FLOW BEVERAGE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED JANUARY 31, 2024

March 15, 2024

The following Management's Discussion and Analysis ("MD&A") is prepared as of March 15, 2024 and provides information concerning Flow Beverage Corp's ("Flow", the "Company", "we" or "us") financial condition and results of operations. This MD&A should be read in conjunction with our annual audited consolidated financial statements as at and for the year ended October 31, 2023, including the related notes thereto, and our unaudited condensed consolidated interim financial statements for the three-month periods ended January 31, 2024 and January 31, 2023.

This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results, performance and achievements may differ materially from those implied by these forward-looking statements as a result of various factors, particularly under "Forward-Looking Information" and "Risk Factors".

The unaudited condensed interim consolidated financial statements for the three-month periods ended January 31, 2024 and 2023 have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* and are presented in Canadian dollars. Accordingly, unless otherwise noted herein, all financial information in this MD&A is presented in Canadian dollars. The disclosures contained in the condensed interim consolidated financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for annual financial statements. The Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2023, which have been prepared in accordance with IFRS. In this MD&A, references to North America refer to Canada and the United States.

The unaudited condensed interim consolidated financial statements for the three-month periods ended January 31, 2024 and January 31, 2023 were reviewed and approved by the Company's Board of Directors (the "Board") on March 15, 2024.

Forward-Looking Information

Some of the information contained in this MD&A contains forward-looking information. This information may relate to anticipated events or results and include, but are not limited to, expectations regarding industry trends, our growth rates and growth strategies. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the AIF filed, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may" "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and is made as of the date of this MD&A.

However, we do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors, including those described in "Risk Factors". Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Company's annual information

form dated January 29, 2024 for the fiscal year ended October 31, 2023 (the "AIF") and the unaudited condensed interim consolidated financial statements for the three-month period ended on January 31, 2024, a copy of which is available under the Company's profile on SEDAR at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. See "*Risk Factors*" for a discussion of the uncertainties, risks and assumptions associated with these statements.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and they may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS and Other Financial Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "Adjusted EBITDA Loss", "Adjusted Net Loss", and "EBITDA Loss".

The Company uses a supplementary financial measure to disclose a financial measure that is not (a) presented in the annual audited consolidated financial statements and (b) is, or is intended to be, disclosed periodically to depict the historical or expected future financial performance, financial position or cash flow, that is not a non-IFRS financial measure as detailed above. We use the supplementary financial measure "gross margin".

These non-IFRS and supplementary financial measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS and supplementary financial measures in the evaluation of issuers. Our management also uses non-IFRS and supplementary financial measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. For definitions and reconciliations of these non-IFRS and supplementary financial measures to the relevant reported measures, please see "*How We Assess the Performance of Our Business*" and "*Selected Consolidated Financial Information*" sections of this MD&A.

Business Overview

Our History

Flow was founded by Nicholas Reichenbach in 2014 after seeing mountains of plastic bottle waste while attending the Burning Man Festival in Nevada's Black Rock Desert. Having grown up on a rural property in Southern Ontario with a natural, mineral rich aquifer, he imagined a packaged water company that could be "better for people and the planet". After scientific analyses showed that the water was spring water, free from contaminants and packed with natural minerals and electrolytes, Nicholas, along with friends and family, formed Flow and sought out the Tetra Pak Group to provide the most sustainable package available in order to bring the water to consumers while preserving its benefits.

Key Milestones During and Subsequent to the Three-month Period Ended January 31, 2024

- Entered into new distribution partnerships with Pantree, Horizon Nature, Spud and Krombacher to service and expand our B2B business
- Launched additional formats on foodservice websites for key partners, and in 142 Food Basics stores across Canada
- Entered into manufacturing agreement with BioSteel Sports Inc. ("BioSteel") whereby Flow will manufacture and package BioSteel sport hydration beverages in the Tetra Prisma format. The agreement has a term of three years with commitments from Biosteel to purchase minimum annual volumes which equate to approximately $19.3 million in revenue over the term
- Entered into manufacturing agreement with BeatBox Beverages ("BeatBox"), whereby Flow will manufacture and package BeatBox's line of Party Punch alcoholic beverages. The Agreement has a term of five years, with commitments for BeatBox to purchase certain minimum annual volumes which, in the aggregate, equate to approximately $115 million in revenue over the life of the Agreement. Additionally, the Agreement has a take-or-pay provision requiring that BeatBox pay Flow the equivalent of 85% of the value of the difference between the applicable minimum annual volume and the actual volume purchased during the relevant 12-month period
- Completed a non-brokered private placement, raising gross proceeds of $3,374,000 through the issuance of 12,050,000 subordinate voting shares ('SVS') at a price of $0.28 per SVS, to RI Flow LLC.
- Secured up to $5 million from a senior secured debt facility

Our Business Model

Flow is an innovative beverage company and one of the pioneers in the "better for you better for the planet" consumer needs state. Most of our business is represented by Flow Alkaline Spring Water; however, the Company has expanded into a variety of organic flavored waters and has plans to further expand in other adjacent categories of the non-alcoholic beverage market. As of the date of filing, Flow owns two virtually identical water sources in terms of key minerals, in Bruce County, Ontario and Augusta County, Virginia. Flow packages its products in its production facility in Aurora, Ontario and has entered into a manufacturing agreement with Biosteel Sports Inc., whereby Flow will manufacture and package Biosteel-branded sport hydration beverages in the Tetra Prisma format. The packaging facility in Aurora, Ontario consists of approximately 150,000 square feet, operates three Tetra Pak A3 / Flex filling machines and has a capacity of approximately 500,000 Tetra Paks per day.

Flow markets its premium alkaline spring water in original unflavored, a range of award-winning organic flavors and vitamin-infused waters with natural flavors in sizes ranging from 330 ml to 1 liter, and in six (6), twelve (12), eighteen (18) and twenty-four (24) pack. Flow gets product to market through an omni-channel distribution strategy, including conventional, food service and convenience channels. As part of this strategy, the Company leverages a network of distributors to support our coverage of over 38,000 stores in North America. Flow operates a fast-growing e-commerce business mostly developed with Shopify with more than 4,500 subscription customers. Flow has also developed strategic partnerships with third party premium brands in adjacent categories to co-pack their products in the Tetra Prisma format. As at the date hereof, Flow had approximately 112 full-time employees; 105 in Canada and 7 in the United States. Flow has a robust ESG agenda, including sustainable package, resources preservation, carbon neutrality and a high score on our B-Corp certification.

Our Market and the Opportunity

The North American packaged water market has experienced tremendous growth over the last 20 years and has become the largest beverage category in North America, overtaking soft drinks.

The total addressable shelf-stable water market in North America is approximately USD $16 billion dollars annually and is growing at a rate of 15% per year. Within the category, three sub-categories have been the main drivers of the overall category growth and Flow is uniquely positioned at the intersection of those three categories: (i) premium water (10% growth year over year); (ii) sustainably packaged water (64% growth year over year); and (iii) functional water (12% growth year over year).[1]

We see the opportunity to gain significant market share and to become one of the leading premium water brands in North America. We will continue innovating with highly differentiated products in current and adjacent categories.

Sales and Marketing Strategy

Our goal is to grow Flow as one of the leading premium water brands in North America. To achieve this aim, Flow`s sales and marketing strategy is fivefold:

1. **Further investment in key channels**

   Over the course of the next three years, invest in Natural and Conventional channels to support continued retail growth.

2. **Grow our ecommerce business.**

   Leverage the successful direct-to-consumer ("DTC") subscription program, continuing to directly engage with our rapidly growing customer base.

3. **Expand into food service**.

   Broaden consumer product trial to generate incremental revenue while responding to the increasing receptivity to sustainable packaging.

4. **Innovate and expand our product portfolio within our core and adjacent categories.**

   Drive meaningful innovation that is focused on deepening our relationship with the Glow Getter and Wellness Enthusiast, delivering products that enhance her holistic wellness lifestyle while ensuring Flow shows up across all her functional beverage occasions. Through innovation, we will continue to not only unlock new revenue opportunities across DTC and our growing retail channels but also deliver new stories and campaigns to keep our audiences and partners engaged in the Flow brand.

5. **Build and amplify our brand.**

   Establish Flow as the leading premium water brand focused on product superiority and sustainability by continuously looking for new ways to connect with our community of core consumers through digital campaigns, social media, influencer partnerships, athlete and celebrity relationships, and event sponsorships – both at the community and brand-defining levels.

[1] Source: Quads Trended Report, MULO + Natural Channel, Shelf Stable Water, Non-Carbonated. Data ending Dec 2022

Our Financial Model

Our financial model is based on sustaining top line growth, developing stable gross margins and controlling operational, general and administrative costs to provide a path towards profitability. This will require continued investment in our brand, e-commerce, innovation, systems, internal controls and distribution. These investments will allow us to improve our profitability year-on-year and create significant value for our shareholders in the medium to long-term.

Company Outlook

The Company's strategy is focused on the long-term profitable growth of the Flow brand. Industry trends for premium, sustainable and enhanced water remain favorable. Flow has established over 4,500 points of distribution through its DSD strategy and has secured several authorizations from large retailers. Elevated demand for sustainable product formats and recent contract wins are expected to help accelerate growth of Flow brand net revenue during the seasonally strong summer hydration season.

Flow plans to continue implementing operational cost saving initiatives in the areas of production, warehousing, distribution and logistics in an effort to increase margins and improve operational cash flows. The Company is also focused on improving internal processes and systems to enable general and administrative expense reduction.

How We Assess the Performance of Our Business

The key performance indicators below are used by management in evaluating the performance of our Company and assessing our business. We refer to certain key performance indicators used by management and typically used by our competitors in the Canadian consumer health industry, some of which are not recognized under IFRS as identified below. See "*Non-IFRS and Other Financial Measures*" for more information on each non-IFRS financial measure, non-IFRS ratio and supplementary measure. See "*Selected Consolidated Financial Information*" for a quantitative reconciliation of each non-IFRS financial measure to its most directly comparable financial measure disclosed in our annual audited consolidated financial statements to which the measure relates.

Revenue

Revenue is derived primarily from two main sources: the sale of packaged water and co-packing services. Packaged water is sold to distributors, retail, wholesale and direct customers.

For sales to distributors, revenue is recognized when control of the goods has transferred to the distributor, which is dependent on specific shipping terms. Following shipping, the distributor has full discretion over the manner of distribution and has the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Company when control of the goods has transferred to the distributor as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

For sales to retailers, wholesalers and direct customers, revenue is recognized when control of the goods has transferred, which is dependent on the specific shipping terms. Payment of the transaction price is due at the point in which control transfers.

The Company enters into co-packing agreements with customers. The Company is required to make estimates regarding the total number of units to be delivered under the contracts. The Company also makes estimates regarding the total consideration to which the Company expects to be entitled to in exchange for the services provided. The total consideration to which the Company expects to be entitled to can vary based on estimates regarding penalties for minimum purchase commitments, total expected units to be delivered and pricing discounts. Revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

The Company provides sales discounts and reductions through contract price discounts, payment terms, point of sale price reduction arrangements and customer returns and markdowns. If variable, the Company uses its accumulated historical experience to estimate the variable consideration to which it is entitled to, using the most likely outcome method. If considered highly probable that a significant reversal in the cumulative revenue recognized will not occur, such consideration shall be recognized in revenue.

The Company conducts extensive promotional activities, primarily through the use of cooperative advertising, coupons, in-store displays, slotting fees and other funded costs from retail partners. The costs of such activities are recorded as

a reduction of revenue over the period in which the goods or services are transferred to the customer, to the extent the consideration is not in exchange for a distinct good or service.

The Company enters into sales agreements with customers who provide the Company trade credits in exchange for the Company's products. Trade credits are primarily used to purchase advertising services. The Company is required to estimate the fair value of the trade credits received, which includes estimates of the cost per impression based on the type of advertising channel the Company expects to utilize as part of future advertising campaigns. The fair value of the trade credits received are recognized in prepaid expenses.

Refer to Note 13 in our unaudited condensed interim consolidated financial statements for the disclosure on disaggregated revenue by Flow's two main sources: the sale of packaged water and co-packing services.

Gross profit

"Gross profit" is defined as net revenue less cost of sales. Cost of sales includes product-related costs, labour, other operating costs such as rent, production equipment repairs and maintenance, and amortization. Our cost of sales may include different costs compared to other manufacturers and distributors in the North American shelf-stable water market. Management believes that gross profit is a useful measure in assessing the Company's underlying operating performance before operating expenses.

Gross margin

"Gross margin" is defined as gross profit divided by net revenue. Gross margin is a supplementary financial measure.

Sales and marketing

Our sales and marketing expenses are predominantly comprised of marketing and non-customer-specific promotional costs.

General and administrative

Our general and administrative expenses are predominantly comprised of travel, professional fees, repairs and maintenance, rent, and licenses and subscriptions. Our general and administrative expenses also include regulatory, legal, accounting, insurance and other expenses associated with being a public company.

Salaries and benefits

Our salaries and benefits expenses are predominantly comprised of wages, long-term consultants and benefits.

EBITDA Loss

"EBITDA Loss" is defined as consolidated net loss before: (i) income tax expense; (ii) finance expense, net; and (ii) amortization and depreciation of property, plant, and equipment and intangible assets. The amortization and depreciation amount is taken from the statement of cash flows, as it is inclusive of all amortization and depreciation that is allocated to overhead. EBITDA Loss is a non-IFRS financial measure and its most directly comparable financial measure that is disclosed in our annual audited consolidated financial statements is net loss. We believe that EBITDA Loss is a useful measure to assess the performance and cash flow of our Company.

Adjusted EBITDA Loss

"Adjusted EBITDA Loss" is defined as EBITDA Loss before: (i) impairment of assets and restructuring; and (ii) share-based compensation and (iii) loss on option revaluation. Adjusted EBITDA Loss is a non-IFRS financial measure and its most directly comparable financial measure that is disclosed in our annual audited consolidated financial statements is net loss. We believe Adjusted EBITDA Loss is a useful measure to assess the performance and cash flow of our Company as it provides more meaningful operating results by excluding the effects of income tax expense, finance expense, depreciation and amortization costs, and expenses we believe are not reflective of our underlying business performance.

Adjusted Net Loss

"Adjusted Net Loss" is defined as consolidated net loss adjusted for the impact of: (i) impairment of assets and restructuring; (ii) share-based compensation and (iii) loss on option revaluation. Adjusted Net Loss is a non-IFRS financial measure and its most directly comparable financial measure that is disclosed in our financial statements is net

loss. We believe Adjusted net loss is a useful measure to assess the performance of our Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of our underlying business performance.

Summary of Factors Affecting Performance

Foreign Exchange

Our financial statements are presented in Canadian dollars, which is the functional currency of the Company's Canadian operations and the presentation currency for the unaudited condensed interim consolidated financial statements. As we continue to execute on our omni-channel distribution strategy, a growing portion of our revenue and costs of revenue are derived in US dollars within the US operations. We do not hedge our exchange rate exposure through financial instruments. As we continue to expand our footprint in North America, we will assess our currency exposure and take further steps as may be required to proactively manage this exposure.

Seasonality

The beverage industry is generally subject to seasonal demand fluctuations as consumers increase their consumption during the summer months, which is further impacted by weather during the spring, summer, and fall. Seasonality can have an impact on our net revenue and the comparison year-on-year.

Accounting Standards and Policies

New standards, amendments and interpretations adopted by the Company

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments did not have an impact on the Financial Statements.

IAS 12, Income Taxes ("IAS 12")

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The amendments did not have an impact on the Financial Statements.

New standards, amendments and interpretations not yet adopted by the Company

IAS 1, Presentation of financial statements ("IAS 1")

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The amendments are effective for annual periods beginning on or after January 1, 2024. The Company is still assessing the impact of adopting these amendments on its Financial Statements.

All other IFRS and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the Financial Statements.

Critical Accounting Judgments and Estimates

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Please see the Company's annual audited consolidated financial statements for the year ended October 31, 2023, for a discussion of the accounting policies and estimates that are critical to the understanding of the Company's business operations and the results of its operations.

Going concern

The Company's Financial Statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at January 31, 2024, the Company has an accumulated deficit of $302.5 million and for the three-months ended January 31, 2024, a net loss of $15.4 million and cash flows used in operating activities of $4.2 million. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations, obtaining financing and maintaining compliance with debt covenants. The Company will also seek to improve its results from operations and cash flows by prioritizing higher margin channels and reducing operating costs by streamlining its operations and support functions. The Company will need to raise additional capital to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favorable for the Company. The above events and conditions indicate there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Financial Highlights

Q1 2024 Highlights:

Select financial highlights include the following:

• Net revenue decreased by 16%, or $1.6 million, to $8.3 million, compared to $9.9 million in Q1 2023.

• Gross profit decreased by 143%, or $4.2 million, to a loss of $1.3 million, compared to profit of $2.9 million in Q1 2023.

• Gross margin decreased to -15%, compared to 30% in Q1 2023.

• Net loss increased by 100%, or $7.7 million, to $15.4 million, compared to a loss of $7.7 million in Q1 2023.

• Adjusted EBITDA Loss increased by 49%, or $3.0 million, to $9.2 million, compared to a loss of $6.2 million in Q1 2023.

• Adjusted Net Loss increased by 99%, or $6.8 million, to $13.7 million, compared to $6.9 million in Q1 2023.

	Three-month period ended January 31,			
	2024		2023	
In thousands of Canadian dollars, except percentage amounts	**$**	**% of revenue**	$	% of revenue
Net revenue	**8,268**	**100%**	9,851	100%
Gross profit	**(1,258)**	**(15%)**	2,920	30%
Operating expenses	**11,840**	**143%**	9,410	96%
Finance expense, net	**2,675**	**32%**	390	4%
Restructuring and other costs	**97**	**1%**	551	6%
Net loss for the period	**(15,365)**	**(186%)**	(7,698)	(78%)
EBITDA loss	**(10,896)**	**(132%)**	(7,006)	(71%)
Adjusted EBITDA loss	**(9,232)**	**(112%)**	(6,199)	(63%)
Adjusted net loss	**(13,701)**	**(166%)**	(6,891)	(70%)
Gross margin	**(15%)**		30%	

Adjusted EBITDA loss and Adjusted net loss are non-IFRS financial measure and are used throughout this MD&A. See “Non-IFRS and Other Financial Measures” for more information on each non-IFRS financial measure. See “How We Assess the Performance of Our Business” for an explanation of the composition of such measures.

Gross margin is a supplementary financial measure and is used throughout this MD&A. See “Non-IFRS and Other Financial Measures” for more information on the supplementary of financial measure. See “How We Assess the Performance of Our Business” for an explanation of the composition of such measures.

Non-IFRS and Other Financial Measures

The following tables provide a reconciliation of consolidated net loss to EBITDA Loss, Adjusted EBITDA loss and Adjusted net loss for the three-month periods ended January 31, 2024 and January 31, 2023:

	Three-month period ended January 31,	
	2024	2023
Consolidated net loss:	**$ (15,365)**	$ (7,698)
Finance expense, net	**2,675**	390
Amortization and depreciation	**1,794**	302
EBITDA loss	**(10,896)**	(7,006)
Share-based compensation	**1,542**	256
Impairment of assets and restructuring	**97**	551
Loss on stock option revaluation	**25**	—
Adjusted EBITDA loss	**$ (9,232)**	$ (6,199)

	Three-month period ended January 31,	
	2024	2023
Consolidated net loss:	**$ (15,365)**	$ (7,698)
Share-based compensation	**1,542**	256
Impairment of assets and restructuring	**97**	551
Loss on stock option revaluation	**25**	—
Adjusted net loss	**$ (13,701)**	$ (6,891)

Results of Operations

Three-month period ended January 31, 2024

Net revenue

Net revenue decreased by 16%, or $1.6 million, to $8.3 million, compared to $9.9 million in Q1 2023. As part of a portfolio optimization initiative to streamline our offerings, certain SKUs were delisted, contributing to lower Flow-branded sales compared to the same period in the prior year. The Company also exited partnerships with certain mass retailers in the US, and exited channels which were not aligned with our positioning as a premium brand. These decreases were partially offset by increased revenue from the Natural Food channel, in line with the strategy to increase investment in this channel.

In addition to these changes impacting retail sales, US e-commerce sales faced heightened competition during the quarter, which triggered higher discounts and promotions compared to the same period in the prior year. This was a tactical response to market dynamics, and not reflective of a permanent shift in pricing strategy.

Lower revenue was generated from co-packing customers compared to the same period in prior year.

We continue to optimize our product portfolio and refine retail partnerships, while responding to competitive pressures to position the company for sustainable growth.

Cost of revenue

Cost of revenue increased by 37%, or $2.6 million, to $9.5 million, compared to $6.9 million in Q1 2023. The increase in cost of revenue is driven by higher inventory write-offs in the current period, compared to the same period in prior year, aligned with the portfolio optimization initiative noted above. Direct material costs and logistics shipping were also higher, compared to the same period in prior year.

Gross profit and gross margin

Gross profit decreased by over 100%, or $4.2 million, to negative $1.3 million, compared to $2.9 million in Q1 2023. Gross margin decreased to negative 15% of revenue, compared to 30% in Q1 2023. Lower margins were driven primarily by higher costs related to e-commerce delivery, inventory write-offs and customer mix relative to the same period in the prior year.

Operating Expenses

Operating expenses increased by 26%, or $2.4 million, to $11.8 million compared to $9.4 million in Q1 2023. The increase was driven primarily by higher share-based compensation and higher depreciation and amortization, partially offset by decreases in sales and marketing, and salaries and benefits.

Finance expense

Finance expense increased by $2.3 million, to $2.7 million, compared to $0.4 million in Q1 2023. The increase is related to incremental costs of borrowing secured during fiscal 2023, and during the three-month period ended January 31, 2024 in order to support working capital requirements.

Restructuring and other costs

Restructuring costs decreased by 82%, or $0.5 million, to $0.1 million, compared to $0.6 million in Q1 2023. The decrease reflects the substantial completion the strategic restructuring efforts, which occurred during fiscal 2023.

Net loss

Net loss increased by 100%, or $7.7 million, to $15.4 million, compared to a loss of $7.7 million in Q1 2023 due to the factors described above.

Selected Quarterly Information

The following table presents selected quarterly financial information for the last eight fiscal quarters:

In thousands of Canadian dollars, except per share amounts	**Q1 2024**	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
	$	$	$	$	$	$	$	$
Net revenue	**8,268**	9,692	13,157	13,975	9,851	13,556	12,718	8,958
Gross profit	**(1,258)**	864	417	2,473	2,920	1,361	3,608	1,118
Net loss	**(15,365)**	(10,882)	(14,264)	(10,130)	(7,698)	(14,615)	(11,482)	(11,698)
Loss per share - basic and diluted	**(0.27)**	(0.19)	(0.26)	(0.18)	(0.14)	(0.27)	(0.21)	(0.22)

Liquidity and Capital Resources

Overview

Our principal uses of funds are for operating expenses, sales and marketing, capital expenditures, finance costs and debt service requirements. We believe that cash generated from our operations, together with amounts raised through the non-brokered and brokered private placements, will be sufficient to support our 12-month operating expenses, capital expenditures, and future debt service requirements. In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our future growth strategies. However, our ability to fund operating expenses, capital expenditures, future debt service requirements and dividends will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Risk Factors” as well as the “Summary of Factors Affecting Performance” in this MD&A for additional information. We review acquisition and investment opportunities in the normal course of our business and may make select acquisitions and investments to implement our business strategy when suitable opportunities arise.

Cash Flows

The following table presents our cash flows for the three-month periods ended January 31, 2024 and January 31, 2023:

In thousands of Canadian dollars	Three-month period ended January 31, 2024		2023	
Cash flows used in operating activities	**$**	**(4,219)**	$	(4,762)
Cash flows provided by (used in) investing activities		**(487)**		15,530
Cash flows provided by financing activities		**5,471**		12,728
Net change in cash during the period		**764**		23,497
Cash, beginning of the period		**6,495**		2,282
Cash, end of the period	**$**	**7,259**	$	25,778

Cash flow used in operating activities

Cash flows used in operating activities decreased by 11%, or $0.6 million, to $4.2 million compared to $4.8 million. The working capital changes during Q1 2024 reflect a reduction in accounts receivable, which is indicative of increased efficiency in collections and cash conversion.

Cash flows provided by investing activities

Cash flow provided by investing activities decreased to negative $0.5 million compared to $15.5 million in Q1 2023. The decrease is due to the sale of the Company's Verona production facility in Q1 2023.

Cash flows from financing activities

Cash flow from financing activities decreased by 57%, or $7.3 million, to $5.5 million, compared to $12.7 million in Q1 2023, in line with lower cash proceeds from borrowings in the current period. Cash flow from financing activities in Q1 2024 was driven by $3.4 million in proceeds from the issuance of common shares, and $5.0 million in proceeds from borrowings received during the three-month period ended January 31, 2024, offset by $1.2 million in repayment of borrowings and $1.7 million in lease obligations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Current Share Information

As of the date hereof, the Company had 6,214,566 Multiple Voting Shares and 65,578,270 Subordinate Voting Shares issued and outstanding. As of the date hereof, an aggregate of 1,486,778 options to acquire common shares are outstanding, an aggregate of 9,565,967 warrants to acquire common shares are outstanding, an aggregate of 666,349 deferred share units representing the right to receive common shares in accordance with the Company's Omnibus incentive plan and an aggregate of 4,824,874 restricted share units representing the right to receive common shares in accordance with the terms of our long-term incentive plan.

Risk Factors

The Board, in conjunction with management, is responsible for risk management and the identification of the principal risks of the Company's business and oversight of management's implementation of appropriate systems to effectively monitor, manage and mitigate the impact of such risks. This includes identifying, evaluating and hedging financial risks based on the requirements of our organization. The Board provides guidance for overall risk management, covering many areas of risk including but not limited to foreign exchange risks, interest rate risks, credit risks and liquidity risks. As part of assessing and implementing appropriate policies and procedure to address specified risks, the Board may delegate financial and related risk management to the Audit Committee.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company assesses the credit worthiness of customers who wish to trade on credit terms.

The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Credit loss impairment is determined based upon review of specific accounts as the Company does not have significant historical uncollectible receivables.

Interest Rate Risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at January 31, 2024, as there are no material long-term borrowings outstanding subject to variable interest rates.

Foreign Currency Risk

Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company's primary exposure with respect to foreign currencies is from United States dollar, trade and other receivables and trade and other payables in entities whose functional currency is other than the currency in which these financial instruments are denominated in.

A change of 1% in foreign currency exchange rates would not have a significant impact on the results of operations. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows, the issuance of share capital and if desired, the issuance of debt. The Company's trade and other payables are all due within twelve months from the date of the annual audited consolidated financial statements.

If unanticipated events occur that impact the Company's ability to meet its forecast and continue to fund customer acquisition cost, research and development, and administrative requirements, the Company may need to take additional measures to increase its liquidity and capital resources, including obtaining additional debt or equity financing or strategically altering the business forecast and plan. In this case, there is no guarantee that the Company will obtain satisfactory financing terms or adequate financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on the Company's results of operations or financial condition.

The Company is obligated to the following contractual maturities of undiscounted cash flows as at January 31, 2024:

In thousands of Canadian dollars	**Carrying amount**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5 and over**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Trade and other payables	26,274	26,274	-	-	-	-	26,274
Lease obligations	10,757	2,937	1,680	1,859	1,437	4,020	11,933
Borrowings	34,144	9,222	26,649	9,886	-	-	45,757
Total	**71,175**	**38,433**	**28,329**	**11,745**	**1,437**	**4,020**	**83,964**

Management of Capital

The Company has implemented various capital policies, procedures and processes that are utilized to achieve its capital management objectives. These include optimizing the cost of capital and maximizing shareholder return while balancing the interests of stakeholders. The Company's capital is composed of share capital and borrowings, which assist in financing (i) acquisitions and/or (ii) working capital requirements. The Company's primary uses of capital are financing its operations, acquisitions of production capability, and fixed assets to support our vertically integrated growth strategy. The Company currently funds these requirements from cash raised through past share issuances, convertible debt, other credit facilities, and funds from operations. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide services to its customers and increase shareholder value.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer ("Certifying Officers") that, among other things, report on the design and operating effectiveness of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR").

Disclosure Controls and Procedures ("DC&P")

The Company has designed DC&P to provide reasonable assurance that material information relating to the Company is made known to the Certifying Officers, and that information required to be disclosed to satisfy the Company's continuous disclosure obligations is recorded, processed, summarized, and reported within the time periods specified by applicable Canadian securities legislation. Management, under the supervision of the Certifying Officers, has evaluated the effectiveness of the DC&P and based on that evaluation, the Certifying Officers have concluded that the DC&P were effective as at January 31, 2024.

Internal Controls Over Financial Reporting ("ICFR")

In accordance with NI 52-109, the establishment and maintenance of DCP and ICFR is the responsibility of management. DCP and ICFR has been designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's ICFR includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. These inherent limitations include, but are not limited to, human error and circumvention of controls and as such, there can be no assurance that the controls will prevent or detect all misstatements due to errors or fraud, if any.

The control framework used to design the Company's ICFR is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 framework).

Management, under the supervision of the Certifying Officers, has evaluated the effectiveness of ICFR and based on that evaluation, the Certifying Officers have concluded that the Company's ICFR was not effective as at October 31, 2023, due to the existence of certain material weaknesses relating to design.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the assessment of the effectiveness of the Company's ICFR, management identified material weaknesses that existed as of October 31, 2023. These consisted of material weaknesses in the Company's control environment, information and communication processes, control activities, period-end financial reporting, non-routine, unusual or complex transactions, transaction-level control activities, and information technology general controls. These material weaknesses are undergoing remediation at January 31, 2024 and pertain to three main areas: (i) Control environment, (ii) Control activities and (iii) Information Technology General Controls.

Control Environment

The Company did not design or implement adequate oversight processes and structures, or an organizational design to support the achievement of the Company's objectives in relation to internal controls. The Company identified multiple deficiencies in internal controls, primarily due to the control environment not being mature enough to support the growth and increasing complexity of the business. As a result, pervasive issues exist within the control environment that impact the ability of the Company to maintain effective ICFR. In addition, accountability for adherence to policies and processes across the organization was not consistently enforced; and as such, there is increased likelihood of misstatements occurring. Please refer to the Management's Discussion and Analysis of financial condition and results of operations for the year ended October 31, 2023 for a detailed description of the material weaknesses in the control environment.

These entity level control deficiencies did not result in a misstatement to the financial statements for the period ended January 31, 2024. However, these deficiencies could potentially reduce the likelihood of preventing or detecting misstatements, which could impact multiple financial statement accounts and disclosures.

Control Activities

Management previously identified material weaknesses in the Company's ICFR that continue to exist. Please refer to the Management's Discussion and Analysis of financial condition and results of operations for the year ended October 31, 2023 for a detailed description of the material weaknesses in control activities.

These entity level control deficiencies did not result in a misstatement to the financial statements for the period ended January 31, 2024. However, these deficiencies could potentially reduce the likelihood of preventing or detecting misstatements, which could impact multiple financial statement accounts and disclosures.

Information Technology General Controls

Throughout the fiscal year ending October 31, 2023, the Company implemented a new ERP and related systems, including a Warehouse Management System, Employee Expense Reimbursement System, Business Intelligence Software and Financial Accounting system. The Company did not design and maintain effective controls over some information technology ("IT") general controls for information systems that are relevant to the preparation of its financial statements. Please refer to the Management's Discussion and Analysis of financial condition and results of operations for the year ended October 31, 2023 for a detailed description of the material weaknesses in Information Technology General Controls.

The IT deficiencies did not result in a misstatement to the financial statements for the period ended January 31, 2024. However, these deficiencies could potentially reduce the likelihood of preventing or detecting misstatements, which could impact multiple financial statement accounts and disclosures.

Status of Remediation Plan

Management, has begun reviewing and revising internal control over financial reporting. Management is committed to implementing changes to our internal control over financial reporting to ensure that the control deficiencies that contributed to the material weaknesses are remediated. The following remedial activities are in progress:

- We are continuing to implement additional oversight and training for management and personnel to reinforce the Company's standard of conduct, enhance understanding of assessed risks, and clarify individual responsibility for control activities at various levels within the Company.

- As of the date of this MD&A, we have bolstered internal controls across the organization, which impact controls over financial reporting.

- Management has restructured the organizational chart to more clearly define roles and responsibilities as needed to meet the needs of the internal control environment.

- We continue to be in the design and development of controls related to our new ERP and IT ecosystem, along with implementing additional user training and process documentation. which will be implemented in the next fiscal year.

While we believe these actions will contribute to the remediation of material weaknesses, we have not completed all the corrective processes, procedures and related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the material weaknesses, we may need to take additional measures to address the control deficiencies. Until the remediation steps set forth above, including the efforts to implement any additional control activities identified through our remediation processes, are fully implemented and concluded to be operating effectively, the material weaknesses described above will not be considered fully remediated.

Changes in Internal Control Over Financial Reporting

Other than disclosed above, there have been no changes in the Company's internal control over financial reporting during the three-month period ended January 31, 2024, that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the Company’s AIF is available on SEDAR at www.sedar.com.