

This is Auxly / Q3 2024 Letter to Shareholders

Auxly

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Dear Auxly Shareholders,

I am proud to share Auxly's outstanding financial performance in this third quarter of 2024; a testament to the dedication and tireless efforts of our entire team. Our record-breaking results underscore that our corporate strategy is not merely working – it is thriving.

We have broken quarterly financial records in each of the first three quarters of 2024, with Q3 setting new all-time benchmarks for net revenue, gross margin and adjusted EBITDA. Our ability to continue achieving new financial milestones clearly demonstrates the effectiveness of our focused approach. Our unwavering commitment to efficient revenue growth, enhanced profitability and the excellence of our people has positioned Auxly to consistently deliver exceptional results. We are excited for the future of Auxly and will remain laser-focused on executing our strategy and creating long-term shareholder value.

Foray

KOLAB PROJECT

BACK FORTY



Parcel

Efficient Growth and Enhanced Profitability

Despite continuing industry headwinds – including excessive taxation, exorbitant regulation, fierce competition and a persisting illicit market - Auxly has delivered the most successful and profitable quarter in the Company's history:

- **Net Revenues** – all-time record of \$33.3 million, an 18% increase year-over-year, and 14% increase quarter-over-quarter;
- **Gross Margins on Finished Cannabis Sold** – all-time record of 47%, a 17% improvement year-over-year, and 6% increase quarter-over-quarter;
- **SG&A** - declined to \$8.5 million, a 16% decrease year-over-year, and a 9% improvement quarter-over-quarter;
- **Adjusted EBITDA** – all-time record of \$8.3million, a 6982% improvement year-over-year, and 60% increase quarter-over-quarter;
- **Net Income** - \$3.2 million, an increase of 60% quarter-over-quarter;
- **Cash Flow Provided by Operating Activities** – \$12.9 million, an increase of 416% year-over-year, and 345% quarter-over-quarter;
- **Debt** – decreased by 54% overall compared to the end of 2023, and 11% quarter-over-quarter.

This excellent performance underscores our strategic efforts to improve our balance sheet, unlock operational efficiencies, enhance distribution and recapture market share through innovation and improved quality across our core product categories.

“Despite continuing industry headwinds – including excessive taxation, exorbitant regulation; fierce competition and a persisting illicit market - Auxly has delivered the most successful and profitable quarter in the Company’s history.”

Market Leadership and Performance¹

In addition to record-breaking financial results, the Company has also made significant strides in improving its overall national market share, exiting the quarter as the #4 licensed producer in national recreational cannabis sales by dollars sold. This achievement reflects our mission of delivering quality products

¹ All referenced stats are from Hifyre, based on dollars sold as of October 2024



that consumers trust and love and underscores our growing influence in the Canadian cannabis market.

I am also delighted to report that Auxly grew its national market share in all three of its core product categories of vape, dried flower and pre-rolls. Our continued leadership in the fast-growing all-in-one vape category remains a highlight of our 2024 performance, as we secured over 36% of the total category share and claimed 50% of the top 10 vape SKU positions nationally. Additionally, in dried flower, our Back Forty Liquid Imagination 28g SKU has proven to be increasingly popular, ending the quarter as the #1 selling flower SKU nationally (up from a top 10 position last quarter). In the pre-roll segment, our



product suite experienced a robust 19% increase in national sales compared to the previous quarter, with Back Forty's Wedding Pie and Banana OG securing the #3 and #4 non-infused pre-roll SKU positions nationally, respectively. These accomplishments reflect our strong capabilities in these product formats and our commitment to innovation and product quality.

Operational Highlights

Auxly Charlottetown is our hub of product innovation and vape manufacturing. Our talented Charlottetown team has developed and released over 100 new SKUs over the past two years, including many first-to-market products. We believe that we have one of the top cannabis vape teams in the entire world as evidenced by our reputation in market for having the highest quality vape hardware; our continued sales leadership in the vape category and the unprecedented success of our vape innovations. To this latter point, in September of 2024 we celebrated the significant milestone of shipping our 1,000,000th Back Forty all-in-one vape since we launched the format less than one year ago. And we will not take our foot off the gas! We intend to maintain our position as vape innovation leaders and continue introducing exciting new vape SKUs to consumers.

Auxly Leamington, our home of consistent, high-quality, efficient cultivation continues to be a competitive advantage within the current cannabis landscape. Today's cannabis consumers demand high-quality, high-potency cannabis and exceptional value. With very few large-scale greenhouses capable of consistently hitting the required standards, Auxly Leamington's flower is in increasingly high demand. And given the enormous capital outlay and time required to replicate Auxly Leamington's scale, automation, efficiency and



quality of output, we believe that Auxly Leamington provides Auxly with a competitive advantage over the short and medium term. We intend to leverage this advantage to the fullest extent possible to drive continued growth in domestic sales and to enter international flower markets in the near term.

Looking Ahead

Market Trends

We have been working tirelessly and obsessively for the past 3 years to develop and refine our internal and proprietary market and consumer data platforms. By closely monitoring market trends and continually listening to consumer and retailer feedback, we have been able to effectively anticipate the needs of our consumers and focus our innovation on products and product attributes that matter most to consumers. Our proactive approach to data and innovation ensures that we consistently deliver exceptional offerings, reinforcing our position as a leader in the industry and fostering lasting connections with our customers and consumers.



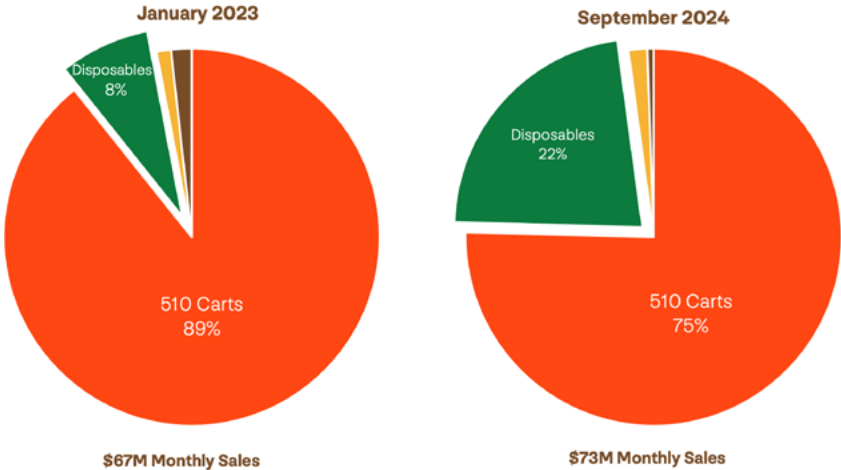
Flower and Pre-Rolls Maintain Prominence

In the third quarter, the flower and pre-roll categories maintained their momentum, solidifying their position as the largest categories in recreational cannabis with a combined 70% share of the overall cannabis market. While the dried flower category has softened compared to 2023 due to competitive supply challenges, it is still the largest category of the overall cannabis market and commands a significant 36% share of the total market. Conversely, the pre-roll category is experiencing robust growth, particularly during the strong summer peak season, with a 14% increase in dollar sales over the last three months compared to the previous year, and a 35% share of the total cannabis market. Our Back Forty brand is uniquely positioned in these two critical categories. Our robust quarter over quarter growth in dried flower and pre-rolls has been driven by the popularity of our Back Forty flower and pre-roll products and we are excited to introduce consumers to new Back Forty flower and pre-roll SKUs in Q4 of this year.

All-In-One Vapes Continue to Explode

The All-In-One (AIO) vape segment continues to see strong growth, with Auxly dominating the segment. The growth of AIO vapes is driving overall vape category growth, with disposable vapes now representing 22% of the total vape category, a 2% increase quarter-over-quarter and a significant increase from just 8% of total category in January 2023. The AIO segment has now surpassed milled flower, hash, and beverages in market size and is on track to overtake gummies in market share before the end of 2024. Back Forty has established itself as the clear #1 brand in the AIO segment, capturing over 36% market share. With the recent launch of the Kolab Project AIO vape, the introduction of new flavour variations under our Back Forty brand, and a pipeline of exciting new AIO vapor innovations, Auxly is poised to further enhance its offering in the AIO vape segment.

VAPE SEGMENT SHIFTS



“We believe that we are on the right path; that we have the right assets, capabilities and people to not only survive, but to thrive in the current challenging market and into the future. We believe the future is bright for Auxly and all of its stakeholders.”

Continuing Our Momentum

As we head into the home stretch of 2024, our entire organization is focused on a strong finish to the year. Our agile and united team will continue to execute our winning strategy of focused, efficient growth and enhanced profitability. We remain obsessed with our consumers and will work tirelessly to delight them with new and exciting products that are always high quality and always deliver great value. We believe that we are on the right path; that we have the right assets, capabilities and people to not only survive, but to thrive in the current challenging market and into the future. We believe the future is bright for Auxly and all of its stakeholders.

As our results continue to improve, your continued support and engagement is more important than ever for Auxly's success. Whether through continued or increased shareholdings, or through advocacy for our Company and its products, your support is vital to propelling Auxly to even greater heights. I want to thank you for your support and trust in our vision and I look forward to sharing more successes with you in the future.

Best,
Hugo Alves, CEO