

THS MAPLE HOLDINGS LTD.



MANAGEMENT DISCUSSION AND ANALYSIS

Three-months ended September 30 2024 and August 31 2023

The following management discussion and analysis ("MD&A") of THS Maple Holdings Ltd. ("THS" or "the Company") provides a review of corporate developments, results of operations and financial position for the three-month period ended September 30, 2024 compared with the three-month period ended August 31, 2023. This discussion is prepared as of November 25, 2024. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

Information contained herein is presented as of November 25, 2024, unless otherwise indicated. These interim unaudited consolidated financial statements were approved for issuance by the Board of Directors on November 25, 2024.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements can often be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Company to obtain necessary financing, the economy generally, the Covid-19 pandemic, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

COMPANY OVERVIEW

THS Maple Holdings Ltd. sells and distributes maple syrup and maple flavored products to retail partners and direct to consumers in Canada and over 20 other countries. In its facility in Granby Quebec, the Company purchases, stores and bottles maple syrup in over 100 different formats under its proprietary brands Turkey Hill, Echo Mountain and Herman's 76. Working with its manufacturing partners, THS also sells products such as cookies, candies, chocolates and beverages, all with maple flavoring, under the same brands.

The Company is committed to achieving its sales objectives through its diversified distribution network, which is focused on the gift and souvenir markets, specialty food retailers and domestic markets in countries around the world.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, maple syrup producers, suppliers and employees. To meet this goal, the Company continues to make significant investments in production efficiency, brand marketing and product innovation. Based on its analysis of the market and the increasing demand for natural sweeteners, the Company believes that the growth prospects for the domestic and international maple products markets are positive.

The Company has transitioned to a new fiscal year-end from November 30 to June 30, effective December 1, 2023. As a result, fiscal 2025 will end on June 30, 2025. These interim consolidated unaudited statements cover the three-month period between July 1, 2024 and September 30, 2024 for the consolidated Statements of financial position, while the comparative interim period for the consolidated Statements of Comprehensive income, the consolidated Statements of Changes in Shareholders' Equity and the consolidated Statements of Cash Flows cover the three-month period between June 1, 2023 and August 31, 2023 to ensure compliance with National Instrument 51-102's requirements 8(b)(ii) under section 4.8. In that respect, in choosing its new year-end and comparative quarterly periods, the Company addressed the seasonality of its business which is travel and tourism-related as well as the natural timing of annual maple syrup production which typically ends late spring.

GOING CONCERN

The consolidated net income and comprehensive income for the three-months ended September 30, 2024 was \$43,421 (net loss and comprehensive loss of \$414,656 for the three-months ended August 31, 2023). Additionally, the Company reported consolidated cash flows from operations (before changes in non-cash working capital) of \$155,527 for the three-months ended September 30, 2024 (negative cash flows used in operations of \$293,408 for the three-months ended August 31, 2023). As at September 30, 2024, the Company had a consolidated accumulated deficit of \$8,590,587 (June 30, 2024 - \$8,634,008) and a consolidated working capital of \$341,033 (June 30, 2024, a consolidated working capital of \$241,050).

The operations and consolidated net income for the three-months ended September 30, 2024 resulted in the Company still being in breach of its bank covenants under the terms of its credit line agreement. A tolerance letter has been requested by the Company from the bank since the annual audited consolidated financial statements have been approved by the Company's Board of Directors.

In response to recurring operating losses and negative cash flows from previous operating activities, the Company is undertaking a number of programs (US warehouse, planned second production shift at its Granby facilities) to enhance its sales and future cash flows, to meet its obligations and to fund its ongoing business operations. The Business Combination transaction has been executed on April 26, 2024 and has allowed the Company to significantly reduce its short-term debt.

The Company's ability to meet the covenant measurements under the terms of its credit agreement with its lender is still dependent upon continued improvement in profitable commercial operations, continued funding support from its lender and shareholders, and new equity and debt placements. However, there can be no assurance that management will be successful in this regard. These financial statements do not include any adjustments to the carrying value of assets or liabilities, to the recoverable amounts or the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption were inappropriate, and these adjustments could be material.

RECENT EVENTS AND HIGHLIGHTS

- Revenue for the three-month period ended September 30, 2024 financial year reached \$4.7 million compared to \$3.2 million for the three-month period ended August 31, 2023, an increase of 41.5%
- Gross margin for the three-month period ended September 30, 2024 was 24.7% vs. 17.9% for the three-month period ended August 31, 2023. The gross margin for the current financial year continued its improvement but remains below the Company's target as it was negatively affected by the low supply of certain categories of maple syrup causing the Company to use more expensive organic syrup for some orders.
- The Company entered into a Lease Agreement to start warehousing and distribution operations in Vermont from December 1st, 2024. This transaction allows the Company to support its business and commercial growth plans in the US market.
- The Company entered into a new long-term lease agreement for expanded rental space at its principal place of business in Granby from October 2024 to January 2030 with a renewal option. This will enable the Company to carry the required inventory levels to capture timely sales opportunities as they arise.

RESULTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

	September 30, 2024	August 31, 2023
	\$	\$
Sales	4,666,560	3,192,539
Cost of sales	3,512,310	2,621,233
Gross profit	1,154,250	571,306
Operating expenses		
Selling expenses	419,470	304,288
Administrative expenses	553,346	480,321
	972,816	784,609
Operating income (loss)	181,434	(213,303)
Finance costs	145,064	223,272
Other expense (income)	(7,187)	16,873
	137,877	240,145
Income (loss) before income taxes	43,557	(453,448)
Income tax expense (recovery)	136	(38,792)
Net income (loss) and comprehensive income (loss) for the period	43,421	(414,656)
Net income (loss) per share		
Basic and diluted	0.001	(0.018)

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- Gross margin for the three-month period ended September 30, 2024 was 24.7% vs. 17.9% for the three-month period ended August 31, 2023. The gross margin for the current financial year continued to improve but remains under the Company’s target as it was negatively affected by the low supply of certain categories of maple syrup causing the Company to use more expensive organic syrup for some orders.
- Selling expenses amounted to \$419,470 for the three-month period ended September 30, 2024 compared to \$304,288 for the three-months ended August 31, 2023 reflecting the increase in sales volume.
- Administrative expenses totaled \$553,346 for the three-month period ended September 30, 2024 compared to \$480,321 for the three-months ended August 31, 2023. This increase is primarily due to higher recurring professional fees.

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- Finance costs amounted to \$145,064 for the three-month period ended September 30, 2024 compared to \$223,272 for the three-months ended August 31, 2023 reflecting the improved capital structure of the Company.

LIQUIDITY AND CAPITAL RESOURCES (AUDITED)

	September 30, 2024	June 30, 2024
	\$	\$
ASSETS		
Current		
Cash	243,020	16,300
Trade and other receivables	2,049,411	1,632,610
Inventories	4,446,805	4,934,771
Prepaid expenses	160,468	171,826
	<u>6,899,704</u>	<u>6,755,507</u>
Non-current		
Property and equipment	641,233	646,075
Intangible assets	266,646	304,901
Right-of-use assets	921,428	964,620
	<u>8,729,011</u>	<u>8,671,103</u>
LIABILITIES		
Current		
Bank indebtedness	2,592,137	2,326,177
Bank demand loans	956,455	965,163
Loans from companies controlled by two directors	620,000	620,000
Trade and other payables	1,918,019	2,065,675
Deferred revenues	141,246	158,107
Current portion of balance of purchase price	66,667	96,667
Current portion of lease liabilities	264,147	282,668
	<u>6,558,671</u>	<u>6,514,457</u>
Non-current		
Lease liabilities	816,086	830,429
Loan from a company controlled by a director	1,200,000	1,200,000
Non-current portion of balance of purchase price	112,821	128,205
	<u>8,687,578</u>	<u>8,673,091</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	8,232,020	8,232,020
Contributed surplus	400,000	400,000
Deficit	(8,590,587)	(8,634,008)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	<u>41,433</u>	<u>(1,988)</u>
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY) AND LIABILITIES	<u>8,729,011</u>	<u>8,671,103</u>

- The working capital position continued to improve compared to June 30, 2024 (\$341,033 vs \$241,050) as a result of the current period's strong sales.
- The bank overdraft, for a maximum authorized amount of \$3,000,000, bears interest at prime rate. The next annual review is scheduled for March 31, 2025. The Company is required to respect certain covenants. As at September 30, 2024, the Company is not in compliance with certain covenants and has requested a tolerance letter from the bank.
- The Company's leases are real estate leases for office, production and warehouse space located in Granby (Granby and Waterloo in 2023).

CAPITALIZATION

The Company has basic number of common shares outstanding at each reporting date as follows:

	September 30, 2024	June 30, 2024
Common shares	60,339,100	60,339,100

RISKS TO THE COMPANY

THS operates in a competitive market. While the Company manages its manufacturing and distribution processes to continually monitor risks, some are beyond the Company's control. The list below are some of these risks, but is not meant to be all of the potential risks involved in operating the Company.

Seasonality of Demand and Sales - The Company's business is affected by seasonality, which results in fluctuations in our operating results. THS experiences moderate to significant fluctuations in aggregate sales volume during the year. Revenues in the late fall and winter months are traditionally lower than late spring and summer months. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal demand and activities.

Reliance on Manufacturing and Supply Partners – As discussed in the Company Overview, THS works with third party partners to supply materials for the bottling and packaging of its maple syrup products as well as manufacturing partners for its other products, such as cookies and chocolate. In some cases, the Company has established redundancy in supply, but not all, due to competitive or other reasons. As a result, the Company relies on strong relationships and can be impacted by the issues facing its partners.

Transportation and Distribution Delays – THS uses third party transportation companies to deliver the large majority of its products to its customers. Events such as weather delays, labour disruptions and availability of delivery vehicles may delay the delivery of product from time to time. Delays in transportation may also affect the delivery of supplies (such as bottles or boxes) required to prepare a customer order. As a result, the Company uses a number of different distribution partners in part to minimize the impact of issues facing an individual partner.

Events Affecting Demand of THS' Products – In addition to seasonality, certain events may affect the demand of the Company's products including a general economic slowdown or a global health emergency that restricts travel. While very difficult to predict, a situation like the impact of COVID-19, can have a material effect on the sales of the Company.

Global Financial Conditions including Currency Exchange Rates – THS' facility is located in Canada, but its sales are made locally and other parts of the world including the United States, Europe and Asia. Some of its manufacturing supplies come from other countries as well. The Company is subject to currency fluctuations that may help or hurt operating margins as it is often difficult to "pass on" the potential unfavorable impact of such fluctuations to the customer within a season.

Strength of Its Retail Partners – As most of the Company's sales are through retail partners, the financial strength of the retailers is important to the growth of THS. The failure of a larger customer could have a material effect on the Company's sales for a prolonged period of time.

SUBSEQUENT EVENTS

On October 25, 2024, the Company received preliminary confirmation that maturity of its bank overdraft facility guaranteed by EDC has been extended to October 2025.

STRATEGIC OUTLOOK AND DIRECTION

While restrictions related to the COVID-19 pandemic were removed gradually beginning in 2021, and most of the factors affecting the Company's activities have returned to pre-pandemic levels, some, like the global cruise industry and cross-border travel between the United States and Canada, both important channels for THS, have not fully recovered. The Company expects these and other factors to continue to improve over the next 2 to 3 years.

The Company benefits from selling products that are made from natural and organic sources. There is a trend toward less processed foods and sweeteners that are chemical free. Maple syrup meets these criteria. In addition, its production produces low carbon output and is largely immune from some of the current impacts of climate change due to the maturity of sugar maple trees. The Company expects the demand for maple and maple-flavored products to increase considerably over the next 3 to 5 years due to health trends and growth in international travel.

THS sees significant growth opportunities in many countries around the world, including the United States. With the opening of its warehouse and distribution center in Vermont, the Company is well positioned to build its new brand, New England Maple Farms, in the American market and address any concerns over any increased regulations over foreign products in the coming years.

The industry in which THS operates is highly fragmented; there are several small providers of products to the channels that the Company serves. THS sees opportunity for consolidation over the coming years to be able to grow the market in an efficient manner.
