



AUXLY REPORTS RECORD FIRST QUARTER 2024 FINANCIAL RESULTS

TORONTO, May 13, 2024 /CNW/ - **Auxly Cannabis Group Inc.** (TSX: XLY) (OTCQB: CBWTF) ("**Auxly**" or the "**Company**") a leading consumer packaged goods company in the cannabis products market, today released its financial results for the three months ended March 31, 2024. These filings and additional information regarding Auxly are available for review on SEDAR at www.sedar.com.

Q1 2024 Highlights and Subsequent Events

- Auxly achieved its best Q1 in its history across key metrics of revenue, margin and adjusted EBITDA;
- Record net revenues for a fiscal Q1 of \$25.2 million, an increase of 5% compared to the same period in 2023;
- Achieved Gross Margin on Finished Cannabis Inventory Sold¹ of 38% in the quarter, a record for historical Q1 periods;
- Record Adjusted EBITDA¹ for a fiscal Q1 of \$2.2 million, an improvement of 1,523% or \$2.1 million year-over-year;
- Continued reductions in SG&A through ongoing efforts to decrease overhead costs, resulting in an 11% decline quarter-over-quarter and a 15% decline compared to the same period in 2023;
- Further strengthened its balance sheet with the Imperial Brands plc conversion of over \$123 million of debt into shares, resulting in 19.8% ownership of the Company and completed the extension of the Auxly Leamington credit facility between its syndicate of lenders led by BMO to December 31, 2025 with an option to extend a further year by making a \$2.5 million principal repayment;
- Maintained its top 10 LP position in Canada by share of market based on total recreational retail sales, securing the #6 LP position with 5% of the total market²;
- Maintained its leadership position in the competitive vapour category, while continuing to hold the top four all-in-one SKU positions in Ontario³ with its Back Forty all-in-ones for three consecutive months;
- Back Forty remains the #1 non-infused pre-roll brand in Ontario³, with only seven SKUs currently listed, and has quickly become a consumer favourite brand in dried flower, ranking #6 in national sales after seeing a boost with its recently launched strain, Liquid Imagination;
- Subsequent to quarter end, the Company expanded its branded product offering to the province of Quebec, with its products now available in all Canadian provinces as well as the Northwest Territories and Yukon.
- Subsequent to quarter end, the Company introduced its advanced, fully automated for precision, 0.75g three pack pre-rolls under its Back Forty brand. These three packs use Auxly's latest top performing cultivar, Liquid Imagination, that was developed at Auxly Leamington's advanced greenhouse.

¹ Non-IFRS or supplementary financial measure. Refer to the Non-GAAP Measures section in the MD&A for definitions.

² Hfyre IQ, as of March 2024

³ Ontario Cannabis Store Data, as of March 2024

Financial Highlights and Key Performance Indicators

For the three months ended: (000's)	March 31, 2024	March 31, 2023	Change	% Change
Net revenues	\$ 25,241	\$ 23,968	\$ 1,273	5 %
Gross margin on finished cannabis inventory sold*	9,569	8,943	626	7 %
Gross margin on finished cannabis inventory sold (%)*	38 %	37 %	1 %	3 %
Net income/(loss)	(26,012)	(10,249)	(15,763)	-154 %
Adjusted EBITDA*	2,240	138	2,102	1523 %
Weighted average shares outstanding	1,016,839,478	954,014,308	62,825,170	7 %

As at: (000's)	March 31, 2024	December 31, 2023	Change	% Change
Cash and equivalents	\$ 13,079	\$ 15,608	\$ (2,529)	-16 %
Total assets	260,127	261,904	(1,777)	-1 %
Debt*	66,078	123,579	(57,501)	-47 %

*Non-IFRS or supplementary financial measure. Refer to the Non-GAAP Measures section for definitions.

Hugo Alves, CEO of Auxly, commented: "Following a transformative year for Auxly, we have maintained our positive momentum in the first quarter of 2024 and are continuing to achieve profitable growth. Q1 2024 was the best Q1 in Auxly history across key metrics of revenue, gross margin and adjusted EBITDA. Our commitment to product quality, innovation and distribution excellence drove our top-line sales growth year over year; and our continued focus on operational efficiency and prudent capital management helped us deliver another quarter of adjusted

EBITDA profitability. This is all thanks to the collective efforts of our talented and dedicated employees, who work hard every day to make quality products that help our consumers live happier lives. As we head into summer, we are excited to offer consumers new and innovative products to enjoy like our new larger Back Forty 0.75g pre-rolls, which will also be available to consumers in Quebec. We look forward to another quarter of sustainable, profitable growth and, as always, we will remain passionately committed to our consumers."

Results of Operations

(000's)		
Three months ended:	March 31, 2024	March 31, 2023
Revenues		
Revenue from sales of cannabis products	\$ 38,357	\$ 37,544
Excise taxes	(13,116)	(13,576)
Total Net Revenues	25,241	23,968
Cost of Sales		
Costs of finished cannabis inventory sold	15,672	15,025
Inventory impairment	456	673
Gross profit/(loss) excluding fair value items	9,113	8,270
Unrealized fair value gain / (loss) on biological transformation	2,773	4,247
Realized fair value gain/(loss) on inventory	(2,435)	(4,639)
Gross profit	9,451	7,878
Expenses		
Selling, general, and administrative expenses	8,621	10,090
Equity-based compensation	1,927	409
Depreciation and amortization	1,230	1,745
Interest and accretion expense	6,868	5,808
Total expenses	18,646	18,052
Other incomes / (loss)		
Interest and other income	19	14
Gain/(loss) on settlement of assets and liabilities and other expenses	(634)	-
Foreign exchange gain/(loss)	(210)	(89)
Total other income/(loss)	(825)	(75)
Net income/(loss) before income tax	(10,020)	(10,249)
Income tax recovery/(expense)	(15,992)	-
Net income/(loss)	\$ (26,012)	\$ (10,249)
Adjusted EBITDA	\$ 2,240	\$ 138
Net income/(loss) per common share (basic and diluted)	\$ (0.03)	\$ (0.01)
Weighted average shares outstanding (basic and diluted)	1,016,839,478	954,014,308

Net Revenues

For the period ended March 31, 2024, net revenues were \$25.2 million as compared to \$24.0 million during the same period in 2023, an increase of 5%. Revenues for 2023 were comprised of approximately 59% (2023 – 54%) in sales of dried flower and pre-roll Cannabis Products, with the remainder from oils and Cannabis 2.0 Product sales. Net revenues included wholesale bulk flower sales of approximately \$4.2 million during the period. Approximately 76% (2023 – 85%) of cannabis sales during the period originated from sales to British Columbia, Alberta and Ontario.

Gross Profit

Auxly realized a gross profit of \$9.5 million in the first quarter of 2024 resulting in a 37% Gross Profit Margin, as compared to \$7.9 million or 33%, respectively, during the same period in 2023. The Gross Margin on Finished Cannabis Inventory Sold improved to 38% versus 37% in the same period of 2023 as a result of a higher proportion of Cannabis 1.0 Products sold, and the streamlining of Cannabis 2.0 Products and operating costs.

Realized and unrealized fair value gains and losses reflect accounting treatments associated with Auxly Leamington cultivation activities and sales and are influenced by changes in production, sales and net realizable value assumptions.

Inventory impairments during the first quarter of 2024 of \$0.5 million were associated with charges related to reductions in net realizable value of dried cannabis under the Company's product specifications and obsolescence of certain retired products and packaging, a decrease of \$0.2 million from the comparative period.

Total Expenses

Selling, general and administrative expenses ("SG&A") are comprised of wages and benefits, office and administrative, professional fees, business development, and selling expenses. SG&A expenses were \$8.6 million in

the first quarter of 2024, \$1.5 million or 15% lower than the same period in 2023, primarily due to measures taken to reduce overhead in the organization.

Wages and benefits were \$4.3 million for the first quarter of 2024, as compared to \$4.7 million for the same period of 2023. The decrease in expenses was related to the streamlining of operations and support staff as a result of a more focused product portfolio.

Office and administrative expenses were \$1.4 million for the first quarter of 2024, \$0.9 million lower than the same period in 2023. The decreased expenditures primarily relate to streamlining of operations, the transition of the Company's dried flower and pre-roll cannabis product manufacturing, processing and distribution activities to the Auxly Leamington facility, and reduced insurance expenses.

Auxly's professional fees were \$0.5 million during the first quarter of 2024, \$0.3 million lower than the same period in 2023. Professional fees incurred primarily related to accounting fees, regulatory matters, reporting issuer fees, and legal fees associated with certain corporate activities and as a result can fluctuate significantly from one period to the next.

Business development expenses were \$0.1 million for the first quarter of 2024, flat to the same period in 2023. These expenses primarily relate to business development and travel related expenses.

Selling expenses were \$2.4 million for the first quarter of 2024, an increase of \$0.1 million over 2023, primarily as a result of higher Health Canada fees related to higher revenues, partially offset by reduced marketing initiatives.

Equity-based compensation for the first quarter of 2024 was \$1.9 million, primarily due to the impact of the increased closing price of the Company's Shares as at March 31, 2024 on the value of Cash Settled RSUs. In the first quarter of 2023, equity-based compensation was \$0.4 million.

Depreciation and amortization expenses were \$1.2 million for the first quarter of 2024, representing a decrease of \$0.5 million over the same period in 2023, primarily as a result of reductions in intangible assets and depreciation associated with disposed assets, including the transition out of the Auxly Ottawa Carleton Place facility.

Interest expenses were \$6.9 million for the first quarter of 2024, an increase of \$1.1 million over the same period in 2023. The increase in expense is primarily a result of the interest from newly financed obligations and higher accretion expense on convertible debentures. Interest expense includes accretion on the convertible debentures and interest paid in kind on the Imperial Debenture. Interest payable in cash was approximately \$2.3 million for the first quarter of 2024, an increase of \$0.3 million over the same period in 2023.

Total Other Incomes and Losses

Total other incomes and losses for the first quarter of 2024 were a net loss of \$0.8 million compared to a net loss of \$0.1 million in the comparative period. Other incomes and losses in the first quarter of 2024 were mainly driven by the loss on the adjustment to the provision related to the claim filed by Kindred Partners Inc. and foreign exchange losses. Other incomes and losses in 2023 were primarily due to foreign exchange losses.

Net Income and Loss

Net loss for the three months ended March 31, 2024 was \$26.0 million, representing a net loss of \$0.03 per share on a basic and diluted basis. The change in net loss in 2024 as compared to a net loss of \$10.2 million in the same period of 2023 was primarily driven by the deferred tax expense on the conversion of Imperial Debenture into Shares, partially offset by improved gross profits and lower expenses.

Adjusted EBITDA

Adjusted EBITDA for the period ended March 31, 2024 was \$2.2 million, an improvement of \$2.1 million over the same period of 2023, primarily as a result of improvements in gross profits and SG&A.

Outlook

In 2024, Auxly remains dedicated to sustainable growth, improved profitability, and the excellence of its people. The Company will prioritize focused and efficient growth in its key product categories of vape, pre-roll and dried flower and continue to optimize and improve distribution and sales of its products. Auxly will continue to foster a collaborative team environment and pursue continued improvements in efficiency to reduce costs and deliver strong gross margins and increased profitability. It will also continue to pursue opportunities to strengthen its balance sheet.

Auxly's results for the first quarter of 2024 reinforced its commitment to sustainable profitability. While the first calendar quarter of the year is typically impacted by greater seasonality and consumer purchasing trends, revenues for the quarter improved from the same comparative period in 2023. This improved result is due to a more balanced sales mix as its portfolio has expanded further into dried flower and pre-roll product sales, which represented approximately 59% of revenues for the period. Furthermore, vape volumes rebounded in the quarter, building off the launch of the innovative all-in-one vapes under its Back Forty brand in Q4 2023. The Company continues to improve its SG&A by reducing overhead across the organization, ending the first quarter with \$8.6 million in SG&A expenses, which is 11% lower than Q4 2023 and 15% lower than the comparative period in 2023. The first quarter of 2024 reflects the first full quarter of results where it sold certain Cannabis 2.0 Products produced by the Company's contract manufacturing partners, allowing for the streamlining of its operations and the reduction of overhead. The Company is pleased to have maintained its leadership position in the Canadian cannabis market as the 6th largest licensed producer in Canada by total recreational sales, while maintaining an industry-leading low-cost structure that resulted in another consecutive quarter of positive Adjusted EBITDA.

Alongside the improvements in revenues, gross margins, and material improvements in Adjusted EBITDA from the same comparative period in 2023, the Company continues to strengthen its balance sheet. Auxly worked closely with Imperial to convert \$123.4 million of debt and interest outstanding under the Imperial Debenture, increasing Imperial's equity holding in Auxly to 19.8%. The Company also extended the maturity date of Auxly Leamington's credit facility by two years to December 31, 2025.

Looking ahead, Auxly will continue to grow sustainably and expect to see revenue expansion and gross margin improvements, driven by increased consumer demand in the summer months, and higher cultivation yields that continue to drive down operating costs. The Company believes that the impact of these factors, along with the stabilization of its SG&A, will improve its Adjusted EBITDA profile.

Non- GAAP Measures

Please see the Company's MD&A dated March 24, 2024, under "Non-GAAP Measures" for a further description of the following financial and supplementary financial measures.

Financial Measures

EBITDA and Adjusted EBITDA

These are non-GAAP measures used in the cannabis industry and by the Company to assess operating performance removing the impacts and volatility of non-cash and other adjustments. The definition may differ by issuer. The Adjusted EBITDA reconciliation is as follows:

(000's)	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24
Net income/(loss)	\$ (14,289)	\$ (60,102)	\$ (16,056)	\$ (10,249)	\$ (12,863)	\$ 32,621	\$ (54,020)	\$(26,012)
Interest and accretion expense	5,336	5,507	5,655	5,808	6,457	6,613	6,837	6,868
Interest and other income	(84)	(105)	(63)	(14)	20	(16)	(22)	(19)
Income tax recovery	(85)	(2,110)	(1,112)	-	-	-	(3,238)	15,992
Depreciation and amortization included in cost of sales	2,180	681	1,296	1,120	911	1,151	1,084	1,292
Depreciation and amortization included in expenses	3,900	3,525	2,791	1,745	1,673	1,817	1,708	1,230
EBITDA	(3,042)	(52,604)	(7,489)	(1,590)	(3,802)	42,186	(47,651)	(649)
Impairment of inventory	1,778	2,014	2,062	673	1,459	3,233	5,109	456
Unrealized fair value loss/(gain) on biological transformation	(11,735)	(7,496)	(2,814)	(4,247)	(4,713)	(4,766)	(2,481)	(2,773)
Realized fair value loss/(gain) on inventory	6,898	8,175	7,382	4,639	3,146	5,538	5,428	2,435
Restructuring related costs	-	193	-	165	86	29	131	-
Equity-based compensation	2,916	475	429	409	377	707	148	1,927
Impairment of assets	-	42,831	676	-	2,588	-	37,118	-
Non-recurring bad debt expense	-	-	-	-	780	360	-	-
(Gain)/loss on settlement of assets, liabilities and disposals	(163)	1,574	(1,330)	-	(1,478)	(46,887)	4,006	634
Foreign exchange loss/(gain)	(647)	(938)	301	89	479	(283)	486	210
Adjusted EBITDA	\$ (3,995)	\$ (5,776)	\$ (783)	\$ 138	\$ (1,078)	\$ 117	\$ 2,294	\$ 2,240

Supplementary Financial Measures

Gross Margin on Finished Cannabis Inventory Sold

"Gross Margin on Finished Cannabis Inventory Sold" is a supplementary financial measure and is defined as net revenues less cost of finished cannabis inventory sold divided by net revenues.

Gross Profit Margin

"Gross Profit Margin" is defined as gross profit divided by net revenues. Gross Profit Margin is a supplementary financial measure.

Debt

"Debt" is defined as current and long-term debt and is a supplementary financial measure. It is a useful measure in managing the Company's capital structure and financing requirements.

ON BEHALF OF THE BOARD

"Hugo Alves" CEO

About Auxly Cannabis Group Inc. (TSX: XLY)

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

Our vision is to be a leader in branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

Learn more at www.auxly.com and stay up to date at Twitter: [@AuxlyGroup](https://twitter.com/AuxlyGroup); Instagram: [@auxlygroup](https://www.instagram.com/auxlygroup); Facebook: [@auxlygroup](https://www.facebook.com/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 proposed operation of Auxly, its subsidiaries and partners; the intention to grow the business, operations and existing and potential activities of Auxly; proposed timelines for the build-out, expansion, licencing or commercialization of the Company's facilities and projects; the Company's execution of its innovative product development, commercialization strategy and expansion plans; the Company's intention to introduce innovative new cannabis products to the market and the timing thereof; the anticipated benefits of the Company's partnerships, research and development initiatives and other commercial arrangements; the intention of the Company to sell the Auxly Ottawa assets and the proposed use of any proceeds; expectations regarding the anticipated benefits of the Imperial Debt Conversion; the expectation, timing and quantum of future revenues, Gross Margin on Finished Cannabis Inventory Sold, SG&A and of positive Adjusted EBITDA; expectations regarding the Company's expansion of sales, operations and investment into foreign jurisdictions; future legislative and regulatory developments involving cannabis and cannabis products; the timing and outcomes of regulatory or intellectual property decisions; the ability of the Company to maintain and grow its market share; the relevance of Auxly's subsidiaries' current and proposed products with provincial purchasers and consumers; consumer preferences; political change; 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: the Company will be able to execute on its business strategy or achieve its goals; Auxly's subsidiaries are able to maintain the necessary governmental and regulatory authorizations to conduct business; the Company is able to successfully manage the integration of its various business units with its own; the Company's subsidiaries obtain and maintain all necessary governmental and regulatory permits and approvals for the operation of their facilities and the development of cannabis products, and whether such permits and approvals can be obtained in a timely manner; the Company will be able to sell the Auxly Ottawa assets and achieve the anticipated cost savings from the closure of the facility; the expected benefits of the Imperial Debt Conversion materialize in the manner expected, or at all; the expected benefits of the Auxly Leamington credit facility amendment agreement materialize in the manner expected, or at all; the Company will be able to successfully launch new product formats and enter into new markets; there is

acceptance and demand for current and future Company products by consumers and provincial purchasers; the Company will be able to increase and maintain revenues, maintain positive Adjusted EBITDA, and/or achieve and maintain its target Gross Margin on Finished Cannabis Inventory Sold; and general economic, financial market, legislative, regulatory, competitive and political conditions in which the Company and its subsidiaries and partners 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, 2023 dated March 24, 2024.

New factors emerge from time to time, and it is not possible for management to predict all of those factors or to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information. The 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 the Company. The forward-looking information is being provided for the purposes of assisting the reader in understanding the Company's financial performance, financial position and cash flows as at and for periods ended on certain dates and to present information about management's current expectations and plans relating to the future, and the reader is cautioned that 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 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.

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