The Fresh Factory

November 27, 2024

Management's Discussion & Analysis

For the Third Quarter Ended September 30, 2024

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The Fresh Factory

Management Discussion and Analysis

For the Three and Nine Months Ended September 30, 2024

The following management discussion and analysis (the “MD&A”), prepared as of November 26 2024, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2023, and related notes thereto (the “Financial Statements”). The consolidated financial statements have been prepared in accordance with International Accounting Standards using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”).

Forward-Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements. These statements relate to future events or The Fresh Factory B.C. Ltd.’s (“The Company” or “The Fresh Factory”) future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the Company’s expectations regarding its revenue, expenses, and operations;
- the Company’s intention to grow the business and its operations;
- development and commercialization of the Company’s products and services;
- the price of raw materials;
- consumer trends;
- the Company’s supply chain;
- expectations with respect to the future growth of its food ingredient products;
- expectations regarding trends in the plant-based food industry;
- expectations regarding the production capacity of the Company’s existing and future facilities and the Company’s ability to increase and/or maximize production;
- business objectives and milestones; and,
- adequacy of financial resources.

Such forward-looking statements are based on a number of material factors and assumptions, including, but not limited in any manner to, those disclosed elsewhere herein and any other of the Company's public filings, sufficient working capital to develop the business, access to adequate services and supplies, economic conditions, interest rates, access to equity and debt markets and associated costs of funds, availability of a qualified workforce, that the Company is able to procure equipment and supplies in sufficient quantities and on a timely basis, and that the Company maintains its ongoing relations with its business partners in compliance with applicable government rules and regulations. While the Company considers these material factors and assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons. Investors should not place undue reliance on forward-looking statements as the plans, intentions, or expectations upon which they are based might not occur. The Company cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risks they entail. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

Description of Business

The Fresh Factory B.C. Ltd. is primarily a manufacturer and distributor of fresh, clean-label, and plant-based food and beverage products. The Company operates from its manufacturing facility located in Carol Stream, Illinois, US. Being centrally located, the facility services customers across the continental US. The Company works with brands of all sizes in the fresh and plant-based food and beverage space to develop, formulate, manufacture, and distribute their products. In addition, the Company owns two brands: FIELD + FARMER which sells plant-based dressings, dips, and beverages, and Element Pressed which sells cold-pressed juices.

The Company's head office address is at 238 Tubeway Ave, Carol Stream, Illinois, 60188. The registered and records office address is at 2200 HSBC Building 885 West Georgia Street, Vancouver BC V6C 3E8 Canada.

As of September 30, 2024, the Company held 100% equity interest in:

- The Fresh Factory, PBC
- As of September 30, 2024, The Fresh Factory, PBC held 100% equity interest in the following wholly-owned subsidiaries:
- Fresh Factory Manufacturing, LLC
- Made Here LLC doing business as “FIELD + FARMER”
- Element Creations LLC doing business as “Element Pressed”

Corporate Reorganizations

Formation and organization of the Company

The Company was incorporated on October 2, 2018, pursuant to the *Business Corporations Act* (British Columbia) under the name “1181718 B.C. Ltd.” On October 27, 2021, the Company changed its name to “The Fresh Factory B.C. Ltd.” in connection with a plan of reorganization and the merger of The Fresh Factory, PBC (“**TFF**”) and a wholly-owned subsidiary of the Company.

TFF was formed on December 14, 2017, as Here Foods, PBC. At the time of formation, the Company had three fully owned subsidiaries: 87P LLC, Made Here LLC, and Element Creations LLC.

Overview of The Fresh Factory

The Company operates as a vertically integrated fresh, better-for-you, plant-based food and beverage company. The goal of the Company is to help enable and accelerate the growth of fresh, better-for-you, plant-based food and beverage brands. The Company works with a number of customers across various selling channels including direct-to-consumer, retail, and food service outlets. The Company’s operating teams offer a variety of services including:

- ***Innovation:*** The Company employs a team of food scientists that provide formulation, product development, costing, and food safety advice on the development of food and beverage products.
- ***Supply Chain:*** The Company employs a supply chain team that sources ingredients, packaging, and fresh produce from a network of farmers and distributors around the country.
- ***Manufacturing:*** The Company operates two manufacturing facilities totaling 48,808 sq ft located in Carol Stream, Illinois and West Chicago, Illinois. The Company runs various production lines producing food and beverage products on a daily basis.

- ***Distribution:*** The Company works with a network of distributors, trucking companies, and freight providers to distribute products. In addition, the Company offers pick, pack, and ship services for eCommerce.
- ***Brands:*** The Company owns two brands: FIELD + FARMER which makes dips, dressings, and beverages and Element Pressed which makes cold-pressed juices.

The Company produces a variety of different products including:

- ***Cold-Pressed Juice***: The Company presses fruits and vegetables into juice and then bottles cold-pressed juice for several companies and for its own brand.
- ***Other Beverages***: The Company manufactures beverages including cold-brew teas, shakes and smoothies, and non-alcoholic specialty beverages for several companies.
- ***Dips and Spreads***: The Company manufactures various dips and spreads for several companies and for its own brand.
- ***Dressings and Sauces***: The Company manufactures various dressings and sauces for several companies and for its own brand.
- ***Soups***: The Company manufactures various soups for several companies.
- ***Snack Bars***: The Company manufactures various snack bars for several companies and for its own brand.

The Company has multiple production lines allowing it to manufacture and package:

- ***Bottling Lines***: The Company has various bottling lines that allow it to produce cold-pressed juice and other bottled products. The Company can fill both plastic and glass containers.
- ***Cup Line***: The Company has various filling capabilities for the production of dips and spreads that are filled in cups including both hot-fill and cold-fill capabilities.
- ***Bar Line***: The Company has various manufacturing capabilities for the production of snack bars that are formed and packaged in sleeves.
- ***Pouch Line***: The Company has various manufacturing capabilities for the production of dips and spreads that are filled in pouches including both hot-fill and cold-fill capabilities.

The Company’s model of being vertically integrated and offering a variety of services offers the following benefits:

- ***Lower cost:*** As a vertically integrated manufacturer of food and beverage products the Company's brands do not have to employ co-manufacturing partners. Additionally, the Company can source produce, packaging, and other inputs in bulk lowering their input costs.
- ***Flexibility:*** The Company’s ability to produce a variety of products allows it to sell multiple product lines to its customers. Additionally, it allows the Company to provide services to a wide variety of food and beverage brands.
- ***Speed:*** The Company’s in-house innovation team allows for the development of products in an accelerated timeline as they provide benchtop samples, food safety recommendations, and can conduct trials with potential customers all before launching.

Business Highlights

- The Company recorded billed revenue of $8,120,658 for quarter ended September 30, 2024, or 39% higher than prior year, mainly driven by sales to existing strategic partners across a variety of categories.
- Company finished the quarter ended September 30, 2024 with EBITDA of $676,957 and Adjusted EBITDA of $750,963. Net Income for the quarter finished at a positive $55,766.
- The company expanded capabilities to include production of filled snack bites.
- The company started construction work for the previously leased new site, including an expanded R&D lab.

Overall Performance

- The Company’s net revenue for three and nine months ended September 30, 2024, was $8,105,722 and $23,688,951 respectively (three and nine months ended September 30, 2023 - $5,720,898 and $16,905,262 respectively).
- Net income for the three months ended September 30, 2024, was $55,766 or $0.00 per common share (three months ended September 30, 2023 - net loss of $472,005 or $0.01 per share). Net loss for the nine months ended September 30, 2024 was $165,301 or $0.00 per common share (nine months ended September 30, 2023 – net loss of $2,602,954, or $0.05 per share).

- As of September 30, 2024, the Company had total assets of $14,699,699 consisting of $6,368,899 of current assets and $8,330,800 of non-current assets compared to total assets of $12,552,884 at September 30, 2023 consisting of $6,573,259 of current assets and $5,979,625 of non-current assets.
- As of September 30, 2024, the Company had total liabilities of $9,142,134 consisting of $6,073,601 of current liabilities and $3,068,533 of non-current liabilities compared to total liabilities of $6,118,068 at September 30, 2023 consisting of $3,762,425 of current liabilities and $2,355,643 of non-current liabilities.

Key Performance Indicators

Key performance indicators that the Company uses to manage its business and evaluate its financial results and operating performance include: revenue, gross margins, operating margins, expenses, and net income (loss). The Company evaluates its performance on these metrics by comparing its actual results to management budgets and forecasts.

Summary of Reporting Period Results

The table below summarizes selected financial data for the Company's last two years:

		Three Months Ended September 30, 2024		Three Months Ended September 30, 2023		**Nine Months Ended September 30, 2024**		Nine Months Ended September 30, 2023
Total revenue	**$**	8,105,722	$	5,720,898	**$**	23,688,951	$	16,905,262
Cost of revenue	**$**	6,577,161	$	5,180,926	**$**	19,207,398	$	15,584,115
Gross profit	**$**	1,528,561	$	539,972	**$**	4,481,553	$	1,321,147
Gross Profit %		**18.9%**		9.4%		**18.9%**		7.8%
Sales, general, and Administrative	**$**	**1,483,345**	$	1,195,662	**$**	**4,399,323**	$	3,696,094
Share based payments	**$**	34,460	$	108,354	**$**	103,379	$	465,377
Interest income	**$**	(3,254)	$	(7,234)	**$**	(11,997)	$	(21,298)
Other income	**$**	(195,215)	$	(343,864)	**$**	(195,318)	$	(350,048)
Foreign exchange loss	**$**	3,449	$	1,053	**$**	4,091	$	5,945
Interest expense	**$**	150,010	$	58,006	**$**	347,376	$	128,031
Net income (loss)	**$**	**55,766**	$	(472,005)	**$**	**(165,301)**	$	(2,602,954)
Basic and diluted income (loss) per share	**$**	**0.00**	$	(0.01)	**$**	**(0.00)**	$	(0.05)

Non-IFRS Measures

EBITDA and Adjusted EBITDA are financial measures that do not have a standardized meaning under IFRS. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, share based compensation and one-time transaction expenses.

As there is no standardized method of calculating EBITDA and Adjusted EBITDA, it may not be directly comparable with similarly titled measures used by other companies. The Company considers Adjusted EBITDA to be a relevant indicator for measuring trends in performance and its ability to generate funds to service its debt and meet its future working capital and capital expenditure requirements. Neither EBITDA or Adjusted EBITDA is a generally accepted earnings measure and should not be considered in isolation or as an alternative to net income (loss), cash flows or other measures of performance prepared in accordance with IFRS.

The following is a reconciliation of Adjusted EBITDA to net loss:

		Three Months Ended September 30, 2024		Three Months Ended September 30, 2023		**Nine Months Ended September 30, 2024**		Nine Months Ended September 30, 2023
Income (Loss) for the period	**$**	**55,766**	$	(472,005)	**$**	**(165,301)**	$	(2,602,954)
Net Interest expense	**$**	**146,756**	$	50,772	**$**	**335,379**	$	106,733
Depreciation and amortization expense	**$**	**474,435**	$	325,420	**$**	**1,089,872**	$	894,123
EBITDA	**$**	**676,957**	$	(95,813)	**$**	**1,259,950**	$	(1,602,098)
Costs of scaling the business	**$**	**-**	$	-	**$**	**-**	$	312,903
Costs of being public	**$**	**39,546**	$	45,958	**$**	**56,744**	$	295,888
Share based payments	**$**	**34,460**	$	108,354	**$**	**103,379**	$	465,377
Adjusted EBITDA	**$**	**750,963**	$	58,499	**$**	**1,420,073**	$	(527,930)

Results of Operations

***Three months ended September 30, 2024 ("Q3 2024") compared with the three months ended September 30, 2023 ("Q3 2023")* and for the nine months ended September 30, 2024 ("YTD 2024") compared with the nine months ended September 30, 2023 ("YTD 2023").**

Net income for Q3 2024 was $55,766 or $0.00 per share compared to loss of $472,005 or $0.01 per share for Q3 2023. YTD 2024 net loss was $165,301 or $0.00 per share compared to $2,602,954 or $0.05 per share for YTD 2023.

Significant differences between the results of operations for Q3 2024 compared to Q3 2023 are as follows:

Billed Revenue

Billed Revenue is a non-IFRS term. Billed Revenue is a financial measure defined as the revenue billed to customers as opposed to Total Revenue which represents Billed Revenue less Trade spends and product credits.

As there is no standardized method of calculating Billed Revenue, it may not be directly comparable with similarly titled measures used by other companies. The Company considers Billed Revenue to be a relevant indicator for measuring trends in performance and its ability to generate funds to service its debt and to meet its future working capital and capital expenditure requirements. Billed Revenue is not a generally accepted earnings measure and should not be considered in isolation or as an alternative to net income (loss), cash flows, or other measures of performance prepared in accordance with IFRS.

The following is a reconciliation of Total Revenue and Billed Revenue:

		Three Months Ended September 30, 2024		Three Months Ended September 30, 2023		**Nine Months Ended September 30, 2024**		Nine Months Ended September 30, 2023
Billed Revenue	**$**	**8,120,658**	$	5,841,953	**$**	**23,906,773**	$	17,176,469
Trade and variable selling	**$**	**14,936**	$	93,948	**$**	**205,869**	$	181,906
Production credits and samples	**$**	**-**	$	27,107	**$**	**11,953**	$	89,301
Total Revenue	**$**	**8,105,722**	$	5,720,898	**$**	**23,688,951**	$	16,905,262

- Billed revenue for Q3 2024 was $8,120,658 compared with $5,841,953 in Q3 2023, representing a 39.0% increase. The increase in revenue in Q3 2024 compared to Q3 2023 was attributed to new customers on-boarded mid-2023 and an increased demand of existing customers. YTD 2024 billed revenue grew $6,730,304 or 39.2% vs YTD 2023. The increase in revenue in YTD 2024 compared to YTD 2023 was attributed to onboarding new customers late in 2023 and an increased demand of existing customers.
- Total revenue of $8,105,722 in Q3 2024 vs. $5,720,898 for Q3 2023, increased 41.7%. Total revenue YTD 2024 grew $6,783,689 or 40.1% vs YTD 2023.

Cost of Revenue

		Three Months Ended September 30, 2024		Three Months Ended September 30, 2023		**Nine Months Ended September 30, 2024**		Nine Months Ended September 30, 2023
Food, packaging, and labor	**$**	**4,992,057**	$	4,078,839	**$**	**14,999,290**	$	12,229,539
Utilities	**$**	**144,614**	$	94,062	**$**	**426,713**	$	329,840
Facilities and maintenance	**$**	**1,440,490**	$	1,008,025	**$**	**3,781,395**	$	3,024,736
Cost of Revenue	**$**	**6,577,161**	$	5,180,926	**$**	**19,207,398**	$	15,584,115

- Food, packaging, and labor costs increased $913,218 for Q3 2024 compared to Q3 2023 and $2,769,751 YTD 2024 compared to YTD 2023. The primary driver for the increase was increased sales volume.
- Utility costs increased $50,552 Q3 2024 compared to Q3 2023 and $96,873 YTD 2024 vs YTD 2023 mainly driven by increased usage.
- Facility and maintenance costs increased $432,465 Q3 2024 vs Q3 2023 and $756,659 YTD 2024 vs YTD 2023 driven by incremental equipment rental and supplies costs to support production and set-up costs at new site.

Adjusted Gross Margins and Operating Profit

Adjusted Gross Margin and Operating Profit are financial measures that do not have a standardized meaning under IFRS. Adjusted Gross Margin is defined as Billed Revenue minus Food, packaging, and labor (i.e. COGs). Operating Profit is Adjusted Gross Margin less Utilities and Facilities and maintenance costs.

As there is no standardized method of calculating Adjusted Gross Margin or Operating Profit, it may not be directly comparable with similarly titled measures used by other companies. The Company considers Adjusted Gross Margin and Operating Profit to be relevant indicators for measuring trends in performance and its ability to generate funds to service its debt and to meet its future working capital and capital expenditure requirements. Neither Adjusted Gross Margin nor Operating Profit is a generally accepted earnings measure and should not be considered in isolation or as an alternative to net income (loss), cash flows, or other measures of performance prepared in accordance with IFRS.

At times the Company can have widely varying trade and variable selling expenses (due to one-time promotions or other activities) which can distort Billed Revenue and thus Gross Margins and Operating Income. As such, the Company believes normalizing these operating metrics and comparing Billed Revenue, Adjusted Gross Margin, and Operating Profit gives a more accurate understanding of the underlying business.

The following shows Adjusted Gross Margin and Operating Profit:

		Three Months Ended September 30, 2024		Three Months Ended September 30, 2023		**Nine Months Ended September 30, 2024**		Nine Months Ended September 30, 2023
Billed Revenue	**$**	**8,120,658**	$	5,841,953	**$**	**23,906,773**	$	17,176,469
Food, packaging, and labor	**$**	**4,992,057**	$	4,078,839	**$**	**14,999,290**	$	12,229,539
Adjusted Gross Margin	**$**	**3,128,601**	$	1,763,114	**$**	**8,907,483**	$	4,946,930
		38.5%		30.2%		**37.3%**		28.8%
Utilities	**$**	**144,614**	$	94,062	**$**	**426,713**	$	329,840
Facilities and Maintenance	**$**	**1,440,490**	$	1,008,025	**$**	**3,781,395**	$	3,024,736
Operating Profit	**$**	**1,543,497**	$	661,027	**$**	**4,699,375**	$	1,592,354
		19.0%		11.3%		**19.7%**		9.3%

- Adjusted Gross Margins increased by $1,365,487 Q3 2024 compared to Q3 2023 and increased by $3,960,553 YTD 2024 vs YTD 2023. Adjusted Gross Margin, on a percentage basis, was 38.5% Q3 2024 compared to 30.2% Q3 2023 and 37.3% YTD 2024 compared to 28.8% YTD 2023. Adjusted Gross Margin increases were related to sales volume increases and production efficiencies.
- Operating Profit on a dollar basis increased by $882,470 for Q3 2024 vs Q3 2023 and $3,107,021 YTD 2024 vs YTD 2023. Operating Profit on a dollar basis increased year over year for both time periods driven by increased sales volume and production efficiencies.

Operating Expenses

Operating Expenses increased by $213,789 in Q3 2024 vs Q3 2023 and $341,231 YTD 2024 vs YTD 2023. The increase in expenses year-over-year is driven by increases in salaries and benefits due to increased headcount needed to support the sales volume growth.

		Three Months Ended September 30, 2024		Three Months Ended September 30, 2023		**Nine Months Ended September 30, 2024**		Nine Months Ended September 30, 2023
Sales and marketing	**$**	**14,547**	$	74,512	**$**	**71,676**	$	233,080
Salaries and benefits	**$**	**1,119,247**	$	813,257	**$**	**3,164,665**	$	2,337,172
Other administrative	**$**	**349,551**	$	307,893	**$**	**1,162,982**	$	1,125,842
Total Sales, General and Administrative	**$**	**1,483,345**	$	1,195,662	**$**	**4,399,323**	$	3,696,094
Share-based payments	**$**	**34,460**	$	108,354	**$**	**103,379**	$	465,377
Total Operating Expenses	**$**	**1,517,805**	$	1,304,016	**$**	**4,502,702**	$	4,161,471

- Sales and marketing expenses decreased by $59,965 for Q3 2024 compared to Q3 2023 and $161,404 YTD 2024 compared to YTD 2023 driven by strategic reduction of marketing spend.
- Salaries & benefits expenses increased $305,990 for Q3 2024 compared to Q3 2023 and $827,493 YTD 2024 compared to YTD 2023 due to increased headcount.
- Other administrative expenses remained flat Q3 2024 vs Q3 2023 and YTD 2024 vs YTD 2023.
- Share-based compensation decreased by $73,894 for Q3 2024 compared to Q3 2023 and $361,998 YTD 2024 compared to YTD 2023. These decreases are related to the vesting schedules of active long-term grants provided to employees.

Other Expenses

Other expenses consisted of the following:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	**Nine Months Ended September 30, 2024**	Nine Months Ended September 30, 2023
Interest expense	**$ 150,010**	$ 58,006	**$ 347,376**	$ 128,031
	$ 150,010	$ 58,006	**$ 347,376**	$ 128,031

- Interest expense increased $92,004 Q3 2024 compared to Q3 2023 and $219,345 YTD 2024 compared to YTD 2023. The increase was mainly related to the sale leaseback of equipment.

Summary of Quarterly Results

The below table outlines the quarterly revenue and profit and loss for the trailing eight quarters. The increase in revenue through the quarters presented was mainly due to the addition of new customers, and increased sales through existing customers, including support of limited time offering (LTO) promotions.

In Q3 2024, the Company's sales growth with strategic partners drove an increase in billed revenue of $2,278,705 compared to Q3 2023. The Company saw its basic diluted profit (loss) per share improve to $0.00 in Q3 2024 compared to ($0.01) in Q3 2023 due to increased revenue and production efficiencies.

		Quarter Ended Sept 30 2024		Quarter Ended Jun 30 2024		Quarter Ended Mar 31 2024		Quarter Ended Dec 31 2023
Billed Revenue	$	**8,120,658**	$	**7,383,226**	$	**8,402,889**	$	**6,511,705**
Profit and Loss from continuing operations	$	**55,766**	$	**(113,584)**	$	**(107,483)**	$	**(771,571)**
Basic and diluted loss per share	$	**0.001**	$	**(0.002)**	$	**(0.002)**	$	**(0.015)**
Profit and Loss attributable to owners	$	**55,766**	$	**(113,584)**	$	**(107,483)**	$	**(771,571)**
Basic and diluted loss per share	$	**0.001**	$	**(0.002)**	$	**(0.002)**	$	**(0.015)**

		Quarter Ended Sept 30 2023		Quarter Ended Jun 30 2023		Quarter Ended Mar 31 2023		Quarter Ended Dec 31 2022
Billed Revenue	$	5,841,953	$	5,858,675	$	5,475,841	$	5,887,566
Loss from continuing operations	$	(472,005)	$	(868,649)	$	(1,262,300)	$	(1,336,264)
Basic and diluted loss per share	$	(0.009)	$	(0.017)	$	(0.026)	$	(0.028)
Loss attributable to owners	$	(472,005)	$	(868,649)	$	(1,262,300)	$	(1,336,264)
Basic and diluted loss per share	$	(0.009)	$	(0.017)	$	(0.026)	$	(0.028)

Liquidity and Capital Resources

The Company has financed its operations through private placements, internally generated cash flows from revenue, and raised money from listing on the Canadian Securities Exchange (“CSE”) in November 2021. On October 5, 2023, the Company began trading on the TSX Venture Exchange (“TSXV”) and delisted from the CSE.

Recent Financings

There were no financing transactions.

Cash

As of September 30, 2024, the Company had cash of $1,740,459 compared to $2,287,996 as of September 30, 2023 .

Cash Used in Operating Activities

Cash provided in operating activities was $2,136,960 for YTD 2024 compared to net cash used in operating activities $2,508,800 for YTD 2023. The primary change is due to increased revenue and gross margins partially offset by an increase in Company headcount and salaries, and other costs related to scaling the business.

Cash Used in Investing Activities

Cash used in investing activities was $445,967 in YTD 2024 compared to cash used by investing activities $2,953 in YTD 2023. The increase in cash used was due to greater capital expenditures in current year, mainly related to capital for capacity expansion, new capabilities, and machine efficiency.

Cash Used in Financing Activities

Cash used in financing activities was $1,466,618 in YTD 2024 compared to net proceeds of $3,556,765 in YTD 2023. There have been no fundraising activities for 2024, driving the difference vs prior year.

Working Capital

As of September 30, 2024, the Company had a working capital surplus of $295,298 compared with a surplus of $2,810,834 as of September 30, 2023 . The decrease in surplus is driven by additional equipment financing obligations.

Liquidity Outlook

The Company's cash position varies based on the amount of capital raised via private or public placements, and the amount of capital invested and reinvested into the growth of the business by financing leasehold improvements or equipment at its facility. The Company continues to expand its manufacturing capabilities at its Carol Stream facility. These new capital investments are expected to positively impact the Company's revenue and operating cash flow in future periods.

The Company's objective when managing capital is to maximize returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not subject to externally imposed capital requirements. In managing the Company's capital structure, The Company's management reviews monthly and quarterly financial information and provides regular reports to the board of directors.

Going Concern

These condensed interim consolidated financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred positive cash flows from operating activities during the nine months ended September 30, 2024. As of September 30, 2024, the Company has an accumulated deficit of $28.1 million compared to $27.1 million as of September 30, 2023.

In order to continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance working capital, and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations, generate sufficient funds from operations and obtain new financing. There is no certainty that the Company will raise these necessary funds from financing or operations. As a result of these factors, there is a material uncertainty that may result in a significant doubt on the Company’s ability to meet its obligations as they come due and continue as a going concern.

Management is of the opinion that in the future, sufficient working capital can be obtained from external financing and operating cash flow to settle the Company’s liabilities and commitments as they become due, although there is a risk that funding will not be available on a timely basis or on terms acceptable to the Company.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the expenses, and the statement of financial position classifications used. Such adjustments could be material.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Related Party Transactions

As of September 30, 2023 , the Company's related parties and key management personnel consist of the Company's directors and executive officers.

Name/Personal Corporation	**Relationship**	**Nature of Transaction**
Nathan Laurell/New Frontier Holdings	Director	
Bill Besenhofer	Director, CEO	Management salaries
John Mikulich	CFO, Secretary	Management salaries
Carl Purnell	COO	Management salaries
Jeff Cantalupo	Director	
Lindsay Levin	Director	
Besar Xhelili	Director	

Key management personnel ("KMP") are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. KMP consists of officers and directors.

Aggregate compensation of KMP during the periods consisted of:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	**Nine Months Ended September 30, 2024**	Nine Months Ended September 30, 2023
Salaries & Short-Term Benefits	**$ 117,222**	$ 105,239	**$ 397,221**	$ 434,990
Share-based payments	**$ 27,485**	$ 36,623	**$ 43,952**	$ 178.528
	$ 144,707	$ 141,862	**$ 441,173**	$ 613,518

As of December 31, 2022, Nathan Laurell, a director, had personally guaranteed an Economic Injury Disaster Loan ("EIDL") funded by the Small Business Administration that was distributed on May 29, 2020. The personal guarantee was a requirement for securing the loan. The note was paid off in September 2023.

Proposed Transactions

There are no proposed transactions at this time.

Critical Accounting Estimates

In preparing these condensed interim consolidated financial statements, management has made judgments and estimates and used assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will differ materially from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty are:

Useful life of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date and estimates the expected future utility of the assets to the Company.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is assigned on a First-in, First Out ("FIFO") using the standard costing method which is updated regularly to reflect current conditions and approximate cost. The cost of finished goods inventory comprises of raw materials, direct labor, and other direct costs and related production overhead expenditures. Net realizable value is the estimate selling price in the ordinary course of business, less applicable variable selling expenses.

Incremental borrowing rate for lease assets

If the implicit rate cannot be readily determined the Company makes estimates in determining the incremental borrowing rate used to measure the lease liability for each lease contract. The incremental borrowing rate reflects the interest that the Corporation would have to pay to borrow at a similar term with similar security.

Taxation

The calculations for current and deferred taxes require management’s interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management’s assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

Expected credit losses

The Company's trade and other receivables are typically short-term in nature. The Company recognizes an amount equal to the lifetime ECL based on a probability-weighted matrix. The Company measures loss allowance based on customer-specific factors, historical default rates and forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Leases

Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions. The incremental borrowing rates are based on estimates including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.

Judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations that management has made in the process of applying the Company’s accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

Determination of Cash Generating Units “CGU”

For the purposes of assessing impairment of non-financial assets, the Company must determine Cash generating units. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the Company has one CGU.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

Going concern

The going concern assessment requires management's judgment on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing.

Accounting Changes

There were no accounting changes for the reporting periods.

Financial Instruments and Other Instruments

As of September 30, 2024, the Company's financial instruments consist of cash, trade and other receivables, trade and other payables, note payables and financing obligations. Due to their short-term nature, cash, trade and other receivables, trade and other payables cash represent an approximate fair value.

On September 5, 2023, the Company entered into an agreement to sell $2 million of its machinery & equipment ("sale leaseback property") to an equipment financing company ("Lessor"). Concurrent with the sale, the Company entered into a two-year lease agreement to lease back the equipment. Proceeds from the financing were used to repay the Company's outstanding note payable, which included an EIDL small business administration loan that was distributed on May 29, 2020.

Outstanding Share Data

The following table summarizes the maximum number of common shares potentially outstanding as of September 30, 2024, if all share purchase options, restricted share units and performance warrants were converted to common shares:

		September 30, 2024
Subordinate Voting Shares	$	**10,592,277**
Proportionate Voting Shares*	$	**413,778**
Options	$	**4,478,072**
Total Shares (fully diluted)	$	**15,484,127**
Total Shares (fully diluted and fully converted) **	$	**56,448,149**

* On an as-converted basis such number of Proportionate Voting Shares would convert to 41,377,800 Subordinate Voting Shares

** Total Shares assuming conversion of all Proportionate Voting Shares to Subordinate Voting Shares.

Normal Course Issuer Bid ("NCIB")

On June 26, 2022, the Company commenced its Normal Course Issuer Bid (“NCIB”) that expired on the 12 month anniversary of commencement. Under the NCIB the Company may purchase up to 5% of the issued common shares. At June 26, 2023, the Company had purchased 167,000 of the eligible 546,436 common shares at a cost of $88,369 representing a weighted average price of $0.53 per share.

On August 4, 2023, the Company announced renewal of the Normal Course Issuer Bid (“NCIB”). Under the NCIB the Company may purchase up to 5% of the issued common shares resulting in a maximum limit of 540,169 shares. The Company repurchased 15,000 common shares at a cost of $8,189 representing a weighted average price of $0.55 per share.

On October 5, 2023, the Company began trading on the TSXV and delisted from the CSE. Following listing on the TSXV, the Company commenced a NCIB on October 9, 2023. Under the NCIB the Company may purchase up to 916,223 Subordinate Voting Shares, which represents approximately 10% of the Company’s public float at the time the NCIB commenced. The Company will not purchase more than 215,767 Subordinate Voting Shares in any 30-day period, which represents 2% of the Company’s issued and outstanding shares at time of commencement. As of November 26, 2024 the Company has purchased 196,100 Subordinate Voting Shares at a cost of $115,049 representing a weighted average price of $0.59 per share.

Risks and Uncertainties

In the normal course of business, the Company is exposed to financial risk that arises from a number of sources. Management’s involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Company, Management takes steps to avoid undue concentrations of risk. The Company manages the risks, as follows:

Supply Chain and Inflation

The current operating environment has led to a broad increase in the price of most goods and services and delays in acquiring several hard assets (i.e. equipment). Delays in equipment or ingredients may have the effect of delaying the Company’s revenue or inhibiting its ability to grow. Additionally, increases in costs, driven by inflation in the overall economy have caused ingredients, labor, and nearly all input costs to rise. The Company has continued to adjust its prices charged to customers upward to offset these costs. The price changes at times, may be delayed, and thus not match the increases causing margins to fall in the short to medium term. Additionally, pricing pressure could cause economic stress on the Company’s customers.

Credit risk

Credit risk arises when one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Financial instruments that subject the Company to credit risk consist primarily of cash and trade and other receivables. The credit risk relating to cash balances is limited because the counterparties are large commercial banks in the United States. The amounts reported for trade and other receivables in the condensed interim consolidated statements of financial position are net of allowances for credit losses and bad debts and the net carrying value represents the Company's maximum exposure to credit risk.

Trade and other receivables credit exposure is minimized by entering into transactions with creditworthy counterparties and monitoring the age and balances outstanding on an ongoing basis. Most of the Company's credit exposures are with counterparties in the retail and food distribution technology industries and are subject to normal industry credit risk. Payment terms with customers are generally 30 days from the invoice date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company generally relies on funds generated from debt and equity financing to provide sufficient liquidity to meet budgeted operating requirements.

The maximum exposure to liquidity risk is represented by the carrying amount of accounts payable, accruals, lease liabilities and financing obligations.

Interest rate risk

The Company is not exposed to interest rate risk as there are no investments of excess cash in short-term money market investments and/or indebtedness at variable rates of interest.

Subsequent Events

The Company's board approved the granting of an aggregate 2,701,000 stock options (the "Options") to purchase common shares of the Company ("Shares") to certain directors, officers, and consultants of the Company. The Options vest immediately and are exercisable for a period of five years from the date of grant at an exercise price of $1.00 per Share. In addition, 2,071,572 Options expired on November 5, 2024, with and an additional 971,000 Options set to expire on December 31, 2024.