



**AUXLY CANNABIS GROUP INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2025**

**Dated August 13, 2025**

## Table of Contents

MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
DESCRIPTION OF BUSINESS.....	3
OUTLOOK.....	9
RECENT DEVELOPMENTS: SECOND QUARTER 2025 TO DATE.....	10
FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS.....	11
RESULTS OF OPERATIONS.....	12
SUMMARY OF QUARTERLY RESULTS .....	15
TRANSACTIONS WITH RELATED PARTIES.....	16
LIQUIDITY AND CAPITAL RESOURCES .....	16
OUTSTANDING SHARE DATA.....	17
NON-GAAP MEASURES.....	18
COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS.....	19
CRITICAL ACCOUNTING ESTIMATES.....	21
DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES .....	23
CHANGES IN ACCOUNTING POLICIES .....	23
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT .....	24
RISK FACTORS.....	24
FORWARD LOOKING STATEMENTS.....	24

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of August 13, 2025 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("Auxly", "our", or the "Company"). All amounts are stated in millions of Canadian dollars unless otherwise noted, except common shares ("Shares"), options, warrants, and per Share amounts. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three and six months ended June 30, 2025, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2024.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information contained herein is made as of the date of this MD&A and is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "*Forward Looking Statements*" section in this MD&A. This MD&A references certain financial measures, including non-GAAP measures and readers should refer to the "*Non-GAAP Measures*" section in this MD&A.

## DESCRIPTION OF BUSINESS

### Our Business

The Company 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.

### Canadian Market

Since the Cannabis Act came into force in October 2018, Canada's recreational cannabis market has expanded steadily. Initially limited to dried and fresh cannabis, plants, seeds, and oils ("Cannabis 1.0 Products"), the legal framework broadened in 2019 to include edibles, extracts, and topicals ("Cannabis 2.0 Products"). Health Canada has also considered a framework for Cannabis Health Products that would allow health-related claims without practitioner oversight, but these remain unapproved.

### Company Strategy and Capabilities

Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. Our initial focus was on the development of Cannabis 2.0 Products and the Company was one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada following their legalization.

## Brand Portfolio and Product Offering

**Parcel**

**BACK FORTY**

**Foray**



**Dosecann**

**KOLAB PROJECT**

## Our Brands

### PARCEL

Parcel delivers on its promise – high quality cannabis for less. No bells, no whistles, just really good cannabis grown by really good people.

### BACK FORTY

Take a Trip. Explore the Back Forty. Back Forty is all about embracing simplicity, getting back to basics and not taking life too seriously. Back Forty's mission is to bring to consumers a simple, uncomplicated cannabis product that already feels familiar.

### FORAY

Foray is a versatile, modern, and inviting cannabis brand, designed for the curious. Foray is an accessible entry point for anybody—at any stage of their cannabis journey. Designed for the curious, Foray is an approachable brand that aims to both celebrate and guide one's foray into cannabis, ultimately inviting them to see cannabis differently.

### DOSECANN

We believe in the natural potential of cannabis. Backed by science and advanced research and development, Dosecann products are driving today's innovation and establishing tomorrow's standards. Cannabis down to a science.


### KOLAB PROJECT

Offering a refined collection of high quality cannabis products and design-focused, purposeful goods. We connect consumers with a carefully selected group of collaborators in order to create experiences that are inspired by the ever-evolving world we live in.

Auxly has maintained its position as a top-selling licensed producer of Cannabis Products, ranking as the 3<sup>rd</sup> largest licensed producer in Canada by total recreational retail sales in the second quarter of 2025, as reported by Hifyre IQ<sup>1</sup>.

Our Cannabis Products available during the second quarter of 2025 are described below by brand and product format:



Products Available by Brand				
BACK FORTY	KOLAB PROJECT	Foray	Parcel	 Dosecann
Dried Flower Milled Flower Pre-Roll Vapes – 510 Cartridges Vapes – All-In-One Infused Pre-Rolls Edibles	Vapes – 510 Cartridges Vapes – All-In-One Dried Flower Concentrates	Vapes – 510 Cartridges Vapes – All-In-One Edibles	Dried Flower Pre-Rolls Vapes – 510 Cartridges	Oils Softgels

Our Cannabis Products have been well received by consumers. Auxly plans to further strengthen our brand recognition by using consumer insights to drive innovation as the Company continues to introduce new Cannabis Products to the Canadian market, with an emphasis on expanding our dried flower, vape and pre-roll offerings. The Company’s upcoming product offerings are presented below:



### Distribution

Given the current provincial legislative framework in Canada, the Company has pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and distributors, medical cannabis sales channels and relationships with Canadian retailers. The Company sells products in all Canadian provinces and territories. The Company is supported by a national internal sales team, guided by purpose-built KPIs and quarterly incentive programs to drive performance.

<sup>1</sup> HiFyre IQ as at July 2025.

The Company also engages in wholesale bulk cannabis transactions with various licensed producers in Canada. Most of these wholesale transactions serve domestic end consumers, with a small portion reaching international markets. As part of its growth strategy, the Company is actively exploring opportunities for direct international wholesale bulk cannabis sales. This includes establishing new partnerships to meet the increasing demand for high-quality cannabis products in emerging international markets.

### ***Cannabis Operations: Cultivation, Product R&D and Manufacturing***

The Company has assessed the current tariff environment between the United States and Canada and does not anticipate a material impact on its business operations or financial performance. The Company continues to monitor trade developments and will adapt the Company's strategies as necessary to mitigate any potential risks. See "Risk Factors" in this MD&A for information on the risks and uncertainties that could have a negative effect on Auxly's operations.

#### Auxly Inc. (formerly Auxly Ottawa Inc.)

Auxly Inc. holds licences for cultivation and processing under the Cannabis Act, authorizing the processing, storage and sale of Cannabis Products. Auxly Inc. conducts the Company's sales and marketing activities, in addition to certain manufacturing, processing, packaging and distribution activities out of its own licensed space at the Company's Auxly Leamington Inc. ("Auxly Leamington") facility. On April 15, 2025, the Company changed the name of Auxly Ottawa Inc. to Auxly Inc.

#### Auxly Charlottetown

The Company's primary Cannabis 2.0 Product development, manufacturing and R&D activities are conducted by its subsidiary Auxly Charlottetown Inc. ("Auxly Charlottetown") at a purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. Auxly Charlottetown holds licences for processing, analytical testing and research under the Cannabis Act. The full perimeter of the 52,000 square foot facility is licensed under the Cannabis Regulations for the production, storage and sale of Cannabis Products.

Product development is led by Auxly Charlottetown's team, who have experience in the pharmaceutical, food, scientific research and product development fields. This facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. Auxly Charlottetown is authorized to conduct broad in-house analytical and sensory testing, incorporating consumer input and feedback on attributes such as flavor, aroma, texture or mouthfeel, to better evaluate later-stage product formulations. The Company also has a research licence to conduct sensory testing at its head office in Toronto. Where economical, the Company uses third parties for production of certain of its Cannabis Products and will continue to use an adaptive third-party sourcing model to further streamline the Company's operations and to reduce costs where possible.

During the six months ended June 30, 2025, the Company made \$nil million expenditures towards automation initiatives at the Auxly Charlottetown facility to increase production efficiency. The Company anticipates that expenditures of approximately \$nil-0.5 million will be made towards further automation initiatives at the Auxly Charlottetown facility in 2025.

#### Auxly Leamington

Auxly Leamington, a wholly owned subsidiary of the Company, is comprised of a 1.1 million square foot automated greenhouse in Leamington, Ontario, which holds licences for cultivation

and processing under the Cannabis Act, authorizing the cultivation, processing, storage and sale of Cannabis Products. Auxly Leamington holds a Control Union Medical Cannabis Standard GAP (“CUMCS-GAP”) Certificate, issued by the independent verification body Control Union Global, and confirming compliance with the World Health Organization guidelines on Good Agricultural & Collection Practices for medicinal plants. CUMCS-GAP is a leading international standard for medical cannabis propagation, cultivation, and post-harvest processes.

Auxly Leamington provides the Company with a secure and cost-efficient source of dried cannabis, milled flower and extraction materials. Auxly Leamington utilizes a perpetual harvest methodology resulting in a continuous supply of cannabis and flexibility to adjust production capacity to demand as required. The total area of the licensed perimeter at Auxly Leamington for cultivation, processing and storage stands at 876,270 square feet. Auxly Leamington is producing award-winning cannabis strains, all of which are sold to and used by the Company in its full suite of Cannabis Products. In addition, Auxly Leamington possesses an extensive genetic library and continues to evaluate all opportunities to acquire new cultivars suited for Auxly’s portfolio of Cannabis Products.

During the six months ended June 30, 2025, expenditures of approximately \$1.0 million were made towards facility enhancements. The Company expects to incur expenditures of approximately \$1.5-2.0 million towards capital projects throughout 2025 to implement building enhancements to support higher and consistent output from the facility.

The Company has established itself as a leader in pre-roll manufacturing, combining operational and technical expertise with industry leading technologies. With fully integrated excise and master packing systems, advanced automation for specialty premium formats, and strong customization capabilities, the Company can deliver a premium consumer experience across a wide range of products. During the six months ended June 30, 2025, expenditures of approximately \$0.3 million were made towards pre-roll initiatives. The Company expects to incur expenditures of approximately \$nil-0.5 million in 2025 for final payments owing for the currently operational automated pre-roll manufacturing and packaging equipment.

Funding for Auxly Leamington’s initial project budget was provided by the Company in the form of an equity contribution and a subordinated promissory note totaling approximately \$98.5 million provided prior to 2020, and an \$84.0 million secured credit facility underwritten by a syndicate of lenders led by the Bank of Montreal (“BMO”). The Company’s contribution along with the credit facility comprised the required expenditures for the initial budgeted construction of the facility. Concurrently with the Auxly Leamington acquisition, the Company and Auxly Leamington amended and restated the secured credit facility with BMO and the same syndicate of lenders thereby remedying the defaults noted by BMO on April 16, 2021. Under the amended and restated secured credit agreement (“ARCA”), Auxly made a \$15.0 million cash payment towards the outstanding principal balance of the credit facility and the maturity date of the credit facility was extended to September 30, 2023. The obligations of Auxly Leamington under the credit facility were supported by an unsecured \$33.0 million limited recourse guarantee provided by the Company.

Between September 2023 and December 2023, the Company received three interim extensions of the maturity date of the ARCA from September 30, 2023 to January 31, 2024, as the Company and the lenders worked towards a formal credit amendment. On January 31, 2024, the Company and the lenders entered into a definitive agreement to amend and restate the ARCA, in order to, among other things, extend the maturity date by two years until December 31, 2025.

As at June 30, 2025, Auxly Leamington was in compliance with its covenants under the credit facility, including all financial covenants. Upon filing the Company’s audited financial statements for the year ended December 31, 2024, the Company was in breach of certain reporting covenants

under the ARCA due to the inclusion of going concern uncertainty qualifications. The Company received a waiver from the syndicate of lenders for the breach.

In July 2025, the Company amended and restated Auxly Leamington's existing credit facility agreement with a syndicate of lenders led by the Bank of Montreal ("the Amended Credit Facility"). The key modifications under the Amended Credit Facility are described in "*Recent Developments: Second Quarter 2025 To Date – Amendment and Extension of Bank of Montreal Credit Facility*" in this MD&A.

## **Strategic Partner**

### Imperial Brands

In 2019, as part of a strategic partnership, Imperial Brands PLC ("Imperial") invested approximately \$123.0 million in the Company by way of a 4% unsecured debenture, convertible into Shares at a conversion price of \$0.81 per share (the "Imperial Debenture"). Auxly was granted global licenses to Imperial's vaping technology for cannabis uses, and access to its vapour innovation business, Nerudia. In connection with this strategic partnership with Imperial, the parties entered into an investor rights agreement (the "Investor Rights Agreement") which provides, among other things, that Auxly would be Imperial's exclusive cannabis partner, and that for so long as Imperial holds a partially diluted percentage of outstanding Shares of not less than 15%, it is eligible to nominate one individual designated by Imperial for election as a director to Auxly's Board and one non-voting observer. Imperial's nominee, Murray McGowan, Chief Strategy and Development Officer for Imperial, who was appointed to Auxly's Board of Directors on November 1, 2021, resigned from the Board on July 26, 2023, and there is currently no Imperial nominee appointed to the Board, however Imperial retains its nomination rights under the Investor Rights Agreement.

In 2023, Imperial and the Company amended certain provisions of the Imperial Debenture in order to extend the maturity date of the Imperial Debenture by 24 months from September 25, 2024 to September 25, 2026.

In 2024, Imperial converted (i) \$121.9 million of the principal amount outstanding under the Imperial Debenture at an exercise price of \$0.81 for 150,433,450 Shares, and (ii) \$1.5 million of accrued interest under the Debenture into 90,882,667 Shares at a price of \$0.017, resulting in Imperial holding an equity position in the Company of approximately 19.8% (the "Imperial Debt Conversion"). Concurrently with the Imperial Debt Conversion, Imperial and the Company amended and restated the Investor Rights Agreement to, among other things, remove the existing requirement that Imperial will use the Company as its exclusive cannabis partner.

In July 2025, the Company and Imperial settled all principal and interest owing by the Company to Imperial under the Imperial Debenture pursuant to a previously signed exchange agreement (the "Imperial Debenture Settlement") for 18,336,489 Shares and pre-funded warrants to acquire up to 90,883,618 Shares. The terms of the Imperial Debenture Settlement are described in "*Recent Developments: Second Quarter 2025 To Date – Imperial Convertible Debenture Settlement*" in this MD&A.

## **International Operations**

Presently the Company does not have any active international operations. The Company continues to monitor the progress of other jurisdictions towards recreational and medical cannabis legalization, including the United States and Europe. Leveraging our intellectual property and expertise developed in one of the world's most highly regulated cannabis markets, the Company is well positioned to capitalize on the increasing global demand.



## OUTLOOK

Auxly remains focused on delivering sustainable, profitable growth by building on its leadership in the Canadian cannabis market. The Company continues to advance its strategy through focused innovation, operational excellence, and prudent financial management. With a strengthened balance sheet, the Company is well-positioned to drive long-term shareholder value.

We expect the Canadian recreational cannabis market will continue to provide tailwinds in the near-term from 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.

Due to these market factors, increasing demand for our trusted brands, focused product innovations, efficiencies across our operations and favourable product mix, we expect continued growth in net revenue in the second half of 2025. Considering the improvements we have made towards operational efficiencies, increasing net revenue should continue to translate into higher gross profit, and Adjusted EBITDA should benefit from operating leverage given a consistent overhead cost structure.

We expect to allocate \$1.5 million to \$2.5 million of cash flow from operations towards capital projects at Auxly Leamington and Auxly Charlottetown in 2025, part of which has already been invested. Excess cash flow after these expenditures will be allocated towards strengthening our balance sheet and/or pursuing accretive strategic initiatives.

We continue to see long-term potential in international markets, and we are actively evaluating export opportunities. The Company is well-positioned to succeed internationally, supported by our strong brands, scalable production, and strategic partnership with Imperial Brands.

Over the long-term, Auxly remains confident in its ability to deepen its leadership position in Canada's largest cannabis categories: dried flower, vapes, and pre-rolls. With its consumer-trusted brands, best-in-class operating assets, national distribution, and data-driven approach to innovation, Auxly is well-positioned to meet evolving consumer preferences and deliver strong financial performance.

## **RECENT DEVELOPMENTS: Second Quarter 2025 To Date**

### *Auxly Announces Results of Annual General and Special Meeting of Shareholders*

On July 2, 2025, the Company announced the voting results for its annual general and special meeting of shareholders held on June 30, 2025. All of the matters put forward before the Company's shareholders for consideration and approval, as set out in the Company's information circular dated May 27, 2025, were approved by the requisite majority of the votes cast at the meeting.

### *Amendment and Extension of Bank of Montreal Credit Facility*

On July 7, 2025, the Company announced signing the Amended Credit Facility with a syndicate of lenders led by the Bank of Montreal. The key modifications under the Amended Credit Facility included:

- The Company replacing Auxly Leamington as the borrower;
- Access to a new revolving facility of \$10.0 million for working capital and corporate requirements;
- Extension of the maturity date from December 31, 2025 to June 30, 2027, with an option for the Company to extend the maturity date for an additional year for \$0.1 million;
- Revised financial covenants providing the Company the flexibility to support its long-term growth strategy; and
- The Amended Credit Facility will be secured by all the assets of the Company and its subsidiaries (rather than primarily the assets and equity of Auxly Leamington as was the case under the ARCA).

### *Imperial Convertible Debenture Settlement*

On July 7, 2025, and concurrently with the Amended Credit Facility, the Company announced settling the convertible debenture and accrued interest owing by the Company to Imperial pursuant to a previously signed exchange agreement with the following terms (the "Imperial Debenture Settlement"):

- Imperial converted the remaining \$1.0 million principal amount owed under the outstanding convertible debenture held by Imperial into 1,234,568 Shares at a conversion price of \$0.81 per Share;
- Imperial converted \$1.4 million of accrued interest under the convertible debenture into 17,101,921 Shares at a conversion price of \$0.0811 per Share, based on the trailing 5-day volume-weighted average trading price of the shares on the TSX; and
- The Company issued pre-funded warrants to acquire up to 90,883,618 Shares in exchange for \$7.4 million of additional interest, with the remaining accrued interest owed under the convertible debenture in the amount of approximately \$11.9 million being forgiven. Each warrant entitles an affiliate of Imperial to purchase one share for a nominal exercise price at any time prior to December 31, 2028 (the "Expiry Date"), provided that the number of warrants exercisable for shares (the "Underlying Shares") that may be exercised at any time prior to the Expiry Date will be limited to such number of warrants for which the issuance of corresponding Underlying Shares would not result in Imperial owning more than 19.9% of all the then outstanding shares.

Following this issuance of 18,336,489 Shares, Imperial owned approximately 19.9% of all issued and outstanding Shares. The Company has no further amounts owed to Imperial following this transaction.

### *Repayment of Inventory Financing Loan*

On July 7, 2025, the Company fully repaid the remaining principal amount and the interest payable on the receivables financing loan originally maturing July 21, 2025.

## **FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS**

For the three months ended: (000's)	June 30, 2025	June 30, 2024	Change	% Change
Net revenues	\$ 38,802	\$ 29,178	\$ 9,624	33%
Gross Margin on Finished Cannabis Inventory Sold*	20,268	12,049	8,219	68%
Gross Margin on Finished Cannabis Inventory Sold (%)*	52%	41%	11%	27%
Net income/(loss)	8,310	2,002	6,308	315%
Adjusted EBITDA*	11,545	5,173	6,372	123%
Weighted average shares outstanding - basic	1,315,584,918	1,250,513,293	65,071,625	5%

For the six months ended: (000's)	June 30, 2025	June 30, 2024	Change	% Change
Net revenues	\$ 71,471	\$ 54,419	\$ 17,052	31%
Gross Margin on Finished Cannabis Inventory Sold*	36,099	21,618	14,481	67%
Gross Margin on Finished Cannabis Inventory Sold (%)*	51%	40%	11%	28%
Net income/(loss)	20,421	(24,010)	44,431	185%
Adjusted EBITDA*	18,978	7,413	11,565	156%
Weighted average shares outstanding - basic	1,312,952,853	1,133,676,385	179,276,468	16%

As at (000's)	June 30, 2025	December 31, 2024	Change	% Change
Cash and cash equivalents	\$ 17,026	\$ 18,356	\$ (1,330)	-7%
Total assets	258,486	261,530	(3,044)	-1%
Debt*	48,989	54,683	(5,694)	-10%

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

For the three months ended June 30, 2025, net revenues were \$38.8 million, an increase of approximately \$9.6 million or 33% over the same period of 2024. Sales increased primarily as a result of an increase in both volume and price of dried flower, vape and pre-roll products.

The Gross Margin on Finished Cannabis Inventory Sold improved to 52% versus 41% in the same period in 2024, as a result of improvements made in our cultivation and manufacturing processes to reduce operating costs, product mix, increased pricing of products in the adult-use recreational market, and increased pricing of bulk flower product due to increased demand.

Net income of \$8.3 million for the three months ended June 30, 2025 improved by \$6.3 million over the same period in 2024, primarily due to improved gross profits and reduction in interest and accretion expenses as a result of the conversion of Imperial Debenture in March 2024 and debt repayments.

Adjusted EBITDA was \$11.5 million for the quarter, an improvement of \$6.4 million when compared to \$5.2 million during the second quarter of 2024. Adjusted EBITDA for the quarter ended June 30, 2025 improved primarily as a result of improved gross profits, partially offset by higher selling expenses to support higher sales.

For the quarter ended June 30, 2025, the average number of Shares outstanding increased to 1.3 billion Shares, an increase of 179.3 million Shares or 16% over June 30, 2024 primarily as a result of the Shares issued from the Imperial Debt Conversion in March 2024 and warrants exercised.

Cash and cash equivalents were \$17.0 million on June 30, 2025, a decrease of \$1.3 million from December 31, 2024. The change in cash was primarily driven by payments made towards debt instruments and lease liabilities, partially offset by net cash provided by operating activities.

## RESULTS OF OPERATIONS

For the periods ended: (000's)	Three months June 30,		Six months June 30,	
	2025	2024	2025	2024
<b>Revenues</b>				
Revenue from sales of cannabis products	\$ 59,124	\$ 43,433	\$ 108,336	\$ 81,790
Excise taxes	(20,322)	(14,255)	(36,865)	(27,371)
<b>Total net revenues</b>	<b>38,802</b>	<b>29,178</b>	<b>71,471</b>	<b>54,419</b>
<b>Costs of sales</b>				
Costs of finished cannabis inventory sold	18,534	17,129	35,372	32,801
Inventory impairment	147	473	270	929
<b>Gross profit/(loss) excluding fair value items</b>	<b>20,121</b>	<b>11,576</b>	<b>35,829</b>	<b>20,689</b>
Unrealized fair value gain/(loss) on biological transformation	15,842	8,817	28,154	11,590
Realized fair value gain/(loss) on inventory	(13,274)	(4,464)	(22,611)	(6,899)
<b>Gross profit</b>	<b>22,689</b>	<b>15,929</b>	<b>41,372</b>	<b>25,380</b>
<b>Expenses</b>				
Selling, general, and administrative expenses	10,315	9,311	19,987	17,932
Equity-based compensation	1,092	701	2,597	2,628
Depreciation and amortization	1,276	1,067	2,572	2,297
Interest and accretion expenses	1,866	2,749	4,013	9,617
<b>Total expenses</b>	<b>14,549</b>	<b>13,828</b>	<b>29,169</b>	<b>32,474</b>
<b>Other income/(loss)</b>				
Interest and other income	32	140	79	159
Gain/(loss) on settlement of assets and liabilities and other expenses	(243)	391	(204)	(243)
Gain/(loss) on disposal of assets held for sale	-	(453)	-	(453)
Foreign exchange gain/(loss)	381	(177)	218	(387)
<b>Total other income/(loss)</b>	<b>170</b>	<b>(99)</b>	<b>93</b>	<b>(924)</b>
<b>Net income/(loss) before income tax</b>	<b>8,310</b>	<b>2,002</b>	<b>12,296</b>	<b>(8,018)</b>
Income tax recovery/(expense)	-	-	8,125	(15,992)
<b>Net income/(loss)</b>	<b>\$ 8,310</b>	<b>\$ 2,002</b>	<b>\$ 20,421</b>	<b>\$ (24,010)</b>
<b>Adjusted EBITDA</b>	<b>\$ 11,545</b>	<b>\$ 5,173</b>	<b>\$ 18,978</b>	<b>\$ 7,413</b>
<b>Net income/(loss) per common share – basic (\$)</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.02</b>	<b>\$ (0.02)</b>
<b>Net income/(loss) per common share – diluted (\$)</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ (0.02)</b>
<b>Weighted average shares outstanding – basic</b>	<b>1,315,584,918</b>	<b>1,250,513,293</b>	<b>1,312,952,853</b>	<b>1,133,676,385</b>
<b>Weighted average shares outstanding – diluted</b>	<b>1,473,690,262</b>	<b>1,304,108,532</b>	<b>1,459,289,465</b>	<b>1,133,676,385</b>

## **Net Revenues**

For the three and six months ended June 30, 2025, net revenues were \$38.8 million and \$71.5 million as compared to \$29.2 million and \$54.4 million during the same periods in 2024, representing increases of 33% and 31% respectively. The year-over-year growth in net revenue was primarily driven by higher incremental volumes and improved pricing across the portfolio. The increase was particularly supported by strong performance in the Company's flower portfolio, which benefited from increased demand and improved distribution.

Revenues for the three and six months ended June 30, 2025 were comprised of approximately 65% (2024 – 63%) and 64% (2024 – 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 six months ended June 30, 2025, approximately 75% (2024 – 78%) and 75% (2024 – 77%) of cannabis sales originated from sales to British Columbia, Alberta and Ontario. Since 2024, the Company had sales in all Canadian provinces and the Yukon and Northwest Territories.

## **Gross Profit**

Auxly realized a gross profit of \$22.7 million and \$41.4 million for the three and six months ended June 30, 2025, resulting in a 58% Gross Profit Margin for both periods, as compared to \$15.9 million (55%) and \$25.4 million (47%) during the same periods in 2024. The Gross Margin on Finished Cannabis Inventory Sold for the three months ended June 30, 2025 improved to 52% from 41% in 2024. The Gross Margin on Finished Cannabis Inventory Sold for the six months ended June 30, 2025 improved to 51% from 40% in 2024. The higher Gross Margin on Finished Cannabis Inventory Sold resulted from the improvements made in our manufacturing process to reduce operating costs as well as benefiting from increased demand and pricing of adult-use recreational market and bulk flower products. Higher cultivation yields lowered costs, and efficiency improvements at our Auxly Charlottetown facility further reduced 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 second quarter of 2025 of \$0.1 million were associated with charges related to reductions in net realizable value of dried cannabis under the Company's product specifications, a decrease of \$0.3 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 \$10.3 million in the second quarter of 2025, \$1.0 million or 11% higher than the same period in 2024. Year-to-date expenditures of \$20.0 million in 2025 were \$2.1 million higher than the same period in 2024. The increase in SG&A was primarily driven by investments to support higher sales.

Wages and benefits were \$4.5 million for the quarter, as compared to \$4.8 million during the same period in 2024. Year-to-date wages and benefits of \$9.2 million were \$0.1 million higher than that of the same period in 2024. Year-to-date wages and benefits increased compared to 2024 due to an increase in bonus accruals which was partially offset by cost savings from the streamlining of operations and support staff as a result of a more focused product portfolio. Wages and benefits in the second quarter of 2024 included non-recurring restructuring related cost of \$0.7 million.

Office and administrative expenses were \$1.2 million for the quarter, flat compared to the same period in 2024. Year-to-date expenditures of \$2.7 million were \$0.1 million higher than the same

period in 2024. The Company continues to actively control overhead spend in the organization while growing sales.

Auxly's professional fees were \$0.5 million during the second quarter of 2025, flat compared to the same period in 2024. Year-to-date expenditures of \$0.9 million were \$0.1 million lower than that of the same period in 2024. 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 six months ended June 30, 2025 as compared to \$0.2 million for the same period in 2024. These expenses primarily relate to business development and travel related expenses.

Selling expenses were \$4.0 million and \$7.1 million for the three and six months ended June 30, 2025, an increase of \$1.3 million and \$2.0 million from the same periods in 2024. 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 six months ended June 30, 2025 was \$1.1 million and \$2.6 million, respectively, primarily driven by the Cash Settled RSUs granted in 2023 and RSUs issued in 2025 and 2024. During the same periods in 2024, equity-based compensation was \$0.7 million and \$2.6 million, respectively.

Depreciation and amortization expenses were \$1.3 million for the three months ended June 30, 2025 and \$2.6 million year-to-date, representing an increase of \$0.2 million and \$0.3 million over the same periods in 2024 as a result of capital investments made during 2024.

Interest expenses were \$1.9 million and \$4.0 million for the three and six months ended June 30, 2025, a decrease of \$0.9 million and \$5.6 million over the same periods in 2024. The decrease in expenses were primarily a result of the conversion of Imperial Debentures into Shares and lower interest expense on adjustable-rate debt. Interest expense includes accretion on the convertible debentures and interest paid in kind on the Imperial Debenture. Interest payable in cash was approximately \$1.5 million for the second quarter of 2025, \$0.7 million lower than the same period in 2024 as a result of lower principal amounts outstanding on debt instruments.

### ***Total Other Income and Loss***

Total other income and losses was a net gain of \$0.2 million for the three months ended June 30, 2025, compared to a net loss of \$0.1 million in the same period in 2024. The other income and losses in the second quarter of 2025 were primarily driven by foreign exchange gains, partially offset by non-recurring expenses related to the Bank of Montreal Amended Credit Facility. The other income and losses in second quarter of 2024 were primarily driven by the loss on the sale of the Auxly Inc. facility and foreign exchanges losses, partially offset by the gains on the extensions of the unsecured promissory notes and interest and other income.

Total other income and losses for the six months ended June 30, 2025 was a net gain of \$0.1 million compared to a net loss of \$0.9 million in the comparative period. The year-to-date net loss for 2024 included the loss on the adjustment to the provision related to the claim filed by Kindred Partners Inc.

## Net Income and Loss

Net income for the three months ended June 30, 2025 was \$8.3 million, representing a net income of \$0.01 per share on a basic and diluted basis. The change in net income in 2025 as compared to a net income of 2.0 million in the same period in 2024 was primarily driven by improved gross profits and reduction in interest and accretion expenses.

The net income of \$20.4 million for the six months ended June 30, 2025 includes \$8.1 million of deferred tax recovery related to the change in estimated useful life of intangible assets. The net loss of \$24.0 million for the six months ended June 30, 2024 included \$16.0 million of deferred tax expense on the conversion of Imperial Debenture into Shares. Excluding the deferred tax recovery related to the change in estimated useful life of intangible assets in 2025 and the deferred tax expense on the conversion of Imperial Debenture into Shares in 2024, year-to-date net income increased by \$20.3 million primarily due to improved gross profits and reduction in interest and accretion expenses.

## Adjusted EBITDA

Adjusted EBITDA was \$11.5 million and \$19.0 million for the three and six months ended June 30, 2025, an improvement of \$6.4 million and \$11.6 million over the same periods in 2024, primarily as a result of improved gross profits, partially offset by higher selling expenses to support higher sales.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes comparative quarterly results for the last eight quarters.

(000's)	Q3/23	Q4/23	Q1/24	Q2/24	Q3/24	Q4/24	Q1/25	Q2/25
Net revenues	\$ 28,211	\$ 26,909	\$ 25,241	\$ 29,178	\$ 33,284	\$ 34,626	\$ 32,669	\$ 38,802
Cost of finished cannabis inventory sold	19,618	16,105	15,672	17,129	17,725	15,942	16,838	18,534
Gross Margin on Finished Cannabis Inventory Sold*	8,593	10,804	9,569	12,049	15,559	18,684	15,831	20,268
Gross Margin on Finished Cannabis Inventory Sold (%)*	30%	40%	38%	41%	47%	54%	48%	52%
Net income/(loss)	32,621	(54,020)	(26,012)	2,002	3,239	4,423	12,111	8,310
Adjusted EBITDA*	117	2,294	2,240	5,173	8,286	11,006	7,433	11,545
Average shares outstanding (000's) - basic	1,002,069	1,005,195	1,016,839	1,250,513	1,265,144	1,284,329	1,316,930	1,315,585
Net income/(loss) per common share - basic (\$)	0.03	(0.05)	(0.03)	0.00	0.00	0.00	0.01	0.01

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

The Company commenced cannabis sales to the Canadian adult recreational market in the fourth quarter of 2019. Since that date, the Company has introduced new products and increased distribution to increase net revenues. To date, net revenues have been seasonally low during the first quarter of any year as a result of retail sales trends which impact the Company's provincial customers' purchasing practices. The Company's expansion into the larger dried flower and pre-roll product categories has contributed to the generally increasing sales trend.

Gross Margin on Finished Cannabis Inventory Sold is a non-IFRS measure that the Company defines as net revenues less cost of finished cannabis inventory sold divided by net revenues. Management believes that this measure provides useful information to assess the profitability of our operations as it represents the gross margin generated from operations and excludes the effects of non-cash inventory and biological asset impairments and fair value adjustments on inventories and biological assets, which are required by IFRS. The Gross Margin on Finished Cannabis Inventory Sold has improved since 2023 as a result of the shift in sales mix towards the Company's core product categories. This includes products that leverage Auxly Leamington's low-cost structure, products benefiting from operational improvements at Auxly Charlottetown,

and the consolidation of our dried flower and pre-roll manufacturing capabilities at Auxly Leamington that includes automation efficiencies.

Net income and losses have fluctuated over the eight quarters primarily as a result of other losses which include impairment charges, fair value adjustments and gains and losses on settlement of assets and liabilities. The first quarter of 2025 reflects the deferred tax recovery of \$8.1 million on the change in estimated useful life of intangible assets. The first quarter of 2024 reflects the deferred tax expense of \$16.0 million on the conversion of Imperial Debenture into Shares. The fourth quarter of 2023 reflects the impact of the disposal of Inverell and also reflects pre-tax charges of \$35.9 million related to the impairment of other assets, noting that the Company's market capitalization trades significantly below its shareholders' equity. The third quarter of 2023 reflects the impact of the gains on the extension of the Imperial Debenture.

Adjusted EBITDA has fluctuated with changes in net revenues, changes to product mix with an increase of dried flower, vape and pre-roll Cannabis Products, and the timing of SG&A expenditures, in particular selling expenses. Improvements since 2023 compared to the historical average reflect the impact of lower cultivation costs, improved overall margins and reductions in SG&A.

The increases in average outstanding Shares reflect financing activities which includes issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures.

## TRANSACTIONS WITH RELATED PARTIES

### *Key management and director compensation*

Auxly's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits, as applicable, including salaries, bonuses, equity-based awards or post-employment benefits.

Compensation provided to current and key management personnel is as follows:

For the periods ended: (000's)	Three months June 30, 2025		2024		Six months June 30, 2025		2024	
Short-term benefits	\$	985	\$	527	\$	2,034	\$	963
Long-term benefits		903		458		2,141		1,738
<b>Total</b>	<b>\$</b>	<b>1,888</b>	<b>\$</b>	<b>985</b>	<b>\$</b>	<b>4,175</b>	<b>\$</b>	<b>2,701</b>

## LIQUIDITY AND CAPITAL RESOURCES

For the periods ended: (000's)	Three months June 30, 2025		2024		Six months June 30, 2025		2024	
Cash provided by/(used in) operating activities	\$	3,632	\$	2,927	\$	5,601	\$	693
Net change in investments and proceeds from sale of assets		15		1,942		15		2,236
Capital expenditures		(223)		(1,040)		(290)		(1,345)
Cash provided by/(used in) investing activities		(208)		902		(275)		891
Net cash provided by/(used in) financing activities		(3,510)		(2,651)		(6,656)		(2,935)
Cash position, at the beginning of the period		17,112		13,079		18,356		15,608
Cash position, end of the period	<b>\$</b>	<b>17,026</b>	<b>\$</b>	<b>14,257</b>	<b>\$</b>	<b>17,026</b>	<b>\$</b>	<b>14,257</b>

Auxly's objectives when managing its liquidity and capital resources are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost



of capital within a framework of acceptable risk. Auxly considers its capital structure to include debt and shareholders' equity.

Auxly manages its capital structure by preparing rolling cash flow forecasts, monitoring the condition and value of assets available for use as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

Auxly is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital and may issue additional Shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

During the three months ended June 30, 2025, Auxly generated \$3.6 million in net cash from operating activities, including the negative impact of \$6.5 million from net changes in non-cash working capital. Net investing activities for the three months ended June 30, 2025 were an outflow of \$0.2 million of capital expenditures. Net financing activities were a use of cash of \$3.5 million for the three months ended June 30, 2025, which reflects the repayment of the Company's loans, lease and other debt obligations.

In July 2025, the Company entered into two financial transactions that changed its existing capital structure: the Amended Credit Facility with Bank of Montreal and the Imperial Debenture Settlement. The Amended Credit Facility included access to a new revolving facility of \$10.0 million and the extension of the maturity date of the Amended Credit Facility to June 30, 2027. All amounts owing by the Company to Imperial was also fully settled. See "*Recent Developments: Second Quarter 2025 To Date*" in this MD&A.

## OUTSTANDING SHARE DATA

Auxly's authorized share capital consists of an unlimited number of Shares. The following table quantifies the number of issued and outstanding Shares and exercisable securities.

	August 13, 2025	June 30, 2025	December 31, 2024
Issued Shares	1,344,161,064	1,318,187,075	1,308,255,933
Escrowed shares	1,888,421	1,888,421	1,888,421
Outstanding shares	1,342,272,643	1,316,298,654	1,306,367,512
Outstanding securities			
Warrants	163,285,118	80,039,000	109,970,142
Convertible debentures	-	1,234,568	1,234,568
Options	15,681,169	15,681,169	19,286,581
Restricted share units	158,096,425	158,096,425	84,913,751

Shares outstanding as at June 30, 2025 increased from December 31, 2024 by approximately 9.9 million to 1,316.3 million. The number of warrants decreased to 80.0 million as a result of the 20.0 million expired warrants and the conversion of 9.9 million of warrants, issued as part of the February 2023 private placement and the June 2021 bought deal, into Shares. The number of options decreased to 15.7 million as at June 30, 2025 due to employee forfeitures and options expired. The number of RSUs as at June 30, 2025 increased to 158.1 million from 84.9 million as at December 31, 2024 as a result of RSU issuances during the second quarter of 2025.

## **NON-GAAP MEASURES**

The interim condensed consolidated financial statements of Auxly are prepared in accordance with IFRS. Auxly's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the interim condensed consolidated financial statements for the three and six months ended June 30, 2025, and notes 2 and 3 of the annual consolidated financial statements for the year ended December 31, 2024.

This MD&A makes reference to certain financial measures, including non-GAAP measures that are historical, non-IFRS measures that are forward-looking, and supplementary financial measures. Management uses these financial measures for the purpose of comparison to prior periods and the development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. The Company uses the following non-GAAP financial measures: "EBITDA", "Adjusted EBITDA," and the supplementary financial measures of "Gross Margin on Finished Cannabis Inventory Sold", "Gross Profit Margin", and "Debt."

### **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 adjustments. The definition may differ by issuer. EBITDA and Adjusted EBITDA used by the Company are reconciled with net income or loss from continuing operations of the Company, an IFRS measure, in the section "Results of Operations" in this MD&A. The calculation of Adjusted EBITDA is comprised of the net income or loss of the Company added or subtracted as applicable as provided in the detailed reconciliation found in this MD&A. There are a number of individual financial statement adjustments however, they are inclusive of, interest expense and income, income taxes, depreciation and amortizations, fair value gains or losses, impairments or settlements, foreign exchange, equity-based compensation, gains or losses on the sale or disposal of assets and any other unusual items.

The Adjusted EBITDA reconciliation is as follows:

(000's)	Q3/23	Q4/23	Q1/24	Q2/24	Q3/24	Q4/24	Q1/25	Q2/25
Net income/(loss)	\$ 32,621	\$ (54,020)	\$ (26,012)	\$ 2,002	\$ 3,239	\$ 4,423	\$ 12,111	\$ 8,310
Interest and accretion expenses	6,613	6,837	6,868	2,749	3,133	2,291	2,147	1,866
Interest and other income	(16)	(22)	(19)	(140)	(54)	(27)	(47)	(32)
Income tax expense/(recovery)	-	(3,238)	15,992	-	-	-	(8,125)	-
Depreciation and amortization included in cost of sales	1,151	1,084	1,292	1,780	1,382	1,338	1,274	1,785
Depreciation and amortization included in expenses	1,817	1,708	1,230	1,067	1,197	990	1,296	1,276
<b>EBITDA</b>	<b>42,186</b>	<b>(47,651)</b>	<b>(649)</b>	<b>7,458</b>	<b>8,897</b>	<b>9,015</b>	<b>8,656</b>	<b>13,205</b>
Impairment of inventory	3,233	5,109	456	473	674	729	123	147
Unrealized fair value loss/(gain) on biological transformation	(4,766)	(2,481)	(2,773)	(8,817)	(9,964)	(11,073)	(12,312)	(15,842)
Realized fair value loss/(gain) on inventory	5,538	5,428	2,435	4,464	7,703	11,625	9,337	13,274
Restructuring and acquisition costs	29	131	-	655	(75)	271	-	-
Equity-based compensation	707	148	1,927	701	1,324	1,103	1,505	1,092
Impairment of assets	-	37,118	-	-	-	-	-	-
Non-recurring expense/(recovery)	360	-	-	-	(123)	-	-	(193)
Loss/(gain) on settlement of assets, liabilities and disposals	(46,887)	4,006	634	62	(183)	(1,461)	(39)	243
Foreign exchange loss/(gain)	(283)	486	210	177	33	797	163	(381)
<b>Adjusted EBITDA</b>	<b>\$ 117</b>	<b>\$ 2,294</b>	<b>\$ 2,240</b>	<b>\$ 5,173</b>	<b>\$ 8,286</b>	<b>\$ 11,006</b>	<b>\$ 7,433</b>	<b>\$ 11,545</b>

## 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 our capital structure and financing requirements.

## COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2025, the Company has entered into certain agreements which commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

The Company has funding commitments as follows:

As part of the debt financing provided by a syndicate led by BMO towards the construction of the Auxly Leamington purpose-built greenhouse facility, the Company has guaranteed payments up to \$33 million in the event of default. In July 2025, the Company amended the ARCA, which removed this commitment, as the Amended Credit Facility will be secured by all assets of the Company and its subsidiaries (rather than primarily the assets and equity of Auxly Leamington as

was under the case under the ARCA). The key modifications under the Amended Credit Facility are described in “*Recent Developments: Second Quarter 2025 To Date – Amendment and Extension of Bank of Montreal Credit Facility*” in this MD&A;

Payments of \$0.8 million in 2025 to implement facility enhancements to support higher and consistent output at Auxly Leamington.

As of June 30, 2025, the Company has commitments in respect of long-term debt obligations and leases relating to office spaces, equipment and land which will require payments as follows:

(000's)	Remaining 2025	Fiscal year 2026	Fiscal year 2027	Fiscal year 2028	Thereafter	Total
Lease obligations	\$ 1,584	\$ 3,181	\$ 2,397	\$ 1,071	\$ 7,681	\$ 15,914
Loans payable obligations	45,264	-	-	-	-	45,264
Promissory note obligations	600	1,200	1,200	1,157	-	4,157
Convertible debenture obligations	-	21,696	-	-	-	21,696
<b>Total</b>	<b>\$ 47,448</b>	<b>\$ 26,077</b>	<b>\$ 3,597</b>	<b>\$ 2,228</b>	<b>\$ 7,681</b>	<b>\$ 87,031</b>

Long-term debt obligations include principal and interest on the Imperial Debenture that have been extinguished as at the date of this MD&A. The terms of the Imperial Debenture Settlement are described in “*Recent Developments: Second Quarter 2025 To Date – Imperial Convertible Debenture Settlement*” in this MD&A.

Concurrently with the acquisition of Auxly Leamington in 2021, Auxly Leamington and Fresh Energy Inc. agreed to complete the transfer of (or part of) a load facility located at 525 County Rd. 14, Mersea Rd 9 PH 5 (the “Transfer”) for which Auxly Leamington shall pay Fresh Energy consideration of:

- an unsecured promissory note in the principal amount of \$3.0 million payable in monthly instalments of \$0.1 million for 30 months (the “Fresh Energy Promissory Note”) and;
- contingent consideration payable of \$0.5 million upon the completion of effecting such Transfer, included in the consideration paid for the acquisition of Auxly Leamington.

In June 2023, the Company entered into an agreement to amend the Fresh Energy Promissory Note whereby the \$0.5 million contingent consideration was added to the remaining principal amount outstanding and the Company shall continue to pay monthly instalments of \$0.1 million until the revised outstanding amount is repaid. In April 2024, the Company and Fresh Energy entered into a second agreement to amend the Fresh Energy Promissory Note to revise the payment schedule for the remaining principal outstanding. Under the revised payment plan, the monthly instalments were reduced to a total of \$0.3 million payable over 12 months beginning March 15, 2024 and resume to \$0.1 million until the outstanding amount is repaid. The maturity date of the amended Fresh Energy Promissory Note is July 15, 2025. The Fresh Energy Promissory Note has been fully repaid as of the date of this MD&A.

In June 2023, the Company entered into an agreement to amend the \$3.4 million unsecured promissory note owing to Peter Quiring, which required the Company to pay monthly instalments of \$0.1 million for 36 months, starting November 2024 and maturing in November 2027. In April 2024, the unsecured note owing to Peter Quiring was amended for a second time, such that the Company will be required to pay monthly instalments of \$0.1 million, starting in August 2025 and maturing in November 2028, and a one-time payment of \$0.1 million on the maturity date of the note. The unsecured promissory note bears interest of 8.0% per annum between November 2024 and August 2025, and 6.0% per annum starting in August 2025

The Company entered into a brokerage agreement with Kindred Partners Inc. ("Kindred") to act as the Company's strategic sales agent in September 2019. In October 2022, the brokerage agreement with Kindred was terminated. In January 2023, Kindred commenced arbitration against the Company for an aggregate claim of \$3.4 million. The Company filed its defence and counterclaim against Kindred. During the second quarter of 2024, the Company reached a settlement of \$2.2 million payable to Kindred. The first payment of \$0.4 million was made in September 2024, with the remainder payable in 12 monthly instalments starting in October 2024.

On October 25, 2024, the Company entered into an amended agreement to extend the maturity date of its inventory financing agreement to October 25, 2025. The Company agreed to pay an extension fee of approximately \$0.2 million on the closing date of the amended agreement. All other terms related to the amendment remain materially unchanged.

The Company and its subsidiaries are involved in litigation matters arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to the interim condensed consolidated financial statements.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Areas requiring estimates and judgements are as follows:

### *Impairment of intangible assets*

The carrying value of intangible assets is reviewed when there are indicators that impairment may have occurred. The Company's impairment tests for intangible assets are based on the comparison of the carrying amount of the CGU and the recoverable amount, which is the greater of value-in-use calculations that use a discounted cash flow model and estimated fair value less cost of disposal. The determination of the Company's CGUs are based on management's judgment.

If the recoverable amount of the CGU is greater than the carrying amount, the difference is written off as impairment loss. The impairment loss is first allocated to goodwill and the remainder is allocated to other assets of the CGU subject to the limitation that the carrying amount of an asset should not be reduced below the highest of fair value less cost of disposal, value in use or zero.

The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected

future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost of disposal is based on assessment of comparable company multiples and precedent transactions. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

The discount rates used to calculate impairment analysis are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

#### *Biological assets and inventory*

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, expected yields for the cannabis plants, selling costs, and average or expected selling prices. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in note 6 of the interim condensed consolidated financial statements.

#### *Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

#### *Equity-based compensation*

In calculating the equity-based compensation expense, key estimates such as the rate of forfeiture of options and RSUs granted, the expected life of the option and RSU, the volatility of the Company's stock price, forfeiture rates and the risk-free interest rate are used.

#### *Fair value measurements*

Certain of the Company's assets and liabilities are measured at fair value. In estimating the fair value of Level 3 investments, the Company uses market-observable data to the extent it is available.

#### *Convertible instruments*

Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

## DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

Internal controls over financial reporting (ICFR) and disclosure controls and procedures (DCP) are designed to provide reasonable assurance that material information required to be publicly disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure.

Auxly's certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financials for external purposes in accordance with IFRS using the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In addition, the Company's certifying officers and its disclosure committee have designed, and assessed the design of, a system of DCP to provide reasonable assurance that (i) material information relating to Auxly, including its consolidated subsidiaries, is made known to them and others; and (ii) information required to be disclosed by Auxly in its annual filings, interim filings and other reports filed or submitted by Auxly under securities legislation is recorded, processed, summarized and reporting within the time periods specified.

The Company has used the Internal Control – Integrated Framework (2013) from COSO in order to assess the effectiveness of the Company's internal control over financial reporting. There are no material weaknesses relating to the design of either ICFR or DCP at June 30, 2025. There have been no changes to our ICFR during the quarter ended June 30, 2025, that has materially affected, or is reasonably likely to materially affect, Auxly's ICFR.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, Auxly intends to take whatever steps are necessary to minimize the consequences thereof.

## CHANGES IN ACCOUNTING POLICIES

### ***Future changes in accounting policies***

The Company monitors the potential accounting policy changes proposed by the IASB and analyzes the impact of those changes on the Company's interim condensed consolidated financial statements.

### ***Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures***

In May 2024, amendments to IFRS 9, *Financial Instruments*, and IFRS 7, *Financial Instruments: Disclosures*, were issued. The amendments clarify the timing of recognition and derecognition for a financial asset or a financial liability, including clarifying that a financial liability is derecognized on the settlement date. Additional disclosures are required for financial instruments with contingent features and investments in equity instruments classified at fair value through other comprehensive income. These amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early adoption is permitted, with an option to only early adopt the amendments to the classification of financial assets. The adoption is not expected to have a material impact on the Company's interim condensed consolidated financial statements.

### ***IFRS 18, Presentation and Disclosure in Financial Statements***

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* ("IFRS 18") to replace International Accounting Standards 1, *Presentation of Financial Statements* ("IAS 1"). IFRS 18 impacts the presentation of the financial statements and notes, primarily the statements of income/loss and comprehensive income/(loss) where companies will be required

to present separate categories of income and expenses for operating, investing and financing activities with subtotals for each new category. IFRS 18 will require management-defined performance measures to be defined and included in a separate note within the financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim condensed financial statements, and require retrospective application. The Company is currently assessing the impact of the new standard on its financial statements.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Auxly's financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, deposits, long-term investments, accounts payable and accrued liabilities, promissory notes, loans payable, convertible debentures, other current liabilities, and other non-current liabilities. Cash and cash equivalents and short-term investments are exposed to credit risk and Auxly reduces its credit risks by placing these instruments with institutions of high credit worthiness. Auxly is exposed to liquidity risk with respect to its trade and other payables and Auxly manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

## **RISK FACTORS**

Auxly's business and structure are subject to a number of risks and uncertainties which could cause future results to differ materially from those described herein, including without limitation, the risk factors discussed in Auxly's Annual Information Form dated March 20, 2025, which risk factors are incorporated by reference into this document and should be reviewed by all readers. These documents as well as additional information regarding Auxly can be found on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

## **FORWARD LOOKING STATEMENTS**

This MD&A and the documents incorporated by reference herein contain certain statements which contain "forward-looking information" within the meaning of Canadian securities legislation (each a "forward-looking statement"). No assurance can be given that the expectations in any forward-looking statement will prove to be correct and, as such, the forward-looking statements included in this MD&A should not be unduly relied upon. Forward-looking information is by its nature prospective and requires Auxly to make certain assumptions and is subject to inherent risks and uncertainties. All statements, other than statements of historical fact included in this MD&A, including information that address activities, events or developments that the Company expects or anticipates will or may occur in the future, are forward-looking statements. The use of any of the words "anticipates", "plans", "contemplates", "continues", "estimates", "expects", "intends", "proposes", "might", "may", "will", "shall", "projects", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "capable", "budget" and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this MD&A may include, but is not limited to, statements pertaining to:

- future liquidity and financial position;
- the Company's growth strategy, targets for future growth and projections of the results of such growth;
- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;



- the sufficiency of the Company's resources to fund continued operations;
- the Company's expectations regarding its future sales;
- the success, and integration of operations, of the entities the Company acquires and the Company's collaborations;
- any ongoing construction, expansions, consolidations, improvements, commissioning of the Company's facilities, equipment or assets, including those of Auxly Charlottetown, Auxly Leamington and Auxly Inc. (formerly Auxly Ottawa Inc.), and the timing thereof;
- expectations regarding the anticipated benefits of the Imperial Debt Conversion and Imperial Debenture Settlement;
- inventory and production capacity, including discussions of anticipated yields or plans or potential for expansion of capacity at existing facilities;
- the market for the Company's current and proposed product offerings, as well as the Company's ability to capture and maintain market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's current and proposed product offering and expected sales mix thereof;
- development of brands, product diversification and future corporate development;
- the competitive landscape in which the Company operates and the Company's market expertise;
- expectations regarding the Company's ability to raise additional financing to further the Company's investment in the business;
- the applicable legislation, regulations and licensing, and any amendments thereof, related to the cultivation, production, processing, distribution and sale of cannabis products by the Company's subsidiaries and other business interests;
- the ability of the Company to use consumer insights to drive innovation; continuously innovate new cannabis products; and introduce innovative cannabis products to the market;
- the ability of the Company, its subsidiaries and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- the ability of the Company to maintain and/or increase its wholesale bulk cannabis sales;
- expectations regarding the Company's licences, including in respect of the grant and maintenance of licences under the Cannabis Act, the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act, and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- 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 costs and benefits associated with third party contract manufacturing agreements;

- expectations regarding the Company's expansion of sales, operations and investment into foreign jurisdictions;
- the performance of the Company's business and operations;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- the Company's competitive position.

The forward-looking statements in this MD&A are based on information currently available and what management believes are reasonable assumptions. Forward-looking statements speak only to such assumptions as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, the accuracy of which has not been verified by Auxly. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking statements. A number of factors could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking statements in this MD&A including, but not limited to, whether:

- current and future management will abide by the business objectives and strategies outlined herein;
- the Company will retain and supplement its Board of Directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which Auxly participates;
- the Company will be able to continue to attract, develop, motivate and retain highly qualified and skilled employees;
- no adverse changes will be made to the regulatory framework governing cannabis, taxes and all other applicable matters in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company will be able to generate cash flow from operations, including, where applicable, the cultivation, production, processing, distribution and sale of Cannabis Products;
- the Company will be able to execute on its business strategy or achieve its goals;
- the Company will be able to maintain and/or grow its market share;
- the Company's subsidiaries will be able to meet the governmental and regulatory requirements necessary to maintain their licences;
- overall macroeconomic environment, which may impact customer spending, the Company's cost and margins, including tariffs (and related retaliatory measures), the levels of inflation, and interest rates;
- general economic, financial market, regulatory and political conditions in which Auxly operates will remain the same;
- the Company will be able to compete in the cannabis industry;

- the Company will be able to manage anticipated and unanticipated costs;
- the expected benefits of the Imperial Debt Conversion materialize in the manner expected, or at all;
- the Company will remain in compliance with its covenants under the Amended Credit Facility;
- the expected benefits of the Amended Credit Facility materialize in the manner expected, or at all;
- Auxly will be able to maintain effective internal controls over financial reporting and disclosure, controls and procedures;
- there will not be material price compression in the cannabis industry;
- the Company will be able to continue to achieve and maintain its target SG&A expenses;
- the Company will be able to increase and maintain revenues, achieve and maintain positive Adjusted EBITDA and/or achieve and maintain its target Gross Margin on Finished Cannabis Inventory Sold;
- the Company will be able to continue to further expand production capacity and introduce new products and product formats;
- the Company will be able to increase its wholesale bulk cannabis sales;
- the Company will be able to successfully launch and commercialize new brands, create and innovate new products and product formats and enter into new markets; and
- there is acceptance and demand for current and future Company products by consumers and provincial purchasers;

Although management believes that the expectations represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to have been correct. Auxly cannot guarantee future results, performance or achievements.

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amount of assets, liabilities, revenues and expenses. These estimates may impact the financial performance of Auxly when further information becomes available.