Management's Discussion and Analysis of

# GREEN RISE FOODS INC.

For the three and nine-months ended September 30, 2022

(Canadian Dollars)

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Green Rise Foods Inc. (hereinafter "Green Rise" or "the Company") provides a discussion and analysis of the financial condition and results of operations to enable a reader to assess the financial condition of the Company as of September 30, 2022, and the results of operations for the three and nine-months ended September 30, 2022.

The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements ("financial statements") of Green Rise as at September 30, 2022. The accompanying financial statements have been prepared by and are the responsibility of Green Rise's management. The financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All amounts in this discussion are expressed in millions of Canadian dollars (CAD), unless otherwise indicated.

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking information" and "forward-looking statements" which are statements other than statements of historical fact contained in this MD&A. Such statements can, in some cases, be identified by the use of forward-looking terminology such as "expect," "likely", "may," "will," "should," "intend," or "anticipate," "potential," "proposed," "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. The forward-looking statements included in this MD&A are made only as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect subsequent information, events or circumstances or otherwise, except as required by law.

Forward-looking statements in this MD&A are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives and cautions readers that the information may not be appropriate for other purposes.

Some of the risks which could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include:

- expansion of facilities
- changes in laws, regulations and guidelines;
- legislative or regulatory reform and compliance;
- competition;
- environmental regulations and risks;
- limited operating history;
- risks inherent in an agricultural business, including crop loss and weather related events;
- retention and acquisition of skilled personnel;
- negative consumer perception;
- product liability;
- insurance coverage;

- constraints on and factors affecting the supply of inputs and operation of capital equipment
- regulatory or agency proceedings, investigations and audits;
- litigation;
- constraints on and factors affecting the marketing of products including market price fluctuations;
- fraudulent or illegal activity by the Company’s employees, contractors and consultants;
- information technology systems and cyber-attacks;
- breaches of security and risks related to breaches of applicable privacy laws;
- access to capital;
- estimates or judgments relating to critical accounting policies;
- the impact on profitability resulting from higher input costs; and
- economic downturn caused by the COVID-19 pandemic.

In addition to the factors set out above and those identified in this MD&A under “Risks and Uncertainties”, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements.

**OVERVIEW OF GREEN RISE FOODS INC.**

Green Rise was incorporated under the Business Corporations Act (Ontario) on June 9, 2017 and was classified as a Capital Pool Company (“CPC”), as the term is defined in Policy 2.4 of the TSX Venture Exchange (“the Exchange”) Corporate Finance Manual. The principal business of the CPC was the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction (“QT”).

On September 30, 2019, the Company completed its previously announced QT and acquisition of Bull Market Farms Inc. (“Bull Market”) (“the Transaction”) under the policies of the Exchange. In 2018, Bull Market acquired its farm with an existing 51-acre producing greenhouse (“GR1”) of fresh produce located in Leamington, Ontario. GR1 has grown beefsteak tomatoes in the past and is currently growing medley and piccolo varieties. The Company also leases 15-acres of its GR1 greenhouse to one-customer, who is currently growing organic peppers. With the Transaction, the Company completed its first greenhouse range acquisition.

The Company has plans to increase its cultivation capacity and product diversification. It continues to execute on this plan and has completed, through Bull Market, the following acquisitions:

- On February 1, 2021, the Company acquired its second range, a 22-acre producing greenhouse (“GR2”) located in Kingsville, Ontario. The GR2 farm currently is producing beef steak tomatoes.
- On June 30, 2022, the Company acquired its third range, a 16-acre producing greenhouse (“GR3”) located in Kingsville, Ontario. The GR3 farm is currently producing mini peppers.

The Company aims to be the best in quality and lowest cost grower of greenhouse-grown fresh produce. To achieve this status, the Company’s goals include:

- Diversifying its greenhouses and pack-lines to be able to offer multi-sku product offerings of fresh produce;

- Maintaining policies that attract, motivate, and retain a highly skilled workforce with years of agriculture experience in the greenhouse fresh produce industry;

- Improving processes and seeking out new technologies to help reduce our carbon footprint, drive costs lower, improve product quality and reduce waste and inefficiencies; and
- To maintain a strict financial discipline to acquire assets and select annual crop plantings that position the Company to consistently offer the best pricing to its customers and provide consistent financial returns to our shareholders.

On October 16, 2020, the Company official changed its name from Green Rise Capital Corporation to Green Rise Foods Inc. The name change received shareholder approval at its annual general and special meeting of shareholders held on July 8, 2020, and from the TSX Venture Exchange on October 16, 2020.

The Company's common shares are listed on the Toronto Venture Stock Exchange (the "TSX-V") under the trading symbol "GRF.V". The TSX-V approved the Transaction on October 4, 2019.

The address of the Company's registered office is 47 Colborne Street, Suite 301, Toronto, Ontario, M5E 1P8, Canada.

The seasonal operations consist of the growing, packaging and sale of produce to one major customer.

***Highlights for 2022***

- The Company, for the nine-month period ended September 30, 2022, generated record sales of $18.6 million as compared to $14.9 million in the same period in the prior year. This was a record also for the three-month period ended September 30, 2022, where a total of $10.1 million sales was generated, as compared to $7.5 million in the comparative prior year period.

- The Company took steps to focus each greenhouse range into a single vs multi-SKU grower of fresh produce as well as producing produce paid via fixed contract pricing. This is allowing the Company to maximize greenhouse and packing labor efficiencies at each greenhouse range while generating predictive cash flows resulting from fixed contract pricing.

- Adjusted EBITDA for the nine-month period ended September 30, 2022, came in at a record of $6.1 million as compared to $4.8 million in the prior year period. The addition of the GR3 greenhouse, which was acquired on June 30, 2022, strongly contributed to this growth. The acquisition was also critical for achieving a record quarterly EBITDA of $4.6 million as compared to $3.1 million for the three-month period ended September 30, 2021.

- The strategy of focusing each greenhouse range into a single vs multi-SKU grower of fresh produce coupled with increased labor management and incentives has improved labor efficiencies. The Company's ratio of production labor paid to produce sales generated ("the production labor to revenue ratio") came in at 28.7% for the nine-month period ended September 30, 2022, vs 31.7% for the nine-month period ended June 30, 2021. For the three-months ended September 30, 2022, the production labor to revenue ratio came in at 26.1% as compared to 28.8% noted for the same three-month period ended in 2021.

- Adjusted production costs which include labor and raw material inputs as a percentage of revenue came in at 58% for both the nine-month periods ending September 30, 2022, and 2021. Maximizing labor efficiencies helped manage rising raw material costs, primarily related to higher natural gas, fertilizer and packaging costs. For the three-months period ended September 30, 2022, the ratio of production costs to revenue came in at 48% vs 52% for the comparable prior period. The addition of GR3 helped improve this ratio in addition to the continued efforts to maximize labor efficiencies and manage rising input costs.

- The pursuit by the Company of insurance recoveries and a government sponsored program grant may, to the extent obtained, mitigate the financial effects of the crop loss at the GR2 farm that occurred in 2021. To date, no insurance recoveries have been received or recorded in the Company's results, nor can such recoveries be assured. The Company does participate in the AgriStability program ("AgriStability") and was awarded $363 thousand based on an interim application the Company filed in November 2021. AgriStability is a margin-based program designed to help producers manage large income declines in farming income. It provides payments when farming income falls more than 70% from a Company's reference margin. The reference margin is calculated based on an average of the Company's last 5 years of farming income (dropping the highest and lowest values). The maximum amount that can be awarded under this program to any Company is $3.0 million in any given year. The Company filed its final 2021 application in mid June and expects to receive the final payment statement calculation, and payment, in Q4 of fiscal 2022. A total of $182 thousand was collected on this program in Q1 of Fiscal 2022.

- On June 30, 2022, the Company completed its acquisition of a 16-acre greenhouse range ("Green Rise 3 or GR3") previously owned by 2073834 Ontario Ltd., a company principally owned and controlled by the Adam Suder, the Chief Growth Officer of the Company, for consideration of $14,826. GR3 is currently producing and packing high demand, high quality mini peppers with all production committed under contract pricing. GR3's fixed contract raises the Company's total fixed contract pricing to 70% of the Company's total managed cultivation capacity, an ~125% increase over the prior year period. This transaction allows the Company to support its customers by offering high quality, multi-sku produce in beef steak, medley, piccolo and mini peppers. The speciality mini peppers also have greater certainty of yields which allows for better forecasting of production and delivery volume to the Company's customers. GR3 is well into its 2022 crop season. The acquisition added $1.1 million in EBITDA for both the nine and three-month periods ended September 30, 2022.

- The Company reported a working capital deficit of $18.3 million which reflects the timing of the maturity of a mortgage secured against the GR1 greenhouse range (the "GR1 mortgage"). The GR1 mortgage expires in June 2023 and accordingly has been classified as current on the Company's interim consolidated financial statements. As of September 30, 2022, the GR1 mortgage equalled $13.5 million. Adjusting the working capital deficit for the GR1 mortgage results in an adjusted working capital deficit of $4.8 million. This represents an improvement of $1.4 million over the work capital deficit position as of December 31, 2021.

***Significant Transactions***

***Acquisition of 16-acre Mini-Pepper Greenhouse Range:***

As mentioned, on June 30, 2022, the Company, through its wholly owned subsidiary Bull Market Farms Inc. ("Bull Market"), purchased a 16-acre greenhouse property ("the property") located in Kingsville, Ontario, for consideration of $14,826. The purchase price was funded via a first charge mortgage on the property with an aggregate principal amount of $15,350. The mortgage has an open variable interest rate at prime plus 1.0% per annum. As part of the funding requirements of the mortgage, the Company has arranged a postponement of payment of $354 of the purchase price, which is expected to be repaid within the next 9-months.

The property was acquired from 2073834 Ontario Limited, an entity principally owned and controlled by Mr. Adam Suder, the Chief Growth Officer of the Company. The acquisition was considered a "related party transaction" under Multilateral Instrument 61-101 – *Protection of Minority Holders in Special Transactions* ("MI 61-101") and, as such, the acquisition was subject to the formal valuation and disinterested shareholder approval requirements of MI 61-101. The Company received formal shareholder approval at is annual general meeting held on June 29, 2022.

The transaction constitutes a business combination under IFRS 3 -Business Combinations. In accordance with the acquisition method of accounting, the purchase price has been allocated to the underlying assets acquired and liabilities assumed, based on their estimated fair values at the date of the acquisition. The Company used a combination of a direct comparison approach and a discounted cash flow model (net present value of expected future cash flows) to determine the fair value of the assets acquired. The purchase price allocation is summarized in the following table:

| **Purchase Price Consideration** | ***($000s)*** |
|---|---|
| **Total Consideration** | 14,826 |
| | |
| **Net Identifiable Assets Acquired** | |
| Receivables | 42 |
| Inventory | 18 |
| Bearer plants | 655 |
| Biological assets | 419 |
| Property, plant and equipment | 14,282 |
| Accounts payable and contracts assumed | (590) |
| Total net assets acquired | 14,826 |

**1. The purchase price allocation for the 2073834 Ontario Limited net asset acquisition is not final and subject to change as the Company completes the valuation of the assets acquired and liabilities assumed.**

*Acquisition of a 22-acre Beefsteak Greenhouse Range:*

On February 1, 2021, the Company through its wholly owned subsidiary Bull Market Farms Inc., acquired the assets of Mor Gro Farms Inc., a greenhouse range located in Kingsville, Ontario, for a purchase price of $16.0 million. The acquisition added 20.5 acres of greenhouse cultivation capacity. The assets acquired include 100% of the shares of Mor Gro Sales Inc., a distribution company of fresh produce. The acquisition was funded via a $13 million first mortgage with the Royal Bank of Canada for a term of 7-years with a fixed interest rate of 2.85%. The transaction constituted a business combination under IFRS 3 – Business Combinations. In accordance with the acquisition method of accounting, the purchase price was allocated to the underlying assets acquired and liabilities assumed, based on their estimated fair values at the date of the acquisition. The Company used a combination of a direct comparison approach and a discounted cash flow model (net present value of expected future cash flows) to determine the fair value of the assets acquired.

The purchase price allocation, which was finalized in the fourth quarter of fiscal 2021, is summarized as follows:

| **Purchase Price Consideration** | ***($000s)*** |
|---|---|
| **Total Consideration** | 16,013 |
| | |
| **Net Identifiable Assets Acquired** | |
| Cash | 19 |
| Trade and other receivables | 421 |
| Bearer plants | 811 |
| Prepaid expenses | 180 |
| Property, plant and equipment | 15,866 |
| Accounts payable and contracts assumed | (1,054) |
| Right of use asset obligations | (230) |
| Total net assets acquired | 16,013 |

**Seasonality**

The nature of the food production business is predictably seasonal. Currently, the Company's growing season allows for saleable product between the months of April and December. Accordingly, Q2 and Q3 are expected to be the Company's strongest quarters. During Q4, operations begin to wind down through the month of December when management starts the process of cleaning out the greenhouse in preparation for the next growing season.

***Overall Performance***

## SELECT QUARTERLY INFORMATION

The summary is set out in the following table. The amounts are derived from the financial statements prepared under IFRS.

| *($ thousands)* | **Three-months ended September 30, 2022** | Three-months ended September 30, 2021[1] | **Nine months-ended September 30, 2022** | Nine months-ended September 30, 2021[1] |
|---|---|---|---|---|
| Total revenue | **$10,106** | $7,514 | **$18,641** | $14,927 |
| -Production costs[2] | **4,886** | 3,906 | **10,747** | 9,583 |
| -Depreciation | **2,895** | 2,204 | **5,672** | 4,273 |
| -SG&A, excluding depreciation | **657** | 516 | **2,115** | 2,220 |
| -Net change in unrealized (gain) loss on biological asset | **921** | 803 | **(557)** | (667) |
| Earnings (Loss) from operations | **$747** | $85 | **$664** | $(482) |
| | | | | |
| -Interest expense | **588** | 266 | **1,211** | 832 |
| -Income tax expense (recovery) | **62** | (88) | **(213)** | (555) |
| Net earnings (loss) | **$97** | $(93) | **$(334)** | $(759) |

1. *During the fourth quarter of 2021 the Mor Gro Farms Inc. greenhouse purchase price allocation was finalized resulting in no recognition of a bargain purchase gain. The comparative balances reported for the three and nine-month periods ended September 30, 2021, have been restated to reflect the final purchase price allocation.*
2. Production costs include raw materials, labor, repairs and maintenance expenses and bearer plants impairments.

***Summary of quarterly results***

| *($ thousands)* | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 | June 30, 2021 | March 31, 2021 | December 31, 2020 |
|---|---|---|---|---|---|---|---|---|
| Revenues | 10,106 | 8,290 | 245 | 2,784 | 7,514 | 7,144 | 269 | 2,827 |
| Earnings (loss) from operations | 747 | 669 | (752) | (2,583) | 85 | 1,342 | (1,909) | (838) |
| Net earnings (loss) | 97 | 277 | (708) | (2,656) | (93) | 649 | (1,315) | (1,013) |
| Basic and diluted EPS | 0.00 | 0.01 | (0.02) | (0.06) | 0.00 | 0.01 | (0.03) | (0.02) |
| | | | | | | | | |
| Total assets | 59,254 | 63,504 | 47,906 | 43,694 | 46,903 | 50,612 | 48,144 | 32,153 |
| Total liabilities | 54,405 | 59,188 | 43,717 | 38,828 | 39,468 | 43,144 | 41,439 | 24,201 |
| Equity | 4,849 | 4,497 | 4,189 | 4,866 | 7,436 | 7,468 | 6,705 | 7,952 |

**Results for the nine-month period ended September 30, 2022**

***Earnings from Operations***

*Revenue*

The Company generated revenue of $18.6 million for the nine-month period ended September 30, 2022, as compared to $14.9 million for the nine-month period ended September 30, 2021. A successful planting season at the Company's GR2 greenhouse range allowed the picking and shipping of the Company's beef steak tomatoes to start in mid April of this year. In comparison, in the prior year the Company's GR2 greenhouse range experienced a complete crop failure. While the Company took steps to minimize this loss, the replanted crop did not start producing fresh produce until mid June 2021, causing a reduction and delay in the Company's fresh produce production out of its GR2 greenhouse range in 2021. Adding to the increased revenue in the current period ended was the addition of the Company's mini-pepper greenhouse range, GR3, which was acquired on June 30, 2022.

*Production costs and depreciation*

Production costs came in at $10.8 million for the nine-month period ended September 30, 2022, as compared to $9.6 million in the comparative prior year period. A total of $0.8 million of this increase was attributed to the addition of the Company's mini-pepper greenhouse range, GR3, acquired on June 30, 2022. A net increase of $0.2 million was attributed to the increase in production costs resulting from higher input costs at the Company's GR1 and GR2 greenhouse ranges. This was due to higher natural gas prices, fertilizer, and packaging costs. Packaging costs were also higher as a result of the increase in sales at these greenhouse ranges. The magnitude of this increase was offset by the fact that the prior period included an impairment charge of $1.1 million as a result of the GR2 crop loss in 2021. The Company has been working diligently on managing rising input costs by working with its suppliers, making tactical bulk purchases, and hedging natural gas prices. The remaining increase in production costs of $0.1 million was attributed to higher labor costs at the Company's GR2 greenhouse range which had picked and packed for 6-months in the current nine-month period ended as compared to 3.5 months in the prior nine-month period ended. These higher labor costs at GR2 were offset by labor savings at the Company's GR1 greenhouse range, which resulted in a decrease in labor costs of $0.2 million, despite planting in the GR1 greenhouse a more labor-intensive crop in 2022 (Medley and Piccolo in 2022 vs Medley and Beefsteak in 2021). These new labor management and incentive programs helped reduce labor costs as compared to the prior period ended at the Company's GR1 greenhouse range.

Depreciation for the nine-month period ended September 30, 2022, came in at $5.4 million as compared to $4.0 million in the prior nine-month period ended. The increase reflects four factors being: (1) Additional bearer plant amortization of $0.5 million resulting from the utilization of the GR2 bearer plants from mid April in the current period to generate fresh produce as compared to a start of mid June in the comparative nine-month period ended. The bearer plants in 2021 were delayed as a result of the replant and did not begin to bear fruit until mid June 2021. (2) With the GR2 acquisition closing on February 1, 2021, there were 8 months of depreciation on property, plant and equipment for the Company's GR2 greenhouse in the nine-month period ended in 2021 as compared to 9 months in the current nine-month period ended. This accounted for an increase of $0.1 million in depreciation. (3) The Company's GR1 bearer plant costs accounted for $0.2 million of the increase because of higher costs primarily relating to seed and propagation costs of the Medley and Piccolo varietal plants. These costs are higher than beefsteak plants and in the prior year GR1 dedicated half of its cultivation capacity to beefsteak production. (4) Additional bearer plant amortization and amortization of $0.4 and $0.2 million respectively resulting from the acquisition of GR3 on June 30, 2022.

*SG&A, excluding depreciation*

SG&A, excluding depreciation, was relatively flat for the nine-month period ended September 30, 2022, as compared to the nine-month prior period ended in 2021. Higher SG&A costs resulting from operating the newly acquired GR3 greenhouse in the current period were more than offset by one-time bonuses paid in 2021 to senior executives and higher stock-based compensation in the comparative prior period ended.

Net change in unrealized gain on biological assets

The net change in unrealized gain on biological assets came in relatively flat as compared to the nine-month period ended September 30, 2021. The current results also reflect the fact that the GR3 greenhouse was purchased at peak production time during the 2022 crop season and accordingly the change in bio assets for the nine-month period ended September 30, 2022, was a loss of $0.1 million for the GR3 greenhouse. This reflects lower fresh produce on our vines as at September 30th which is consistent with the seasonality of the Company's business.

***Earnings (Loss) from Operations (includes Earnings (Loss) from Operations, Interest expense and deferred taxes)***

*Interest expense*

Interest expense increased by $0.4 million reflecting the additional interest expense on the mortgage and mark to market adjustment of $0.1 million on the interest rate swap to fund and manage interest rate risk on the newly acquired GR3 greenhouse. In total, this accounted for $0.3 million of the increase in interest expense. The remaining increase of $0.1 million is a result of the additional interest on the Company's operating lines. This stemmed from increases in the prime lending rate which occurred in the second and third quarters of 2022. The Company's operating lines interest rate is variable at prime plus 1.0%.

*Income tax expense (recovery)*

The income tax recovery came in at $0.2 million as compared to $0.6 million in the prior nine-month period ended September 30, 2021. The decrease in recovery is the result of the lower loss from operations noted for the nine-month period ended September 30, 2022, as compared to the same nine-month period in 2021.

**Results for the three-month period ended September 30, 2022**

***Earnings from Operations***

*Revenue*

The Company generated revenue of $10.1 million for the three-month period ended September 30, 2022, as compared to $7.5 million in the three-month period ended September 30, 2021. The Company's strategy to plant Medley and Piccolo at its GR1 facility resulted in higher revenues of $0.6 million. In addition to fixed contract pricing, the Medley and Piccolo varieties are more resilient to weather and environmental factors resulting in higher yields and production output. In contrast, the Company's GR2 greenhouse which planted beefsteak, had adverse impacts due to weather and environmental conditions resulting in a drop of revenue of $0.3 million as compared to the prior three-month period ended September 30, 2021. Finally, the addition of the GR3 greenhouse range, acquired on June 30, 2022, added $2.3 million in revenues as compared to the same period in the prior year.

*Production costs and depreciation*

Production costs came in at $4.9 million for the three-month period ended September 30, 2022, as compared to $3.9 million in the prior three-month period ended September 30, 2021. A total of $0.8 million of this increase was attributed to the addition of the Company's mini-pepper greenhouse range, GR3, acquired on June 30, 2022. A total of $0.2 million of the increase in production costs was attributed to higher input costs at the Company's GR1 and GR2 greenhouse ranges, mainly from higher natural gas prices, fertilizer, and packaging costs. The Company has been working diligently on managing rising input costs by working with its suppliers, making tactical bulk purchases, and hedging natural gas prices.

Depreciation for the three-month period ended September 30, 2022, came in at $2.8 million as compared to $2.1 million for the three-month prior period ended. The increase reflects two factors being: (1) Additional bearer plant amortization of $0.1 at the GR2 greenhouse reflecting higher bearer plant costs experienced on the 2022 crop and resulting amortization as compared to the prior year three-month period ended September 30, 2021 and (2) amortization on the Company's newly acquired GR3 greenhouse resulting from the bearer plant ($0.4 million) and property, plant and equipment ($0.2 million) utilization.

*SG&A, excluding depreciation*

SG&A, excluding depreciation, for the three-month period ended September 30, 2022 increased by $0.1 million as compared to the same period in the prior year. This was mainly driven by the SG&A associated with the newly acquired GR3 greenhouse, which was acquired on June 30, 2022.

*Net change in unrealized gain on biological assets*

The net change in unrealized loss on biological assets came in relatively flat as compared to the three-month period ended September 30, 2021. The current results also reflect the addition of the GR3 greenhouse, which resulted in a decrease of $0.1 million to the unrealized gain on biological assets for the current three-month period ended September 30, 2022.

***Earnings (Loss) from Operations (includes Earnings (Loss) from Operations, Interest expense and deferred taxes)***

*Interest expense*

Interest expense increased by $0.3 million for the three-month period ended September 30, 2022, as compared to the three-month period ended in 2021. $0.2 million of this increase was attributed to the newly acquired GR3 greenhouse which closed on June 30, 2022. The remaining $0.1 million was mainly attributed to the mark to market adjustment on the interest rate swap entered into and as part of managing the interest rate risk on the mortgage used to acquire the GR3 greenhouse.

*Income tax expense (recovery)*

The income tax expense came in at $0.1 million as compared to a recovery of $0.1 million in the prior three-month period ended September 30, 2021. The decrease in recovery is the result of $0.2 million in net income before taxes in the current three-month period ended as compared to a loss of $0.2 million for the prior year three-month period ended.

## LIQUIDITY AND CAPITAL RESOURCES

Financial Condition Review

| *($ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Working Capital Deficit[1] | (18,305) | (6,250) |
| Total Assets | 59,254 | 43,694 |
| Total Liabilities | 54,406 | 38,828 |
| Net Equity | 4,849 | 4,866 |

1) Working capital is the net of all current assets and liabilities.

The Company has in place a planning and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company is exposed to risks related to seasonality as there is limited revenue from January through to mid April. If the current resources and cash generated from operations is insufficient to satisfy its obligations, the Company can draw on its credit facility.

The Company successfully planted its 2022 crops and began picking fresh produce mid March at its GR1 farm and mid April at its GR2 farm. The second and third quarters of each fiscal year are the periods in which the Company generates its greatest revenues and cash flows resulting from the weather during this period which is optimal for growing.

As of September 30, 2022, the Company had a total operating line facility of $6,600, of which $3,372 was drawn ($5,000 and $2,914 drawn as of December 31, 2021). The total undrawn amount as at September 30, 2022 equalled $3,228 ($2,086 undrawn as at December 31, 2021). Based on the Company's latest forecast it expects that the cash generated in the remaining quarter of the 2022 crop season and the projected availability on its operating line facility will be sufficient to meet its cash flow requirements to plant its 2023 crop selection.

The Company's working capital deficit of $18.3 million reflects the timing of the maturity of a mortgage secured against the GR1 greenhouse range (the "GR1 mortgage"). The GR1 mortgage expires in June 2023 and accordingly has been classified as current. As of September 30, 2022, the GR1 mortgage equalled $13.5 million. Adjusting the working capital deficit for this GR1 mortgage results in an adjusted working capital deficit of $4.8 million. This represents an improvement of $1.4 million over the work capital deficit position as of December 31, 2021.

The Company is exploring ways to further improve its working capital position, including and as part of the GR1 mortgage refinancing, the utilization of excess equity at its greenhouse ranges.

Total Assets increased by $15.6 million as compared to December 31, 2021. The increase was mainly attributable to the property plant and equipment acquired as part of the GR3 acquisition which stood at $14.2 million of total assets as at September 30, 2022. This was offset by a reduction of $1.9 million relating to deprecation expense on the Company's GR1 and GR2 greenhouse ranges and related business assets. The increased investment in the Company's trade and other receivables, bio assets and bearer plants accounted for the remaining increase. This increase is typically for this period, given the seasonality of the business.

Total Liabilities increased by $15.6 million, compared to the amount reported as at December 31, 2021, primarily resulting from the mortgage to fund the GR3 acquisition ($15.4 million). This was offset however by the mortgage payments made on the Company's GR1 and GR2 greenhouses, resulting in principal repayments of $1.5 million during the period. The remaining increase in total liabilities primarily related to the increase in trade payables.

Equity remained flat with the net loss of $0.3 million offset by the proceeds on stock options exercised during the period.

## CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments based on the funds available to support the development of management's planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but instead relies on the expertise of management to sustain future development of the business.

Management expects to generate sufficient cash flows from operations to meet its debt servicing, principal payment, and working capital requirements over both the short and long-term through increased profitability and strong management of working capital and capital expenditures. The Company regularly reviews all of its assets to ensure appropriate returns on investment are being achieved and fit with the Company's long-term strategic objectives.

In the definition of capital, the Company includes equity, which is comprised of share capital, contributed surplus and retained earnings.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2022, the payments due by period are set out in the following table:

| *($000s)* | **Total** | **Less than 1 Year** | **1 – 5 Years** | **After 5 Years** |
|---|---|---|---|---|
| Trade payables | 4,260 | 4,260 | - | - |
| Payable to 2073834 Ontario Limited | 354 | 354 | - | - |
| Lease obligations | 342 | 158 | 184 | - |
| Long-term debt and interest rate swap | 45,309 | 15,118 | 20,477 | 9,714 |
| Total | 50,265 | 19,890 | 20,661 | 9,714 |

## COMMITMENTS

The Company has entered into an agreement with a customer for a 10-year period to supply produce from its GR1 facility at prevailing market prices.

As at September 30, 2022, the Company had $736 relating to purchase commitments. These commitments relate to input costs for the 2022 crop season and commitments to acquire gas through to November 2023.

## OFF BALANCE SHEET ARRANGEMENTS

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

## TRANSACTIONS BETWEEN RELATED PARTIES AND KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority for planning, directing, and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and members of its Board of Directors. For the nine-months ended September 30, 2022, the Company paid $357 in cash compensation (2021 – $529 for the nine-months ended September 30, 2021) and had $63 (2021 – $140 for the nine-months ended September 30, 2021) of stock-based compensation attributed to key members of management. For the three-months ended September 30, 2022, the Company paid $133 in cash compensation (2021 –$113 for the three-months ended September 30, 2021) and had $18 (2021 - $41 for the three-months ended September 30, 2021) of stock-based compensation attributed to key members of management.

On June 30, 2022, the Company, as described on page 6 of this MD&A under significant transactions, acquired its third greenhouse range from 2073834 Ontario Ltd., a company principally owned and controlled by Adam Suder, the Company's Chief Growth Operating Officer. Total cash consideration for this acquisition was $14,826. Of this amount $354 was postponed and is expected to be paid in May 2023.

## RISKS AND UNCERTAINTIES

There are a number of risk factors that could cause future results to differ materially from those described herein. Additional risks and uncertainties, including those that the Company does not know about or that it currently deems immaterial, could also adversely affect the Company's business and results of operations.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") a "Public Health emergency of International Concern", and on March 11, 2020 declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Company's operations, suppliers or other vendors and customer base. The operations for the Company's services could be negatively impacted by the regional and global outbreak of COVID-19, including stop-work orders for an unknown period of time. Any quarantines, labor shortages or other disruptions to the Company's operations, or those of its customers, may adversely impact the Company's revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Company operates, resulting in an economic downturn that could affect demand for its services. As of the date of this management, discussion and analysis, the Company's operations have been classified as an essential service and there has been no disruption to the current operating activities. The extent to which COVID-19 impacts the Company's future results will depend on further developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others.

## CRITICAL ACCOUNTING JUDGMENT AND ESTIMATION UNCERTAINTIES

Areas where critical accounting estimates and judgments have the most significant effect on the amounts recognized in the financial statements include:

- Estimated useful life of property, plant and equipment

  Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recording expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

- Leases:

  The Company uses judgement to determine the incremental borrowing rate used to calculate the initial liability and corresponding asset. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar value to the right-of use asset in a similar economic environment.

- Estimated fair value of biological asset

  The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant estimates include those related to the valuation of biological assets. Biological assets are measured at the fair value less costs to sell, which is calculated as expected sales of harvested biological produce, less costs to sell and costs to complete. Management estimates the sales price of the produce on the vine by utilizing actual sales prices in the following period, estimates the expected yield based on historical production and estimates the costs to sell and costs to complete, which includes packaging and transportation costs. Stage of growth and remaining costs to complete for in-progress produce are estimated by management based on historical production. The estimated inputs are subject to fluctuations based on the timing and prevailing growing conditions and market conditions.

- *Bearer assets*

  The classification of bearer assets is a significant judgment. Expenditures for bearer assets are recorded in investing activities on the statement of cash flows. Bearer assets are depreciated based on the estimated yield profile of the plants over their life. The amounts and timing of recorded expense for depreciation of bearer plants for any period are affected by the estimate of useful lives.

- *Business combination*

  The Company applies judgment in determining a business is acquired when the integrated set of assets and activities includes at a minimum, an input and substantive process and whether the acquired set has the ability to contribute to the creation of outputs.

  In a business combination, a significant area of judgment and estimation relates to the determination of the fair value of assets and liabilities acquired including any intangible assets and goodwill identified.

- *Going Concern*

  The Company regularly reviews and assesses its ability to continue as a going concern. This assessment relies on significant judgements and assumptions, taking into account known future information, including whether events or conditions create material uncertainties that may cast significant doubt on the ability to continue as a going concern.

  The nature of the Company's business is predictably seasonal. Currently, the Company's growing season allows for saleable products between the months of April and December with Q2 and Q3 being the strongest quarters for cash flow generation. During Q4, operations begin to wind down through the month of December when the Company starts the process of cleaning out its greenhouses in preparation for the next growing season. The Company relies heaviest on internal cash flows and its operating line in Q1 when it does not have any saleable products and resulting incoming cash flows.

  In assessing the Company's ability to continue as a going concern, management applied judgement as to the Company's ability, factoring the seasonality, and has a reasonable expectation it will be able to (i) to fund operating and debt services requirements for the next 12 months and (ii) to refinance the operating line.

## NEW ACCOUNTING PRONOUNCEMENTS

**IAS 1:** Amendment to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively. Management is currently assessing the impact of this amendment.

**IAS 16:** Amendments to IAS 16, Property, Plant and Equipment

On May 14, 2020, the IASB published an amendment to IAS 16 Property, Plant and Equipment. The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. This standard did not have any impact on the Company's consolidated financial statements.

**IAS 41:** Amendments to IAS 41, Agriculture

In May 2020, the IASB published Annual Improvements to IFRS Standards 2018–2020 Cycle, containing the following amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2022. IAS 41 Agriculture–The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13. The Company has assessed the impact of this new standard and it did not have any significant impact on its consolidated financial statements.

**IFRS 3:** Amendment to IFRS 3, Business Combinations

On May 14, 2020, the IASB issued amendments to IFRS 3 Business Combinations that added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has assessed the impact of this standard and it did not have any impact on its consolidated financial statements.

**IFRS 9:** Financial Instruments

The IASB has issued an amendment to IFRS 9, Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022. This standard is not expected to have a material impact on the consolidated financial statements.

**IAS 8:** Definition of Accountings Estimates

The IASB has issued an amendment to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The extent of the impact of adoption of this standard has not yet been determined.

**IAS 12**: Income Taxes

The IASB has issued an amendment to IAS 12 – Income Taxes to narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences.

The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The extent of the impact of adoption of this standard has not yet been determined.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Venture issuers are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR as defined in National Instrument 52-109 -Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). In particular the Chief Executive Officer and Chief Financial Officer are not required to make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and (b) process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS.

## OUTSTANDING SHARE DATA

As at the date of this MD&A, 46,389,066 total shares were outstanding.

## APPROVAL

The Board of Directors of the Company approved the disclosure in this MD&A on November 3, 2022.

## NON-IFRS MEASURES

*EBITDA and Adjusted EBITDA*

The Company utilizes EBITDA and adjusted EBITDA to measure its financial performance. EBITDA is (defined as earnings before interest, depreciation, amortization, net unrealized gains and losses on biological assets, income taxes and non-recurring expenses such as listing expenses and non-reoccurring legal fees) to measure its financial performance. EBITDA and Adjusted EBITDA are not recognized measures, however management believes that EBITDA and Adjusted EBITDA are useful supplemental measures to net earnings as these measures provide readers with an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, as well as provide an indication of recurring earnings compared to prior periods. The Company calculates EBITDA and adjusted EBITDA as follows:

| | Three-months ending | | Nine-months ending | |
|---|---|---|---|---|
| *($ thousands)* | **September 30, 2022** | September 30, 2021[1] | **September 30, 2022** | September 30, 2021[1] |
| Net earnings (loss)[1] | **$ 97** | $ (93) | **$ (334)** | $ (759) |
| Additions (Deductions) | | | | |
| Depreciation[1] | **2,895** | 2,205 | **5,672** | 4,273 |
| Interest expense | **588** | 266 | **1,211** | 832 |
| Deferred income tax expense (recovery) | **62** | (88) | **(213)** | (555) |
| **EBITDA** | **$3,642** | $2,290 | **$6,336** | $3,791 |
| Additions (Deductions) | | | | |
| Impairment of bearer plants | **$ -** | $ - | **$ -** | $1,078 |
| Land transfer tax on acquisition | **-** | - | **273** | 306 |
| Mark to market adjustment on interest rate swap | **76** | - | **76** | - |
| Employee related payments | **-** | - | **-** | 304 |
| Net change in unrealized (gain) loss on biological assets | **921** | 803 | **(557)** | (667) |
| **Adjusted EBITDA** | **$4,639** | $3,093 | **$6,128** | $4,812 |

1. *During the fourth quarter of 2021 the Mor Gro Farms Inc. greenhouse purchase price allocation was finalized resulting in no recognition of a bargain purchase gain. The comparative balances reported for the three and nine-month periods ended September 30, 2021, have been restated to reflect the final purchase price allocation.*

*Adjusted Earnings*

The Company utilizes adjusted earnings (defined as net earnings before non-recurring expenses such as listing expenses and non-reoccurring legal fees) to measure its financial performance. Adjusted earnings are not recognized measures under IFRS; however, management believes that adjusted earnings is a useful supplemental measure to net earnings as these measures provide readers with an indication of recurring earnings compared to prior periods. The Company calculates adjusted earnings as follows:

| | Three-months ending | | Nine-months ending | |
|---|---|---|---|---|
| *($ thousands)* | **September 30, 2022** | September 30, 2021 | **September 30, 2022** | September 30, 2021 |
| Net earnings (loss) | **$ 97** | $(93) | **$(334)** | $(759) |
| Additions (Deductions) | | | | |
| Impairment on bearer plants | **-** | - | **-** | 1,078 |
| Land transfer tax on acquisition | **-** | - | **273** | 306 |
| Mark to market adjustment on interest rate swap | **76** | - | **76** | - |
| Employee termination payments | **-** | - | **-** | 304 |
| Net change in unrealized (gain) loss on biological assets | **921** | 803 | **(557)** | (667) |
| **Adjusted Earnings (loss)** | **$1,094** | $710 | **$(542)** | $262 |

*Selected Adjusted Production Cost Ratios to Produce Sales:*

The Company utilizes adjusted production costs as a percentage of produce sales to measure its financial performance. Adjusted production costs are not recognized measures under IFRS; however, management believes that adjusted production costs as a ratio to produce sales is a useful supplemental measure to provide readers with an indication of margins as compared to reoccurring costs in prior periods. The Company calculates adjusted production costs and the ratio of adjusted production costs to produce sales as follows:

| **(In 000s)** | **Three-months ended September 30, 2022** | **Three-months ended September 30, 2021** | **Nine-months ended September 30, 2022** | **Nine-months ended September 30, 2021** |
|---|---|---|---|---|
| Production costs | $4,886 | $3,906 | $10,747 | $9,583 |
| Deduct Fiscal 2021 Impairment Charge | $0 | $0 | $0 | $(1,078) |
| Add one additional month of operating GR2 | n/a | n/a | n/a | $150 |
| Adjusted production costs | $4,886 | $3,906 | $10,747 | $8,655 |
| Produce sales | $10,106 | $7,514 | $18,641 | $14,927 |
| Adjusted production costs as % of produce sales | 48% | 52% | 58% | 58% |