

This is Auxly / Q4 2025 Shareholder Letter

Auxly

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Auxly Cannabis Group Inc.
777 Richmond St W Unit 002
Toronto, Ontario M6J 0C2

1 647 812 0121
auxly.com
IR@auxly.com

Dear Auxly Shareholders,

Today we released our Q4 and full year 2025 financial results, capping a milestone year for Auxly. Over the past several years, we have transformed the company – strengthening our balance sheet, building leading brands and establishing a profitable and cash flow generating business.

We are now entering a new phase. With a strong financial foundation and increasing cash flow, we are focused on investing in growth – increasing throughput, enhancing quality, preparing for international distribution and allocating capital to high-return opportunities.

Record results across the board

Net revenue for Q4 2025 was \$40.1 million, a 16% increase over Q4 2024. This record quarterly revenue is the result of increased throughput and quality at Auxly Leamington, higher volume on vapes and pre-rolls and favourable market pricing. The enhanced volumes and quality of cannabis produced at Auxly Leamington has allowed us to increase our share in our core categories, drive growth through new innovation (Backpackers pre-rolls were a hit in 2026) and expand distribution into the province of Quebec.

Improvements in profitability continued in Q4 2025 with Gross Margin on Finished Cannabis Inventory Sold reaching 56%, up from 54% in the prior year. We believe our purpose-built hybrid greenhouse is among the best

Foray KOLAB PROJECT

BACK FORTY

 SOUTH
POINT


Dosecann

Parcel

cannabis production facilities in the world given its scale, consistently high quality and competitive cost of production. Our team is continuously refining processes and evaluating costs and product mix, and Gross Margin on Finished Cannabis Inventory Sold is proof that our team are proficient operators.

Adjusted EBITDA was \$12.5 million for the quarter, an improvement of \$1.5 million or 14% compared to \$11.0 million during the fourth quarter of 2024. Adjusted EBITDA increased primarily as a result of higher gross profits, partially offset by higher selling expenses which helped support new innovation launches. For fiscal 2025, Auxly delivered 64% Adjusted EBITDA growth on net revenues growth of 24%. Looking forward, we believe we can continue to drive operating leverage on an annual basis.

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Cash flow from operations before working capital changes, was \$11.2 million for the quarter, representing 89% conversion from Adjusted EBITDA. This conversion reflects decreasing interest expense and stabilization of working capital investments, a trend we expect to continue through 2026.

Cash at quarter end totalled \$32.3 million and total debt was \$46.3 million, for net debt of \$14.0 million. Net debt to trailing Adjusted EBITDA was 0.3x. Our strong balance sheet is a strategic advantage in a sector that continues to lack consistent access to capital markets.

Latest innovations: South Point and Boosted All-in-One (“AIO”) Vapes

In Q4 2025, we launched South Point to distributors

in Ontario and Alberta. South Point delivers high-quality dried flower and pre-rolls offering consumers a reliably elevated experience without premium-tier pricing.



Our most recent innovation just released for 2026 is the Boosted Back Forty AIO vape. As many of you know, Back Forty is the #1 brand in the AIO category. Part of reason behind the success is the time and care we put into developing a high-quality device with a very low failure rate. Our team at Auxly Charlottetown has now become highly proficient in manufacturing our AIO vapes, with all ten of our SKUs in the top 15, and with our best-selling SKUs at the #1, #3, #4 and #5 spots.



In January 2026, we launched Back Forty Boosted AIO vapes in five provinces, in three great flavours: Kush Mint, Rainbow Melon and Mango Fuzz. The Boosted vapes are an enhanced version of our current market-leading products. These products build on our existing platform with improved performance and user experience. We expect that Back Forty Boosted will be just as successful as our original AIO.

Disciplined capital allocation

We have consistently said that our priority is to allocate capital where we can generate the highest returns. Subsequent to year end, Auxly became the DIP lender and stalking horse bidder in a court-supervised process involving the assets of Ayurcann Inc. This transaction is a good example of how we are thinking about capital allocation.

First, the purchase consideration is expected to be modest relative to our cash position and expected free cash flow and includes various deal protections which keep financial risk low whether we are successful in our bid or not. Second, these assets are aligned with our core categories and production capabilities, reinforcing our strategy of winning at home. More broadly, this reflects our approach to capital allocation. With a strong balance sheet and consistent cash flow, we are in a position to evaluate opportunities selectively and invest where we believe we can generate returns well above our cost of capital.

How can we justify a higher valuation? First, looking at our Canadian LP peers and, comparable valuation (from our friends at AGP) show an average of 11.6x EV/EBITDA multiple, more than double our current multiple. We believe that these multiples are earned through dual-listings in the U.S. which dramatically increase stock liquidity, though the magnitude of the premium appears disproportionate.

Looking beyond cannabis, including other consumer staple comparables, we note valuations considerably higher than Auxly's. Tobacco, Alcohol and Consumer non-cyclical companies trade between 2.3x and 2.7x EV/Revenue and between 9.3x and 13.6x EV/EBITDA.

These comparables do include much larger organizations with longer track records, but we believe the valuation is not explained by those factors alone. In our view, the Canadian cannabis market has a more constructive long-term outlook than traditional sectors such as tobacco or alcohol, and Auxly's operating performance, growth profile and asset base should be reflected more appropriately in our valuation over time.

Figure 1. AGP Comparable Valuation for Canadian LPs

Canadian LP Valuations															
Canadian Cannabis LPs	Market Cap	Price	Enterprise Value	2025	2026	2027	EV/2025	EV/2026	EV/2027	2025	2026	2027	EV/2025	EV/2026	EV/2027
				Sales	Sales	Sales	Sales	Sales	Sales	EBITDA	EBITDA	EBITDA	EBITDA	EBITDA	EBITDA
ACB-CA*	C\$335	C\$5.90	C\$309	C\$371	C\$403	C\$433	0.8x	0.8x	0.7x	C\$58	C\$63	C\$72	5.3x	4.9x	4.3x
CRON-CA*	C\$1,401	C\$3.66	C\$344	C\$192	C\$244	C\$203	1.8x	1.4x	1.7x	-C\$8	C\$18	-C\$2	-40.9x	19.2x	-204.0x
OGI-CA	C\$304	C\$2.25	C\$319	C\$185	C\$316	C\$333	1.7x	1.0x	1.0x	C\$25	C\$37	C\$46	12.7x	8.6x	7.0x
SNDL	C\$579	C\$2.25	-C\$38	C\$950	C\$988	C\$1,017	0.0x	0.0x	0.0x	C\$64	C\$75	C\$81	-0.6x	-0.5x	-0.5x
TLRY	\$1,153	\$9.90	\$1,140	\$863	\$917	\$961	1.3x	1.2x	1.2x	\$59	\$72	\$90	19.3x	15.8x	12.7x
VFF	\$408	\$3.53	\$430	\$265	\$247	\$269	1.6x	1.7x	1.6x	\$47	\$57	\$62	9.1x	7.6x	7.0x
WEED-CA	C\$585	C\$1.71	C\$503	C\$276	C\$307	C\$324	1.8x	1.6x	1.6x	-C\$16	C\$3	C\$13	-31.0x	192.7x	38.7x
Canadian LP Average							1.3x	1.1x	1.1x				-3.7x	35.5x	-19.3x
Canadian LP Average (ex Outliers)							1.5x	1.3x	1.3x				11.6x	9.2x	7.7x

Source: Alliance Global Partners

Thoughts on valuation

In our opinion, Auxly's share price does not reflect the strength of our business. At the time of writing, our shares are trading at 1.5x EV/Revenue and 5.1x EV/EBITDA. We are cognizant that size and liquidity usually result in lower valuation multiples, but Auxly is a Canadian market leader, we are delivering CPG-style profitability metrics, we own irreplicable assets and we are growing.

Figure 2. Tobacco, Alcohol and Consumer non-cyclical Comparable Valuation

	EV/Revenue	EV/EBITDA
Tobacco	2.7x	10.3x
Alcohol	2.3x	9.3x
Consumer non-cyclical	2.6x	13.6x
Auxly	1.5x	5.1x

Source: Refinitiv

Now the question becomes, what do we do about it? First, we continue to execute on our strategy of winning at home and preparing for longer-term international distribution. Second, we are in a financial position to evaluate more capital allocation opportunities with a returns-focused lens. Even after our \$10 million to \$12 million capex program is considered, we expect to be generating meaningful free cash flow. A successful stalking horse bid for Ayurcann's assets would also be value-enhancing, and we have identified other uses of capital that would be accretive to shareholders irrespective of that transaction closing. Finally, we are actively telling our story to new investors and engaging with the capital markets, which we believe will add new Auxly shareholders in time.

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Our focus remains on executing our strategy and allocating capital with discipline, which we believe will drive long-term value and, over time, a more appropriate valuation.

Building to Last

Auxly has entered a new phase. We have turned the corner financially, and our production, manufacturing, innovation and distribution are improving consistently. Auxly was the only top five Canadian licensed producer that gained market share in 2025, reflecting the strength of our winning at home strategy. With a solid foundation, we are now building to last and we have the free cash flow profile to evaluate a range of capital allocation opportunities.

As we discussed in an operational update on January 8, 2026, we will be investing in throughput and quality at Leamington, which will ultimately drive

capacity increases through to the end of 2028. With incrementally more capacity available and continued improvements in quality, we believe we can maintain leading assets and brands in the Canadian recreational cannabis market, with a competitive cost structure.

We are also investing to prepare the company for direct international sales. Our success at winning at home gives our team the confidence that we can replicate our success internationally and we are building the infrastructure to support that expansion. Our approach to international will be disciplined. We do not need to be the first mover, but when we do enter those markets it will be with high quality products that consumers enjoy and that meet our profitability thresholds.

Looking out over the very long-term, we are building our company to be a leading global cannabis company. Our team is young, battle-hardened and we have all worked hard to develop a strong balance sheet and industry-leading profitability. Canadian recreational cannabis will be the engine that provides us the cash flow to expand and to invest in our business to create a durable competitive advantage.

None of this progress is possible without the commitment and execution of our team across Leamington, Charlottetown and our corporate group. We are grateful for the continued support of our shareholders, employees, vendors and partners. It's been a meaningful journey so far, but we believe the best is still ahead.

Sincerely,

Hugo Alves