

This is Auxly / Q2 2025 Letter to Shareholders



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Auxly Cannabis Group Inc.
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Dear Auxly Shareholders,

We recently released Q2 2025, delivering another quarter of profitable growth, highlighted by records in net revenue, gross profit and Adjusted EBITDA. Equally as important, we successfully recapitalized our balance sheet after quarter end. With improving financials, a solid balance sheet, and our operations humming, we can now look at our business with a new strategic lens.

Firing on all cylinders

Our Q2 2025 financial results reflected the financial impact of an operation firing on all cylinders. We are producing higher volumes of quality flower as we continue to fine-tune our operation; we are making steady inroads into the Quebec market where our products have been warmly received; and we are achieving higher pricing through improved product and jurisdictional mix, and higher overall pricing across the Canadian market. These factors, coupled with a tremendous team effort helped Auxly achieve a 33% increase in net revenue over the prior year.

Foray

KOLAB PROJECT

BACK FORTY



Parcel

What's more, we're improving in profitability as well. Gross margin on finished inventory increased to 52% as continued production efficiencies, and discipline in overhead expenses translated to a 30% Adjusted EBITDA margin, or \$12 million. It's important to emphasize that we achieved this 30% Adjusted EBITDA margin while making investments into our sales force and distribution channels.

While we remain reluctant to express that we can hit these profitability levels every quarter in the form of financial guidance, we do believe this level of profitability reflects what the economics of a CPG business like Auxly can deliver over the long-term.

“Today, Auxly has no looming material maturities, a friendly and supportive credit syndicate led by a Canadian Schedule 1 bank, a net working capital surplus and additional capital available to pursue continued growth.”

Recapitalized and reinvigorated

In early July 2025, many months of work came to fruition when we announced the amendment of our Credit Facility with the Bank of Montreal, and the settlement of all remaining debts owing to our long-term strategic partner, Imperial Brands.

Prior to our refinancing, our balance sheet was a risk. Interest expense consumed cash flow, limiting our growth options and keeping many investors on the sidelines because of Auxly's negative working capital and a going concern uncertainty note.

Today, Auxly has no looming material maturities, a friendly and supportive credit syndicate led by a Canadian Schedule 1 bank, a net working capital surplus and additional capital available to pursue continued growth.





Here's how dramatically things have changed:

- On June 30, 2025, we reported *negative* working capital of \$26 million, which flipped to a pro-forma working capital *surplus* of \$35 million post-refinancing
- Debt service cost decreases by \$700,000 annually, these are hard cash savings
- Total Debt to TTM Adjusted EBITDA is now just 1.4x on a pro forma basis, more in-line with the CPG-like capital structure we envision for Auxly
- The going concern uncertainty note has been removed from Auxly's financial disclosure

I would like to offer a sincere thank you to our financial partners, our strategic partner Imperial Brands, and to the whole Auxly team for making the recapitalization possible.

**“We are fortifying
our foundations
for continued
profitable growth.”**

From surviving to thriving— disciplined growth and capital allocation

We are fortifying our foundations for continued profitable growth. Not only has the refinancing had a transformative impact on our financial statements, but it also impacts how we approach strategy.

With a working capital surplus and positive cash flow from operations, we can now use cash flow after capital expenditures to evaluate capital allocation decisions like strengthening our balance sheet and/or pursuing accretive strategic initiatives.

On the former, accumulating more cash or paying debt is value add to shareholders because it increases the equity portion of our enterprise value. In other words, if the stock market ascribes the same enterprise value to Auxly, and our net debt decreases, all else being equal, the value of common shares should increase.

On the strategic front, there are many options available for Auxly to pursue. We believe that small incremental investments will continue to boost production capacity, improve product

quality, improve efficiency and increase profits. Furthermore, our balance sheet and sustainable cash flow position allow Auxly to take on larger and more strategic initiatives from a position of relative strength.

We continue to monitor opportunities in international markets. Our Vision remains to be a global leader in cannabis products, but we are cognizant that international market dynamics are still evolving. Auxly will continue to prioritize winning at home while taking incremental steps to enable more meaningful international market participation in the future.

Looking ahead

Canadian recreational cannabis should continue to provide tailwinds in the near-term, benefiting from trends in increasing social acceptability, capture of market share from the illicit market, the reduction of supply from shuttered capacity and the divergence of existing supply to international markets.

Our strategy is working. Demand for our cannabis products is at an all-time high and continues to grow. Back Forty is the #1 cannabis brand in Canada; our focused, data-driven approach to product innovation continues to produce industry-leading SKUs that consumers trust and love; and our passionate, united team, and our assets, continue to be a source of tremendous competitive advantage. Auxly Leamington is consistently and efficiently producing quality cannabis at scale and Charlottetown continues to dominate vape innovation and quality. This has resulted in brands with enduring value.



We are now producing meaningful cash flow, we have visibility to continued growth in revenue and profit, and a recapitalized balance sheet. We have been rewarded by investors with share price appreciation of over 300% year to date. We hope to keep this momentum by leaning into our culture of teamwork and continuous improvement, maintaining our product and innovation leadership, and executing on accretive growth opportunities that to bolster our profitability and position in the market.

We see tremendous potential for growth over long term and we invite you to share in our optimism. Whether it be through advocacy for our products and brands, as champions of our vision or, ideally, through continued investment, your involvement makes a meaningful difference and is vital to our success.

Thank you for your continued support. We're just getting started, we're excited for the future, and we look forward to achieving more milestones together.

Sincerely,
Hugo Alves