

**Auxly Cannabis Group
CBWTF
Investment Notes**
<https://auxly.com/>

Please read Disclaimer at bottom of these notes!

Auxly Cannabis Group Inc, formerly Cannabis Wheaton Income Corp, is a Canada-based investment company that seeks to provide investor returns through streams and capital appreciation in the Canadian cannabis industry. The Company provides funding for facility expansions, operations and initial construction in exchange for minority equity interests and a portion of the cultivation production. The Company operates a platform that promotes new opportunities while licensed producers maintain their brand autonomy and gain access to scaling flexibility. Auxly Cannabis Group Inc invests in and supports cannabis cultivation companies in Canada and facilitates connections between licensed producers and consumers.

All dollar values are in Canadian currency, unless otherwise stated!

Auxly



Figure 1 - Company website 7/29/19

August 22, 2019 (\$0.675) Increased position to 1% by buying ~373K shares at \$0.6738

August 21, 2019 (\$0.67) First insider activity I have noticed as CFO buys shares on open market

Filing Date	Transaction Date	Insider Name	Ownership Type	Securities	Nature of transaction	Volume or Value	Price
Aug 21/19	Aug 20/19	Schmitt, Brian William	Direct Ownership	Common Shares	10 - Acquisition in the public market	261,500	\$0.900
Aug 21/19	Aug 19/19	Schmitt, Brian William	Direct Ownership	Common Shares	10 - Acquisition in the public market	238,500	\$0.920

August 20, 2019 (\$0.67) 2Q19 results released – A few other items. No changes to our thesis

Share count stayed quite similar to the previous reporting. Fully diluted shares outstanding are now ~802M, hence a market cap of \$537M.

Revenues were low as expected. There was a financing agreement for their JV with Sunens Farms announced on August 14, 2019. The greenhouse facility is expected to be completed by year end 2019, and when complete is expected to be able to deliver 100,000 kg of cannabis annually, in a 1M+ square foot greenhouse.

On August 19, 2019, Auxly announced it entered into a 300-acre, hemp cultivation and purchase agreement to act as “the financial sponsor for the development of a hemp farming co-operative consisting of six individual hemp license holders, located in Prince Edward Island.

The following are some cut and pastes from their investor presentation dated July 25, 2019:

STRATEGIC PARTNERS

Partnerships with leaders to leverage best practices, accelerate growth and bring the best products to market



Imperial Brands

Imperial Brands PLC is an international fast-moving consumer goods company that continually evolves to embrace changing market dynamics and develop new consumer experiences. Its Next Generation Products prioritizes the fast growing vapour segment with innovative products and proprietary technologies, including its pioneering brand, blu.

Imperial Brands has granted Auxly a global licence to its vaping technology and intellectual property and access to its vapor innovation business, Nerudia.

Imperial Brands has selected Auxly as its exclusive partner for cannabis-related initiatives globally.



Capsugel

Capsugel Inc., a subsidiary of Lonza Group Ltd., designs, develops and manufactures a wide range of innovative dosage forms for the biopharmaceutical and consumer health & nutrition industries.

Auxly's wholly owned subsidiary, Dosecann Inc., has entered into a definitive agreement with Capsugel to provide Dosecann with a complete line of equipment for capsule filling and sealing, including state-of-the-art LEMS® machine, Lonza's proprietary liquid-filled Capsugel® Licaps® capsules and rights to its capsule filling and sealing LEMS® technology.

Dosecann and Lonza will also work collaboratively on new product formulations for cannabis capsule products.



Dixie Brands

Dixie Brands Inc., parent of Dixie Elixir, is a leading producer and brand of cannabinoid infused products in the United States.

Auxly has entered into an exclusive licensing arrangement with Dixie for access to the branding and formulation methodologies for over 100 products in Dixie's portfolio.

These products are intended for distribution into the Canadian medical, wellness and adult use markets.



Spiritleaf

Parent of Spirit Leaf Inc, Inner Spirit aims to be the leader in franchising retail dispensaries and is the first and only cannabis company to be granted Canadian Franchise Association membership. To date, Inner Spirit has over 100 corporate and franchise Spiritleaf retail cannabis locations under development in Canada.

Auxly owns approximately 15% of the outstanding shares of Inner Spirit and has a Strategic Alliance Agreement with Inner Spirit, pursuant to which Auxly and Inner Spirit will collaborate on retail initiatives.

HIGHLY EXPERIENCED AND SKILLED TEAM

Team with unique expertise positions company to successfully execute strategy



Chuck Rifci, CPA, MBA
Chairman, CEO



Hugo Alves, JD
Director, President



Mike Lickver, JD, MBA
SVP, Strategy



Jeff Tung, CFA, MBA
Chief Operating Officer



Ian Rapsky
Chief Creative Officer



Brian Schmitt, CPA, CFA
Chief Financial Officer



Jeff O'Neill, MBA
Head of Commercial



Brad McNamee
Chief Infrastructure Officer



Peter Quiring
CEO, Sunens JV



Dr. Raul Urbina
CEO, Inverell S.A.



Najla Guthrie
CEO and President,
KGK Science



Dr. Corey Hillmas
Chief Scientific Affairs and
Regulatory Officer, KGK Science



Greg Boone
CEO, Dosecann



Dr. Bob Chapman
Chief Operating Officer,
Dosecann



Dr. Tina Woollard
Chief Science Officer,
Dosecann



Peter Crooks
Chief of Product Innovation,
Dosecann



UNIQUE COMBINATION OF ASSETS AND CAPABILITIES

Strong capabilities across the entire value chain

DIVERSIFIED CULTIVATION PLATFORM

LARGE SCALE SUPPLY



BRAND BUILDING FLOWER

KOLAB PROJECT
ROBINSONS

DIVERSIFICATION OF SUPPLY



SCIENCE BACKED PRODUCT DEVELOPMENT

ANALYTICAL TESTING, EXTRACTION,
R&D, PRODUCT DEVELOPMENT AND
MANUFACTURING



CLINICAL TRIALS AND CLAIMS
SUBSTANTIATION



COMMERCIALIZATION

IN HOUSE BRANDS



LICENCED BRANDS



DIVERSIFIED CULTIVATION PLATFORM

Unique, diversified supply platform increases optionality

- Portfolio of cultivation assets provide expected supply of over 100,000 kgs per annum
- Mitigates operational risk of single-source of raw cannabis
- Provides additional quality assurance/control of input product for R&D and derivative product development
- Canadian cultivation is diversified across 9 projects, including quality greenhouse and ultra premium indoor grows
- Focus on low-cost cultivation, including large outdoor hemp cultivation footprint in Uruguay
- Ability to share best practices among subsidiaries and partners



DEVELOPING PRODUCTS BACKED BY SCIENCE AND INNOVATION

Uniquely positioned to manufacture and substantiate derivative products



**Dosecann
Cannabis Solutions**

R&D, Testing, Extraction and Manufacturing

- Extraction and in-house analytical testing infrastructure and expertise
- Cannabis clinical production formulation experience
- State-of-the-art, GMP compliant 42,000 sq. ft. facility
- CO₂ and cold ethanol extraction capabilities
 - CO₂ capacity: 14,000 kg per annum
 - Cold ethanol capacity: 140,000 kg per annum
- Distillation and purification capabilities



Science and Clinical Backbone

- Full service Contract Research Organization (CRO) expertise and facilities
- Trusted CRO for natural health product and nutraceutical scientific research for more than 22 years
- Clinical trials and claims substantiation
- Strong relationships with decision makers in Health Canada, EFSA and the FDA
- Extensive network of industry partners

Extraction & Science Platform Designed for Innovative Product Development

¹ EFSA = European Food Safety Authority; FDA = US Food and Drug Administration

A COMPELLING PARTNERSHIP TO DRIVE FUTURE GROWTH IN DERIVATIVE PRODUCTS

Imperial's Chosen, Exclusive Partner for Cannabis-related Initiatives Globally



CAPITALIZATION TABLE

SHARE STRUCTURE AS OF JULY 24, 2019	AMOUNT		PRO FORMA	
Common Shares Outstanding	606.7M	75.8%	606.7M	63.7%
Stock Options (weighted average exercise price of \$0.87)	44.6M	5.6%	44.6M	4.7%
Warrants (weighted average exercise price of \$1.80)	85.9M	10.7%	85.9M	9.0%
Convertible Debentures (strike at \$1.55)	63.7M	8.0%	63.7M	6.7%
Imperial Brands Convertible Debenture (strike at \$0.81)			151.7M	15.9% ¹
Fully Diluted Shares	800.9M	100%	952.5M	100%

July 29, 2019 (\$0.67) Initiated a 0.50% portfolio position in most accounts with a 750 share buy-in minimum at ~\$0.68 per share.

Two-Minute Drill and Thesis:

The company is led by Canopy Growth (Tweed) founder Chuck Rifici. I have followed his career since we first invested in Canopy during 2014, and through his termination by the same company as well. This is a quote from recently terminated co-founder of Canopy, Bruce Linton, during August 2014 in regard to Chuck, *"Chuck Rifici has made key contributions to date as the CEO and Co-Founder. Having led Tweed through its startup phase, Chuck is stepping down as CEO to help the company recruit a CEO with the skills and experience to take Tweed to the next level of expected high-volume*

and rapid growth in this aggressive market segment.” I admired Canopy from their beginnings, as they would take responsibility for their own errors, and not lay off the blame to others. They seemed to always look to move forward, using past mistakes as sunk costs. I think, but could be incorrect, that Mr. Rifici was somewhat responsible for that philosophy at the company, and if so, I would expect he would lead Auxly in a similar fashion.

Very risky cannabis company, which as with all the Canadian licensed producers carries great risk of both valuation and execution. They have a JV with Imperial Brands. Management seems capable and honest. Yet, this is high risk, and this is in line with our small position of ~0.50% of a portfolio. Our thesis is basically a pure play cannabis investment, with a company that will potentially grow their revenues to commensurate their current market capitalization of \$537M USD. At this point financial statement analysis and projections are rather meaningless. We must wait and see if they can increase revenues in a meaningful fashion, of their vertically integrated operation.

Some other concerns, which if happens would possibly hurt the stock price short-term but shouldn't have any permanent effect on this company or any Canadian cannabis company would be, the potential of revenue misses because of new Canadian excise tax laws, as well as the potential for inventory and biological asset impairments.

Officers and directors own ~8.76% of fully diluted shares outstanding. This will be reduced to potentially 7.37% when and if, the Imperial funding occurs. I like seeing management have skin in the game, as often their interests are aligned with shareholders'.

Fully diluted shares outstanding are 801M shares. Market cap is \$537M. This is 2.11X Mackie Research F2021 projected revenues (using a 76% CAD to USD conversion rate). I have not seen any insider selling by either Rifici or Alves.

Once and if the Imperial Brands funding comes in, the fully diluted share count will be ~952.5M. Of course, there will be an increase in cash of \$123M USD as well. If and when that occurs, the market capitalization, would be \$648M, or 2.54X Mackie Research projected F2021 revenues.

They do not have a big 4 auditor. I like to see a company commitment to quality with a Big 4 auditor. The auditors are a large recognized firm, of MNP LLP. From what I have seen, MNP LLP appears to be the common auditor of many of the Canadian cannabis companies.

As in all our cannabis research, we expect eventual world-wide legalization of cannabis, like the alcohol industry today. Canada is the first G-7 nation to legalize cannabis, and we expect other G-7's to follow suit, including the USA.

Again, this is a speculative investment, in a speculative industry, and cannabis is Federally illegal in the USA. The company could have execution risks, which are also inherent in the industry. The industry is in its infant stages, and there could be several catalysts to increase the share price over time. These catalysts could include legalization in the USA, changes in laws of a Canadian company selling to States in the USA, greater acceptance of cannabis as a long-term future industry in the USA and the world.

Other Notes:

CAPITALIZATION TABLE

SHARE STRUCTURE AS OF JULY 24, 2019	AMOUNT		PRO FORMA	
Common Shares Outstanding	606.7M	75.8%	606.7M	63.7%
Stock Options (weighted average exercise price of \$0.87)	44.6M	5.6%	44.6M	4.7%
Warrants (weighted average exercise price of \$1.80)	85.9M	10.7%	85.9M	9.0%
Convertible Debentures (strike at \$1.55)	63.7M	8.0%	63.7M	6.7%
Imperial Brands Convertible Debenture (strike at \$0.81)			151.7M	15.9% ¹
Fully Diluted Shares	800.9M	100%	952.5M	100%

¹ Based on fully diluted shares outstanding

18

Auxly

Auditors are MNP LLP.

1Q19 revenues of \$817K. As of March 31, 2019, the company has \$165M in cash. This is earmarked for the funding of its Leamington, Ontario large scale greenhouse, Sunens Farms. The funding is expected to be \$112M. The first cultivation is earmarked for 2Q20. Management projects they will deliver 100K KG in 2020.

In a report dated May 28, 2019, Mackie Research projects F2019 revenues of \$8.6M, F 2020 revenues of \$249M, and F2021 revenues of \$335M.

On July 26, 2019, Auxly announced that Imperial Brands LLC will invest \$123M USD, via a convertible debenture, and Imperial Brands will grant a global license to its vaping technology and vapor innovation business. The notes carry a three-year term with a 4% fixed interest rate. The conversion price is \$0.81. The ownership by Imperial could equate to 19.9% of the company.

Chuck Rifici, CPA, MBA, co-founder of Canopy Growth, is the Chairman and CEO.

Name	Number of Shares	Percentage of Issued and Outstanding
Chuck Rifici ⁽¹⁾	50,544,184	11.71%

Notes:

- (1) Includes: (i) 8,230,000 Common Shares held through Chuck Rifici Holdings Inc., and (ii) 36,231,276 Common Shares held through Nesta Holding Co. Ltd., a private company of which Chuck Rifici is the CEO and owns 53.8% of its common shares.

Name and Residence	Position held with the Company	Director Since	Principal Occupation for the Previous Five Years	Common Shares Beneficially Owned Directly or Indirectly
Hugo Alves Toronto, Ontario	Director and President	August 10, 2017	President of the Company since August 10, 2017. Formerly, senior corporate and commercial Partner at Bennett Jones LLP where he founded and led the firm's cannabis group, September 2014 – July 2017.	19,645,902 ⁽⁴⁾

Disclaimer

If you are a client of ours and if you have questions regarding the company or investment mentioned in this report, please call our office. If you are not a client of Redfield, Blonsky & Starinsky LLC Investment Management Division and are reading these notes, we urge you to do your own research. We will not be responsible for any person making an investment decision based on these notes. These notes are a "by-product" of our research. We are not responsible for the accuracy of these notes. We are not responsible for errors that may occur in these notes. Please do not rely on us to monitor or update this or any other report we may issue. In theory, we could come across some type of data or idea, which causes us to eliminate our long or short position of the company or investment mentioned in this report from our portfolios. We will not notify reader's revisions to these notes. We are not responsible to keep readers of these notes updated for changes or material errors or for any reason whatsoever. We manage portfolios for clients, and those clients are our greatest concern as it relates to investing. Certain clients of Redfield, Blonsky & Starinsky LLC may not have the company or investment mentioned in this report in their portfolios. There could be various reasons for this. Again, if you would like to discuss the company or investment mentioned in this report, please contact Ronald R. Redfield, CPA, PFS (partner in charge of investment management division).

Information herein is believed to be reliable, but its accuracy and completeness cannot be guaranteed. Opinions, estimates, and projections constitute our judgment and are subject to change without notice. This publication is provided to you for information purposes only and is not intended as an offer or solicitation. Redfield, Blonsky & Starinsky, LLC and Ronald R Redfield, CPA, PFS, may hold a position or act as an advisor on any investments mentioned in a report or discussion.