Auxly

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Dear Auxly Shareholders,

Today, we released our Q2 2026 financial results — a record quarter with continued net revenue growth, operating leverage and strong cash flow conversion. Our balance sheet remains strong, and we continue to deploy capital through our disciplined framework — reinvesting in organic growth, repurchasing shares through our NCIB, and evaluating selective inorganic opportunities.

Q2 2026 results

Auxly achieved record net revenue of $45.8 million in Q2 2026, an increase of 18% over Q2 2025. We continue to experience strong demand across our product portfolio, driven by the continued strength of Back Forty as Canada's #1 cannabis brand.

Gross Margin on Finished Cannabis Inventory Sold increased to 55% in Q2 2026, as compared to 52% in Q2 2025. This improvement is attributable to structural gains we have made in cultivation and manufacturing efficiencies, strategic procurement initiatives and product mix.

Adjusted EBITDA reached $14.3 million in Q2 2026, up 24% from Q2 2025, representing an Adjusted EBITDA margin of 31% and continued operating leverage reflecting Auxly's commitment to financial discipline.

Cash flow from operations before working capital changes reached $13.4 million, an increase of 31% year-over-year and representing a 94% conversion from Adjusted EBITDA.

“We continue to experience strong demand across our product portfolio, driven by the continued strength of Back Forty as Canada’s #1 cannabis brand”

Our culture of innovation

Shareholders often ask how we intend to keep growing in an increasingly competitive cannabis market, and our answer is consistent: innovation is not a department at Auxly, it is a discipline embedded across the entire organization, and it is one of our most durable competitive advantages. A culture built around deeply understanding the consumer and translating that understanding into products that win in our core categories, is what allows us to grow share profitably rather than simply chase volume.

That discipline starts with rigor before a single product is developed. We invest real time in defining who our consumer is, what they actually want from a cannabis product, and how those preferences are shifting — drawing on market data, direct feedback from retailers and consumers, and trends we track in adjacent categories. This is deliberate: the companies that win in cannabis are the ones that treat consumer insight as a core competency, not an afterthought.

Backpackers is the clearest proof of that approach at work. What began as a direct response to consumer and retail feedback has grown into one of the most successful products in the entire pre-roll category, and today Backpackers stands among the biggest success stories in Canadian pre-rolls — a reminder that listening closely and iterating quickly can outperform bigger R&D budgets.

Importantly, innovation at Auxly is not confined to product development. It runs through cultivation, procurement, manufacturing, project management, sales, marketing, finance and every other department alike. That cross-functional alignment is what lets us convert consumer insight into high-quality products we can deliver consistently, efficiently, and profitably — the combination that ultimately shows up in our margins and market share, not just our launch calendar.

This track record has earned Auxly something harder to build than any single product: trust. Back Forty Liquid Imagination has held its position as a top-selling strain for two consecutive years, giving the Back Forty brand strong recognition and high consumer confidence. That credibility compounds — it is precisely why retail partners, budtenders, and consumers are willing to give our new releases a chance, and why new launches convert faster than they otherwise would.

We saw that trust pay off again with Galactic Jack, a new sativa cultivar launched under Back Forty in June. The cultivar went through rigorous testing to ensure it consistently meets our operating standards and consumer expectations, and the early results validate that process: in a short window since launch, our sales team has already secured more than 1,400 points of distribution, with consumer response tracking well ahead of a typical new introduction. We see this as a direct dividend of the trust Auxly has earned over time, not a one-off result.

“Innovation is not a department at Auxly, it is a discipline”

Looking to the back half of the year, we are continuing to invest in this pipeline, with a new strain launching under our South Point brand and further pre-roll innovation coming under Back Forty. We remain confident that this culture of innovation — disciplined, consumer-led, and shared across every function of the business — will continue to be one of the clearest ways Auxly compounds value for shareholders.

Execution on all fronts

The demand we are seeing for our products gives us the confidence to keep investing in growth. Given the strong demand, the innovations we have planned, the dynamics in the Canadian market, the expectation of continued growth in international markets and our confidence in generating durable cash flow, we have outlined a longer-term capital program within the current footprint of Auxly Leamington. Over the next three years, through to the end of 2028, we believe we can invest approximately $30 million to increase yields by approximately 30% from 2025 levels.

There are a few reasons this disclosure is important: first, we are planning for three years of yield growth, which should ultimately translate to net revenue growth; second, we can continue to deploy capital towards what we believe is our highest-return investment — organic growth; and third, we expect to generate meaningful free cash flow after these capital investments, which gives us flexibility to continue allocating capital within our disciplined framework.

In Q2 2026, we repurchased 2.6 million post-consolidation shares for $5.7 million through our NCIB. We continue to evaluate share repurchases as a capital allocation option and have sufficient capacity under the NCIB and available cash from operations to continue repurchasing shares where we believe it generates an attractive return on capital. We continue to believe that our share price does not yet reflect the intrinsic value we have built.

Share consolidation

In July, we completed our 14:1 share consolidation — an important step forward in aligning our market profile with the quality of the business we have built.

On behalf of the executive leadership team and the Board, I would like to thank our shareholders for their support in approving this initiative at our AGM. We are encouraged by the response from shareholders and the confidence that has been reflected in our share price performance since the consolidation took effect.

"We can continue to deploy capital towards what we believe is our highest-return investment — organic growth"

Building to last

We are very pleased with our record Q2 results. With the seasonally stronger second half of the year underway, we have our heads down and focused on profitably delivering high-quality products for our consumers. 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, customers and partners. We are building to last, and the best is yet to come.

Sincerely,

Hugo Alves