AUXLY CANNABIS GROUP INC.

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

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2025

March 25, 2026

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of March 25, 2026 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 Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2025.

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").

Company Strategy and Capabilities

Based upon consumer insights, Auxly has developed a focused 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

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

[1] HiFyre IQ as at January 2026.

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

Products Available by Brand					
BACK FORTY	SOUTH POINT	KOLAB PROJECT	Foray	Parcel	Dosecann
Dried Flower Milled Flower Pre-Roll Infused Pre-Rolls Vapes – 510 Cartridges Vapes – All-In-One Edibles	Dried Flower Pre-Roll	Vapes – 510 Cartridges Vapes – All-In-One Concentrates	Vapes – 510 Cartridges Vapes – All-In-One Edibles	Dried Flower 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, it will emphasize on expanding its dried flower, vape and pre-roll offerings.

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.

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 streamline the Company's operations and to reduce costs where possible.

In 2025, the Company made $nil million expenditures towards capital project initiatives at the Auxly Charlottetown facility.

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.

In 2025, expenditures of approximately $2.0 million were made towards facility enhancements.

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. In 2025, the Company incurred approximately $0.5 million in expenditures related to pre-roll initiatives.

Funding for the Auxly Leamington facility was provided through equity and a subordinated debt from the Company, together with secured credit facility underwritten by a syndicate of lenders led

by Bank of Montreal ("BMO"). 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"). As at December 31, 2025, $43.5 million remains owing under the Amended Credit Facility, inclusive of deferred finance charges. 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 amended and restated credit agreement).

Under the Amended Credit Facility, the Company is required to maintain compliance with certain financial covenants, including specified fixed charge coverage and total funded debt to EBITDA ratios. As at December 31, 2025, the Company was in full compliance with all covenants under the Amended Credit Facility.

Strategic Partner

Imperial Brands

In 2019, as part of a strategic partnership, Imperial Brands PLC ("Imperial") invested approximately $123.0 million in the Company through a 4% unsecured debenture convertible into Shares at $0.81 per share (the "Imperial Debenture"). Auxly also obtained global licences to Imperial's cannabis vaping technology and access to its vapour innovation business, Nerudia. The parties entered into an investor rights agreement under which Imperial may nominate one director and one non-voting observer to the Company's Board while maintaining at least 15% partially diluted ownership. Imperial currently has no nominee but retains its nomination rights.

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 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 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.

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. Auxly continues to advance its strategy through focused innovation, operational excellence, and prudent financial management. With a strengthened balance sheet, we are well-positioned to drive long-term shareholder value.

We expect the Canadian recreational cannabis market will continue to benefit from the tailwinds of increasing social acceptability, capture of market share from the illicit market, the divergence of existing supply to international markets and limited capital availability to the cannabis sector. We believe many of these trends could persist over the long-term.

Auxly continues to see long-term potential in international markets and is actively evaluating export opportunities. We are well-positioned to succeed internationally, supported by our strong brands, scalable production, and a strategic partnership with Imperial Brands. Auxly intends to invest in its international export capabilities over the course of 2026 to prepare and position us for long-term international growth. Our deliberations towards international sales are purposefully rigorous and measured to ensure that international cannabis activities are accretive to profitability and that our focus on winning at home is not compromised.

Auxly believes it can continue to grow net revenue above market rates through product innovation, further investment in distribution and increased capacity at Auxly Leamington. Both innovation and output increases are expected to be funded from operating cash flow for the foreseeable future. Auxly plans to maintain profitability through focused innovation, investment in efficiency and quality, and rigorous cost control. Furthermore, the conversion of profitability to free cash flow is expected to improve through the reduction of interest expense and stabilization of working capital.

Auxly expects to allocate between $10 million to $12 million of cash flow from operations towards capital projects at Auxly Leamington in 2026. In combination with previous capital investments, these investments are expected to increase capacity and efficiency throughout cultivation and processing and add capabilities that will allow for direct international shipments.

Over the long-term, Auxly remains confident in its ability to deepen its leadership position in Canada and make meaningful advances towards our vision of global leadership while maintaining profitability. 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: Fourth Quarter 2025 To Date

Exercise of Warrants from 2023 Private Placement

During March 2026, 38,000,000 warrants from the February 2023 private placement were exercised for total proceeds of $1.7 million. Each warrant entitled the investor to purchase one common share at the price of $0.045 per common share.

Stalking Horse Bid and Debtor-in-Possession Facility

On February 13, 2026, the Company entered into an agreement of purchase and sale (the "Stalking Horse Agreement") with Ayurcann Holdings Corp. and its subsidiary, Ayurcann Inc. (together, "Ayurcann") pursuant to which the Company has agreed to acquire the business and material assets of Ayurcann. Ayurcann obtained creditor protection under the *Companies' Creditors Arrangement Act (Canada)* ("CCAA") pursuant to an initial order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated January 30, 2026.

Concurrently with the Stalking Horse Agreement, the Company executed a debtor-in-possession credit facility commitment (the "DIP Facility") in a principal amount of up to $2.0 million, non-revolving, bearing interest at 12% per annum, with a 2.0% upfront commitment fee paid to the Company on execution. The DIP Facility is secured by a Court-ordered super-priority charge in favour of the Company over Ayurcann's property, to the extent and on the terms approved by the Court, and is available to fund Ayurcann's operations and restructuring expenses during the CCAA proceedings.

As at the date of this MD&A, the sale and investment solicitation process remains ongoing and the outcome of the bidding process is pending. The Company's offer is the stalking horse bid in the sale process. If the Company's bid is successful, closing is anticipated the second quarter of 2026; however, there can be no assurance that the Company will be the successful bidder or that the proposed transaction will close on the terms contemplated in the Stalking Horse Agreement or at all.

Repayment of Inventory Financing Loan

On October 24, 2025, the Company fully repaid the remaining principal amount and the interest payable on the inventory financing loan.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

For the three months ended: (000's)	**December 31, 2025**	December 31, 2024	Change	% Change
Net revenue	**$ 40,113**	$ 34,626	$ 5,487	16%
Gross Margin on Finished Cannabis Inventory Sold*	**22,637**	18,684	3,953	21%
Gross Margin on Finished Cannabis Inventory Sold (%)*	**56%**	54%	2%	4%
Net income/(loss)	**943**	4,423	(3,480)	-79%
Adjusted EBITDA*	**12,540**	11,006	1,534	14%
Weighted average shares outstanding - basic	**1,349,578,902**	1,284,329,265	65,249,637	5%

For the years ended: (000's)	**December 31, 2025**	December 31, 2024	Change	% Change
Net revenue	**$ 151,482**	$ 122,329	$ 29,153	24%
Gross Margin on Finished Cannabis Inventory Sold*	**81,102**	55,861	25,241	45%
Gross Margin on Finished Cannabis Inventory Sold (%)*	**54%**	46%	8%	17%
Net income/(loss)	**41,855**	(16,348)	58,203	356%
Adjusted EBITDA*	**43,787**	26,705	17,082	64%
Weighted average shares outstanding - basic	**1,329,411,626**	1,204,591,972	124,819,654	10%

As at December 31, (000's)	**2025**	2024	Change	% Change
Cash and cash equivalents	**$ 32,279**	$ 18,356	$ 13,923	76%
Total assets	**271,636**	261,530	10,106	4%
Debt*	**46,279**	54,683	(8,404)	-15%

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

Financial Year 2025 vs. 2024

For the year ended December 31, 2025, net revenue was $151.5 million, an increase of $29.2 million or 24% over the same period of 2024. Net revenue increased primarily as a result of an increase in both volume and price of dried flower, pre-roll and vape products.

The Gross Margin on Finished Cannabis Inventory Sold improved to 54% versus 46% in 2024. In addition to the factors impacting net revenue, Gross Margin on Finished Cannabis Inventory Sold improved as a result of improvements made in cultivation and manufacturing processes to reduce operating costs, strategic procurement initiatives, and product mix.

Net income of $41.9 million for the year ended December 31, 2025 improved by $58.2 million over the same period in 2024. Net income included $8.1 million of deferred tax recovery related to the change in estimated useful life of intangible assets and $8.1 million after-tax gain on the Imperial Debenture Settlement. The net loss of $16.3 million for the year ended December 31, 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 and the gain on the Imperial Debenture Settlement in 2025, and the deferred tax expense on the conversion of Imperial Debenture into Shares in 2024, net income increased primarily due to improved gross profits and reduction in interest and accretion expenses from the conversion of the Imperial Debenture in March 2024 and other debt repayments.

Adjusted EBITDA was $43.8 million for the year, an improvement of $17.1 million or 64% compared to $26.7 million during 2024. Adjusted EBITDA for the year ended December 31, 2025 improved primarily as a result of improved gross profits, partially offset by higher selling expenses and higher wages and benefits to support higher sales.

For the year ended December 31, 2025, the average number of Shares outstanding increased to 1.3 billion Shares, an increase of 124.8 million Shares or 10% over December 31, 2024 primarily as a result of the Shares issued from the Imperial Debt Conversion in March 2024 and the Imperial Debenture Settlement in the third quarter of 2025, warrants exercised and Shares issued on RSU settlement.

Cash and cash equivalents were $32.3 million on December 31, 2025, an increase of $13.9 million from December 31, 2024. The change in cash was primarily driven by net cash provided by operating activities, proceeds from the revolving facility from the Amended Credit Facility, partially offset by payments made towards debt instruments and lease liabilities and capital investments.

Financial Year 2024 vs. 2023

For the year ended December 31, 2024, net revenue was $122.3 million, an increase of $21.3 million or 21% over the same period of 2023. Net revenue increased primarily as a result of an increase in both volumes and price of dried flower, vape and pre-roll products.

The Gross Margin on Finished Cannabis Inventory Sold improved to 46% versus 34% in 2023. In addition to the factors impacting net revenue, Gross Marign on Finished Cannabis Inventory Sold improved as a result of improvements made in our manufacturing process to reduce operating costs.

Net loss of $16.3 million for the year ended December 31, 2024 improved by $28.2 million over the same period in 2023. Net loss of $16.3 million for 2024 included $16.0 million of deferred tax expense on the conversion of Imperial Debenture into Shares. Excluding the gains on the extension of the Imperial Brands Debenture in the third quarter of 2023 of $46.9 million and the after-tax charges of $32.7 million related to the impairment of other assets during the fourth quarter of 2023, net income increased by $42.4 million primarily due to improved gross profits and reduction in expenses, including the operational stability as a result of the consolidation of the Company's dried flower and pre-roll manufacturing to the Auxly Leamington facility.

Adjusted EBITDA was $26.7 million for the year, an improvement of $25.2 million when compared to $1.5 million during 2023. Adjusted EBITDA improved primarily as a result of improved gross profits and lower SG&A.

For the year ended December 31, 2024, the average number of Shares outstanding increased to 1.2 billion Shares, an increase of 213.6 million Shares or 22% over 2023 primarily as a result of the Shares issued from the Imperial Debt Conversion in March 2024.

Cash and cash equivalents were $18.4 million on December 31, 2024, an increase of $2.8 million from December 31, 2023. The change in cash was primarily driven by net cash provided by operating activities, proceeds from the second tranche of the October 2023 inventory financing loan and the conversion of warrants, partially offset by payments made towards debt instruments, including the remaining principal of $6.2 million advanced under the April 2020 standby financing investment agreement, and lease liabilities.

RESULTS OF OPERATIONS

For the years ended December 31: (000's)		**2025**		2024
Revenue				
Revenue from sales of cannabis products	**$**	**227,771**	$	185,666
Excise taxes		**(76,289)**		(63,337)
Total net revenue		**151,482**		122,329
Costs of sales				
Costs of finished cannabis inventory sold		**70,380**		66,468
Inventory impairment		**869**		2,332
Gross profit/(loss) excluding fair value items		**80,233**		53,529
Unrealized fair value gain/(loss) on biological transformation		**57,104**		32,627
Realized fair value gain/(loss) on inventory		**(50,593)**		(26,227)
Gross profit		**86,744**		59,929
Expenses				
Selling, general, and administrative expenses		**43,352**		35,676
Equity-based compensation		**5,720**		5,055
Depreciation and amortization		**5,000**		4,484
Interest and accretion expenses		**6,658**		15,041
Total expenses		**60,730**		60,256
Other income/(loss)				
Interest and other income		**130**		240
Gain/(loss) on settlement of assets and liabilities and other expenses		**6,326**		1,401
Gain/(loss) on disposal of assets held for sale		**-**		(453)
Foreign exchange gain/(loss)		**47**		(1,217)
Total other income/(loss)		**6,503**		(29)
Net income/(loss) before income tax		**32,517**		(356)
Income tax recovery/(expense)		**9,338**		(15,992)
Net income/(loss)	**$**	**41,855**	$	(16,348)
Adjusted EBITDA	**$**	**43,787**	$	26,705
Net income/(loss) per common share – basic and diluted ($)	**$**	**0.03**	$	(0.01)
Weighted average shares outstanding – basic		**1,329,411,626**		1,204,591,972
Weighted average shares outstanding – diluted		**1,586,730,943**		1,204,591,972

Net Revenue

For the year ended December 31, 2025, net revenue was $151.5 million as compared to $122.3 million during the same periods in 2024, representing an increase of 24%. Net revenue for the year ended December 31, 2025 were comprised of approximately 65% (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 year ended December 31, 2025, approximately 74% (2024 – 76%) 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. In 2025, the Company had a small portion of wholesale bulk cannabis reaching international markets.

The year-over-year growth in net revenue was primarily driven by higher incremental volumes and improved pricing across the core portfolio. The increase was particularly supported by strong performance in the Company's flower portfolio, which benefited from increased demand and improved distribution.

Gross Profit

Auxly realized a gross profit of $86.7 million for the year ended December 31, 2025, resulting in 57% Gross Profit Margin, as compared to $59.9 million (49%) during the same periods in 2024. The Gross Margin on Finished Cannabis Inventory Sold for the year ended December 31, 2025 improved to 54% from 46% in 2024. In addition to the factors impacting net revenue, the higher Gross Margin on Finished Cannabis Inventory Sold resulted from the improvements made in our manufacturing process to reduce operating costs, higher cultivation yields, efficiency improvements at our Auxly Charlottetown facility and strategic procurement initiatives 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 2025 of $0.9 million were associated with charges related to the obsolescence of certain retired packaging and the reductions in net realizable value of finished goods under the Company’s product specifications, a decrease of $1.5 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 $43.4 million in 2025, $7.7 million higher than 2024. The increase in SG&A was primarily driven by investments to support higher sales.

Wages and benefits were $19.7 million for the year, as compared to $16.9 million during 2024 2024, primarily due to an increase in compensation accruals and higher headcount to support higher sales. Wages and benefits in 2024 included non-recurring restructuring related cost of $0.6 million.

Office and administrative expenses were $5.5 million for the year, $0.3 million higher compared to the same period in 2024. The Company continues to actively control overhead spend in the organization while growing sales.

Professional fees were $1.7 million during 2025, $0.5 million lower than 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 $0.5 million for 2025, $0.1 million higher than 2024. These expenses primarily relate to business development and travel related expenses.

Selling expenses were $15.9 million for the year ended December 31, 2025, an increase of $5.0 million from 2024. The increase in expenditures was primarily as a result of investments in marketing initiatives and higher Health Canada fees related to higher net revenue.

Equity-based compensation for the year was $5.7 million, primarily driven by RSUs issued in 2025 and 2024 and the Cash Settled RSUs granted in 2023. During the same periods in 2024, equity-based compensation was $5.1 million.

Depreciation and amortization expenses were $5.0 million for 2025, representing an increase of $0.5 million over 2024. The increase was primarily driven by the change in estimated useful lives of certain assets, as well as capital investments made during 2024 and 2025.

Interest expenses were $6.7 million for the year ended December 31, 2025, a decrease of $8.4 million over the same period 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 expenses include accretion on the convertible debentures and interest paid in kind on the Imperial Debenture. Interest payable in cash was $5.6 million for 2025, $3.2 million lower than 2024 as a result of lower principal amounts outstanding on debt instruments, including the repayment of the receivables financing loan and the inventory financing loan.

Total Other Income and Loss

Total other income and losses was a net gain of $6.5 million for the year ended December 31, 2025, compared to $nil during the same period in 2024. The other income and losses for the year ended December 31, 2025 were primarily driven by the gain on the Imperial Debenture Settlement, partially offset by non-recurring expenses related to the Bank of Montreal Amended Credit Facility. The other incomes and losses for 2024 included foreign exchange losses, the loss on the adjustment to the provision related to the claim filed by Kindred Partners Inc., the loss on the sale of the Auxly Ottawa facility, partially offset by the gains on settlement of financial assets and liabilities, the extensions of the unsecured promissory notes and gains on the sale of equipment.

Net Income and Loss

Net income of $41.9 million for the year ended December 31, 2025 improved by $58.2 million over the same period in 2024. The net income of $41.9 million included $8.1 million of deferred tax recovery related to the change in estimated useful life of intangible assets and $8.1 million after-tax gain on the Imperial Debenture Settlement. The net loss of $16.3 million for the year ended December 31, 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 and the gain on the Imperial Debenture Settlement in 2025, and the deferred tax expense on the conversion of Imperial Debenture into Shares in 2024, year-to-date net income increased primarily due to improved gross profits and reduction in interest and accretion expenses from the conversion of the Imperial Debenture in March 2024 and other debt repayments.

Adjusted EBITDA

Adjusted EBITDA was $43.8 million for the year, an improvement of $17.1 million or 64% compared to $26.7 million during 2024. Adjusted EBITDA for the year ended December 31, 2025 improved primarily as a result of improved gross profits, partially offset by higher selling expenses and higher wages and benefits to support higher sales.

SUMMARY OF QUARTERLY RESULTS

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

(000's)	Q1/24	Q2/24	Q3/24	Q4/24	Q1/25	Q2/25	Q3/25	**Q4/25**
Net revenue	$ 25,241	$ 29,178	$ 33,284	$ 34,626	$ 32,669	$ 38,802	$ 39,898	**$ 40,113**
Cost of finished cannabis inventory sold	15,672	17,129	17,725	15,942	16,838	18,534	17,532	**17,476**
Gross Margin on Finished Cannabis Inventory Sold*	9,569	12,049	15,559	18,684	15,831	20,268	22,366	**22,637**
Gross Margin on Finished Cannabis Inventory Sold (%)*	38%	41%	47%	54%	48%	52%	56%	**56%**
Net income/(loss)	(26,012)	2,002	3,239	4,423	12,111	8,310	20,491	**943**
Adjusted EBITDA*	2,240	5,173	8,286	11,006	7,433	11,545	12,269	**12,540**
Average shares outstanding (000's) - basic	1,016,839	1,250,513	1,265,144	1,284,329	1,316,930	1,315,585	1,341,625	**1,349,579**
Net income/(loss) per common share - basic ($)	(0.03)	0.00	0.00	0.00	0.01	0.01	0.02	**0.00**

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

The general increase in net revenue over the period is primarily attributable to the introduction of new products and expanded distribution. Net revenue is typically seasonally lower during the first quarter of the calendar year as a result of retail sales trends which impact the Company's provincial customers' purchasing practices. The Company's expansion into dried flower and pre-roll product categories has also contributed to the overall upward trend in sales. In addition, the strength of the Company's vape business has driven further sales growth and enhanced overall product distribution across Canada.

Gross Margin on Finished Cannabis Inventory Sold is a non-IFRS measure that the Company defines as net revenue less cost of finished cannabis inventory sold divided by net revenue. 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 over the eight quarters 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 strategic procurement initiatives.

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 third quarter of 2025 reflects the $8.1 million after-tax gain on the Imperial Debenture Settlement. 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.

Adjusted EBITDA has fluctuated with changes in net revenue, 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 in Adjusted EBITDA compared to the historical average reflect the impact of lower cultivation costs, and improved overall margins.

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.

FOURTH QUARTER RESULTS OF OPERATIONS

For the three months ended December 31: (000's)		2025		2024
Revenue				
Revenue from sales of cannabis products	**$**	**60,072**	$	52,882
Excise taxes		**(19,959)**		(18,256)
Total net revenue		**40,113**		34,626
Costs of sales				
Costs of finished cannabis inventory sold		**17,476**		15,942
Inventory impairment		**364**		729
Gross profit/(loss) excluding fair value items		**22,273**		17,955
Unrealized fair value gain/(loss) on biological transformation		**10,857**		11,073
Realized fair value gain/(loss) on inventory		**(15,911)**		(11,625)
Gross profit		**17,219**		17,403
Expenses				
Selling, general, and administrative expenses		**11,724**		9,287
Equity-based compensation		**1,830**		1,103
Depreciation and amortization		**1,204**		990
Interest and accretion expenses		**1,222**		2,291
Total expenses		**15,980**		13,671
Other income/(loss)				
Interest and other income		**25**		27
Gain/(loss) on settlement of assets and liabilities and other expenses		**(245)**		1,461
Foreign exchange gain/(loss)		**(76)**		(797)
Total other income/(loss)		**(296)**		691
Net income/(loss) before income tax		**943**		4,423
Income tax recovery/(expense)		**-**		-
Net income/(loss)	**$**	**943**	$	4,423
Adjusted EBITDA	**$**	**12,540**	$	11,006
Net income/(loss) per common share – basic and diluted ($)	**$**	**0.00**	$	0.00
Weighted average shares outstanding – basic		**1,349,578,902**		1,284,329,265
Weighted average shares outstanding – diluted		**1,609,542,200**		1,383,825,100

Unless stated otherwise, the narrative in this section is in reference to the operating results for the fourth quarter of 2025 as compared to the same period in 2024.

Net Revenue

Net revenue for the fourth quarter of 2025 was $40.1 million, an increase of $5.5 million or 16% over the same period of 2024. Net revenue increased primarily as a result of an increase in both volume and price of dried flower, pre-roll and vape products.

Gross Profit

Auxly achieved a gross profit of $17.2 million in the fourth quarter of 2025, compared to $17.4 million in the fourth quarter of 2024. Gross Profit Margin in the fourth quarter of 2025 was approximately 43% (2024 – 50%) whereas Gross Margin on Finished Cannabis Inventory Sold improved to approximately 56% (2024 – 54%). Gross profits were driven by the factors impacting net revenue as well as favourable Auxly Leamington cost of production. Improvements made in cultivation and manufacturing processes also reduced operating costs.

Inventory impairments were $0.4 million or $0.4 million lower than those of 2024, comprised of charges related to the obsolescence of certain retired packaging and the reductions in net realizable value of finished goods under the Company's product specifications.

Total Expenses

SG&A expenses of $11.7 million during the fourth quarter of 2025 increased by $2.4 million over the same period in 2024. Wages and benefits were $5.2 million, as compared to $3.9 million for the same period of 2024. The increase in wages and benefits were due to an increase in compensation accruals and higher headcount to support higher sales. Office and administrative expenses were $1.6 million for the fourth quarter of 2025, $0.1 million higher than the same period in 2024. The Company continues to actively control overhead spend in the organization while growing sales. Professional fees of $0.4 million and business development expenses of $0.2 million were $0.4 million lower and $0.1 million higher when compared to the same period in 2024, respectively. Selling expenses were $4.4 million or $1.4 million higher than the same period in 2024, primarily driven by higher investment in marketing initiatives and higher Health Canada fees related to higher revenue.

Depreciation and amortization expenses were $1.2 million, which was $0.2 million higher than the same period of 2024, primarily as a result of the change in estimated useful life of certain assets and capital investments made during 2024 and 2025.

Interest expenses were $1.2 million for the three months ended December 31, 2025, which reflects a decrease of $1.1 million from 2024, primarily a result of the conversion of Imperial Debentures into Shares and lower interest expenses on adjustable-rate debt. Interest expense includes accretion on the convertible debentures and interest paid in kind on the Imperial Debenture, which was fully settled in the third quarter of 2025.

Total Other Income and Loss

For the quarter, total other income and losses was a loss of $0.3 million compared to income of $0.7 million during the same period in 2024. The other loss in 2025 was primarily driven by settlement of assets and liabilities and foreign exchange losses. The income in 2024 was primarily driven by gains on settlement of assets and liabilities, partially offset by foreign exchanges losses.

Net Income and Loss

Net income for the three months ended December 31, 2025 was $0.9 million, representing a net income of $nil per share on a basic and diluted basis. The change in net income in 2025 as compared to a net income of $4.4 million in 2024 was primarily driven by higher realized fair value loss on inventory from higher sales. Excluding the realized and unrealized fair value gains and losses, net income increased as a result of improved gross profits and reduction in interest and accretion expenses from the conversion of the Imperial Debenture in March 2024 and other debt repayments.

Adjusted EBITDA

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 for the quarter ended December 31, 2025 improved primarily as a result of improved gross profits, partially offset by higher selling expenses and higher wages and benefits to support higher sales.

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 key management personnel is as follows:

For the years ended December 31: (000's)		**2025**		2024
Short-term benefits	**$**	**5,223**	$	2,155
Long-term benefits		**4,731**		3,783
Total	**$**	**9,954**	$	5,938

LIQUIDITY AND CAPITAL RESOURCES

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.

Cash Flow Summary

For the years ended December 31: (000's)		**2025**		2024
Cash provided by/(used in) operating activities	**$**	**26,194**	$	16,778
Net change in investments and proceeds from sale of assets		**54**		2,318
Capital expenditures		**(2,516)**		(2,763)
Cash provided by/(used in) investing activities		**(2,462)**		(445)
Net cash provided by/(used in) financing activities		**(9,809)**		(13,585)
Cash position, at the beginning of the year		**18,356**		15,608
Cash position, end of the year	**$**	**32,279**	$	18,356

During the year ended December 31, 2025, Auxly generated $26.2 million from operating activities, including the negative impact of $12.4 million from net changes in non-cash working capital. Net investing activities for the year had an outflow of $2.5 million for capital expenditures. Net financing activities were a net outflow of $9.8 million for the year ended December 31, 2025, which reflects the repayment of the Company's loans, lease and other debt obligations, partially offset by the proceeds from the new revolving facility from the Amended Credit Facility.

Contractual Obligations

Auxly has entered into certain agreements that commit the Company to future funding following a mutually agreed-upon event or events. The Company has the following undiscounted contractual obligations as at December 31, 2025:

(000's)	Fiscal year 2026	Fiscal year 2027	Fiscal year 2028	Fiscal year 2029	Thereafter	Total
Accounts payable and accrued liabilities	$ 35,795	$ -	$ -	$ -	$ -	**$ 35,795**
Lease obligations	3,181	2,397	1,071	745	6,935	**14,329**
Loans payable obligations	5,462	38,456	4	-	-	**43,922**
Promissory note obligations	1,200	1,200	1,157	-	-	**3,557**
Total	**$ 45,638**	**$ 42,053**	**$ 2,232**	**$ 745**	**$ 6,935**	**$ 97,603**

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.

	March 25, 2026	December 31, 2025	December 31, 2024
Issued Shares	1,405,038,794	1,367,038,794	1,308,255,933
Escrowed shares	1,888,421	1,888,421	1,888,421
Outstanding shares	1,403,150,373	1,365,150,373	1,306,367,512
Outstanding securities			
Warrants	121,185,118	159,185,118	109,970,142
Convertible debentures	-	-	1,234,568
Options	15,131,169	15,131,169	19,286,581
Restricted share units	156,878,213	156,878,213	84,913,751

Shares outstanding as at December 31, 2025 increased from December 31, 2024 by approximately 58.8 million to 1,365.2 million. The number of warrants increased to 159.2 million as a result of 90.9 million warrants issued as part of the Imperial Debenture Settlement, partially offset by the conversion of 21.7 million warrants, issued as part of the February 2023 private placement and the June 2021 bought deal, into Shares, and 20.0 million expired warrants. The number of options decreased to 15.1 million as at December 31, 2025 due to employee forfeitures and options expired. The number of RSUs as at December 31, 2025 increased to 156.9 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 audited 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 annual consolidated financial statements for the year ended December 31, 2025.

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)	Q1/24	Q2/24	Q3/24	Q4/24	Q1/25	Q2/25	Q3/25	**Q4/25**
Net income/(loss)	$ (26,012)	$ 2,002	$ 3,239	$ 4,423	$ 12,111	$ 8,310	$ 20,491	**$ 943**
Interest and accretion expenses	6,868	2,749	3,133	2,291	2,147	1,866	1,423	**1,222**
Interest and other income	(19)	(140)	(54)	(27)	(47)	(32)	(26)	**(25)**
Income tax expense/(recovery)	15,992	-	-	-	(8,125)	-	(1,213)	**-**
Depreciation and amortization included in cost of sales	1,292	1,780	1,382	1,338	1,274	1,785	1,544	**1,844**
Depreciation and amortization included in expenses	1,230	1,067	1,197	990	1,296	1,276	1,224	**1,204**
EBITDA	(649)	7,458	8,897	9,015	8,656	13,205	23,443	**5,188**
Impairment of inventory	456	473	674	729	123	147	235	**364**
Unrealized fair value loss/(gain) on biological transformation	(2,773)	(8,817)	(9,964)	(11,073)	(12,312)	(15,842)	(18,093)	**(10,857)**
Realized fair value loss/(gain) on inventory	2,435	4,464	7,703	11,625	9,337	13,274	12,071	**15,911**
Restructuring and acquisition costs	-	655	(75)	271	-	-	-	**-**
Equity-based compensation	1,927	701	1,324	1,103	1,505	1,092	1,293	**1,830**
Impairment of assets	-	-	-	-	-	-	-	**-**
Non-recurring expense/(recovery)	-	-	(123)	-	-	(193)	-	**(217)**
Loss/(gain) on settlement of assets, liabilities and disposals	634	62	(183)	(1,461)	(39)	243	(6,775)	**245**
Foreign exchange loss/(gain)	210	177	33	797	163	(381)	95	**76**
Adjusted EBITDA	$ 2,240	$ 5,173	$ 8,286	$ 11,006	$ 7,433	$ 11,545	$ 12,269	**$ 12,540**

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 revenue less cost of finished cannabis inventory sold divided by net revenue.

Gross Profit Margin

"Gross Profit Margin" is defined as gross profit divided by net revenue. 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 December 31, 2025, the Company entered into various contractual obligations, in respect of long-term debt obligations and leases relating to office spaces, equipment and land. Refer to the "Liquidity and Capital Resources" section of this MD&A for more information. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

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 consolidated financial statements.

The Company entered into a brokerage agreement with Kindred Partners Inc. ("Kindred") to act as the Company's strategic sales agent in 2019. In 2022, the brokerage agreement with Kindred was terminated. In 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 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. The amount due to Kindred has been fully repaid as at December 31, 2025.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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 revenue 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 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.

Income Taxes

Income taxes are accounted for using the liability method and recognized in the Consolidated Statements of Income/(Loss) and Comprehensive Income/(Loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity. Current tax is measured using enacted tax rates applicable to the period in which the income arose. Deferred tax is recognized on the difference between the carrying amount of an asset or liability and its corresponding tax base, measured at the tax rates expected to apply when the difference reverses.

Management assesses the likelihood that deferred tax assets will be realized, providing a valuation allowance when it is more likely than not that all or a portion of the asset will not be realized. This assessment requires significant judgment regarding the long-range forecast of future taxable income and the evaluation of tax planning initiatives. These determinations reflect the Company's interpretation of relevant tax rules and significant judgment. An unrealized tax benefit may arise in connection with a period that has not yet been reviewed by the relevant tax authority, any change in the recognition or measurement of an unrealized tax benefit is reflected in the period during which the change occurs.

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 December 31, 2025.

There have been no changes to our ICFR during the year ended December 31, 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 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 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 the consolidated 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 25, 2026, 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.

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;

- the Company's proposed acquisition of the business and material assets of Ayurcann pursuant to the Stalking Horse Agreement, including the outcome of the sale and investment solicitation process and bidding process, and the anticipated closing of the acquisition in the second quarter of 2026;
- 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 revenue, 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 revenue, 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, revenue and expenses. These estimates may impact the financial performance of Auxly when further information becomes available.