



AUXLY REACHES NEW FINANCIAL MILESTONES IN RECORD-BREAKING Q3 2024 AND GROWS OVERALL NATIONAL MARKET SHARE

TORONTO, Nov. 8, 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 and nine months ended September 30, 2024. These filings and additional information regarding Auxly are available for review on SEDAR+ at www.sedarplus.ca.

Q3 2024 Highlights and Subsequent Events

- The Company continues to outperform, delivering another record-breaking quarter of financial results across key metrics of revenue, margin and adjusted EBITDA;
- Established a new all-time record in net revenues of \$33.3 million, an increase of 18% year-over-year and 14% quarter-over-quarter;
- Set a new all-time record in Gross Margin on Finished Cannabis Inventory Sold¹ of 47% in the quarter, an improvement of 17% year-over-year;
- SG&A continued to remain substantially flat quarter-over-quarter, with a notable 16% decrease year-over-year;
- Fifth consecutive quarter of positive adjusted EBITDA¹, achieving a new all-time record of \$8.3 million, representing a 60% quarter-over-quarter increase and a remarkable 6,982% increase compared to the same period in 2023;
- Net income of \$3.2 million and cash flow provided by operating activities of \$12.9 million;
- The Company continued to make improvements to its balance sheet by reducing its debt¹, by 54% compared to the end of 2023, including repaying the outstanding principal on the Company's standby financing facility;
- The Company saw improvements in its overall national market share, moving into the #4 LP position in national recreational sales for the quarter²;
- Market leadership in the all-in-one vape category, securing over 36% of the total market share in the category and 50% of the top 10 vape SKU positions nationally;
- Back Forty's Liquid Imagination 28g SKU continued to win with consumers, ending the quarter as the #1 selling flower nationally;
- The Company's pre-roll product suite saw a 19% increase in national sales compared to the previous quarter with Back Forty's Wedding Pie and Banana OG, securing the #3 and #4 position respectively, in national non-infused pre-roll sales for the quarter.

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 October 23, 2024.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

For the three months ended:	September 30, 2024	September 30, 2023	Change	% Change
(000's)				
Net revenues	\$ 33,284	\$ 28,211	\$ 5,073	18 %
Gross margin on finished cannabis inventory sold*	15,559	8,593	6,966	81 %
Gross margin on finished cannabis inventory sold (%)*	47 %	30 %	17 %	57 %
Net income/(loss)	3,239	32,621	(29,382)	-90 %
Adjusted EBITDA*	8,286	117	8,169	6,982 %
Weighted Average Shares outstanding - basic	1,265,144,208	1,002,068,656	263,075,552	26 %

For the nine months ended:	September 30, 2024	September 30, 2023	Change	% Change
(000's)				
Net revenues	\$ 87,703	\$ 74,169	\$ 13,534	18 %
Gross margin on finished cannabis inventory sold*	37,177	23,491	13,686	58 %
Gross margin on finished cannabis inventory sold (%)*	42 %	32 %	10 %	31 %
Net income/(loss)	(20,771)	9,509	(30,280)	-318 %
Adjusted EBITDA*	15,699	(823)	16,522	2,008 %
Weighted Average Shares outstanding - basic	1,177,818,866	986,208,447	191,610,419	19 %

As at:	September 30, 2024	December 31, 2023	Change	% Change
(000's)				
Cash and equivalents	\$ 18,957	\$ 15,608	\$ 3,349	21 %
Total assets	264,224	261,904	2,320	1 %
Debt	57,259	123,579	(66,320)	-54 %

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

Hugo Alves, CEO of Auxly, commented: "Our continued focus on efficient revenue growth and enhanced profitability has delivered another record-breaking quarter of financial results, highlighted by an 18% year-over-year increase in net revenue and record adjusted EBITDA of \$8.3 million. Our commitment to providing consumers with exceptional products that help them live happier lives enabled us to grow national market share in our core product categories of dried flower, pre-rolls and vapes; and has elevated Back Forty to the #1 brand in Ontario by dollars sold. We remain focused on creating long-term shareholder value. I am excited for the future and proud of the tremendous efforts of our talented and dedicated team in delivering these results."

RESULTS OF OPERATIONS

For the periods ended:	Three months September 30,		Nine months September 30,	
(000's)	2024	2023	2024	2023
Revenue				
Revenue from sales of cannabis products				
Excise taxes				
	\$ 50,994	\$ 39,910	\$ 132,784	\$ 111,968
	(17,710)	(11,699)	(45,081)	(37,799)
Total Net Revenues	33,284	28,211	87,703	74,169
Cost of Sales				
Costs of finished cannabis inventory sold	17,725	19,618	50,526	50,678
Inventory impairment	674	3,233	1,603	5,365
Gross profit/(loss) excluding fair value items	14,885	5,360	35,574	18,126
Unrealized fair value gain/(loss) on biological transformation	9,964	4,766	21,554	13,726
Realized fair value gain/(loss) on inventory	(7,703)	(5,538)	(14,602)	(13,323)
Gross Profit	17,146	4,588	42,526	18,529
Expenses				
Selling, general, and administrative expenses	8,457	10,016	26,389	28,916
Equity-based compensation	1,324	707	3,952	1,493
Depreciation and amortization	1,197	1,817	3,494	5,235
Interest and accretion expenses	3,133	6,613	12,750	18,878
Total expenses	14,111	19,153	46,585	54,522

Other income/(loss)				
Interest and other income	54	16	213	10
Impairment of assets	-	-	-	(2,588)
Gain/(loss) on settlement of assets and liabilities and other expenses	183	46,887	(60)	48,365
Gain/(loss) on disposal of assets held for sale	-	-	(453)	-
Foreign exchange gain/(loss)	(33)	283	(420)	(285)
Total other income/(loss)	204	47,186	(720)	45,502
Net income/(loss) before income tax	3,239	32,621	(4,779)	9,509
Income tax recovery/(expense)	-	-	(15,992)	-
Net income/(loss)	\$ 3,239	\$ 32,621	\$ (20,771)	\$ 9,509
Adjusted EBITDA	\$ 8,286	\$ 117	\$ 15,699	\$ (823)
Net income/(loss) per common share – basic (\$)	\$ 0.00	\$ 0.03	\$ (0.02)	\$ 0.01
Net income/(loss) per common share – diluted (\$)	\$ 0.00	\$ 0.03	\$ (0.02)	\$ 0.01
Weighted average shares outstanding – basic	1,265,144,208	1,002,068,656	1,177,818,866	986,208,447
Weighted average shares outstanding - diluted	1,347,922,412	1,002,068,656	1,177,818,866	986,208,447

Revenue

For the three and nine months ended September 30, 2024, net revenues were \$33.3 million and \$87.7 million as compared to \$28.2 million and \$74.2 million during the same period in 2023, representing increases of 18%. Revenues for the three and nine months ended September 30, 2024 were comprised of approximately 59% (2023 – 67%) and 60% (2023 – 61%) in sales of dried flower and pre-roll Cannabis Products, with the remainder from oils and Cannabis 2.0 Product sales.

For the three and nine months ended September 30, 2024, approximately 76% (2023 – 81%) and 77% (2023 – 84%) of cannabis sales originated from sales to British Columbia, Alberta and Ontario.

Gross Profit

Auxly realized a gross profit of \$17.1 million and \$42.5 million for the three and nine months ended September 30, 2024, resulting in a 52% and 48% Gross Profit Margin, respectively as compared to \$4.6 million (16%) and \$18.5 million (25%) during the same periods in 2023. The Gross Margin on Finished Cannabis Inventory Sold for the three months ended September 30, 2024 improved to 47% versus 30% in the same period of 2023 as a result of the streamlining and improvements made in our manufacturing process to reduce operating costs and increased demand and pricing of bulk flower product.

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 third quarter of 2024 of \$0.7 million were associated with charges related to the obsolescence of certain retired products, a decrease of \$2.6 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 \$8.5 million in the third quarter of 2024, \$1.6 million or 16% lower than the same period in 2023. Year-to-date expenditures of \$26.4 million in 2024 were \$2.5 million lower than the same period in 2023. The decrease in SG&A was primarily as a result of measures taken to reduce overhead in the organization.

Wages and benefits were \$3.9 million for the third quarter of 2024, as compared to \$4.0 million for the same period of 2023. Year-to-date expenditures of \$13.0 million were higher than that of \$11.9 million during the same period in 2023. The increase in expenses year-to-date was related to non-recurring restructuring related costs that were partially offset by the decrease in expenses related to the streamlining of operations and support staff as a result of a more focused product portfolio.

Office and administrative expenses were \$1.2 million for the third quarter of 2024, \$1.5 million lower than the same period in 2023. Year-to-date expenditures of \$3.7 million were lower than that of \$8.1 million during the same period in 2023. The decreased expenditures were primarily related 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 third quarter of 2024, \$0.5 million lower than the same period in 2023. Year-to-date expenditures of \$1.4 million were \$1.0 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 \$0.3 million for the nine months ended September 30, 2024, \$0.1 million lower than the same period in 2023. These expenses primarily relate to business development and travel related expenses.

Selling expenses were \$2.8 million and \$8.0 million for the three and nine months ended September 30, 2024, an increase of \$0.5 million and \$1.8 million from the same periods in 2023, respectively. The increase in expenditures was primarily as a result of investments in marketing initiatives and higher Health Canada fees related to higher revenues.

Equity-based compensation for the three and nine months ended September 30, 2024 was \$1.3 million and \$4.0 million, respectively, primarily due to the impact of the increased closing price of the Company's Shares as at September 30, 2024 on the value of Cash Settled RSUs granted in 2023. During the same periods of 2023, equity-based compensation was \$0.7 million and \$1.5 million, respectively.

Depreciation and amortization expenses were \$1.2 million for the third quarter of 2024 and \$3.5 million year-to-date, representing a decrease of \$0.6 million and \$1.7 million over the same periods in 2023. The decreases were 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 \$3.1 million and \$12.8 million for the three and nine months ended September 30, 2024, a decrease of \$3.5 million and \$6.1 million over the same periods in 2023. The decrease in expenses were primarily a result of the conversion of Imperial Debentures into Shares and lower interest expense on adjustable-rate debt, partially offset by interest from newly financed obligations. Interest expense includes accretion on the convertible debentures and interest paid in kind on the Imperial Debenture. Interest payable in cash was approximately \$2.4 million for the third quarter of 2024, flat to the same period in 2023.

Total Other Incomes and Losses

Total other incomes and losses was a net gain of \$0.2 million for the third quarter of 2024 and a net loss of \$0.7 million year-to-date, compared to net gains of \$47.2 million and \$45.5 million in the comparative periods. The year-to-date other incomes and losses included the loss on the adjustment to the provision related to the claim filed by Kindred Partners Inc., the loss on the sale of the Auxly Ottawa facility, partially offset by the gains on the extensions of the unsecured promissory notes. The net gains in 2023 were primarily driven by the gains on the extension of the maturity of the Imperial Brands Debenture, partially offset by the closure of the Auxly Ottawa facility where the carrying value exceeded the fair value less cost to sell.

Net Income and Loss

Net income for the three months ended September 30, 2024 was \$3.2 million, representing a net income of \$nil per share on a basic and diluted basis. Excluding the gains on the extension of the Imperial Brands Debenture in the third quarter of 2023 of \$46.9 million, net income increased by \$17.5 million, primarily driven by improved gross profits and reduction in expenses. The net loss of \$20.8 million for the nine months ended September 30, 2024 included \$16.0 million of deferred tax expense on the conversion of Imperial Debenture into Shares.

Adjusted EBITDA

Adjusted EBITDA was \$8.3 million and \$15.7 million for the three and nine months ended September 30, 2024, an improvement of \$8.2 million and \$16.5 million over the same period of 2023, primarily as a result of improvements in gross profits and reductions in 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. The Company 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. The Company will also continue to pursue opportunities to strengthen its balance sheet.

The continued execution against the Company's strategy has delivered the best quarter in Auxly's history across all key metrics. Building off the momentum from the first half of 2024, Auxly increased both revenue and profits in this quarter and gained overall market share in the adult recreational market exiting Q3 as the 4th largest licensed producer in Canada by retail sales³. The improvements in Company performance were driven by higher sales volumes in its core product categories and continued cost discipline. Dried flower retail sales increased by over 12% compared to the previous quarter with its Back Forty Liquid Imagination 28g SKU securing the #3 SKU nationally, an improvement from its top 10 SKU position in the previous quarter. In the hyper competitive vape category, Auxly branded products represented approximately 50% of the top 10 vape SKUs nationally, driven by the continued dominance of the Company's products within the all-in-one vape segment. Auxly's pre-roll retail sales increased by nearly 19% quarter over quarter which was led by the consumer favourite Back Forty branded product suite. Looking ahead, Auxly will continue to drive revenue performance with product innovation in its core product formats, deepen relationships with key account retailers and expand product distribution.

The shift in product mix towards the Company's core categories and continued operational improvements contributed to the higher gross profits in the quarter, reflecting a 47% Finished Cannabis Inventory Sold Margin compared to 30% in the comparative period. The successful execution of the Company's previously disclosed efforts to increase cultivation yields also contributed to the improved gross margin, as the Company efficiently increased yields, thereby resulting in a lower cost of goods sold. The Company remained disciplined in its spending and capital management. The Company successfully reduced overhead across the organization, ending the third quarter with \$8.5 million in SG&A expenses. This is 16% lower than the comparative period in 2023 and lower than the second quarter of this year. Looking ahead, Auxly will remain focused on enhancing operational efficiency; enabling it to set new industry benchmarks for profitability while continuing to deliver sustainable growth.

Auxly's low-cost cultivation is a competitive advantage within the current Canadian cannabis landscape. With only a few large-scale greenhouses capable of consistently producing high quality cannabis at a low cost, the Company is seeing increased demand and pricing for its bulk flower products. Given the significant capital outlay and amount of time necessary to replicate the scale, automation, consistency, and efficiency of its Auxly Leamington facility, the Company believes that Auxly Leamington provides it with a significant competitive advantage from competition in the short and medium term. The Company intends to leverage this advantage to drive further growth in the Canadian adult-use market and in wholesale bulk cannabis sales to other industry participants.

Importantly, the Company also took steps this quarter to continue strengthening its balance sheet. Auxly repaid the outstanding principal on the standby financing facility in August 2024 and subsequent to quarter-end, it extended the maturity date of the inventory financing loan to October 2025. Balance sheet improvement will continue to be a key area of focus for the Company with the goal of lowering overall debt and cost of capital.

Looking ahead, the Company will continue to prioritize efficient growth and sustainable profitability, driven by the excellence of its people, increased consumer demand for its quality products, an exciting pipeline of innovative new products and its commitment to continued improvement in operational efficiency and overhead cost management.

³ HFFyre IQ as at October 23, 2024.

Non- GAAP Measures

Please see the Company's MD&A dated November 7, 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)	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24	Q2/24	Q3/24
Net income/(loss)	\$ (16,056)	\$ (10,249)	\$ (12,863)	\$ 32,621	\$ (54,020)	\$ (26,012)	\$ 2,002	\$ 3,239
Interest and accretion expense	5,655	5,808	6,457	6,613	6,837	6,868	2,749	3,133
Interest and other income	(63)	(14)	20	(16)	(22)	(19)	(140)	(54)
Income tax expense/(recovery)	(1,112)	-	-	-	(3,238)	15,992	-	-
Depreciation and amortization included in cost of sales	1,296	1,120	911	1,151	1,084	1,292	1,780	1,382
Depreciation and amortization included in expenses	2,791	1,745	1,673	1,817	1,708	1,230	1,067	1,197
EBITDA	(7,489)	(1,590)	(3,802)	42,186	(47,651)	(649)	7,458	8,897
Impairment of inventory	2,062	673	1,459	3,233	5,109	456	473	674
Unrealized fair value loss/(gain) on biological transformation	(2,814)	(4,247)	(4,713)	(4,766)	(2,481)	(2,773)	(8,817)	(9,964)
Realized fair value loss/(gain) on inventory	7,382	4,639	3,146	5,538	5,428	2,435	4,464	7,703
Restructuring related costs	-	165	86	29	131	-	655	(75)
Equity-based compensation	429	409	377	707	148	1,927	701	1,324
Impairment of assets	676	-	2,588	-	37,118	-	-	-
Non-recurring bad debt expense/(recovery)	-	-	780	360	-	-	-	(123)
(Gain)/loss on settlement of assets, liabilities and disposals	(1,330)	-	(1,478)	(46,887)	4,006	634	62	(183)
Foreign exchange loss/(gain)	301	89	479	(283)	486	210	177	33
Adjusted EBITDA	\$ (783)	\$ 138	\$ (1,078)	\$ 117	\$ 2,294	\$ 2,240	\$ 5,173	\$ 8,286

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; Instagram: @auxlygroup; Facebook: @auxlygroup; LinkedIn: company/auxlygroup/.

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, licensing 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; 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 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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For further information: Investor Relations: For investor enquiries please contact our Investor Relations Team: Email: IR@auxly.com, Phone: 1.833.695.2414

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