



Auxly Acquires 100% Ownership of Sunens and Amends Credit Facility

- **Auxly acquires remaining equity interest and secures 100% ownership of Sunens Farms Inc.**
- **Currently utilizing output from Sunens in its 1.0 and 2.0 cannabis products, including Ontario's current top-selling dried-flower SKU, Back Forty's Wedding Pieⁱ**
- **Provides immediate improvement to gross margins and reduces reliance on large-scale wholesale cannabis purchases**
- **Amends and restates its credit facility with BMO, extending the initial maturity date by a year to September 2023, and pays down existing credit facility by \$15M**

For Immediate Release

TORONTO, Ontario, November 22, 2021 – Auxly Cannabis Group Inc. (TSX - XLY) ("**Auxly**" or the "**Company**"), a leading consumer packaged goods company in the cannabis products market, today announced that it has acquired 100% ownership of Sunens Farms Inc. ("**Sunens**"). Pursuant to a share purchase agreement between Auxly and Peter Quiring, the Company acquired all the issued and outstanding securities of Sunens not already owned by Auxly (the "**Acquisition**"). Concurrent with the Acquisition, Sunens and the Company have amended and restated Sunens' secured credit facility that was entered into in September 2019 (as amended, the "**Amended and Restated Credit Facility**") underwritten by a syndicate of lenders led by the Bank of Montreal ("**BMO**"), bringing the total principal indebtedness thereunder to \$62.5 million.

Transaction Details

Auxly acquired all of the issued and outstanding securities of Sunens not already owned by Auxly from Peter Quiring for consideration of: (i) \$1.6 million, comprised of \$500,000 in cash and \$1.1 million in Auxly common shares; (ii) a \$3.4 million unsecured promissory note payable over 30 months in equal monthly installments with the first payment due 12 months after the date of closing; and (iii) the transfer of certain non-core assets of Sunens.

Concurrent with the Acquisition, Sunens has entered into an Amended and Restated Credit Facility with the following terms:

- An immediate cash payment by Auxly of \$15 million applied to the outstanding principal balance of the revolving credit facility, bringing the outstanding principal amount thereunder to \$62.5 million;
- Extension of the maturity date by a year to September 30, 2023, with an option for Sunens to

extend for an additional year by making a further principal repayment of \$5 million by December 31, 2022; and

- The obligations of Sunens under the Amended and Restated Credit Facility continue to be supported by an unsecured \$33 million limited recourse guarantee by Auxly, and a pledge by the Company of all of its securities of Sunens with new revenue and EBITDA covenants.

Transaction Rationale

“The acquisition of Sunens, a highly automated greenhouse with a demonstrated ability to grow high-quality cannabis at scale, increases Auxly’s cultivation capabilities and strengthens our position as a leader in the Canadian cannabis market,” said Hugo Alves, CEO of Auxly. “Having full ownership and operational control of Sunens gives us the security of supply, quality control, economies of scale and genetic exclusivity that will enable us to continue delivering quality products to our consumers under brands that they can trust. The ability to fully consolidate the activities of Sunens will improve gross margins and support Auxly’s path to profitability.”

- The Company will immediately begin integrating Sunens’ proven cultivation capabilities, giving Auxly the competitive advantages of scale, lower costs and surety of supply as it continues to build to leadership in 1.0 cannabis product formats following on the success of its Back Forty branded flower and pre-rolls product launches.
- The Acquisition will result in improvements in Auxly’s blended gross margins, adjusted EBITDA and net income as Sunens continues to increase production while eliminating the reliance on Auxly’s third-party cannabis purchases.
- The facility is fully licensed for cultivation, processing and sales under the Cannabis Act and provides the Company with operational flexibility as well as considerable additional cultivation, storage, processing and manufacturing capacity and the ability to continue scaling cultivation to meet the growing consumer demand for Auxly’s branded products.

“This is a defining moment for Auxly. Our commitment to quality and consistency in every product we put out in the market has continued to gain consumer trust and brand loyalty,” said Mike Lickver, President of Auxly. “Sunens helps us deepen the connection with our consumers by ensuring we are meeting their needs through thoughtful innovation and product format development. We are thrilled to officially welcome the outstanding people at Sunens to our organization, and it couldn’t come at a better time. We are working hard to meet the fast-growing consumer demand for our entire suite of products and having a library of unique genetics and a consistent supply of high-quality cannabis will help us ensure that all of our products get to and stay on shelves across the country.”

- The transaction provides the Company with complete control over large-scale cultivation with a proprietary genetic library consisting of more than 150 cannabis strains, empowering Auxly to tailor its products to evolving consumer preferences and support the Company’s growing portfolio in both the 1.0 and 2.0 cannabis product categories.
- Sunens is already producing unique cannabis strains, including Ontario’s top-selling Wedding Pie, as well as Animal Mints and Fruity Pebbles OG – all of which are currently sold to and used exclusively by Auxly for its full suite of cannabis products.

Auxly remains focused on bringing new, innovative branded cannabis products to Canadian consumers and believe that this Acquisition will allow for continued growth, improved cost structure and near-term positive adjusted EBITDA.

ON BEHALF OF THE BOARD

"Hugo Alves" CEO

About Auxly Cannabis Group Inc. (TSX: XLY) (OTCQX: CBWTF)

Auxly is a leading Canadian cannabis company dedicated to bringing innovative, effective, and high-quality cannabis products to the wellness and adult-use markets. Auxly's experienced team of industry first-movers and enterprising visionaries have secured a diversified supply of raw cannabis, strong clinical, scientific and operating capabilities and leading research and development infrastructure in order to create trusted products and brands in an expanding global market.

Learn more at www.auxly.com and stay up to date at Twitter: @AuxlyGroup; Instagram: @auxlygroup; Facebook: @auxlygroup; LinkedIn: [company/auxlygroup/](https://www.linkedin.com/company/auxlygroup/).

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Notice Regarding Forward Looking Information:

This news release contains certain "forward-looking information" within the meaning of applicable Canadian securities law. Forward-looking information is frequently characterized by words such as "plan", "continue", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or information that certain events or conditions "may" or "will" occur. This information is only a prediction. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking information throughout this news release. Forward looking information includes, but is not limited to: the anticipated benefits of the Company's acquisition of Sunens; the Company's execution of its product development and commercialization strategy; the intention to grow the business, operations and existing and potential activities of Auxly and Sunens; the expectation and timing of future revenues; the ability of the Company to maintain and grow its market share; discussions of plans or potential for expansion of capacity at the Sunens facility; consumer preferences; political change, future legislative and regulatory developments involving cannabis and cannabis products; and competition and other risks affecting the Company in particular and the cannabis industry generally.

A number of factors could cause actual results to differ materially from a conclusion, forecast or

projection contained in the forward-looking information in this release including, but not limited to, whether: Sunens performs consistently with management's expectations; Sunens will generate sufficient cash flow to satisfy its payment obligations under the Amended and Restated Credit Facility; Sunens will remain in compliance with its operating covenants under the Amended and Restated Credit Facility; the Company is able to successfully integrate Sunens' operations with its own; the expected benefits of the acquisition materialize in the manner expected, or at all; Sunens is able to maintain the necessary governmental and regulatory authorizations to conduct business; there is acceptance and demand for current and future Company products by consumers and provincial purchasers; and general economic, financial market, regulatory and political conditions in which the Company and its subsidiaries operate will remain the same. Additional risk factors are disclosed in the annual information form of the Company for the financial year ended December 31, 2020, dated April 23, 2021.

The forward-looking information in this release is based on information currently available and what management believes are reasonable assumptions. Forward-looking information speaks only to such assumptions as of the date of this release. In addition, this release may contain forward-looking information attributed to third party industry sources, the accuracy of which has not been verified by Auxly. Readers should not place undue reliance on forward-looking information contained in this release. The forward-looking information contained in this release is expressly qualified by the foregoing cautionary statements and is made as of the date of this release. Except as may be required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking information to reflect events or circumstances after the date of this release or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Neither Toronto Stock Exchange nor its Regulation Services Provider (as that term is defined in the policies of the Toronto Stock Exchange) accepts responsibility for the adequacy or accuracy of this release.

ⁱ OCS Data, Wedding Pie 28g SKU is the #1 selling SKU in Ontario QTD.