IMPERIAL BRANDS PLC
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Imperial Brands PLC Diversifies Next Generation Product Portfolio to Provide Further Options for Future Growth

Imperial Brands PLC (Imperial) is pleased to announce a research and development partnership with Auxly Cannabis Group Inc. (Auxly), a listed Canadian cannabis company. As part of the transaction Imperial will invest CAD123 million (£75 million) by way of a convertible debenture and grant Auxly global licences to its vaping technology and access to its innovation business Nerudia.

Matthew Phillips, Imperial's Chief Development Officer, said: "Diversifying our NGP portfolio with this investment provides Imperial with further options for future growth and builds on last year's investment in Oxford Cannabinoid Technologies. Auxly's unique assets and capabilities, including strong science and product development credentials, make it an ideal partner for Imperial in the legal Canadian cannabis market."

Legalised cannabis is a highly regulated adjacent sector to tobacco. Following an extensive evaluation of the Canadian market Imperial selected Auxly as its partner of choice due to the high calibre of its assets, people and capabilities. Imperial's investment will accelerate the delivery of Auxly's business plan ahead of significant regulatory change to the Canadian cannabis market in October 2019.

The transaction grants Auxly global licences to Imperial's vaping technology and research and development capabilities for cannabis use. The shared ability to rapidly innovate as the Canadian market evolves is key to future growth and Auxly will work closely with a small dedicated team from Nerudia in developing a portfolio of new and enhanced brands and products.

As part of the transaction, Imperial will be offered one of five director positions and one non-voting observer on Auxly's Board; these individuals will have limited involvement in the operational running of the business. In addition, the Chair of Imperial's Product Stewardship and Health Group will sit on Auxly's Safety Board, which will have oversight of the controls in place to ensure the safety, efficacy, and quality of Auxly's products.

This transaction builds on Imperial's initial investment in the cannabis sector in June 2018, when it took a stake in Oxford Cannabinoid Technologies (OCT). OCT is a biopharmaceutical company licensed by the UK Home Office that is focused on researching, developing, and licensing cannabinoid-based compounds and therapies.

Auxly Overview

Auxly, listed on the TSX Venture Exchange and headquartered in Toronto, has a diversified supply of raw cannabis and hemp from sources in Canada and Uruguay. The company is led by a highly experienced leadership team drawn from the cannabis sector and complementary industries, such as consumer goods, pharmaceuticals, and other highly regulated industries, including alcohol and tobacco. The team has a relentless focus on science, safety and duty of care when creating new cannabis brands and products. This includes robust scientific

assessment of products and ensuring that all manufacturing, sale, and marketing activities fully comply with the law and Auxly's own high standards.

Auxly's science and product development activities are principally undertaken by two wholly owned subsidiaries: Dosecann Inc. (Dosecann) and KGK Science Inc. (KGK). Dosecann is a state-of-the-art licensed facility with in-house analytical testing, extraction, R&D, product development and manufacturing capabilities. Dosecann has developed a portfolio of high-quality medical, wellness and adult-use products for launch following the legalisation of derivative products in Canada. KGK is a contract research organisation that serves many of North America's leading nutraceutical, natural health products and consumer packaged goods companies. As well as providing clinical research services to clients to substantiate claims for their products, KGK also provides extensive regulatory affairs expertise. No other company in the Canadian cannabis industry has the combined in-house capabilities of Auxly through its ownership of Dosecann and KGK.

Transaction Structure

Imperial will invest CAD123 million (£75 million) by way of a debenture convertible into 19.9 per cent of Auxly's current share capital at a price of C$0.81 per share. The term of the convertible debenture is three years, at a 4 per cent interest rate. Imperial will have the right to convert the debenture into Auxly shares at any time during the three-year term. If at the end of the term Imperial has not converted, the debenture will be repayable in full.

In entering into this transaction, Imperial has given extensive consideration to the laws applicable to making an investment in the legal cannabis market in Canada and has taken the appropriate steps to ensure that it is operating in compliance with such laws. The transaction is subject to customary closing conditions including approval of the TSX Venture Exchange.

Cannabis Market Overview

The legalisation and regulation of cannabis in Canada is governed by the Cannabis Act, which provides a strict framework for controlling the production, distribution, sale and possession of cannabis products. The government has stated that the purpose of the Act is to prevent youth from accessing cannabis and to displace the illegal cannabis market. Imperial and Auxly support these goals and are committed to developing and selling high quality branded products that stringently adhere to all regulations.

Regulation in Canada will further liberalise in October 2019 when the legal sale of derivative products, such as cannabis edibles, cannabis extracts (vapes) and cannabis topicals (lotions, oils) will be permitted. Vaping products are widely expected to be the fastest growing segment of the derivative market.

The legal Canadian cannabis market is currently estimated to be worth C$3 billion a year and is forecast to grow to around C$10 billion by 2025. The market for derivative cannabis products is expected to be worth C$6 billion by 2025.

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