



## Management's Discussion and Analysis

For the three-month and the six-month periods ended April 30, 2021 and 2020

## **BASIS OF PRESENTATION**

The following has been prepared for the purposes of providing management's discussion and analysis ("MD&A") of the consolidated financial position of GURU Organic Energy Corp. ("GURU" or the "Company") as at April 30, 2021, and the consolidated operating results of the Company for the period then ended.

This MD&A is dated June 14, 2021 and was prepared with information available at that date. This document should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended October 31, 2020, and the unaudited interim condensed consolidated financial statements and notes thereto for the three-month and six-month periods ended April 30, 2021 and 2020. Discrepancies in recalculated amounts or percentages may occur due to rounding. All amounts in this MD&A are expressed in Canadian dollars unless otherwise indicated. The Company's unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the financial information herein was derived from those statements.

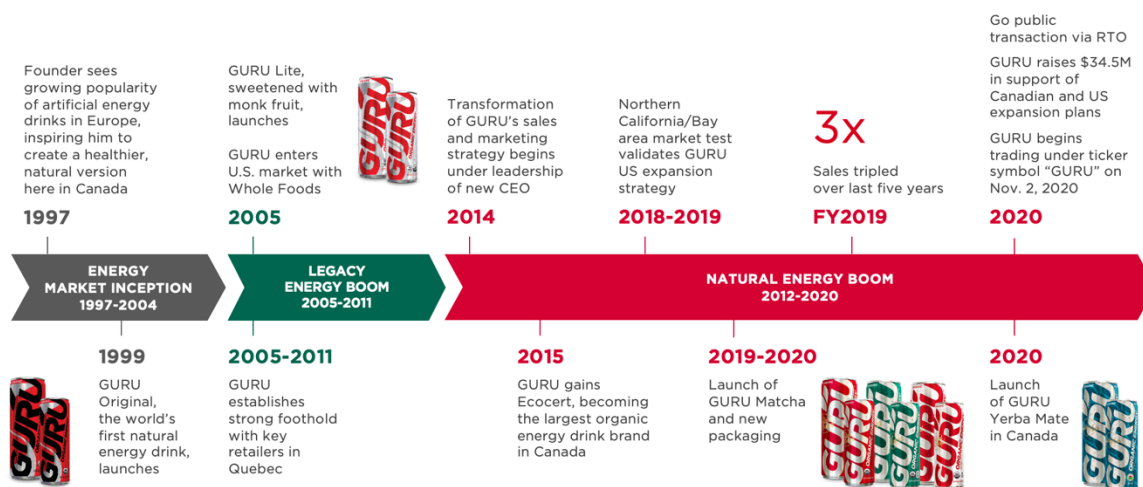
## **FORWARD-LOOKING STATEMENTS**

*This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities legislation. Such forward-looking statements include, but are not limited to, information with respect to our objectives and the strategies for achieving those objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. Forward-looking statements are typically identified by the use of words such as "may", "would", "should", "could", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe", or "continue", although not all forward-looking statements contain these words. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company and its business, operations, prospects and risks at a point in time in the context of historical and possible future developments, and the reader is therefore cautioned that such information may not be appropriate for other purposes. Forward-looking statements are based on assumptions and are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements. Those risks and uncertainties include the following, which are discussed in greater detail under "Risk Factors" in the Company's Annual Information Form for the year ended October 31, 2020, available on SEDAR at [www.sedar.com](http://www.sedar.com): management of growth; reliance on key personnel; changes in consumer preferences; significant changes in government regulation; criticism of energy drink products and/or the energy drink market; economic downturn and continued uncertainty in the financial markets and other adverse changes in general economic or political conditions, as well as the COVID-19 pandemic or other major macroeconomic phenomena; global or regional catastrophic events; fluctuations in foreign currency exchange rates; revenues derived entirely from energy drinks; increased competition; relationships with co-packers and/or their ability to manufacture GURU's products; relationships with existing customers; changing retail landscape; increases in costs and/or shortages of raw materials and/or ingredients and/or fuel and/or costs of co-packing; failure to accurately estimate demand for its products; intellectual property rights; maintenance of brand image or product quality; retention of the full-time services of senior management; climate change; litigation; information technology systems; fluctuation of quarterly operating results; no assurance of continued profitability or positive EBITDA; and conflicts of interest. Certain assumptions were made in preparing the forward-looking statements concerning availability of capital resources, business performance, market conditions and consumer demand. Consequently, all of the forward-looking statements contained herein are qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking statements contained herein are provided as of the date hereof, and we do not undertake to update or amend such forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by applicable law.*

## BUSINESS OVERVIEW

### Our Story

Initiated by the smart drink movement in the Montreal Club scene, our founders drew their inspiration from the trend of mixing energy-releasing plants and exotic combinations. They wanted to provide their patrons with a source of energy that was not artificial – natural, plant-based organic energy. GURU, the world’s first natural energy drink, was launched in 1999, and none of us have looked back since.



### Our Business

GURU (TSX: GURU) is a dynamic, fast-growing beverage company based in Montreal, Quebec. Its activities consist of developing, marketing, selling and distributing natural, organic, plant-based (100% Crap Free™) energy drinks under the GURU brand name. Manufacturing is outsourced to a network of established third-party co-packers. We do, however, provide our production partners with our recipes, flavours, ingredient blends, cans and other raw materials for our beverages, purchased by us from various suppliers across the globe.

As at June 14, 2021, GURU had over 21,000 points of sale in Canada and across the United States and was the only organic plant-based energy drink in Canada. Our energy drinks are also available online through Amazon and [guruenergy.com](http://guruenergy.com).

### Our Market<sup>1</sup>

The North American energy drink industry is currently estimated at US \$15 billion in annual sales, with energy drinks being the fastest growing category of non-alcoholic beverages, steadily gaining market share from soft drinks and juices. Over the last year, the energy drink category has seen 7.9% sales growth compared to 2.8% for total beverages.<sup>2</sup>

The North American energy drink industry is estimated to reach US \$19.4 billion in sales by 2024, an 8.1% compound annual growth rate ("CAGR").

Retail sales of sports and energy drinks in Canada were forecast to reach about US \$1.03 billion in 2022, an increase of about US \$0.2 billion in sales since 2017.<sup>3</sup>

<sup>1</sup> Mintel, May 2020. Does not include the energy shots segment.

<sup>2</sup> Nielsen All Market Channels W/E 12/07/2019 – 01/09/2020.

<sup>3</sup> Statista (November 30, 2020).

## **The Market Opportunity**

Millennials and Gen Z consumers account for 70% of consumption in the energy drink market. These two generations love energy drinks, but the ingredients list scares them. The North American market, which is currently dominated by two legacy brands that share about 75% of the market, is ready for disruption. Differentiated brands like GURU have started to grind that market share lead with new products aimed at solving the industry's biggest problem: its ingredients list.

The main differentiators for GURU's products are its clean list of organic plant-based ingredients and its brand name, GURU, one that is full of meaning (a mentor / teacher who helps you move forward and is a source of inspiration and good energy). We offer consumers healthy energy drinks that feel and taste like energy drinks without detriment to their health (long lasting energy with no jitters, certified organic, plant-based ingredients, no artificial sweeteners, no taurine, no synthetic caffeine yet similar caffeine content).

## **Our Strategy**

GURU's current sales channel mix consists mainly of convenience stores and gas outlets, grocery and drug stores, and online sales. Online sales have experienced strong growth in the past year, in large part due to the impact of COVID-19 on consumers' shopping habits, and we anticipate this trend to continue.

GURU's methodical sales and marketing approach aims to maximize return on investment through appropriate top-of-funnel and bottom-of-funnel spend, depending on product distribution in each geographical region. We have invested significant marketing efforts in building brand awareness and trial through a proven strategy that has allowed us to build a loyal following (GURU Nation), become the #3 brand in our core market, Quebec, and experience significantly stronger year-over-year retail sales growth than the industry in our largest channel, convenience and gas<sup>4</sup>.

## **Financial Outlook**

GURU's closing of its \$34.5 million financing in October 2020 was paramount to achieving our mission of cleaning the energy drink industry and our goal of growing our business in Canada and the United States. Our core Quebec market has been a true success story in terms of sales and profitability, and our aim is to replicate our model and adapt it to the rest of North America. We believe that GURU is poised to gain significant market share across North America as it addresses the industry's biggest issue: consumer concern about the safety of ingredients.

To achieve our growth objectives, we will heavily invest in sales and marketing over the next few years, which will impact our short-term profitability. However, over the longer term, our goal is to create sustained long-term shareholder value, which will allow us to improve our cost structure and achieve our long-term margin and profitability goals.

At the date of this MD&A, we started implementing our strategy to expand our sales channels in Canadian markets outside of Quebec and in the U.S., increasing our total points of sale by 6,100 to over 21,000 since the beginning of this fiscal year.

## **COVID-19**

The COVID-19 pandemic has caused significant financial market and social dislocation, with cities and countries around the world responding in various ways to mitigate its impact and curb its spread, impacting businesses and consumers. The pandemic continues to impact the Company and its operations since its onset in the spring of 2020 and it remains difficult to predict how the ongoing pandemic will impact the Company's future business, operations and financial performance. The Company continues to monitor the situation closely while assessing any potential impact on its operations and to avoid disruptions in customer supply. The Company has put in place multiple contingency plans to ensure its supply chain and general operations can be maintained with minimal disruption. Considered an essential service in Canada since the beginning of the pandemic, the Company steadily maintained its operations throughout the second quarter of 2021.

<sup>4</sup> Nielsen: L52 period ending April 24, 2021, Convenience & Gas (C&G), Quebec vs. same period YAGO.

## NON-IFRS FINANCIAL MEASURE

### Adjusted EBITDA<sup>5</sup>

Adjusted EBITDA is a non-IFRS financial measure. Adjusted EBITDA is defined as net income or loss before reverse acquisition of Mira X expenses, income taxes, net finance expenses, depreciation and amortization, and stock-based compensation expense. We believe that adjusted EBITDA is a useful measure of financial performance because it provides an indication of the Company's ability to seize growth opportunities in a cost-effective manner, finance its ongoing operations and service its long-term debt.

This non-IFRS financial measure is not an earnings or cash flow measure recognized by International Financial Reporting Standards (IFRS) and does not have a standardized meaning prescribed by IFRS. Our method of calculating this financial measure may differ from the methods used by other issuers and, accordingly, our definition of this non-IFRS financial measure may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-IFRS financial measures should not be construed as an alternative to net income determined in accordance with IFRS as indicators of our performance or to cash flows from operating activities as measures of liquidity and cash flows.

## MAIN HIGHLIGHTS

<b>Q2 record revenue of \$7.1M</b>	<b>63% gross margin in Q2 2021</b>	<b>~\$35 million of cash and credit facilities</b>
<b>#3 brand in Québec</b>	<b>over 21,000 points of sale in North America</b>	<b>13.7% market share in Québec<sup>6</sup></b>

<sup>5</sup> Refer to reconciliation of net (loss) income to adjusted EBITDA section of the MD&A.

<sup>6</sup> Nielsen: L52 period ending April 24, 2021, Grocery Drug Mass (GDM) + Convenience & Gas (C&G), Quebec vs. same period YAGO.

## Q2 2021 HIGHLIGHTS

- Revenue increased by 74% to a record \$7.1 million, compared to \$4.1 million in Q2 2020.
- Gross profit totalled \$4.4 million, an increase of 82% compared to \$2.4 million in Q2 2020. Gross margin improved to 63% of revenue, compared to 60% in Q2 2020.
- Market share grew in Quebec, GURU's current core market, from 11.7% to 13.7% in the last 52-weeks ended April 24, 2021 versus the previous 52-weeks<sup>7</sup>.
- Net loss of \$1.2 million in Q2 2021, compared to a net loss of \$0.7 million in Q2 2020, mainly due to expansion set-up investments and public company costs.
- Adjusted EBITDA<sup>8</sup> of \$(0.8) million in Q2 2021, compared to \$(0.7) million in Q2 2020.
- The Company announced that it has entered into a three-year committed \$10 million revolving operating credit facility with the Canadian Imperial Bank of Commerce, replacing its previous facilities.
- Subsequent to Q2 2021, GURU announced that GURU Yerba Mate will be available for delivery in the U.S. effective June 1, 2021, through GURU's grocery, natural, c-stores and drug channels partners, namely KeHE and UNFI, as well as through other distribution partners, GURU direct delivery and online through Amazon and guruenergy.com.

## YEAR-TO-DATE HIGHLIGHTS

- Revenue increased by 46% to \$13.7 million for the six-month period ended April 30, 2021, compared to \$9.4 million for the same period last year.
- Gross profit totalled \$8.5 million, an increase of 43% compared to \$6.0 million for the same period a year ago. Gross margin was 62% of revenue, compared to 64% in 2020.
- Cash flow used in operating activities was \$6.9 million, compared to \$2.1 million in 2020.
- Net loss of \$1.8 million, compared to a net loss of \$0.2 million in 2020.
- Adjusted EBITDA<sup>8</sup> of \$(1.3) million, compared to \$0.1 million in 2020.
- GURU increased its presence in over 2,800 points of sale in the U.S., including 2,400 pharmacies, and in an additional 2,500 points of sale in Canada to reach over 21,000 in total.
- Subsequent to April 30<sup>th</sup>, over 800 additional points of sale were confirmed with The Fresh Market, Weis Markets and Raleys in the U.S., and Canadian Tire Gas+ in Canada.

<sup>7</sup> Nielsen: L52 period ending April 24, 2021, Grocery Drug Mass (GDM) + Convenience & Gas (C&G), Quebec vs. same period YAGO.

<sup>8</sup> Refer to reconciliation of net (loss) income to adjusted EBITDA section of the MD&A.

## SELECTED QUARTERLY FINANCIAL INFORMATION<sup>9</sup>

The selected financial information below was derived from the Company's financial statements, prepared in accordance with IFRS, for the three-month and six-month periods ended April 30, 2021 and 2020.

	Three-month periods ended				Six-month periods ended			
	April 30, 2021		April 30, 2020		April 30, 2021		April 30, 2020	
<i>(In thousands of Canadian dollars, except for per share data)</i>	\$	% of revenue	\$	% of revenue	\$	% of revenue	\$	% of revenue
<b>Revenue</b>	<b>7,074</b>	<b>100%</b>	4,062	100%	<b>13,676</b>	100%	9,390	100%
Cost of goods sold	2,639	37%	1,622	40%	5,144	38%	3,408	36%
<b>Gross profit</b>	<b>4,435</b>	<b>63%</b>	2,440	60%	<b>8,532</b>	62%	5,982	64%
Selling, general and administrative expenses	5,530	78%	3,238	80%	10,210	75%	6,121	65%
Net financial expenses	75	1%	69	2%	103	1%	180	2%
Reverse acquisition of Mira X expenses	85	1%	-	0%	110	1%	-	0%
<b>(Loss) Income before income taxes</b>	<b>(1,255)</b>	<b>-18%</b>	(867)	-21%	<b>(1,891)</b>	-14%	(319)	-3%
Income taxes	(51)	-1%	(178)	-4%	(56)	0%	(71)	-1%
<b>Net (loss) income</b>	<b>(1,204)</b>	<b>-17%</b>	(689)	-17%	<b>(1,835)</b>	-13%	(248)	-3%
Basic and diluted (loss) earnings per share	\$ (0.04)		\$ (0.03)		\$ (0.06)		\$ (0.01)	
<b>Adjusted EBITDA<sup>9</sup></b>	(833)	-12%	(693)	-17%	(1,264)	-9%	68	1%
<b>Cash flow used in operating activities</b>					(6,867)	-50%	(2,113)	-23%
<b>Revenues by geography</b>								
Canada	5,956	84%	3,148	77%	11,443	84%	7,544	80%
United States	1,118	16%	914	23%	2,233	16%	1,846	20%
					<b>As at</b>			
					April 30, 2021		October 31, 2020	
					\$		\$	
<b>Total assets</b>					41,040		41,794	

## RECONCILIATION OF NET (LOSS) INCOME TO ADJUSTED EBITDA<sup>9</sup>

	Three-month periods ended		Six-month periods ended	
	April 30, 2021	April 30, 2020	April 30, 2021	April 30, 2020
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$
<b>Net (loss) income</b>	(1,204)	(689)	(1,835)	(248)
Reverse acquisition of Mira X expenses	85	-	110	-
Net finance expenses	75	69	103	180
Depreciation and amortization	110	83	190	164
Income taxes	(51)	(178)	(56)	(71)
Stock-based compensation expense	152	22	224	43
<b>Adjusted EBITDA</b>	<b>(833)</b>	<b>(693)</b>	<b>(1,264)</b>	<b>68</b>

<sup>9</sup> Refer to reconciliation of net income (loss) to adjusted EBITDA section of the MD&A.

## RESULTS OF OPERATIONS

### Revenue

Revenue increased by 74% or \$3.0 million to \$7.1 million, compared to \$4.1 million for the three-month period ended April 30, 2020. The increase is due to sales growth in both of its markets, Canada and the U.S., as a result of increased points of sale in both markets. Sales in Canada and the U.S. grew 89% and 22%, respectively, during the second quarter of fiscal 2021 compared to the comparable period last year. The comparative quarter also coincided with the onset of the COVID-19 pandemic, which negatively affected sales in that period. For the six-month period, revenue increased by 46% or \$4.3 million to \$13.7 million, up from \$9.4 million for the same period in 2020.

### Gross profit and margin

Gross profit totalled \$4.4 million, an increase of 82% or \$2.0 million compared to \$2.4 million for the three-month period ended April 30, 2020. Gross margin was 63% for the three-month period ended April 30, 2021, compared to 60% for the same period a year ago. The increase in gross margin was due to a stronger product mix and the timing of promotional activities, that compensated for the higher product costs driven by increased demand for ready-to-drink beverages since the onset of the COVID-19 pandemic. For the six-month period, gross profit totalled \$8.5 million, 43% or \$2.5 million higher than gross profit of \$6.0 million a year ago. Gross margin for the period was 62%, compared to 64% last year.

### Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) include operational, sales, marketing and administration costs. These expenses amounted to \$5.5 million or 78% of revenue for the three-month period ended April 30, 2021, an increase of 71% or \$2.3 million compared to SG&A of \$3.2 million or 80% of revenue for the same period a year ago. The increase in dollars is the result of expansion plan set-up costs and additional costs associated with the operations of a public company. For the six-month period, SG&A amounted to \$10.2 million (75% of revenue), an increase of 67% or \$4.1 million compared to \$6.1 million (65% of revenue) for the same period a year ago.

### Adjusted EBITDA<sup>10</sup>

Adjusted EBITDA was a loss of \$0.8 million compared to a loss of \$0.7 million last year. The decrease in adjusted EBITDA was due to higher SG&A, partially offset by the increase in gross profit. Adjusted EBITDA for the first six months of the year was a loss of \$1.3 million in 2021 compared to earnings of \$0.1 million in 2020.

### Net financial expenses

Net financial expenses increased to \$74,500 from \$69,021 for the same period a year ago, as the Company completed the set-up of a new operating credit facility this quarter. For the first six months of the year, financial expenses decreased to \$102,925 from \$180,292 a year earlier, as the Company reimbursed the totality of its credit facilities since the closing of the private placement in October 2020, and realized interest revenue from its cash position, which were partially offset by the increase in interest on lease liabilities.

### Income taxes

The Company had an income tax recovery for the three-month period ended April 30, 2021 of \$50,990 compared to \$178,035 for the three-month period ended April 30, 2020. The effective income tax recovery was less than the amount determined using the statutory rate due to unrecognized tax assets in the quarter. The Company had an income tax recovery of \$56,112 for the six-month period, compared to an income tax recovery of \$71,264 for the same period a year earlier.

### Net loss

Net loss for the second quarter of fiscal 2021 totalled \$1.2 million or \$(0.04) per share (basic and diluted), compared to a net loss of \$0.7 million or \$(0.03) per share (basic and diluted) for the same period a year ago. The majority of the net loss reflects the additional costs associated with operating as a public company and the set-up of our expansion plans. Net loss for the six-month period totalled \$1.8 million in 2021, or \$(0.06) per share (basic and diluted), compared to a net loss of \$0.2 million or \$(0.01) per share (basic and diluted) for the same period a year ago.

<sup>10</sup> Refer to reconciliation of net income (loss) to adjusted EBITDA section of the MD&A.



## LIQUIDITY AND CAPITAL RESOURCES

### Capital Management

The Company's objective in managing its capital is to ensure sufficient liquidity to finance its operations, maximize the preservation of capital and deliver competitive returns on invested capital. To fund its activities, the Company has relied on its recent private placement financing completed on September 30, 2020, in connection with the reverse acquisition of Mira X. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

### Cash Flows

	Six-month periods ended	
	April 30, 2021	April 30, 2020
<i>(In thousands of Canadian dollars)</i>	\$	\$
Cash flow used in operating activities	(6,867)	(2,113)
Cash flow from financing activities	1,249	1,970
Cash flow used in investing activities	(709)	-
Effects of movements in exchange rate on cash held	(20)	1
Decrease in cash and cash equivalents	(6,347)	(142)
Cash and cash equivalents, beginning of the year	30,418	150
Cash and cash equivalents, end of the year	24,071	8

#### **Cash flow used in operating activities**

For the six-month period ended April 30, 2021, operating activities used cash flow of \$6.9 million compared to \$2.1 million for the same period last year. The increase in fiscal 2021 is mainly due to the net loss in the first half of the year and additional investments in working capital, namely in accounts receivable, inventories and accounts payable.

#### **Cash flow from financing activities**

Financing activities generated cash flow of \$1.2 million in the six-month period ended April 30, 2021, compared to \$2.0 million for the same period last year. The fiscal 2021 financing cash inflows are principally attributable to the exercise of the compensation warrants by the private placement agents and brokers. In 2020, the increase in cash flow was mainly due to the drawdown of additional amounts under its credit facilities.

#### **Cash flow used in investing activities**

Investing activities used cash flow of \$0.7 million in the six-month period ended April 30, 2021. No investing activities occurred in the same period in 2020. The variance is mainly due to investments in leasehold improvements.

### Credit Facilities

On March 31, the Company signed a new committed revolving operating credit facility of a maximum authorized amount of \$10,000,000 maturing on March 30, 2024. As at April 30, 2021, the credit facilities were not used (October 31, 2020 - US\$10,000 (CA\$13,318)).

The Company also has an uncommitted credit that can be used in the form of foreign exchange contracts or interest rate swaps for a maximum amount of US\$500,000 (October 31, 2020 - US\$550,000). This credit facility was not used as at April 30, 2021 (October 31, 2020 - nil).

The Company has a letter of credit for a maximum available of \$2,500,000 for which an amount of EUR300,000 (CA\$443,154) has been used as of April 30, 2021 (October 31, 2020 - EUR300,000 (CA\$465,492)).

The credit facilities noted above are secured by a movable hypothec on the universality of the present and future Company's assets located in the province of Quebec to a maximum of \$25,000,000, a first ranking security on all present and future property in all other Canadian provinces and in the United States and an unlimited corporate guarantee of its US subsidiary. These credit facilities are subject to certain financial covenants, which were met as at April 30, 2021. The previous existing long-term debt has been repaid in full on March 2, 2021.

## FINANCIAL POSITION

The following table shows the main variances that have occurred in the Company's financial position as at April 30, 2021:

	April 30 2021	October 31 2020	Variance	Significant contributions
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	
Cash and cash equivalents	24,071	30,418	(6,347)	Working capital, investments in expansion plans and marketing plans, and leasehold improvements for head office
Trade and other receivables	4,365	2,950	1,415	Increase due to revenue growth in Q2 2021
Inventories	7,532	6,312	1,220	Increase due to revenue growth in Q2 2021 and increase of inventory on hand
Fixed assets	729	44	685	Increase mainly due to new leasehold improvements for head office
Right-of-use assets	2,047	206	1,841	Increase mainly due to new lease for head office
Accounts payable and accrued liabilities	5,166	7,345	(2,179)	Normal course of business, no longer bearing reverse takeover expense payables
Lease liabilities (including current portion)	2,049	184	1,865	Increase mainly due to new lease for head office

## DIVIDEND POLICY

The Company has not paid dividends on its common shares since incorporation. The Company's current policy is to retain future earnings to finance its growth. Any future determination to pay dividends will be made at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors may deem relevant.

## SELECTED QUARTERLY INFORMATION

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

*(In thousands of Canadian dollars, except per share data)*

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenue	7,074	6,603	6,115	6,595	4,062	5,328	4,050	5,808
Gross profit	4,435	4,097	3,705	4,352	2,440	3,542	2,636	3,953
(Net loss) Net income	(1,204)	(631)	(3,145)	1,236	(689)	442	(653)	1,065
Basic and diluted (loss) earnings per share	\$ (0.04)	\$ (0.02)	\$ (0.11)	\$ 0.06	\$ (0.03)	\$ 0.02	\$ (0.03)	\$ 0.05

### Factors affecting the variability of quarterly results

There are quarter-over-quarter variations in revenue that are caused by seasonality as well as sales and marketing campaigns. Exceptionally, the variation in Q2 2020 results versus Q1 2020 results is due to the start of the COVID-19 pandemic.

In addition, Q4 2020 included the \$2.9 million cost of the reverse acquisition of Mira X, and Q2 2020 was also impacted by the onset of the COVID-19 pandemic and the operational adjustments that were required in response to it. Lastly, the Q4 2019 versus the Q3 2019 variation was due to the timing of a product launch and marketing campaign that rolled into Q1 2020.

## TRENDS AND SEASONALITY

In Canada, GURU's sales are somewhat seasonal, tending to be higher in the spring through the fall, from the middle of the second quarter through the end of the fourth quarter, and somewhat lower in winter, from the start of the first quarter through the middle of the second quarter. Exceptionally, these trends can vary due to the success of GURU's marketing campaigns and product launch initiatives. In contrast, the U.S. market, with its overall warmer climate, generally does not see the same type of seasonal sales trend.

## FINANCIAL INSTRUMENTS

### Liquidity Risk

Liquidity risk is the Company's ability to meet its financial obligations when they come due. The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. It manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities, with the objective of maintaining a balance between continuity of funding and flexibility through borrowing facilities available through its bank and other lenders. The Company's policy is to ensure that it has adequate funding available from operations and other sources as required. The following are the contractual maturities of the Company's financial obligations, including principal and interest, as at April 30, 2021:

<i>(In thousands of Canadian dollars)</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>
Trade and other payables	5,166	5,166	5,166	-	-
Lease liabilities, including current portion	2,049	2,245	381	1,355	509

### Credit Risk

Credit risk is the risk that one party to a financial asset will cause a financial loss for the Company by failing to discharge an obligation. The Company's credit risk is mainly related to cash and cash equivalents and accounts receivable. The credit risk of cash and cash equivalents is limited given the Company deals with major North American financial institutions.

The Company provides credit to its clients in the normal course of its operations. It carries out credit checks on its clients on a continuing basis and maintains provisions for contingent credit losses that, once they materialize, are consistent with management's forecasts. The Company deals with well-established banners and distributors, thus reducing its credit risk. As of the current balance sheet date, 30% (2020 – 50%) of accounts receivable are concentrated with three (2020 – three) clients who represent together 34% (2020 – 49%) of the year's sales. The Company does not normally require a guarantee.

### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company realizes sales and purchases in foreign currency. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations.

During the three-month period ended April 30, 2021, all else being equal, a hypothetical strengthening of 5.0% of the U.S. dollar against the Canadian dollar would not have a material impact on the Company's consolidated statement of income (loss) and comprehensive income (loss) for the three-month period ended April 30, 2021 and 2020.

### Interest Rate Risk

The Company's credit facility and long-term debt bear interest at a variable rate based on the bank's prime rate plus a percentage. As a result, the Company is exposed to interest rate risk due to fluctuations in the bank's prime rate during the year.

#### *Sensitivity analysis for interest rate risk*

An increase or decrease of 100 basis points in the interest rate would not have a material impact on the Company's consolidated net income.

### **UNRECOGNIZED DEFERRED TAX ASSETS**

The Company has unused non-capital losses in the amount of \$4.0 million (2020 - \$3.9 million), of which \$1.4 million have not been recognized. These unrecognized losses expire in 2041 and are not recognized because management has determined that their realization is not probable due to their location in a group entity for which profitable operations are not expected in the near future because of significant investments in growth and market expansion.

The Company also has other unrecognized deductible temporary differences totalling \$2.3 million.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial position, changes in revenues or expenses, results of operations, liquidity or capital resources that are material, other than the lease. The Company's other off-balance-sheet arrangements consist only of obligations under operating leases with terms of 12 months or less or of low dollar value, which are not material.

### **SEGMENT REPORTING**

The Company has one reportable segment, as its principal business activities are developing, marketing, selling and distributing energy drinks.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Please refer to Note 4 of the Interim Condensed Consolidated Financial Statements for the three-month and six-month periods ended April 30, 2021 and 2020 for further details.

### **STOCK-BASED INCENTIVE PLAN**

On October 1, 2019, the Company created a stock option plan for its key employees, directors and consultants. This plan was dissolved upon the reverse acquisition of Mira X, as described in Note 1 of the Audited Annual Consolidated Financial Statements for fiscal 2020 and replaced by a new plan with same terms except for the addition of restricted share units (RSUs) and deferred share units (DSUs). The omnibus incentive plan (the "Plan") provides for the granting of options to purchase common shares, RSUs and DSUs where at any given time the number of stock options, RSUs and DSUs reserved for issuance should not exceed 10% of the Company's issued and outstanding common shares. Under the plan, options generally vest over a period of four years and expire ten years from the grant date, RSUs generally vest over a period of three years, and DSUs are fully vested when granted. As at April 30, 2021, 2,684,017 stock options/RSUs and/or DSUs were available for issuance (October 31, 2020 - 2,355,826).

For the six-month period ended April 30, 2021, 18,556 stock options were granted at a weighted average exercise price of \$18.21 per share, and 1,259 stock options were exercised at an exercise price of \$2.39 per share. Moreover, during this period, 5,436 RSUs and 6,480 DSUs were also granted. Stock-based compensation expense recorded in the six-month period was \$85,946 (2020 - \$43,315) for stock options granted, \$18,302 for RSUs (2020 - \$0) and \$120,000 for DSUs (2020 - \$0).

Moreover, as at October 29, 2020, 324,799 compensation options were granted to GURU's private placement agents and brokers, exercisable only once GURU stock started trading on the TSX (i.e., on November 2, 2020); the totality was exercised at an exercise price of \$5.45 per share during the first half of fiscal 2021.

## OUTSTANDING SHARE DATA

	As at June 14, 2021
Shares outstanding	29,234,012
Stock options (average exercise price of \$3.72 per share)	227,468
Restricted Share Units (average granted price of \$21.94 per share)	5,436
Deferred Share Units (average granted price of \$18.52 per share)	6,480
<b>Fully diluted shares</b>	<b>29,473,396</b>

## USE OF PROCEEDS FROM PRIVATE PLACEMENT

On September 30, 2020, the Company completed a private placement and issued 6,330,750 common shares for aggregate gross proceeds of \$34.5 million (including proceeds from the over-allotment option) and net proceeds of \$29.2 million.

The following table shows the estimated use of proceeds, compared with the actual use of proceeds as at April 30, 2021:

<i>(In thousands of Canadian dollars)</i>	Actual use of proceeds	Estimated use of proceeds	Variance
Market expansion costs (including retailer listing and distribution fees, in-store materials, additional sales force and product broker fees)	\$ 3,403	\$ 12,000	\$ (8,597)
Marketing and brand awareness	315	10,000	(9,685)
Product innovation investments / R&D	17	3,000	(2,983)
General working capital and corporate (including public company operating costs)	1,342	4,148	(2,806)
Remaining as at April 30, 2021	24,071	n/a	24,071
Total net proceeds	29,148	29,148	-
Reverse acquisition of Mira X expenses	3,026	3,026	-
Share issuance costs	2,329	2,329	-
Gross proceeds	\$ 34,503	\$ 34,503	\$ -

## RISK FACTORS

Please refer to the risk factors described in the "Risk Factors" section of the Company's Annual Information Form, dated January 20, 2021.

## **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 of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting.

### **DISCLOSURE CONTROLS AND PROCEDURES**

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.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")**

The Certifying Officers have designed ICFR or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing and evaluating internal controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements.

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).

There were no changes to the Company's ICFR for the period beginning on November 1, 2020 and ended April 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

### **SUBSEQUENT EVENTS**

On June 14, 2021, GURU signed a distribution agreement with PepsiCo Beverages Canada whereas it will become its exclusive national Canadian distributor for its plant-based GURU energy drinks effective October 4, 2021.