



Three Farmers Foods Inc.
514A 45th St East Saskatoon SK S7K 0W2

Three Farmers Foods Inc. 2019 Mid-Year Financial Highlights and Outlook

August 16, 2019

The purpose of this summary is to update Shareholders, including investors pursuant to Security Agreements for Equity, on Three Farmers' financial performance for the six months ending June 30, 2019.

Three Farmers Foods Inc. ("Three Farmers" or "the company") is a privately held corporation based in Saskatoon, Saskatchewan. It is an integrated organization that connects growers with consumers by way of producing healthy and wholesome foods. Three Farmers believes that everyone deserves access to minimally processed, nutritious foods and are committed to providing this through innovative agriculture, proprietary roasting processes and building trust through traceability and transparent branding.

During the first two quarters of 2019, Three Farmers reported growth of 17% in net revenues from its snack and oil product lines. The main growth contributor is the new roasted lentil line that launched in Q4 2018. The company remains diligent in its sales efforts into the top Canadian grocery retailers. Shelf space continues to become established in most of these accounts, but growth on existing lines has been offset due to buyer change-over and delayed planogram roll outs.

The company continues to focus on driving efficiencies through its supply chain with great success. An 8% margin increase has been realized in the first half of 2019, largely due to optimization on the new roasting line that was installed early 2018 and more efficient procurement of raw materials with the build out of the procurement team in mid-2018. Three Farmers' focus remains two pronged. Firstly, to continue to drive efficiencies in its supply chain through implementation of an Enterprise Resource Planning system to increase inventory tracking automation and financial reporting capabilities (\$100,000 of grant funding was provided for this project through Western Economic Diversification which was announced this past month). Secondly, to grow brand awareness and household penetration nationally by focusing primarily on the needs of the Canadian consumer and how Three Farmers can address those needs with its current and future product portfolio.

"In the second quarter of 2019, we saw momentum for our snack lines increase across the major retailers in Canada. With a delayed rollout into most Loblaws stores earlier this year, sales were soft in Q1 but have shown a recovery in Q2 which is expected to continue into the last half of this year. The benefit of the Canadian retail space is that it is smaller and more focused; we know who all the players are and the momentum through one major player can build into the next. The downside however is that these retailers delay new listings, which pushes revenues out with little ability to fill the gaps from any of the smaller players in Canada. This all being said, we are tracking positive sales momentum through existing stores and have received positive confirmation from key accounts that our products are performing well. Operationally speaking, we have made significant strides in driving efficiency through



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our supply chain which is showing up in our margin and as revenues grow, will have a significant impact on our bottom line.”

Natasha Vandenhurk, CEO

Strategy & Governance Highlights

In the first half of 2019, Three Farmers embarked on creating and approving a new Board of Directors. Individuals for an independent Chair position and an additional independent Director position were identified, both of whom are professionals who possess extensive governance and leadership experience. As of the release of this report, both individuals have been onboarded and the newly formed Board has implemented a formal governance model, with each member signing Letters of Engagement, Conflict of Interest Agreements, and an Agreement to abide by the prescribed statement of Roles and Responsibilities of Board members. Also, two standing committees of the Board have been approved: Finance and Audit, and Governance and HR. This governance model is already paying dividends in its work to steward the company's resources and advance the strategic direction and performance of the company.

Building and implementation of a sound strategy is a focal point of the Board and Executive of Three Farmers. While the company is experiencing solid growth and enhanced market position, there is a need to establish a sound branding and marketing strategy and plan to help the company achieve even better performance and sustainable profitability/value creation in the coming years. The Board has approved the contracting of experts in this domain to assist the company in building a solid action plan to achieve our goals of sustained growth, customer satisfaction, and shareholder value.

The company is also looking to add a Chief Financial Officer (CFO) to bolster the financial team and help the company with its financial management, planning and control as it moves forward. A search for a CFO has now commenced.

Financial Highlights

In \$000s (unaudited)	6 months ended June 30, 2019	3 months ended March 31, 2019	Year ended December 31, 2018
Revenue	\$ 1,819.8	\$ 748.5	\$ 2,973.4
Cost of goods sold	1,033.3	452.7	1,923.3
Gross margin	786.5	295.9	1,050.2
Gross margin %	43%	40%	35%
Expenses	1,053.2	495.1	1,878.0
EBITDA	(266.7)	(199.2)	(827.9)
Other (amortization, financing costs)	205.1	82.1	379.6
Government funding received	(37.3)	(24.5)	(588.8)
Net (loss) income	\$ (434.5)	\$ (256.8)	\$ (618.7)

- First two quarters revenue was \$1,819.8, compared to total annual sales of \$2,973.4 in 2018. Increased sales in the first half of 2019 relative to 2018 is largely due to distribution of the new roasted lentil product line that launched in October 2018. Sales across other product lines have increased with the exception of chickpeas, which are slightly down due to decreased sales into a large US discount



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chain. Buying patterns for discount chains are sporadic and difficult to predict; discount chains were a major account for Three Farmers in early 2018 but the company is now seeing a correction to a more balanced customer portfolio.

- Historically, two-thirds of annual sales are accomplished in the last two quarters of the year. As illustrated above, Q2 revenues saw a 30% increase over Q1 sales and this is anticipated to continue into Q3 and Q4 of 2019.
- Year-to-date gross margin is at \$786.5, compared to total annual gross margin of \$1,050.2 in 2018. This resulted in a margin of 43%, compared to the prior year result of 35%. Optimization of the new roasting line and a dedicated full-time procurement team member have contributed to improved pricing from suppliers and more efficient use of resources. Trade spending (consisting of promotional discounts and listing fees) is also down over 2018 contributing to a higher gross margin.
- First two quarters operating expenses were \$1,053.2, compared to \$1,878.0 annually in 2018. Higher operating expenses in the first half of 2019 are due to higher salaries (most team positions were not established until mid-2018), as well as professional fees related to financing initiatives. These expenses have been offset with savings in external marketing agency fees due to additional employees in-house to manage community engagement and a greater focus being placed on sales efforts to increase retail points of distribution.
- For the first two quarters of 2019, the company reported a net loss of \$434.5, compared to an annual net loss of \$618.7 in 2018. This loss is driven by investment in talent and sales initiatives that occurred during the latter half of 2018 and early 2019.
- Year-to-date earnings before interest, tax, depreciation and amortization (“EBITDA”) of \$(266.7) is compared to \$(827.9) in 2018 due to a greater emphasis on cost control and budget management. EBITDA losses are expected for the remainder of 2019 due to further investment in talent acquisitions and brand and marketing initiatives that will occur in Q3 and Q4.

Outlook

Looking ahead into the balance of 2019, Three Farmers expects strong revenue growth due to several upcoming sales commitments.

There have been several significant accounts that the company has secured for the latter half of 2019. Three Farmers will be distributed through Canadian Club stores in early 2020 with order fulfillment occurring late 2019. Additionally, the first order for an International Club store commitment will ship in Q4. Beyond these Club accounts, sales continue to climb as store count into supermarkets grows, new listings into key accounts are secured, and velocity for existing products increases.

“We fully realize the opportunity that is being presented with these club retailer orders. This is a huge win for the company with accounts that have potential to drive significant growth into 2020 and beyond. To ensure we are prepared, we are growing our team to include an experienced consumer packaged goods expert in sales & marketing and a Chief Financial Officer to guide our financial growth strategy. With these additional team members, we will



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be reflecting on our sales and marketing strategies to ensure our brand messaging is clear, concise and being heard by our consumer base so that when they trial our products for the first time, the experience is all it should be and more. We will continue to prioritize quality and our commitment to this is exemplified in the integrated nature of our company”

Natasha Vandenhurk, CEO

With the volume that will be required to service these new accounts, scaling the business is imperative. Part of this scaling process will include an expansion to the manufacturing facilities. Additional roasting capacity is expected to be in place by late 2020. With positive progress being made in government funding opportunities that is expected to be announced later this year, Three Farmers has already begun the planning to scale their roasting capabilities to keep up with the demand.

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