



**AUXLY REPORTS FOURTH QUARTER AND FULL YEAR 2020 FINANCIAL RESULTS
AND PROVIDES OUTLOOK FOR 2021**

News Release

TORONTO, Ontario, April 26, 2021 – Auxly Cannabis Group Inc. (TSX - XLY) (OTCQX: CBWTF) ("Auxly" or the "Company"), a consumer packaged goods company in the cannabis products market, today released its fourth quarter and full year 2020 financial results. These filings and additional information regarding Auxly are available for review on SEDAR at www.sedar.com. All amounts are Canadian dollars except common shares ("Shares") and per Share amounts.

2020 Highlights

- Recorded net revenues of \$50.8 million in 2020, including \$46.6 million in cannabis net revenues, an increase of 508% compared to 2019.
- Fourth quarter net Cannabis revenues of \$18.3 million.
- Achieved the #1 LP position in Canada for Cannabis 2.0 product sales¹ in 2020 with approximately 14% market share in the category.
- Expanded into the Cannabis 1.0 market with the launch of Robinsons premium dried flower and Kolab Project Growers Series collaborations with Lotus Cannabis and Safari Flower Co.
- Continued efforts to reduce SG&A which were below \$10 million in the fourth quarter.
- Further strengthened the Company's balance sheet with financing transactions.

Year End Highlights

(000's)	2020	2019	Change	Percentage Change
Total revenues	\$ 50,796	\$ 8,352	\$ 42,444	508%
Net loss*	\$ (85,426)	\$ (102,574)	\$ 17,148	17%
Adjusted EBITDA**	\$ (30,317)	\$ (37,292)	\$ 6,975	19%
Average Shares outstanding	631,528,750	596,409,703	35,119,047	6%

*Attributable to shareholders of the Company

**Adjusted EBITDA is a Non-IFRS financial measure. Refer to the Non-IFRS Financial and Performance Measures section in the MD&A for definitions

(000's)	December 31, 2020	December 31, 2019	Change	Percentage Change
Cash and equivalents	\$ 21,214	\$ 44,134	\$ (22,920)	-52%
Total assets	\$ 378,963	\$ 411,182	\$ (32,219)	-8%
Debt	\$ 114,825	\$ 95,438	\$ 19,387	20%

¹ Headset Canadian Insights data January 9, 2021.

Hugo Alves, CEO of Auxly, commented: “Auxly saw tremendous growth in its first full year of commercial operations, with 508% growth in our net revenue year over year. As one of the first LPs to offer Cannabis 2.0 products upon legalization and one of the largest, most widely distributed 2.0 product portfolios on the market, we have successfully secured our position as one of the top cannabis companies in Canada. Going forward we will look to build off the success of our first year, developing deeper connections with our consumers through continued insights and innovation, explore growth opportunities that are consistent with our corporate strategy and maintain our efforts on improving cash flow to ensure we can execute on our vision of being a global leader in branded cannabis products.”

Results of Operations

For the years ended: (000's)	December 31, 2020	December 31, 2019
Revenues		
Revenue from sales of cannabis products	\$ 57,182	\$ 2,287
Research contracts and other	4,147	6,262
Excise taxes	(10,533)	(197)
Total Net Revenues	50,796	8,352
Cost of Sales		
Costs of finished cannabis inventory sold	33,858	2,162
Research contracts and other	2,750	5,743
Impairment on Inventory	3,393	3,244
Gross profit/(loss) excluding fair value items	10,795	(2,797)
Unrealized fair value gain / (loss) on biological transformation	537	(761)
Realized fair value loss on inventory	(193)	(153)
Gross profit/(loss)	11,139	(3,711)
Expenses		
Selling, general, and administrative expenses	48,855	50,291
Depreciation and amortization	9,384	8,574
Interest expense	13,043	12,121
Total expenses	71,282	70,986
Other incomes / (losses)		
Fair value loss for financial instruments accounted under FVTPL	(4,408)	(6,482)
Interest and other income	477	3,612
Impairment of long-term assets	(6,146)	(5,283)
Impairment of intangible assets and goodwill	-	(29,631)
Loss on settlement of financial assets and liabilities and other expenses	(10,048)	(3,550)
Share of loss on investment in joint venture	(7,407)	(2,081)
Foreign exchange loss	(437)	(1,484)
Total other losses	(27,969)	(44,899)
Net loss before income tax	(88,112)	(119,596)
Income tax recovery	681	10,978
Net loss	\$ (87,431)	\$ (108,618)
Net loss attributable to shareholders of the Company	\$ (85,426)	\$ (102,574)
Net loss attributable to non-controlling interest	\$ (2,005)	\$ (6,044)
Adjusted EBITDA	\$ (30,317)	\$ (37,292)

Net loss per common share (basic and diluted)	\$ (0.14)	\$ (0.17)
Weighted average shares outstanding (basic and diluted)	631,528,750	596,409,703

Revenue

For the year ended December 31, 2020, cannabis revenues were \$57.2 million as compared to \$2.3 million in the same period in 2019. Net cannabis revenues of \$46.6 million during the period were comprised of approximately 80% Cannabis 2.0 Products, with the remainder from Cannabis 1.0 Products, and represented a significant increase over 2019 where Cannabis 2.0 sales began in December. During the year approximately 75% of cannabis net revenues originated from sales to British Columbia, Alberta and Ontario led by strong market shares in vapes and edibles, resulting in Auxly being the top LP for Cannabis 2.0 sales nationally. Sale of Cannabis 1.0 Products were led by the launch of Kolab Project flower and pre-rolls and Robinsons dried flower in the summer of 2020.

Research and other revenues of \$4.1 million for 2020 were \$2.1 million lower than 2019 primarily as a result of the COVID-19 pandemic and its disruptive impact on the completion of clinical trials, partially offset by the introduction of new regulatory advisory services. Revenues in support of third-party research contracts can fluctuate significantly during the term of the contract based upon the achievement of milestones. Where milestones are not met, revenues are deferred on the balance sheet which may result in timing differences in earnings.

Gross Profit / Loss

Auxly realized a gross profit of \$11.1 million for 2020, compared to a gross loss of \$3.7 million in 2019. Cannabis gross profits for the year ended December 31, 2020 were \$9.7 million resulting in a 21% margin (27% before impairment and fair value adjustments), with research and other gross profits of \$1.4 million and a related margin of 34%. Impairment of inventory of \$3.4 million was \$0.2 million greater than 2019 and relates primarily to the charges related to the cessation of Inverell operations and approximately \$1.1 million of aged Cannabis 2.0 Products associated with the SKU rationalization undertaken in the third quarter of 2020.

Auxly realized a gross loss of \$3.7 million for the year ended December 31, 2019 following fair value adjustments. The gross loss for the year ended December 31, 2019 was primarily comprised of inventory related adjustments of approximately \$4.1 million (a \$1.8 million impairment of inventory associated with final Inverell biomass product qualification and grading, a \$1.4 million impairment of inventory associated with spoilage and obsolescence in mass production of Cannabis 2.0 Products at Dosecann, a \$0.1 million realized fair value loss on other inventories, and a \$0.8 million unrealized fair value loss on biological asset transformation), partially offset by KGK revenues less expenses of \$0.5 million and Cannabis Product revenues less expenses of \$0.1 million, net of \$0.2 million of excise taxes.

Total expenses

Selling, general and administrative expenses (“**SG&A**”) are comprised of wages and benefits, office and administrative, professional fees, business developments, share-based payments, and selling expenses.

For 2020, SG&A expenses were \$48.9 million, a decrease of \$1.4 million from 2019.

Wages and benefits were \$22.6 million, an increase of \$4.7 million over 2019. The increase of \$4.7 million was primarily driven by workforce increases to support Cannabis Product sales, primarily related to the operations and commercial teams, the absorption of employees arising from the foreclosure of Curative and compensation and severance accruals recognized during the period, partially offset by employee wage subsidies received by KGK and reduction of Inverell staffing.

Office and administrative expenses of \$11.8 million in 2020 increased by \$3.8 million compared to 2019 primarily as a result of increased operating costs associated with the development and sale of Cannabis Products in 2020 and the implementation of an organization-wide ERP system.

Auxly's professional fees were \$3.2 million, lower by \$3.6 million for the year as compared to 2019. Professional fees incurred during the periods primarily related to accounting fees, regulatory matters, reporting issuer fees, ongoing legal proceedings, recruiting fees in conjunction with hiring, consulting fees, and fees associated with financing activities. The decrease in professional fees was driven by the reduction in professional services and professional services contracts in 2020.

Business development expenses were \$1.4 million as compared to \$4.8 million in 2019. The decreases are primarily due to a reduction in acquisition, development and travel related expenses.

Selling expenses for the year ended December 31, 2020 were \$5.6 million, \$5.3 million greater than 2019 directly attributable to cannabis sales activities comprised of brokerage fees earned by Kindred Partners and marketing initiatives for Cannabis Products.

For 2020, share-based compensation was \$4.3 million as compared to \$12.6 million over 2019. The reduction in expenses in 2020 reflects the impact of significantly fewer option grants, the impact of lower share prices and expense reversals of approximately \$1 million associated with the termination of options following the SG&A reductions announced October 1, 2020.

Depreciation and amortization expenses were \$9.4 million in 2020, as compared to \$8.6 million during 2019. The increase in expense is primarily a result of capital expenditures in 2020. During 2019, several projects remained under development and were not depreciated until completed.

Interest expenses were \$13.0 million for the twelve months ended December 31, 2020 and \$12.1 million for the same period of 2019. Interest expenses in 2020 were primarily the result of interest expense and accretion on the \$123 million, 4% Imperial Brands convertible debentures, 7.5% on the convertible debenture tranches issued in 2020, and the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures. Interest expenses in 2019 were driven by interest charges of 6% on the then outstanding 2018 convertible debentures and the Imperial Brands convertible debentures and the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures.

Total Other Incomes and Losses

Fair value changes on financial instruments arise on changes in value of promissory notes and level two securities held. For the year ended December 31, 2020, the Company reported a fair value loss of \$4.4 million, as compared to a \$6.5 million loss in 2019 which was primarily related to the write down of the

Beleave Inc. debt obligation receivable in product equivalent. Fair value losses in 2020 reflect changes in level two securities held as all promissory notes were repaid or fully impaired as at December 31, 2019.

The Company recorded interest and other incomes of \$0.5 million in 2020, which declined from \$3.6 million in 2019, primarily as a result of lower cash and cash equivalents balances held throughout the year and a reversal of \$1.3 million in accrued interest as part of the negotiation with Sunens in respect of off-take agreement modifications negotiated for the benefit of Auxly, in the fourth quarter of 2020.

Impairment of long-term assets, intangibles and goodwill of \$6.1 million in 2020 is primarily related to the impairment of the Company's LATAM cash generating unit Inverell. Impairments of \$34.9 million in 2019, included charges of \$23.9 million and \$7.6 million where carrying values were higher than recoverable amounts related to Inverell and KGK respectively. In addition, impairment charges of \$1.8 million related to the intangible value of the FSD Pharma Inc. ("FSD") supply agreement, \$1.1 million loss on the 2368523 Ontario Inc. (d/b/a Curative Cannabis) supply agreement due to foreclosure and a \$0.5 million loss related to the Green Relief offtake agreement.

Losses on settlement of assets and liabilities and other expenses were \$10.0 million, primarily relating to 1); a \$8.7 million impairment in the investment in joint venture associated with amendments made to forego interest until January 1, 2023 on the promissory note in the principal amount of approximately \$48.5 million owed by Sunens in consideration of certain offtake arrangement modifications made for the benefit of Auxly, and 2); a reversal of a gain on non-monetary inventory transfers with another licensed producer which was recorded in the first quarter of 2020. The inventory was returned during the quarter resulting in the recognition of a liability of approximately \$5.8 million in accounts payable and other liabilities and an asset held in inventory. Replacement product has since been shipped to the licensed producer in March 2021 to settle this obligation. Losses of \$3.6 million in 2019, primarily relate to a \$2.5 million loss on the foreclosure over Curative, credit loss provisions and final expenditures of approximately \$0.5 million associated with the FSD project.

The share of loss on investment in joint venture of \$7.4 million in 2020, increased by \$5.3 million over 2019 reflecting the Company's proportionate share of Sunens earnings. Sunens received its cultivation licence in 2020 and has scaled up operations to make product available for sale to other licensed producers in the first quarter of 2021.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate primarily related to Inverell. During the year ended December 31, 2020, the Company reported a foreign exchange loss of \$0.4 million and \$1.5 million in 2019.

Net Losses

Net losses were \$87.4 million with a net loss of \$0.14 per share on a basic and diluted basis in 2020, and \$108.6 million with a net loss of \$0.17 per share on a basic and diluted basis in 2019. The improvement of \$21.2 million in 2020 was primarily the result of a gross profit increase of \$14.8 million, total expenses consistent with the prior year amounts, lower impairment losses and total other losses of \$16.9 million, partially offset by lower income tax recoveries of \$10.3 million.

Net losses of \$108.6 million in 2019 were primarily driven by an increase in total other losses and depreciation and amortization expenses, partially offset by income tax recoveries.

Adjusted EBITDA

Adjusted EBITDA improved by approximately \$7.0 million to \$(30.3) million in 2020 as compared to the same period in 2019. The increase was primarily driven by gross profits from Cannabis Product sales partially offset by SG&A excluding non-cash share-based compensation. In 2019, the Company's adult use Cannabis Product sales commenced in December 2019.

Sunens Update

On April 16, 2021, Sunens received a notice of default from the Bank of Montreal in its capacity as lender, administrative agent and syndication agent under the Sunens' credit agreement with respect to, among other things, Sunens' failure to satisfy recently established revenue milestones for the first quarter of 2021. As part of such financing provided by the syndicate, the Company has guaranteed payments up to \$33 million in the event of default.

Although the lenders have reserved their rights under the credit agreement, they are continuing to advance funding which Sunens will use to fund its day-to-day operations. Sunens commenced cultivation within the licenced area upon receiving its licence in June 2020, and during the first quarter of 2021 has sold products to the Company and other licenced producers. Sunens may require additional funding for working capital until production and revenue from sales reach expected levels. Discussions with the lenders with respect to a formal credit amendment and/or forbearance agreement are continuing in a collaborative and positive manner, although there can be no assurance that an agreement with the lenders will be reached. Further information is provided in the "Cultivation Supply - Sunens" section of the MD&A.

Outlook

Having launched a strong initial portfolio of Cannabis 2.0 Products in December of 2019, Auxly was well-positioned going into its first full year of Cannabis Product sales in 2020. The Company's objectives for 2020 were to:

- Become a leader in the Canadian Cannabis 2.0 Products market;
 - Auxly has had a tremendously successful year, the Company was able to leverage its position as one of the first cannabis companies to distribute and sell Cannabis 2.0 Products in Canada, becoming the top licensed producer of Cannabis 2.0 Products nationally in 2020.
- Complete remaining construction and licensing of all Canadian operations to leverage existing assets and increase revenues;
 - The Company completed the second-floor expansion at its Dosecann facility which enabled increased production, fulfillment rates and sales of Cannabis 2.0 Products.
 - Converted the Kolab facility from cultivation to a manufacturing, processing and distribution facility for the Company's pre-roll and dried flower Cannabis Products, in anticipation of the strategic expansion of the Company's Cannabis 1.0 Products.
 - The Company's subsidiaries obtained numerous Health Canada licences, including processing licences for Sunens and Robinsons OG, as well as an Institutional Cannabis Research Licence for KGK, which provide the Company with enhanced commercial flexibility.
- Work with the Sunens team to secure supply of input materials for use in the Company's product

offerings in 2020;

- Despite some COVID-19 related delays, Auxly was able to accelerate licencing of the facility such that Sunens was able to cultivate cannabis and make it available for sale to Auxly and other licenced producers in Q1 2021.
- Collaborate with strategic partners to move towards commercialization of a small number of products for sale internationally or, if and when permitted, as part of the Cannabis 3.0 Products market;
 - While international product sales did not materialize, the Company has, through its continued execution of its product development strategy, made significant progress towards the commercialization of products for the Cannabis 3.0 Products market, if and when legally permitted.

Looking ahead to 2021, Auxly is focused on building upon its success as a market leader in Cannabis 2.0 Products, while continuing to advance the Company's focused expansion of its dried flower, pre-roll, oil and capsule product offerings. The Company's overall objectives for 2021, which may be impacted by the COVID-19 pandemic (see further discussion in the MD&A under "*COVID-19 Pandemic*"), are as follows:

- Continued leadership and strength in the Cannabis 2.0 Products market;
- Focused expansion of Cannabis 1.0 Products;
- Continue to take measures to improve cash flows and finance the business;
- Leverage the Sunens facility to establish a secure supply of cannabis and reduce reliance on open market purchasing; and
- Explore possible cannabis market entry strategies in regulated international markets, on an asset light basis.

The Company will continue to evaluate opportunities to bring new and exciting products to consumers as it continues to realize its vision of becoming a global leader in branded cannabis products that deliver on its consumer promise of quality, safety and efficacy.

ON BEHALF OF THE BOARD

"Hugo Alves" CEO

About Auxly Cannabis Group Inc. (TSX: XLY)

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 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 response to the COVID-19 pandemic; the impact of the COVID-19 pandemic on the Company's current and future operations; the Company's execution of its innovative product development, commercialization strategy and expansion plans; the anticipated benefits of the Company's partnerships, joint ventures, research and development initiatives and other commercial arrangements; the expectation and timing of future revenues; expectations regarding the Company's expansion of 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 relevance of Auxly's subsidiaries' and partners' current and proposed products; 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; Auxly's subsidiaries and partners are able to obtain and 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; there are not materially more closures or lockdowns related to the COVID-19 pandemic; the Company's subsidiaries and partners are able to 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 reach an agreement with Sunens' lenders on terms acceptable to the Company and in a timely manner; 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; 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, 2020 dated April 23, 2021.

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.

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.