America and, consequently, the slower development of viable near-term commercial channels in the region, the Corporation has chosen to explore strategic alternatives for Inverell S.A. ("**Inverell**"), the Corporation's 80% owned subsidiary located in Montevideo, Uruguay. While exploring strategic alternatives, the Corporation will not continue with operations nor fund any further operational expenditures at Inverell. This will reduce future operating expenses by approximately \$6-7 million annually, which can be redirected into the Canadian market with a view to driving more immediate revenue to the Corporation.

2019 Impairment

For the fiscal year ended December 31, 2019, the Corporation wrote-off approximately \$3.2 million in inventory as the costs capitalized exceeded the net realizable value of the inventory. Approximately \$1.8 million of such write-off related to the ongoing evaluation of the fair market value of inventory at Inverell. Going forward, the Corporation does not anticipate further write-offs at Inverell. The remaining write-off in the amount of approximately \$1.4 million occurred at the Corporation's Canadian operations. Approximately \$0.2 million was related to fair market value adjustments, which were market driven and were not impacted by seasonality. The Corporation does not anticipate such adjustments will continue in the long term as the Corporation improves its operations and the market supply of cannabis adjusts to demand. The remainder of the write-off at the Corporation's Canadian operations is primarily due to variances in the Corporation's initial standard costing estimates. These standard costs were also adjusted in the first quarter of 2020 resulting in nominal differences, as the Corporation continues to refine its costing estimates as its operations grow.

The Corporation is required to have licensed storage space for all inventory and as such it cannot materially stockpile inventory for valuation purposes. With respect to the Corporation's inventory on hand, the Corporation regularly assesses sales opportunities and monitors inventory levels and shelf life to mitigate any material obsolescence. At this time, the Corporation does not expect an increased stockpile of inventory or additional write-offs caused by the COVID-19 pandemic.

COVID-19

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic, which has had a profound impact on the global economy. The pandemic has been a rapidly evolving situation throughout the year, which the Corporation has been closely monitoring, as further described in the "*COVID-19 Pandemic*" section of the Interim MD&A. Initially, certain provincial and territorial governments imposed various degrees of temporary lockdown measures forcing non-essential businesses to close during the pandemic, including retail cannabis stores in some jurisdictions, while certain other jurisdictions allowed retail cannabis stores to remain open with certain operational limitations and protocols.

Although the original provincial lockdown measures have since been eased in most areas, there has been a recent trend of stricter lockdown measures being imposed again across various jurisdictions given the increase in COVID-19 cases across the country. On November 23, 2020, Toronto and Peel Region in Ontario moved into a second lockdown, meaning all non-essential businesses will be closed for at least 28 days; however, retail cannabis stores in those regions, and in any other regions that may subsequently move into a lockdown, are permitted to remain open for curbside pickup and will also temporarily be allowed to offer delivery to customers. As of the date of this

Prospectus, retail cannabis stores across the rest of Canada remain open with pandemic protocols in place, and additionally, many new retail stores have opened across Ontario, and after a temporary decline in retail sales, cannabis sales in Ontario and other provinces have returned to, and are now exceeding, pre-pandemic levels. There is a possibility that further lockdown measures could be imposed given the recent increase in COVID-19 cases across provinces and territories.

Additionally, due to required social distancing measures KGK was initially unable to commence new clinical trials with participants (which makes up a significant portion of its business), but has since shifted to a virtual process allowing it to facilitate new clinical trials. Further, certain aspects of clinical trial work were deemed an essential service and were therefore completed by third parties. In March 2020, KGK temporarily laid-off approximately 50 employees as it transitioned through the new operating model.

In relation to the COVID-19 pandemic, the Corporation accessed the Canada Emergency Wage Subsidy in March - September 2020 for wages for employees at its subsidiary KGK. Otherwise, the Corporation is not relying on any other government financing programs to provide liquidity support.

Standby Facility

On April 28, 2020, the Corporation entered into an investment agreement with an institutional investor (the "**Investor**") as a standby facility (the "**Standby Facility**") to provide the Corporation with access to additional capital. This provides the Corporation with the opportunity to sell, on a private placement basis, unsecured convertible debentures of the Corporation (collectively, the "**Convertible Debentures**") in the principal amount of up to \$25,000,000 (the "**Debenture Offering**"). The Convertible Debentures will be issuable in tranches at the request of the Corporation at an amount per Convertible Debenture that must be mutually agreeable to the Corporation and the Investor.

Each Convertible Debenture will have a maturity date of 24 months from the date of issue (the "**Maturity Date**") and will bear guaranteed interest from the date of issue at 7.5% per annum, payable semi-annually on June 30 and December 31 of each year.

The Convertible Debentures will be convertible, at the option of the holder, into Common Shares at any time prior to the close of business on the last day immediately preceding the applicable Maturity Date. The Convertible Debentures will have a conversion price (the "**Conversion Price**") equal to the closing price of the Common Shares on the TSXV on the trading day immediately prior to the closing date for such tranche.

The Corporation may require the Investor, at any point after four months and one day after the date of issuance of a Convertible Debenture, to convert:

- a) up to 50% of the principal amount of such Convertible Debenture if for any five consecutive trading days the volume weighted average price (the "**VWAP**") of the Common Shares on the TSXV is greater than 112% of the Conversion Price; or
- b) up to 100% of the principal amount of such Convertible Debenture if for any five consecutive trading days the VWAP of the Common Shares on the TSXV is greater than 120% of the Conversion Price; and/or
- c) 100% of the principal amount of such Convertible Debenture at any time by paying a mutually agreeable make-whole payment to the Investor,

plus in each case interest on the principal amount of such Convertible Debenture.

Contemporaneously with the issuance of each Convertible Debenture, the Investor will also receive such number of Common Share purchase warrants of the Corporation as is equal to 55% of the number of Common Shares into which the Convertible Debenture is convertible based on the applicable Conversion Price. Each warrant will be exercisable to purchase one Common Share for a period of 24 months from the date of issuance at an exercise price equal to 120% of the applicable Conversion Price.

As of the date hereof, the Corporation has completed five tranches under the Standby Facility, as set out below:

- in connection with the initial tranche of the Debenture Offering completed on April 28, 2020, the Corporation issued to the Investor \$1.25 million of Convertible Debentures with a Conversion Price of \$0.435 per Common Share and 1,580,460 Common Share purchase warrants with an exercise price of \$0.522;
- in connection with the second tranche of the Debenture Offering completed on May 20, 2020, the Corporation issued to the Investor \$2 million of Convertible Debentures with a Conversion Price of \$0.425 per Common Share and 2,588,235 Common Share purchase warrants with an exercise price of \$0.51;
- in connection with the third tranche of the Debenture Offering completed on June 8, 2020, the Corporation issued to the Investor \$3 million of Convertible Debentures with a Conversion Price of \$0.38 per Common Share and 4,342,105 Common Share purchase warrants with an exercise price of \$0.46;
- in connection with the fourth tranche of the Debenture Offering completed on June 26, 2020, the Corporation issued to the Investor \$3 million of Convertible Debentures with a Conversion Price of \$0.305 per Common Share and 5,409,836 Common Share purchase warrants with an exercise price of \$0.366; and
- in connection with the fifth tranche of the Debenture Offering completed on September 8, 2020, the Corporation issued to the Investor \$2 million of Convertible Debentures with a Conversion Price of \$0.18 per Common Share and 6,111,111 Common Share purchase warrants with an exercise price of \$0.216.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Corporation as at the dates indicated, adjusted to give effect to the Offering, since September 30, 2020, the date of the Corporation's most recently filed financial statements. This table should be read in conjunction with the consolidated financial statements of the Corporation and the related notes and management's discussion and analysis in respect of those statements that are incorporated by reference in this Prospectus.

	As at September 30, 2020 before giving effect to the Offering	As at September 30, 2020 after giving effect to the Offering	As at September 30, 2020 after giving effect to the Offering and the exercise of the Over-Allotment Option
Share Capital (Common Shares - Authorized: unlimited)	642,943,875	682,943,875	688,943,875
Warrants	30,031,747	50,031,747	53,031,747
Broker Warrants	-	2,600,000	2,990,000
Stock Options	42,012,757	42,012,757	42,012,757

There have been no material changes to the Corporation's share and loan capitalization on a consolidated basis from September 30, 2020 to the date of this Prospectus.

USE OF PROCEEDS

Use of Proceeds

The net proceeds to the Corporation from the Offering are expected to be \$11,220,000 after deducting the Underwriter's Fee, but before deducting the expenses of the Offering (estimated to be approximately \$300,000). If

the Over-Allotment Option is exercised in full, the net proceeds to the Corporation from the Offering are expected to be \$12,903,000 after deducting the Underwriter's Fee, but before deducting the expenses of the Offering (estimated to be approximately \$300,000). The Corporation intends to use the net proceeds from the Offering as set out in the table below:

\$3,500,000	Towards the purchase, installation and commissioning of automated manufacturing and packaging equipment and minor building alterations at the Corporation's Kolab facility to increase pre-roll cannabis production volumes. The manufacturing equipment is expected to be installed and commissioned prior to the end of the first quarter of 2021 with packaging automation expected to occur during the second half of 2021, depending upon final equipment selection.
\$500,000	Towards equipment upgrades and related minor facility upgrades to accommodate equipment and related commissioning expenses at the Corporation's Robinsons facility as part of a plan of continuous improvement to improve overall facility efficiency and increase product yields. The equipment is expected to arrive and be operational in the third quarter of 2021.
\$2,400,000	Towards expanding extraction capabilities and throughput and several pieces of automation equipment across several product categories at the Dosecann facility. The Corporation expects shipments throughout the first half of 2021, becoming operational within 6 weeks thereafter.
\$4,820,000	Towards working capital to support increased sales and negative cash flows from operations
\$11,220,000	Total

Although the Corporation intends to use the proceeds from the Offering as set forth above, the actual allocation of the net proceeds may vary depending on future developments or unforeseen events. There can be no assurances that the above objectives will be completed. See "Risk Factors – The Corporation has discretion in the use of net proceeds".

Pending the use of proceeds outlined above, the Corporation intends to invest the net proceeds of the Offering in investment grade, short-term, interest bearing securities with preservation of capital and short-term liquidity being important investment parameters.

The Corporation had negative cash flow from operating activities for the period ended September 30, 2020. The Corporation may use proceeds from the distribution under this Prospectus to fund negative cash flows until sufficient revenue is generated. See "Risk Factors – Negative Cash Flow from Operations".

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Corporation has agreed to sell and the Underwriter has agreed to purchase, as principal, 40,000,000 Units at a price of \$0.30 per Unit, for aggregate gross consideration of \$12,000,000 payable in cash to the Corporation against delivery of the Units. The Offering Price has been determined by arm's length negotiation between the Corporation and the Underwriter with reference to the prevailing market price of the Common Shares. The obligations of the Underwriter under the Underwriting Agreement are subject to certain closing conditions and may be terminated at its discretion on the basis of "disaster out", "material change out", "regulatory out" and "breach out" provisions in the Underwriting Agreement and may also be terminated upon the occurrence of certain other stated events. The Underwriter is, however, obligated to take up and pay for all of the Units if any Units are purchased under the Underwriting Agreement.

The Underwriter has been granted the Over-Allotment Option, exercisable, in whole or in part, at the sole discretion of the Underwriter, until the Over-Allotment Deadline to cover the Underwriter's over-allocation position, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised to acquire: (i) up to 6,000,000

Over-Allotment Units; (ii) up to 6,000,000 Over-Allotment Shares; (iii) up to 3,000,000 Over-Allotment Warrants; or (iv) any combination of Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants, provided that the aggregate number of Over-Allotment Shares which may be issued under the Over-Allotment Option does not exceed 6,000,000 and the aggregate number of Over-Allotment Warrants which may be issued under the Over-Allotment Option does not exceed 3,000,000. The Over-Allotment Option is exercisable by the Underwriter giving notice to the Corporation prior to the Over-Allotment Deadline, which notice shall specify the number of Over-Allotment Units, Over-Allotment Shares and/or Over-Allotment Warrants to be purchased. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants issuable upon exercise of the Over-Allotment Option. A purchaser who acquires Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants forming part of the Underwriter's over-allocation position acquires those Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In consideration for the services provided by the Underwriter in connection with the Offering, and pursuant to the terms of the Underwriting Agreement, the Corporation has agreed to pay the Underwriter the Underwriter's Fee equal to 6.5% of the gross proceeds from the Offering (including any gross proceeds raised on exercise of the Over-Allotment Option). As additional compensation, the Corporation will issue the Broker Warrants to the Underwriter. Each Broker Warrant entitles the holder thereof to purchase one Broker Warrant Share at an exercise price equal to the Offering Price for a period of 36 months after the Closing Date. This Prospectus also qualifies the distribution of the Broker Warrants to the Underwriter. The Corporation has also agreed to reimburse the Underwriter for certain expenses related to the Offering. There are no payments in cash, securities or other consideration being made, or to be made, to a promoter, finder or any other person or company in connection with the Offering other than the payments to be made to the Underwriter in accordance with the terms of the Underwriting Agreement.

Pursuant to the terms of the Underwriting Agreement, the Corporation has agreed to indemnify the Underwriter and their directors, officers, employees, shareholders, unitholders, advisors and agents against, certain liabilities and expenses and to contribute to payments the Underwriter may be required to make in respect thereof.

The Offering is being made in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. The Units will be offered in each such jurisdiction through the Underwriter or its affiliates who are registered to offer the Units for sale in such jurisdiction and such other registered dealers as may be designated by the Underwriter. The Units may also be offered and sold in the United States in a private placement.

The Corporation has applied to list the Unit Shares, the Warrant Shares, the Broker Warrant Shares and the Over-Allotment Shares, if the Over-Allotment Option is exercised, on the TSXV. Listing will be subject to the Corporation fulfilling all of the requirements of the TSXV.

The Underwriter proposes to offer the Units initially at the Offering Price. After the Underwriter has made a reasonable effort to sell all of the Units at the Offering Price, the offering price may be decreased and may be further changed from time to time to an amount not greater than the Offering Price, and the compensation realized by the Underwriter will be decreased by the amount that the aggregate price paid by purchasers for the Units is less than the gross proceeds paid by the Underwriter to the Corporation.

Pursuant to the Underwriting Agreement, the Corporation has agreed not to, without the prior consent of the Underwriter, which consent shall not be unreasonably withheld, directly or indirectly offer, issue, pledge, sell, contract to sell, announce an intention to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise lend, transfer or dispose of, directly or indirectly, any Common Shares or securities convertible into or exchangeable for Common Shares, other than pursuant to: (i) the issuance of securities pursuant to employee compensation agreements, arrangements or directors, officers and employee incentive stock options, (ii) the issuance of securities pursuant to strategic investments by Imperial Brands, (iii) the issuance of securities pursuant to non-brokered strategic investments for gross proceeds equal to an amount greater than or equal to \$10,000,000, (iv) the issuance of Convertible Debentures pursuant to the Standby Facility, provided that the Conversion Price of the Convertible Debentures issued thereunder is greater than the Offering Price, (v) the issuance of securities pursuant to existing convertible securities of the Corporation or those

granted in the future under any Corporation plans, (vi) the issuance of securities to satisfy existing instruments or agreements of the Corporation in respect of previously issued securities, or (vii) issuance of securities for any agreements for a direct or indirect arm's-length acquisition, for a period ending 90 days after the Closing Date.

The Corporation has also agreed to use its best efforts to cause (and it is a condition of closing of the Offering that) each of the directors, officers, insiders and holders of greater than 5% of the Corporation's issued and outstanding Common Shares as of the date of this Prospectus (other than Imperial Brands), after giving effect to the exercise of convertible securities owned or controlled by such holders, to enter into an agreement in favour of the Underwriter pursuant to which for a period of 90 days after the Closing Date, he, she or it shall covenant and agree that he, she or it will not, directly or indirectly, offer, sell, dispose of or otherwise monetize the economic value of any securities in the Corporation beneficially owned by such holder, without the prior written consent of the Underwriter, which consent will not be unreasonably withheld or delayed, subject to the following exceptions: (i) the exercise of previously issued options or other convertible securities, (ii) transfers among a shareholder's affiliates for tax or other planning purposes, or (iii) a tender or sale by a shareholder of securities of the Corporation in or pursuant to a take-over bid or similar transaction involving a change of control of the Corporation.

Pursuant to policy statements of certain securities regulators, the Underwriter may not, throughout the period of distribution, bid for or purchase Units. The foregoing restriction is subject to certain exceptions including: (i) a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities; (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution, provided that the bid or purchase was for the purpose of maintaining a fair and orderly market and not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities; or (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. Consistent with these requirements, and in connection with this distribution, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. If these activities are commenced, they may be discontinued by the Underwriter at any time. The Underwriter may carry out these transactions on the TSXV, in the over-the counter market or otherwise.

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriter reserves the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about December 11, 2020, or such other date as may be agreed upon by the Corporation and the Underwriter, but in any event no later than 42 days after the date of the receipt of the final Prospectus. It is anticipated that the Units will be delivered under the book-based system through CDS or its nominee and deposited in electronic form. A purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Units on behalf of owners who have purchased Units in accordance with the book-based system. No certificates will be issued unless specifically requested or required.

Any Units offered hereby have not been and will not be registered under the U.S. Securities Act or any state securities laws, and accordingly the Units may not be offered or sold in the United States (if at all) or for the account or benefit of, persons within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriter has agreed that, except as permitted by the Underwriting Agreement and as expressly permitted by applicable U.S. federal and state securities laws, it will not offer or sell any of the Units to, or for the account or benefit of, persons within the United States. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Units offered under the Offering in the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Units in the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made other than in accordance with an exemption from such registration requirements.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Common Shares

The holders of Common Shares are entitled to one vote per Common Share at all meetings of the shareholders of the Corporation either in person or by proxy. The holders of Common Shares are also entitled to dividends, if and when declared by the directors of the Corporation, and the distribution of the residual assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

All Common 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 Corporation, whether voluntary or involuntary, or any other disposition of the assets of the Corporation among its shareholders for the purpose of winding up its affairs after the Corporation has paid out its liabilities. The Common Shares are not subject to any call or assessment rights, any pre-emptive rights, any conversion or any exchange rights. The Common Shares are not subject to any redemption, retraction, purchase for cancellation, surrender, sinking or purchase fund provisions. Additionally, the Common Shares are not subject to any provisions permitting or restricting the issuance of additional securities and any other materials restrictions or any provisions requiring a securityholder to contribute additional capital to the Corporation.

Warrants

The Warrants will be governed by the terms of the Warrant Indenture. The following summary of certain provisions of the Warrant Indenture does not purport to be complete and is subject in its entirety to the detailed provisions of the Warrant Indenture. Reference is made to the Warrant Indenture for the full text of the attributes of the Warrants which is filed under the Corporation's corporate profile on SEDAR. A register of holders is maintained at the principal offices of the Warrant Agent in Vancouver, British Columbia.

Each Warrant will entitle the holder to acquire, subject adjustment in certain circumstances, one Warrant Share at an exercise price of \$0.40 until 4:59 p.m. (Eastern time) on the date that is 36 months following the Closing Date.

The Warrant Indenture provides for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

- (i) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than a distribution of Common Shares upon the exercise of Warrants or any outstanding options);
- (ii) the subdivision, redivision or change of the Common Shares into a greater number of shares;
- (iii) the reduction, combination or consolidation of the Common Shares into a lesser number of shares;
- (iv) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Warrant Indenture, for the Common Shares on such record date; or
- (v) the distribution to all or substantially all of the holders of the Common Shares of shares of any class other than the Common Shares, rights, options or warrants to acquire Common Shares or securities exchangeable or convertible into Common Shares other than pursuant to item (iv) above, or evidences of indebtedness, or any property or other assets.

The Warrant Indenture also provides for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or the exercise price per security in the event of the following additional events: (a)

reclassifications of the Common Shares or a capital reorganization of the Corporation (other than as described in items (i) to (iii) above); (b) consolidations, amalgamations, arrangements or mergers of the Corporation with or into another entity; or (c) any sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to another entity, in which case each holder of a Warrant which is thereafter exercised will receive, in lieu of Common Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants prior to the event.

The Corporation also covenants in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to the Warrant Agent and to the holders of Warrants of its intention to fix a record date for events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date of such events.

No fractional Common Shares will be issuable to any holder of Warrants upon the exercise thereof, and no cash or other consideration will be paid in lieu of fractional shares. The holding of Warrants will not make the holder thereof a shareholder of the Corporation or entitle such holder to any right or interest in respect of the Warrants except as expressly provided in the Warrant Indenture. Holders of Warrants will not have any voting or pre-emptive rights or any other rights of a holder of Common Shares.

The Warrant Indenture provides that, from time to time, the Warrant Agent and the Corporation, without the consent of the holders of Warrants, may be able to supplement the Warrant Indenture for certain purposes, including rectifying any ambiguities, defective provisions, clerical omissions or mistakes, or other errors contained in the Warrant Indenture or in any deed or indenture supplemental or ancillary to the Warrant Indenture, provided that, in the opinion of the Warrant Agent, relying on counsel, the rights of the holders of Warrants are not prejudiced. Any supplement to the Warrant Indenture that is prejudicial to the interests of the holders of Warrants, will be subject to approval by an "Extraordinary Resolution", which will be defined in the Warrant Indenture as a resolution either: (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than 66 $\frac{2}{3}$ % of the aggregate number of all the then outstanding Warrants represented in person or by proxy at the meeting and voted on the poll upon such resolution; or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than 66 $\frac{2}{3}$ % of the number of all of the then outstanding Warrants.

The principal transfer office of the Warrant Agent in Vancouver, British Columbia is the location at which Warrants may be surrendered for exercise or transfer.

PRIOR SALES

The following table summarizes details of the securities issued by the Corporation during the 12-month period prior to the date of this Prospectus:

Common Shares

Date of issuance	Number of securities issued	Issue/exercise price per security
December 16, 2019	6,315,574	\$0.824
June 1, 2020	3,600,000	\$0.025
June 6, 2020	1,093,929	\$0.025

Options

Date of issuance	Number of securities issued	Exercise price per security
June 30, 2020	640,000	\$0.30

Warrants

Date of issuance	Number of securities issued	Exercise price per security
April 28, 2020	1,580,460	\$0.522
May 20, 2020	2,588,235	\$0.510
June 8, 2020	4,342,105	\$0.460
June 26, 2020	5,409,836	\$0.366
September 8, 2020	6,111,111	\$0.2160

Convertible Debentures

Date of issuance	Principal amount of securities	Conversion price per security
April 28, 2020	\$1,250,000	\$0.435
May 20, 2020	\$2,000,000	\$0.425
June 8, 2020	\$3,000,000	\$0.380
June 26, 2020	\$3,000,000	\$0.305
September 8, 2020	\$2,000,000	\$0.180

TRADING PRICE AND VOLUME

The Common Shares are listed on the TSXV under the trading symbol "XLY", on the OTCQX under the symbol "CBWTF" and on the Frankfurt Stock Exchange under the symbol "3KF". The following table sets forth information relating to the trading of the Common Shares on the TSXV for the months indicated:

Month	TSXV Price Range (\$)		Total Volume
	High	Low	
November 2019	0.77	0.62	11,899,300
December 2019	0.66	0.52	13,707,700
January 2020	0.76	0.54	15,975,400

Month	High	Low	Total Volume
February 2020	0.63	0.385	16,391,800
March 2020	0.50	0.215	23,943,000
April 2020	0.48	0.31	17,644,400
May 2020	0.45	0.315	25,048,700
June 2020	0.43	0.28	31,004,100
July 2020	0.305	0.225	15,797,900
August 2020	0.26	0.16	21,535,700
September 2020	0.19	0.12	14,355,800
October 2020	0.365	0.125	55,628,600
November 1 – 27, 2020	0.43	0.225	61,955,400

RISK FACTORS

An investment in the securities of the Corporation is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Corporation and the business, prospects, financial position, financial condition or operating results of the Corporation. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently deems immaterial may also impair the Corporation's business operations.

Prospective purchasers should carefully consider all information contained in this Prospectus, including all documents incorporated by reference, and in particular should give special consideration to the risk factors under the section titled "Risk Factors" in the AIF, which is incorporated by reference in this Prospectus and which may be accessed on the Corporation's SEDAR profile at www.sedar.com, and the information contained in the section entitled "Cautionary Statement Regarding Forward-Looking Information". Additionally, purchasers should consider the risk factors set forth below.

The risks and uncertainties described or incorporated by reference in this Prospectus are not the only ones the Corporation may face. Additional risks and uncertainties that the Corporation is unaware of, or that the Corporation currently deems not to be material, may also become important factors that affect the Corporation. If any such risks actually occur, the Corporation's business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the Common Shares could decline and investors could lose all or part of their investment.

Negative cash flow from operations

During the fiscal year ended December 31, 2019 and the nine-month period ended September 30, 2020, the Corporation had negative cash flow from operating activities. Although the Corporation anticipates it will have positive cash flow from operating activities in future periods, to the extent that the Corporation has negative cash flow in any future period, certain of the net proceeds from the Offering may be used to fund such negative cash flow from operating activities, if any.

Going concern

The Corporation's Interim Financial Statements were prepared on a going concern basis. The application of "going concern" depends upon the Corporation's ability to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. On September 30, 2020, the Corporation had total cash and cash equivalents of \$13.6 million, working capital of \$37.6 million, and negative cash flow from operating activities of \$25.7 million for the nine months ended September 30, 2020. The Corporation currently has insufficient cash to fund its operations for the next 12 months. Whether and when the Corporation can attain profitability and positive cash

flows is uncertain. These uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern. Such adjustments could be material. In assessing whether the going concern assumption was appropriate, the Corporation's management took into account all relevant information available about the future, which was at least, but not limited to, the twelve-month period following September 30, 2020. To address its financing requirements, the Corporation will seek financing through debt and equity financings, asset sales, and rights offerings to existing shareholders. The Corporation will also seek to improve its cash flows by prioritizing certain projects with a greater expected return and reducing operating costs by streamlining its operations and support functions. While the Corporation has been successful in obtaining financing to date, and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, the Corporation's ability to raise capital may be adversely impacted by: market conditions that have resulted in a lack of normally available financing in the cannabis industry; the Corporation's ongoing litigation matters; increased competition across the industry; the industry's inability to quickly eliminate Canada's large illicit cannabis market and overall negative investor sentiment in light of the ongoing COVID-19 pandemic. Accordingly, there can be no assurance that the Corporation will achieve profitability, or secure financing on terms favourable to the Corporation or at all. If any of such events were to happen, holders of Unit Shares or Warrants could lose all or part of their investment. The Corporation's financial statements do not include any adjustments to the Corporation's recorded assets or liabilities that might be necessary if the Corporation becomes unable to continue as a going concern.

A positive return on any securities is not guaranteed

There is no guarantee that the Unit Shares or Warrants will earn any positive return in the short term or long term. A holding of Unit Shares and Warrants is speculative and involves a high degree of risk and should be undertaken only by holders whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. A holding of Unit Shares and Warrants is appropriate only for holders who have the capacity to absorb a loss of some or all of their holdings.

The Corporation has discretion in the use of net proceeds

The Corporation intends to use the net proceeds from the Offering as set forth under "Use of Proceeds"; however, the Corporation maintains broad discretion to use the net proceeds from the Offering in ways that it deems most efficient. The failure to apply the net proceeds as set forth under "Use of Proceeds" and other financings could adversely affect the Corporation's business and, consequently, could adversely affect the price of the Common Shares on the open market.

There is no assurance of a sufficient liquid trading market for the Common Shares in the future

Shareholders of the Corporation may be unable to sell significant quantities of Common Shares into the public trading markets without a significant reduction in the price of their Common Shares, or at all. There can be no assurance that there will be sufficient liquidity of the Corporation's Common Shares on the trading market, and that the Corporation will continue to meet the listing requirements of the TSXV, the OTCQX or the Frankfurt Stock Exchange, or achieve listing on any other public listing exchange.

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

The factors which may contribute to market price fluctuations of the Common Shares include the following:

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

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

The Corporation has not declared and paid dividends in the past and may not declare and pay dividends in the future

Any decision to declare and pay dividends in the future will be made at the discretion of the Corporation's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Corporation's board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they sell their Common Shares for a price greater than that which such investors paid for them.

Holders of Common Shares will be diluted

The Corporation may issue additional securities in the future, which may dilute a shareholder's holdings in the Corporation. The Corporation's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Corporation have discretion to determine the price and the terms of further issuances, subject to compliance with applicable laws. Moreover, additional Common Shares will be issued by the Corporation on the exercise of the Warrants and Broker Warrants.

There is currently no market for the Warrants

There is currently no market through which the Warrants may be sold and the Warrants will not be listed on any securities or stock exchange or automated dealer quotation system. As a result, the purchasers may not be able to resell the Warrants purchased under this Prospectus. This may affect pricing of the Warrants in the secondary market, the transparency and availability of trading prices and the liquidity of the Warrants. The Offering Price and the allocation thereof between the Unit Shares and the Warrants comprising the Units have been determined by negotiation between the Corporation the Underwriter.

Holders of Warrants have no rights as shareholders

Until a holder of Warrants acquires Warrant Shares upon exercise of Warrants, such holder will have no rights with

respect to the Warrant Shares underlying such Warrants. Upon exercise of such Warrants, such holder will be entitled to exercise the rights of a holder of Common Shares only as to matters for which the record date occurs after the exercise date of such Warrants.

The COVID-19 Pandemic

Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as COVID-19 (coronavirus), may adversely affect the Corporation. The Corporation's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, COVID-19, a novel strain of coronavirus, was reported to have surfaced in Wuhan, China. On January 30, 2020, the WHO declared the outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of COVID-19 to a worldwide pandemic following which federal, provincial and municipal governments in Canada began enacting measures to combat the spread of COVID-19.

The Corporation expects to experience some short to medium term negative impacts from the COVID-19 outbreak; however, the extent of such impacts is currently unquantifiable, but may be significant. Such impacts include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, public health emergency and similar declarations and could include other increased government regulations, a material reduction in demand for the Corporation's products and services, reduced sales, higher costs for new capital, licensing delays, increased operating expenses, delayed performance of contractual obligations, and potential supply and staff shortages, all of which are expected to negatively impact the business, financial condition and results of operations of the Corporation and thus may impact the ability of the Corporation to comply with financial covenants, and its ability satisfy its obligations to its lenders and other parties, which may in turn may adversely impact, among other things, the ability the Corporation to access debt or equity capital on acceptable terms or at all.

The risks to the Corporation of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Corporation's facilities. Should an employee or visitor in any of the Corporation's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Corporation's workforce and operations at risk. The 2020 outbreak of COVID-19 is one example of such an illness.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Owens Wright LLP, counsel to the Corporation, the following is a general summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a beneficial owner of Unit Shares and Warrants who acquires the Units pursuant to this Offering. For purposes of this summary, references to Common Shares include Unit Shares and Warrant Shares unless otherwise indicated. This summary applies only to persons who, for the purposes of the application of the Tax Act and at all relevant times: (i) deal at arm's length with the Corporation and the Underwriter and are not affiliated with the Corporation or the Underwriter; and (ii) acquired and holds any Common Shares and Warrants, as capital property. Persons meeting such requirements are referred to as a "**Holder**" or "**Holders**" herein, and this summary only addresses such Holders. Common Shares and Warrants will generally be capital property to a Holder unless they are held in the course of carrying on a business of trading or dealing in securities or were acquired in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act, all specific proposals to amend the Tax Act that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**"), our understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") and the Canada-United States Tax Convention (1980), as amended (the "**Canada-US Treaty**"). No assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not take into account or anticipate any changes in law, administrative policy or assessing practice, whether by legislative, regulatory, administrative, governmental or judicial decision or action, nor does it take into account the tax laws of any province or territory of Canada or of any

jurisdiction outside of Canada, which may differ significantly from the Canadian federal income tax considerations discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Accordingly, Holders should consult their own tax advisors having regard to their own particular circumstances.

Allocation of Cost

Holders will be required to allocate on a reasonable basis their cost of each Unit between the Unit Share and the Warrant in order to determine their respective costs for purposes of the Tax Act. For its purposes, the Corporation intends to allocate \$0.2729 of the Offering Price to each Unit Share and \$0.0271 to each one-half of one common share purchase warrant of the Corporation. Such allocation is not binding on the CRA and counsel express no opinion with respect to such allocation. Holders are encouraged to consult their own tax advisors in this regard.

Adjusted Cost Base

The Holder's adjusted cost base of the Unit Shares will be determined by averaging the cost of the Unit Shares with the adjusted cost base to the Holder of all Common Shares owned by the Holder as capital property immediately prior to such acquisition.

Exercise of Warrants

No gain or loss will be realized by a Holder on the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Holder's cost of the Warrant Share acquired thereby will be the aggregate of the Holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the Holder of all Common Shares owned by the Holder as capital property immediately prior to such acquisition.

Holders Resident in Canada

This section of the summary applies to a Holder who, at all relevant times, is, or is deemed to be, resident in Canada for the purposes of the Tax Act (a "**Resident Holder**"). Persons who are residents of Canada for purposes of the Tax Act and whose Common Shares do not otherwise qualify as capital property may in certain circumstances make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have their Common Shares, and every other "Canadian security" (as defined in the Tax Act) owned by them in the taxation year of the election and in all subsequent taxation years, be deemed to be capital property. Persons whose Common Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election. Such election is not available in respect of Warrants.

This summary is not applicable to a Resident Holder: (i) that is a "financial institution", as defined in the Tax Act for the purpose of the mark-to-market rules; (ii) an interest in which would be a "tax shelter investment", as defined in the Tax Act; (iii) that is a "specified financial institution", as defined in the Tax Act; (iv) that has made an election under the Tax Act to determine its Canadian tax results in a foreign currency; or (v) that enters into, with respect to Common Shares or Warrants, a "derivative forward agreement" (as defined in the Tax Act). All such Resident Holders should consult their own tax advisors with respect to their own particular circumstances.

Expiry of Warrants

The expiry of an unexercised Warrant will generally result in a capital loss to the Resident Holder equal to the adjusted cost base of the Warrant to the Resident Holder immediately before its expiry. See the discussion below under the heading "Taxation of Capital Gains and Capital Losses".

Dispositions of Common Shares and Warrants

On a disposition or deemed disposition of a Common Share (except in most cases to the Corporation) or a Warrant

(other than on the exercise or expiry of a Warrant), a capital gain (or loss) will generally be realized by a Resident Holder in the year of disposition to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Common Share or the Warrant, as the case may be, to the Resident Holder immediately before the disposition. Any such capital gain (or capital loss) will be subject to the treatment described below under the heading "Taxation of Capital Gains and Capital Losses".

Taxation of Capital Gains and Capital Losses

Generally, a Resident Holder is required to include in computing income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**") realized in the year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an "**allowable capital loss**") realized in a taxation year from taxable capital gains realized in the year by such Resident Holder. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding years or carried forward and deducted in any following taxation year against taxable capital gains realized in such year to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on a disposition of Common Shares may, in certain circumstances, be reduced by the amount of dividends received or deemed to have been received by it on such Common Shares to the extent and under the circumstances specified in the Tax Act. Similar rules may apply where a Resident Holder that is a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares or where a partnership or trust, of which a corporation is a member or a beneficiary, is a member of a partnership or a beneficiary of a trust that owns Common Shares. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

A Resident Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may also be liable for an additional tax (refundable in certain circumstances) on "aggregate investment income" (as defined in the Tax Act), which includes amounts in respect of taxable capital gains.

Dividends

Dividends received or deemed to be received by a Resident Holder on the Common Shares, if any, will be included in computing the Resident Holder's income for purposes of the Tax Act. In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit provisions where the Corporation provides appropriate notice to the recipient designating the dividend as an "eligible dividend" for purposes of the Tax Act. There may be limitations on the ability of the Corporation to designate dividends as "eligible dividends".

Dividends received or deemed to be received on the Common Shares by a Resident Holder that is a corporation must also be included in computing its income but will generally be deductible in computing its taxable income, subject to all restrictions and special rules under the Tax Act. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received or deemed to be received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "private corporation" (as defined in the Tax Act) or any other corporation controlled by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts) generally will be liable to pay an additional tax (refundable in certain circumstances) under Part IV of the Tax Act on dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

Alternative Minimum Tax

Capital gains realized and dividends received by a Resident Holder that is an individual or a trust, other than certain specified trusts, may give rise to an alternative minimum tax under the Tax Act. Resident Holders should consult

their own tax advisors with respect to the application of minimum tax.

Holders Not Resident in Canada

This portion of the summary is generally applicable to a Holder who, at all relevant times, for purposes of the Tax Act: (i) is not, and is not deemed to be, resident in Canada; and (ii) does not use or hold the Common Shares or Warrants in connection with carrying on a business in Canada (a "**Non-Resident Holder**"). This summary does not apply to a Non-Resident Holder that carries on, or is deemed to carry on, an insurance business in Canada and elsewhere, or that is an "authorized foreign bank" (as defined in the Tax Act), and such Non-Resident Holders should consult their own tax advisors.

Dividends

Dividends paid or credited or deemed under the Tax Act to be paid or credited by the Corporation to a Non-Resident Holder on the Common Shares will be subject to Canadian withholding tax at the rate of 25% on the gross amount of the dividends, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled under any applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. For example, where a Non-Resident Holder is a resident of the United States, is fully entitled to the benefits under the Canada-US Treaty and is the beneficial owner of the dividend, the applicable rate of Canadian withholding tax is generally reduced to 15% in most circumstances.

Expiry of Warrants

The expiry of an unexercised Warrant that is, or is deemed to be, "taxable Canadian property" of a Non-Resident Holder for purposes of the Tax Act, will generally result in a capital loss to the Non-Resident Holder equal to the adjusted cost base of the Warrant to the Non-Resident Holder immediately before its expiry. For a general description of the tax treatment of capital losses, see the discussion above under the heading "Holders Resident in Canada" – "*Taxation of Capital Gains and Capital Losses*".

Dispositions of Common Shares and Warrants

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition or deemed disposition of a Common Share or Warrant, nor will capital losses arising therefrom be reported under the Tax Act, unless the Common Share or Warrant (as applicable) is, or is deemed to be, "taxable Canadian property" of the Non-Resident Holder for the purposes of the Tax Act and the Non-Resident Holder is not entitled to an exemption under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident.

Provided that the Common Shares are listed on a "designated stock exchange" for the purposes of the Tax Act (which currently includes the TSXV) at the time of a disposition of a Common Share or Warrant, generally a Common Share or Warrant (as applicable) will not constitute taxable Canadian property of a Non-Resident Holder unless, at any time during the 60 month period immediately preceding the disposition, (i) at least 25% of the issued shares of any class or series of the capital stock of the Corporation were owned by or belonged to any combination of (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm's length for purposes of the Tax Act, and (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; and (ii) at such time, more than 50% of the fair market value of such shares was derived, directly or indirectly, from any combination of real or immovable property situated in Canada, "Canadian resource property" (as defined in the Tax Act), "timber resource property" (as defined in the Tax Act), or options in respect of, interests in, or for civil law rights in such properties, whether or not such property exists. Notwithstanding the foregoing, a Common Share or Warrant may also be deemed to be taxable Canadian property to a Non-Resident Holder under other provisions of the Tax Act.

In cases where a Non-Resident Holder disposes (or is deemed to have disposed) of a Common Share or Warrant that is taxable Canadian property to that Non-Resident Holder and the Non-Resident Holder is not entitled to an exemption under an applicable income tax convention, the consequences described above under the headings "Holders Resident in Canada — Dispositions of Common Shares and Warrants" and "*Taxation of Capital Gains and*

Capital Losses" will generally be applicable to such disposition. In addition, if the Common Shares, or Warrants are "taxable Canadian property" to a Non-Resident Holder, the Non-Resident Holder may in certain circumstances be required to file a Canadian tax return reporting the disposition of such Common Shares or Warrants even if no gain is realized by the Non-Resident Holder on the disposition or the gain is otherwise exempt from Canadian tax under the provisions of an applicable income tax treaty or convention. Non-Resident Holders who may hold Common Shares or Warrants as taxable Canadian property should consult their own tax advisors.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation for the year ended December 31, 2019 are Ernst & Young LLP, located at 100 Adelaide Street West, PO Box 1, Toronto, Ontario, M5H 0B3.

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

LEGAL MATTERS

Certain legal matters related to our securities offered by this Prospectus will be passed upon on our behalf by Owens Wright LLP, and on behalf of the Underwriter by Fasken Martineau DuMoulin LLP, with respect to matters of Canadian law. The partners and associates of Owens Wright LLP as a group, and of Fasken Martineau DuMoulin LLP as a group, beneficially own, directly or indirectly, less than one percent of the outstanding securities of the Corporation.

INTERESTS OF EXPERTS

The 2019 Annual Financial Statements included in this Prospectus have been audited by the Corporation's auditor, Ernst & Young LLP, located at 100 Adelaide Street West, PO Box 1, Toronto, Ontario, M5H 0B3. Ernst & Young LLP is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

The 2018 Annual Financial Statements included in this Prospectus have been audited by the Corporation's former auditor, MNP LLP, located at Suite 300, 111 Richmond Street West, Toronto, Ontario, M5H 2G4, Canada. MNP LLP is independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

Based on information provided by the relevant persons, and except as otherwise disclosed in this Prospectus, none of the persons or companies referred to above has received or will receive any direct or indirect interests in the Corporation's property or the property of an associated party or an affiliate of the Corporation or have any beneficial ownership, direct or indirect, of the Corporation's securities or of an associated party or an affiliate of the Corporation.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some provinces, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of warrants, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which the warrants are offered to the public under the prospectus offering. This means that, under the securities

legislation of certain provinces, if the purchaser pays additional amounts upon exercise of the warrants, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

Under the Warrant Indenture, original purchasers of Warrants pursuant to the Offering will have a non-assignable contractual right of rescission if this Prospectus (including documents incorporated herein by reference) or any amendment hereto contains a misrepresentation (within the meaning of the Securities Act (Ontario)). This contractual right of rescission shall be subject to the defences, limitations and other provisions described under part XXIII of the Securities Act (Ontario), and is in addition to any other right or remedy available to original purchasers under section 130 of the Securities Act (Ontario) or otherwise at law. For greater certainty, the contractual right of rescission will entitle such original purchasers to receive the amount paid upon conversion, exchange or exercise, as well as the amount paid for the original Warrant, upon surrender of the underlying securities acquired thereby, in the event that this Prospectus (as supplemented or amended) contains a misrepresentation, provided that: (i) the conversion, exchange or exercise takes place within 180 days of the date of the purchase of the Units under this Prospectus; and (ii) the right of rescission is exercised within 180 days of the date of the purchase of the Units under this Prospectus. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages, or consult with a legal adviser.

CERTIFICATE OF THE CORPORATION

Dated: November 30, 2020

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

By: (Signed) *Hugo Alves*
Chief Executive Officer

By: (Signed) *Brian Schmitt*
Chief Financial Officer

On Behalf of the Board of Directors:

By: (Signed) *Troy Grant*
Director

By: (Signed) *Genevieve Young*
Director

CERTIFICATE OF THE UNDERWRITER

Dated: November 30, 2020

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

MACKIE RESEARCH CAPITAL CORPORATION

(signed) Jeff Reymier
Managing Director, Investment Banking