Auxly

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Dear Auxly Shareholders,

Last week, we released our Q1 2026 financial results which demonstrated strong year-over-year organic growth in net revenue and significant operating leverage. Our brands, innovation and distribution continue to accelerate, and our culture of financial discipline is translating net revenue growth into industry leading profitability and operating cash flow generation.

As our financial position strengthens, we are focused on deploying our free cash flow where it can generate the highest returns for our shareholders. We have a disciplined framework for capital allocation – reinvesting in organic growth, pursuing selective inorganic opportunities, and returning capital through our NCIB – and the dynamic nature of the Canadian cannabis industry gives us confidence that we will continue to find attractive ways to put our capital to work.

Q1 2026 results

Auxly delivered net revenue of $39.8 million, up 22% year-over-year, driven by the continued success of Back Forty as Canada's #1 cannabis brand by dollars sold. Our focused product portfolio remains a go-to for cannabis consumers and our innovations are performing exceptionally well.

Looking back, the seasonally slower first calendar quarter of the year typically results in a sequential decline in net revenue for Auxly of 3%-6%. In Q1 2026, our sequential decline was less than 1%, not far off from a record quarter in the face of December pantry stuffing, dry January and fewer selling days than any other calendar quarter.

Adjusted EBITDA was $12.3 million in Q1 2026, up 65% year-over-year. Auxly has one of the most competitive cost structures in the industry, and these results prove it. We have one of the most efficient product portfolios in cannabis - every product we support in market is purposeful in the context of what consumers want and a strong contributor to profitability. We have the same philosophy and expectations when it comes to our capital investments and every dollar that we expend as a company.

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Importantly, our operating leverage is translating directly into cash generation - we generated $11.3 million of cash flow from operations before working capital changes, up 102% year-over-year, and we finished the quarter with a cash balance of over $42 million. Our outlook is for continued organic growth and a commensurate strengthening in our financial position, which gives us increasing flexibility to allocate capital within the framework we have outlined and drive intrinsic value over the long-term.

Our latest views on capital allocation

In early April, our stalking horse bid for the assets of Ayurcann was not selected as the winning bid. Prior to the auction deadline, another bidder submitted a higher offer. Having examined the opportunity fully over the preceding month, we decided to remain firm at our bid price. We considered raising our bid price, as expected returns would still have exceeded our cost of capital. However, as we advanced through deeper diligence, our margin of safety narrowed and we had to weigh the opportunity cost of diverting organizational focus away from a business that is delivering strong organic growth and industry-leading profitability. We believe cannabis markets will continue to present attractive acquisition opportunities, and we would rather be patient and disciplined than stretch on a transaction.

In April, we initiated a Normal Course Issuer Bid ("NCIB") for up to ~4.9% of our common shares. We believe that our current share price does not reflect the intrinsic value we have built and that repurchasing our own shares can generate a compelling return on capital. Of course, we will continue to make capital allocation decisions in the context of the full opportunity set in front of us, and we will continue to allocate capital where we believe it can create the most value over time. We currently forecast sufficient free cash flow in 2026 to pursue our NCIB alongside other organic and inorganic growth opportunities.

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Beyond our NCIB and selective M&A, we will continue investing in the organic growth that is driving our results – whether that is capital projects that support additional capacity and quality, or working capital investments that fuel net revenue growth. Underpinning all of this is our commitment to maintaining a strong balance sheet so we can fund these initiatives from our own cash flow without the need to access equity markets.

Improving capital markets quality via share consolidation

At our upcoming Annual General and Special Meeting of shareholders at the end of June, we will be seeking shareholder approval to authorize our Board of Directors to effect a consolidation of Auxly's share capital at a ratio of up to 20:1, if and when the Board determines it to be in the best interests of shareholders. To be clear, we are not announcing a consolidation today. We will be asking for your authorization so that the Board has the flexibility to act at the appropriate time in the future, without the delay and cost of a further shareholder meeting.

The rationale is straightforward. The most consistent feedback we receive from current and prospective investors is that our share price and share count are barriers to investing in Auxly. With over 1.4 billion shares outstanding, our stock trades at a level that disqualifies it from many institutional mandates, restricts trading on many large platforms, reduces the quality of our price discovery, and makes our shares more susceptible to short-term technical trading and mechanical volatility that has nothing to do with our fundamentals.

Auxly has turned the corner financially. Back Forty is the leading cannabis brand in Canada, our growth and profitability metrics are among the strongest in the industry, and our balance sheet has never been in better shape. It is only fitting that our capital structure and market profile reflect the underlying quality of our business. A consolidation would not change our valuation or any fundamental analysis, but it would improve our market quality in several important ways: it would broaden our eligibility for institutional investors who have minimum share price requirements, provide greater investor accessibility across large investing platforms, improve marginability and reduce trading costs for investors, support more efficient and durable price discovery tied to our fundamentals, and reduce the susceptibility of our shares to the kind of mechanical, short-term trading patterns that are common among lower-priced securities.

We recognize that share consolidations have a troubled history in the cannabis sector, and we want to address that directly. Historically, companies have consolidated their shares under duress – they were unprofitable, out of compliance with exchange listing requirements, or needed to consolidate as a precursor to further financing and dilution. Auxly is in none of those circumstances. We are profitable and generating significant operating cash flow. We are fully compliant with our listing requirements. We have no intention of issuing equity, and our capital program – including our NCIB – is expected to be funded comfortably from operating cash flow. We are considering consolidation from a position of strength, not necessity, to improve market quality and support long-term value creation for our shareholders.

We expect that some shareholders may react to this announcement based on their experience with past consolidations in the sector rather than the specifics of Auxly's situation. We understand that concern, and we expect the market may need time to evaluate the merits of this proposal. Our job is to remain disciplined and focused on long-term value. To reiterate, we believe our shares trade well below their intrinsic value, and our NCIB – which authorizes us to repurchase and retire up to ~4.9% of our outstanding shares – is a core part of our capital allocation strategy. We are buyers of our shares, not issuers.

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Building to last

Auxly is a lean and focused team that is fully aligned in the pursuit of quality, innovation and profitability. We are delighted with our most recent financial results and we will continue working to deliver for consumers and shareholders alike. I'd like to thank our teams in Leamington, Charlottetown and our corporate group in Toronto whose commitment, passion and resilience have been the driving force behind Auxly's emergence as an industry leader. We are also grateful for the continued support of our shareholders, vendors and partners. We are building to last, and the best is yet to come.

Sincerely,

Hugo Alves