

This is Auxly / Q3 2025 Letter to Shareholders



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Dear Auxly Shareholders,

today we released our Q3 2025 financial results, reporting new records in net revenue, gross margin, Adjusted EBITDA and net income. I would like to thank our employees, customers and partners for making these results possible. We are just getting started, with lots more great work to come.

Outstanding innovation leads to growing demand

Auxly continues firing on all cylinders, capitalizing on growing demand for our innovative products and brands.

Revenue increased to \$39.9 million in Q3 2025, a 20% increase from the same time last year. We are producing more flower with investments we've made into production capacity and efficiency, and we are also benefiting from higher overall market prices.

Product mix is also a factor supporting our revenue growth. We share the spirit expressed by the great Tom Murphy of Capital Cities/ABC, that "the goal is not to have the longest train, but to arrive at the station first, using the least amount of fuel." To that end, Auxly

Foray

KOLAB PROJECT

BACK FORTH



Parcel

focuses on the three most important product formats in cannabis: flower, pre-rolls and vapes. Our culture of innovation and obsession with SKU performance and product portfolio management has resulted in Auxly having one of the most focused and efficient SKU portfolios in Canadian recreational cannabis. We punch above our weight in our chosen categories and we do it with fewer SKUs than any of our competitors.

We continue to deliver CPG-style margins: Gross Margin of 56% and an Adjusted EBITDA margin of 31%. This has translated to year-over-year Adjusted EBITDA growth of 48% in Q3 2025, reaching \$12.3 million. This profitability is a reflection of the investments we have made into our operations which has established Auxly as one of the lowest-cost, if not the lowest-cost, producers in Canada and by keeping a lean overhead structure. Our operating expenses are increasing in some areas, most notably in selling expenses, to support increased sales, but at a much lower rate than our net revenue growth. We are happy to keep investing in our distribution in order to further our strategy of winning at home.

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This is also the first quarter where Auxly's balance sheet reflects the impact of the transformative recapitalization that we reported in early July and the Company can exclaim the strength of its balance sheet. With \$11.0 million of cash flow generated before working capital changes, we increased our cash balance at quarter end to \$30.5 million and working capital increased to \$49.1 million. Given this cash generation and balance sheet strength, we repaid a \$5.0 million loan post-quarter end which will save the Company approximately \$900,000 annual interest expense. With the high cost of loan (18% + fees), we believe that this is an excellent use of our excess cash and further solidifies the strength of our balance sheet.

Designing our capital allocation framework

Since our inception eight years ago, our capital has been allocated principally to building our assets, product innovations, and repaying our creditors. Times have changed and we have learnt a lot.

Over the past several years, we have worked hard to transform Auxly into a company that can thrive in the challenging and highly competitive Canadian recreational cannabis industry. That transformation has produced an efficient and profitable business, generating significant cash flows. Our experience has made us intensely focused on allocating every dollar as if it were our last – directing capital only where we see clear, durable value. That mindset underpins our disciplined approach to deploying capital and creating enduring value for Auxly shareholders.

Without having yet finalized our near- to mid-term

outlook for capital requirements, we are confident Auxly can generate free cash flow after capital expenditures, both maintenance and growth capex. There are two avenues to pursue with this cash. First, we can strengthen our balance sheet. We are content with this option because it solidifies our foundation as an organization and we can reduce interest expense. Second, and in tandem with a stronger balance sheet, we are starting to build a framework and strategy to deploy capital towards opportunities that are accretive to shareholders.

Innovation and distribution leadership is always going to be core to Auxly. We do it exceptionally well and it's a big reason Back Forty is the best-selling cannabis brand in Canada. Given our focus, we believe we can maintain a leadership role in product innovation with our current cost structure and that increases in selling expenses will deliver significantly higher returns in net revenue and profitability.

Auxly Leamington sits on 100 acres of land that we own outright. Today, our 1.1 million square foot facility occupies less than 40% of that footprint. For the time being, we don't believe we need to expand our footprint because we can invest in throughput and quality which can meaningfully increase our flower output and further enhance the quality of our flower. Over the long-term, we'll prioritize investments in productivity, quality and capacity at Leamington given the returns we project from these investments and their alignment to our strategy.

Finally, we are also mindful of how the market values Auxly relative to our peers. Despite delivering stronger margins, higher profitability and greater cash flow, our shares continue to trade at about 6 to

7x trailing twelve-month EV/EBITDA, compared to the mid-teens to nearly 30x for some of our peers. We view this disconnect as striking, particularly given our consistent ability to translate revenue into earnings and cash flow where others have struggled.

While our immediate priorities remain focused on investing prudently in growth and strengthening our balance sheet, we will continue to evaluate all capital allocation alternatives with the same discipline and long-term orientation that have defined our transformation. As Henry Singleton, one of the great capital allocators of his time, remarked, "just buy good value, and when you have the cash."



We're actively engaging with investors

Our recent financial performance has put Auxly on the radar screen of many new investors. It has been quite some time since we've received this kind of attention and it's nice to know that all the work we've done to create a high-quality business is starting to be noticed. We've also made investments into our investor relations program to accelerate awareness of Auxly as an investment opportunity to both retail and institutional investors.

We have taken dozens of meetings over the past three months, and attended the Planet MicroCap Conference in Toronto, where we presented to a full room and were in back-to-back meetings for much of the two-day event. We are getting great reception from investors as they learn about our growth prospects, our production capabilities, our culture of innovation and go-to-market expertise. With our shares widely distributed, relatively low institutional shareholder ownership and very positive financial momentum, we going to keep our foot on the gas in our investor relations activities.

Looking ahead

The market for recreational cannabis in Canada is stable and growing. We expect continued tailwinds 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.

Furthermore, while some of our competitors have made capacity increase announcements, many licensed producers in Canada remain unprofitable, struggle to convert EBITDA to cash flow or have limited or no capital availability.

With this context, Auxly is going to do what it does best. We are going to study the market and use consumer data insights to drive ongoing innovation. We are going to make select investments to ensure Auxly Leamington can produce the highest-quality cannabis at the most competitive cost in the market. And we are going to stay lean and mean: keeping our costs as fixed as possible and fortifying our balance sheet. For our shareholders, this means you can expect Auxly to be diligent in the allocation of its free

cash flow so that we continue to be a growth story that delivers CPG-style profitability.

With a trailing EV/EBITDA multiple of about 6 to 7x, we feel our shares are still considerably undervalued. This valuation effectively assumes no growth, nor does it ascribe value to the irreplaceability of Auxly Leamington, our industry-leading brand or our exceptional team. I'll also note that I was a buyer of stock back in August after our Q2 results were released, paying an average price of \$0.17. I'm confident these purchases will be profitable and I invite you to share in that optimism. Whether it be through advocacy for our products and brands, as champions of our vision or continued investment, your involvement makes a meaningful difference and is vital to our success.

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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