MAXIMIZING ENTERPRISE VALUE WITH A SELL-SIDE QUALITY OF EARNINGS ANALYSIS

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Presentation for National Trust Closely Held Business Association

September 20, 2023

***Presented by Bill Spizman and Jason Lesch

A comparison of sell side due diligence and an audit

Sell-side due diligence		Audit
Items at right PLUS EBITDA and working capital on a cash-free, debt-free basis; Focus involves adjusting EBITDA for revenue or expenses that are judged to be nonrecurring, reflecting a normalized picture of EBITDA	General reporting differences	Net income, statement of cash flows, balance sheet, statement of owner's equity
On average, one month	Timing	Generally longer than sell side
Covers recent fiscal year-ends PLUS LTM; it is a more current presentation of the company's normalized performance	Period of reporting	Covers the most recent fiscal year-ends
Includes the estimated full-year impact of pro forma events within adjusted EBITDA using actual results as a basis; often, this results in an increase to pro forma EBITDA; may also mean excluding discontinued ops that were unprofitable	Pro forma matters	An audit will typically present the actual impact for the periods
Would increase EBITDA to remove the impact of these one-time costs to reflect a normalized picture of EBITDA	One-time or nonrecurring cost	GAAP financial statements would reflect the total charge in current-period results
Higher level of scrutiny, lower level of materiality and scrutiny of income statement resulting in identified addbacks	Materiality	Level of materiality used based on entity as a whole
Current and lost customer analysis and discussion in report	Customer analysis	No analysis disclosed in audit report
GM detail analysis and discussion, along with other costs in the income statement	Gross margin/ other costs	No analysis disclosed in audit report
Provides reader with points of interest related to the company in a concise format	Points of interest	Operational and deal-related matters are not disclosed

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A comparison of sell-side due diligence and investment banking

Sell-side due diligence		Investment banker
N/A	Services	Market company to prospective buyers
N/A	Buyer universe	Qualify buyers
Assist IB in preparation of financial information to be included in IM	Information memorandum	Prepare IM
Assist company pre-LOI and post-LOI through post-close of the transaction	Sales process	Assist company through sale process
Detailed analysis and presentation of financial information and EBITDA adjustments	EBITDA adjustments	Limited focus on adjustments
Assist in determination of most advantageous target, and post-close follow-up	Working capital target	High-level analysis
Tax structuring and due diligence assistance prior to the deal to provide best alternatives for seller	Tax structuring	N/A
Provide operational due diligence to assist the company with special situations, such as carve-outs	Operational due diligence	N/A
“Deep dive” on historical financial statements and assist with pro forma statements	Financials	Present summarized level of historical and forecasted financials

Quality of earnings adjustments—Examples

Below are some common quality of earnings adjustments to consider.

Normalizing

- Unusual professional and legal fees
- Transaction expenses
- Owner/personal expenses
- Management fees
- Out-of-period revenue and expenses
- FMV adjustments (e.g., compensation and rent)
- Discretionary expenses
- FMV of related-party activities
- Nonrecurring expenses or revenue
- Gain/loss on sale of assets
- Unusual write-offs or accrual reversals
- Relocation costs or recruiting fees
- Employees who will not continue
- Severance costs
- Noncash income or expense

Accounting or “GAAP”

- Cash to accrual
- Accounting policy change
- Capitalizable expenses charged to repairs and maintenance, or other expense account
- Reserve adjustments (e.g., accounts receivable, inventory, warranty, gift card or rebate)
- Unconsolidated related parties
- GAAP departures in revenue recognition or inventory accounting
- Unrecorded audit adjustments

Pro Forma

- Recent acquisitions/divestitures
- Implemented cost-cutting initiatives
- Increased pricing
- Carve-out and cost allocation
- Insourcing of production
- New/closed facilities
- New/lost customers
- New product lines
- "Start-up" costs
- Normalizing or run-rate adjustments (e.g., change in experience rates for insurance costs, medical claims, benefits, owners’ compensation, rental arrangements and vendor terms)

Other transaction assistance

Our transaction team is highly experienced and uniquely positioned to ensure a seamless transition from transaction diligence to post-closing support. We know how to help our clients minimize risk, preserve deal value and capture additional value through the transaction life cycle.

Working Capital Definitions and Targets

Historical and Forecast Trends
Working capital historical trends should be appropriately considered in the working capital peg. Any adjustments or significant items should be appropriately identified and presented in the most advantageous manner.

Seasonality
Seasonality trends should be identified and factored into expected closing dates and target assumptions.

Definitions
Working capital definitions should be consistently presented. Any differences between the agreement and target working capital peg methodologies should be identified for further considerations.

Purchase Agreement Support

Language
Having accountants assist transaction attorneys with the review of pricing mechanisms, definitions, representations and warranties, disclosure schedules and any other accounting related clauses helps preserve transaction value.

Earn Outs
RSM can assist with the diligence of earn out targets, associated earn out language in the purchase agreement and post-closing earn-out calculations.

Tax Structuring
Our transaction tax team is well positioned to help identify favorable transaction structures and reduce potential tax exposures.

Closing Working Capital Assistance

Complexities
Working capital calculations can be complex and involved depending on deal specific facts and circumstances.

Information Gaps
Information provided during due diligence may be incomplete or unadjusted for assumptions utilized in the determination of the target working capital.

Multiple Data Sources
There are often multiple data sources relied upon to perform calculations.

Closing Dates
Transactions may close on a date that is mid-period or outside of the accounting team's typical closing procedures.

Case Study
Furniture Retailer (Sell-side)

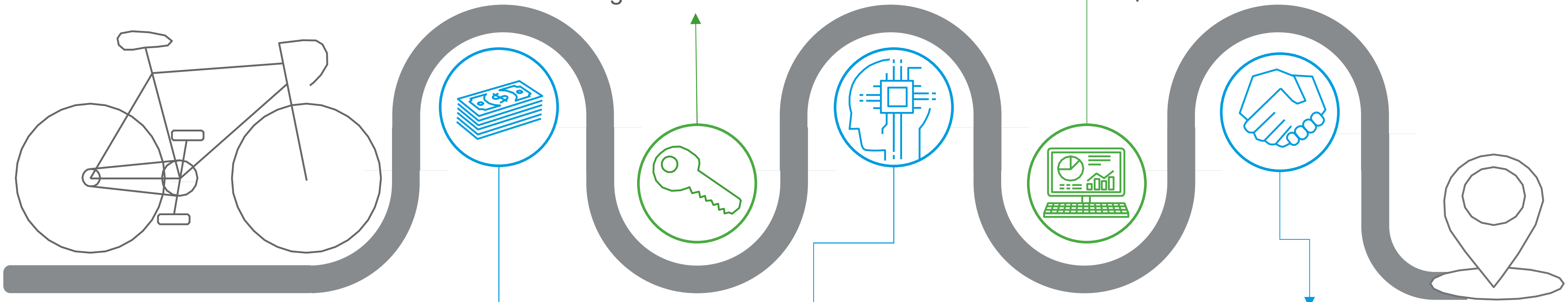
- The client sold stylish and durable furniture to the hospitality industry.
- RSM assisted with review of the closing working capital calculation proposed by the Buyer and preparation of the revised closing working capital calculation with the client.
- RSM identified $1 million in adjustments to increase the closing working capital. Our quoted fees were $25 thousand for the post-diligence assistance

The value of sell-side due diligence

From start to finish, there is continual opportunity to create value. Risk reduction, transaction acceleration and price maximization are all possible through a thoroughly and thoughtfully executed sell-side due diligence.

Reduces risk of surprises surfacing during buyer diligence resulting in ***increased surety*** of closing and value retention.

Allows management to ***focus*** on ***running*** the business during the buyer diligence process.



Provides ***transparency*** and credibility to the financial information shared with buyers.

Experienced diligence professionals ***support*** the management team and safeguard seller interests when handling buyer requests.

Shortens the time needed between execution of the Letter of Intent and the signing / closing date.

How value is created

How value can be created in the ***sell-side*** financial due diligence phase of a transaction

Pro Forma
Provide a complete review and analysis of recent operational activities or events that affect a company's profitability

Working capital assistance
Generate working capital analysis by making adjustments for historical business trends and seasonality

Normalizing
Removing all nonrecurring income or expense to provide a clearer picture of the normal cash flow

Accounting practices
Reviewing your accounting procedures to ensure compliance with GAAP

Deal advisory
Review of specific deal-related financial or contractual issues, such as purchase agreement reviews and earn-out calculations

Deal analytics for sell-side transactions

How ***deal analytics*** can create value in a sell-side transaction

Business performance assessment
Provides a comprehensive performance analysis to understand trends related to revenue, costs and volume at the most granular level of data available

Business and industry focus analysis
Goes beyond transaction-level analysis by focusing on the most relevant business metrics and industry-specific key performance indicators

Business intelligence and visualization
Applies advanced data analytics techniques to create interactive dashboards allowing end-users to see and understand trends, outliers, and patterns in real-time

Post-close refresh dashboard
Leverages analytical software tools that catalog the steps to cleanse data enabling monthly updates to be provided post-close

CONFIDENTIAL

PROJECT SNACKS

Due Diligence Report

July 20, 2020

DRAFT

Illustrative Report – Names, Locations, Dates, Business Description and Selected Amounts Modified for Confidentiality

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AUDIT | TAX | CONSULTING

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NOTICE TO READER

This due diligence report (the Report) contains financial information prepared by RSM US LLP (RSM) based on the accounting records of Southern Snacks, Inc. (Southern Snacks or the Company). It was prepared at the direction of and solely for the benefit of Southern Snacks, Inc. (the Client) in conjunction with a potential transaction and in accordance with our engagement letter dated May 20, 2020. Distribution, access or receipt of this Report to or by anyone other than the Client without a signed RSM Report Release Letter being provided to RSM is strictly prohibited.

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July 20, 2020

Mr. Paul Rice
VP of Finance
Southern Snacks, Inc.
609 Main Street
Houston, TX 77002

Dear Mr. Rice:

We have performed a pre-sale, due diligence analysis of certain financial data of Southern Snacks, Inc. (Southern Snacks or the Company) solely for the Company's use in accordance with the terms of our engagement letter dated May 20, 2020, subject to the time and access made available to us and any scope limits noted herein. We understand that Southern Snacks, Inc. is exploring the potential sale of the Company with parties yet to be determined.

Our services were conducted by professionals from our Transaction Advisory Services Group. A significant portion of our work consisted of inquiries with your accounting and management personnel, without further verification. We have not performed procedures to evaluate the reliability or completeness of the information obtained and, accordingly, no opinion is expressed or implied.

Our services were performed in accordance with the Standards for Consulting Services of the American Institute of Certified Public Accountants (AICPA). The services do not constitute legal or investment advice, broker dealer services, a fairness or solvency opinion, an estimate of value, an audit, an examination of any type, including a compilation, a preparation engagement, a review of internal controls, an accounting or tax opinion, or other attestation or review services in accordance with the standards of the AICPA, the Public Company Accounting Oversight Board or any other professional or regulatory body. We will not express an opinion or provide any other form of assurance with respect to the services, report or underlying information. Our work cannot be relied upon to disclose errors, irregularities or illegal acts, including fraud or defalcations.

We make no representation regarding the sufficiency of these services for your purposes. The sufficiency of the work we performed is solely the responsibility of the Company as are any decisions with respect to a transaction. If we had been requested to perform additional work, other matters might have come to our attention that would have been reported to you.

We have not completed or applied adequate procedures to the prospective information contained in this document to provide any form of assurance concerning the reliability, accuracy or completeness of such prospective information. We remind you there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

This document has been prepared solely for the members of Southern Snacks, Inc. This document is not to be referred to or quoted, in whole or in part, in any offering memorandum, registration statement, prospectus, public filing, loan agreement or other document without our prior written approval.

If you have any questions, please contact Marc Logan, Partner – Transaction Advisory Services, at 212.372.1894 or Marc.Logan@rsmus.com, or Amy Rudolph, Director – Transaction Advisory Services, at 314.925.3848 or Amy.Rudolph@rsmus.com.

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RSM US LLP

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GLOSSARY OF TERMS AND ABBREVIATIONS

Periods Analyzed

FY18	Fiscal year 2018; the 12 months from January 1, 2018 through December 31, 2018
FY19	Fiscal year 2019; the 12 months from January 1, 2019 through December 31, 2019
LTM Apr-20	Last 12 months ending 2020; the period from May 1, 2019 through April 30, 2020
YTD Apr-19	Year-to-date 2019; the four months from January 1, 2019 through April 30, 2019
YTD Apr-20	Year-to-date 2020; the four months from January 1, 2020 through April 30, 2020
Historical Period	The period from January 1, 2018 through April 30, 2020
FY20-e	Estimated fiscal year 2020; the 12 months from January 1, 2020 through December 31, 2020

Entities

Company, Southern Snacks	Southern Snacks, Inc.
RSM	RSM US LLP
Seller	Collectively, the shareholders of the Company

Other Terms and Abbreviations

3PL	Third-party logistics
CFIA	Canadian Food Inspection Agency
Co-man	Contract manufacturer
DIOH	Days inventory on hand
DPO	Days payables outstanding
DSO	Days sales outstanding
EBITDA	Earnings before interest, taxes, depreciation, and amortization
ERP	Enterprise resource planning
FDA	Food and Drug Administration
FTE	Full-time employees
GAAP	Generally accepted accounting principles in the U.S.
L7D	Last seven days
NFP	Nutritional facts panel label
NQ	Not quantified
R&D	Research and development
Rounding	Some totals may not agree to the nearest dollar shown due to rounding differences
SKU	Stock-keeping unit

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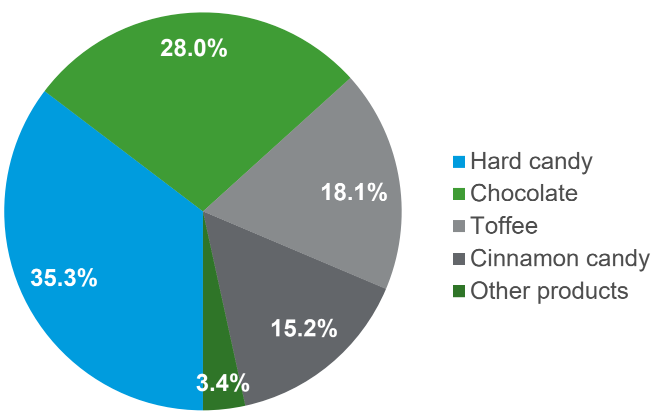
BACKGROUND

BACKGROUND

Financial Overview

US$ in thousands	FY18	FY19	LTM Apr-20
Reported net sales	14,983	53,144	72,702
Growth rate	*N/A*	*254.7%*	*36.8%*
Reported gross profit	6,226	24,226	32,601
Gross profit %	*41.6%*	*45.6%*	*44.8%*
Adjusted net sales	14,983	53,144	72,783
Growth rate	*N/A*	*254.7%*	*37.0%*
Adjusted gross profit	6,076	24,203	33,000
Adjusted gross profit %	*40.6%*	*45.5%*	*45.3%*
Reported EBITDA	**1,614**	**10,258**	**13,440**
Reported EBITDA %	*10.8%*	*19.3%*	*18.5%*
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**
Adjusted EBITDA %	*12.0%*	*23.0%*	*23.3%*
Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**
Pro forma EBITDA %	*13.2%*	*25.5%*	*26.1%*

Gross Sales by Product in LTM Apr-20



Company Profile

Company	Southern Snacks, Inc.
Headquarters	Houston, Texas
Functional currency	US Dollars
Founded	2015
Total employees	48 FTEs as of the date of this report
Basis of accounting	Accrual
Fiscal year-end	December 31st
Audit history	FY19 by a Big 4 accounting firm
Major five customers	Approximately 50.7% of net sales in LTM Apr-20 relate to the top 5 customers
Manufacturing footprint	Contract manufacturers in Michigan, Ohio, and Toronto, Canada

Background

Southern Snacks, Inc. (Southern Snacks or the Company) develops and distributes candy sold to retailers, club stores, and grocery stores across the U.S. and Canada. The Company is headquartered in Houston, Texas, but also maintains an office in Toronto, Canada. The Company further has an e-commerce presence through its direct-to-consumer website and other third-party platforms. Southern Snacks has scaled operations with its four core product offerings. Gross sales by product for LTM Apr-20 are presented in the chart at left.

Basis of Presentation

The financial information in this report has been derived from the internally prepared financials as provided by the Company. The Company's financial statements were reviewed in FY18 and audited in FY19 by a Big 4 accounting firm. *Refer to the Exhibits section for a reconciliation of the Company's internal financial statements to the FY18 reviewed financial statements and FY19 audited financial statements.*

Scope of Services

The financial due diligence procedures primarily consisted of the following: (i) reading and analyzing financial information provided by management; (ii) telephonic meetings with Paul Rice, VP of Finance, and Keith Searle, Growth Consultant; (iii) reviewing the FY19 audit workpapers of the Company's outside accounting firm; and (iv) subsequent inquiry and analysis through the date of this report. *Refer to the Due Diligence Procedures in the Exhibits section for further details.*

POINTS OF INTEREST

DEAL DASHBOARD

Financial Impact

Gross Sales			Adjusted Gross Profit*			Adjusted EBITDA*		
FY18	FY19	LTM Apr-20	FY18	FY19	LTM Apr-20	FY18	FY19	LTM Apr-20
$17.2m	$64.7m 276.6% YOY Growth	$88.6m 37.1% YOY Growth	$6.1m 40.6%	$24.2m 45.5%	$33.0m 45.3%	$1.8m 12.0%	$12.2m 23.0%	$17.0m 23.3%

Business Impact

Gross Sales Trends

- Gross sales growth was driven by: (i) increased volume from existing customers and across all stock-keeping units (SKUs); (ii) new mass and club relationships; and (iii) the introduction of new products in Spring 2019 and 2020.
- The Company maintained relatively consistent price levels throughout the Historical Period. *Refer to the Exhibits section for price and volume trends by top SKUs.*

Adjusted Gross Profit Trends

- Gross profit percentage increased from 40.6% in FY18 to 45.3% in LTM Apr-20 driven by a reduction in logistics costs (i.e., freight and warehouse costs) from 12.9% of net sales in FY18 to 7.7% of net sales in LTM Apr-20, primarily due to the transition to a new logistics partner and more efficient shipping (i.e., full truck loads); product costs remained consistent throughout the Historical Period.

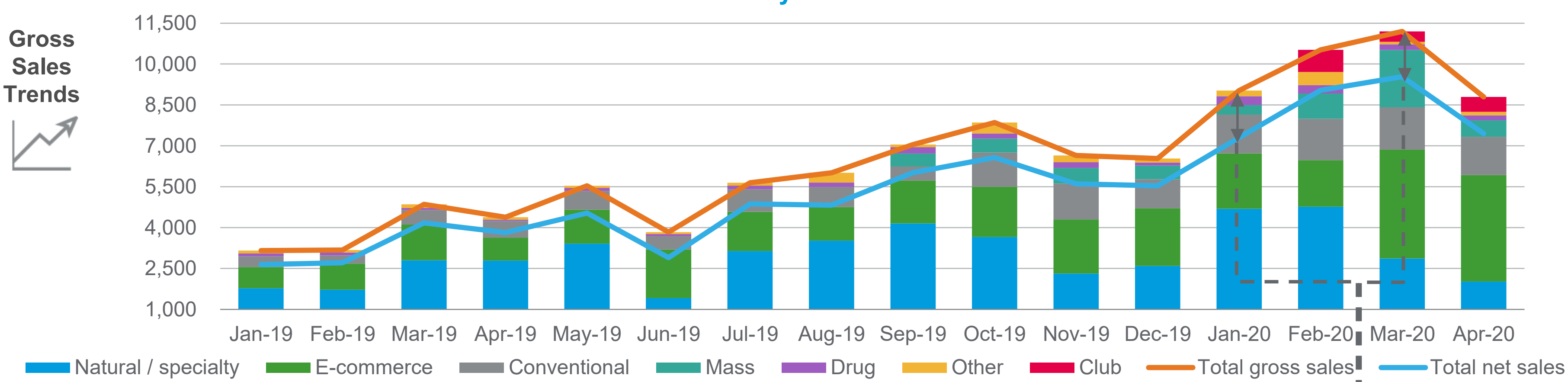
Adjusted EBITDA Trends

- EBITDA percentage increased from 12.0% in FY18 to 23.3% in LTM Apr-20 primarily driven by overall net sales growth, gross margin expansion, and improved leverage/efficiency of operating expenses, which as a percentage of net sales reduced from 28.6% in FY18 to 22.0% in LTM Apr-20.
- Gross margin expansion is primarily driven by sales growth in e-commerce, which generates higher margins compared to the other channels.

* *Percentages presented are based on reported net sales. Refer to the Quality of Earnings section for further details.*

Gross Sales Trends

Gross Sales by Channel Trends

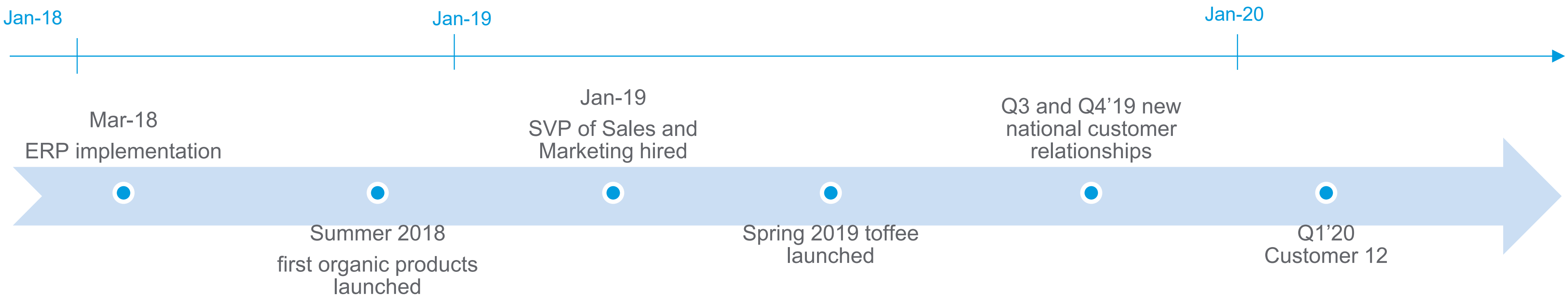


Increase in trade spend in Jan-20 is attributed to the Company's ad and off-invoice promotions that are tied to January marketing campaigns, while the Mar-20 increase in trade spend is primarily driven by Customer 2 co-op fees from higher e-commerce sales.

POINTS OF INTEREST

Impact of COVID-19	On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern," and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates and has business dealings. While it is unknown how long these conditions will last and what the complete financial effect will be to the Company, to date, management represented the Company was not, and does not anticipate being, adversely impacted by COVID-19 as the large majority of its customers are still open and selling product during the pandemic. In Mar-20, the Company recorded gross sales of $11.2 million, which were the highest monthly gross sales in the Historical Period, primarily driven by increased velocity and select distribution gains. Specifically, e-commerce outpaced sales growth in Mar-20 and Apr-20 compared to the slowdown among retailers in Apr-20. Gross sales increased in May-20 to $11.8 million, which management indicated was driven by a mix of retail channel and e-commerce sales. The one customer directly impacted by COVID-19 was Customer 1, and in Mar-20 and Apr-20, Customer 1 implemented internal buying restrictions across the board in an attempt to manage inventory and category-specific demand at the retail level. The short-term policy was lifted by May-20, and Southern Snacks' gross sales normalized at that time. Management indicated that the Company gained market share during the pandemic. Further, we note that during this period, the impact of COVID-19 on the Company's planned trade spend programs was mixed. Some retailers were unable to execute on planned trade spend initiatives while other retailers executed on previously agreed-upon initiatives to the best of their ability. Management indicated that the Company's large customers have continued to place orders with the exception of Customer 3, which provided notice to the Company that it would not place new orders in Q2'20. The Company was able to replace lost Customer 3 sales via its e-commerce and mass/club channels. Overall gross sales in May-20 at $11.8 and Jun-20 at $13.4 million were the Company's highest months to date. The Company has limited collection exposure with existing customers. As of June 12, 2020, aged receivables greater than 90 days represented 1.1% of total accounts receivables compared to 2.0% of total accounts receivables as of April 30, 2020. *Refer to the following pages in the Points of Interest section for further details related to Customer 3, and to the Exhibits section for further details on A/R agings.* In addition, management implemented the following operational changes in response to the COVID-19 pandemic: (i) dedicated time and resources to reinforce supply chain and evaluate suppliers providing raw materials, specifically ensuring no interruption to the production of finished goods at its co-man located in the U.S. and shipment to its Canadian 3PL for distribution; (ii) established a remote work plan for all Houston employees; and (iii) reduced headcount by two FTEs in events and back-office positions, which were deemed obsolete in the current environment. We understand that there has been limited impact to prices or availability of ingredients or packing supplies from the supply chain. Subsequent to Apr-20, the Company made several product donations to a number of charities to benefit frontline workers, local hospitals in Houston, and other not-for-profit organizations, that approximated $737 thousand and $220 thousand in product costs in May-20 and Jun-20, respectively. Note that the Company did not receive government incentives or loans. *Refer to the Quality of Earnings section for other EBITDA considerations related to COVID-19.*

POINTS OF INTEREST

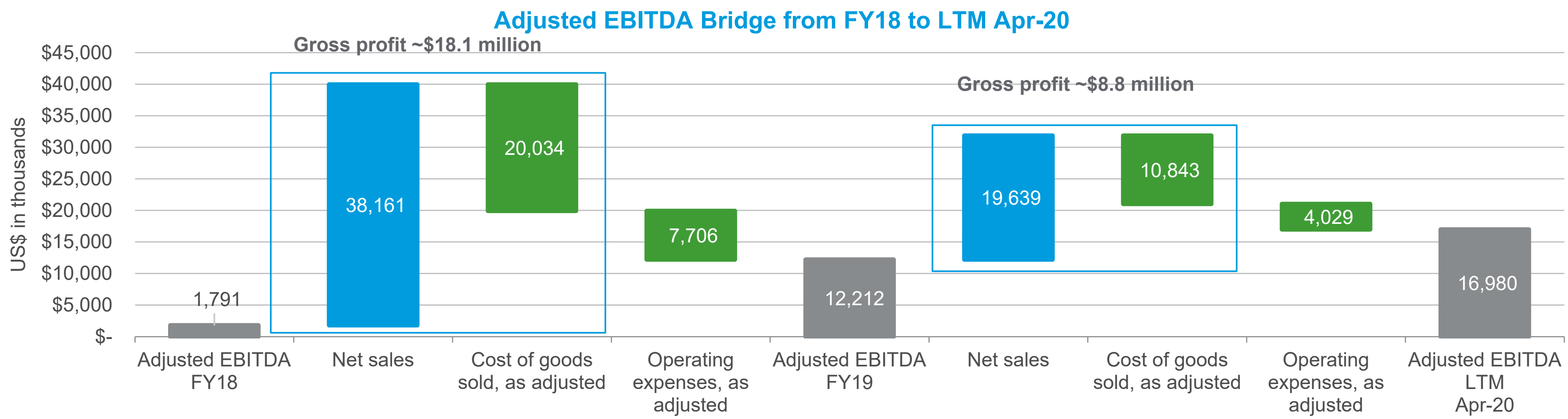


Overview of business initiatives

Management has made a number of business investments as it relates to operations, product innovation, and go-to market efforts during the Historical Period. These initiatives are summarized below in a chronological order and discussed in further detail later in this report:

- **ERP implementation (Mar-18):** The Company implemented NetSuite, an ERP system, in Mar-18 to support overall business growth. Management represented that there were minimal operational disruptions and implementation costs incurred in Q1'18 as a result of this ERP implementation.
- **First organic products launched (Summer 2018):** In Aug-18, the Company launched its first organic product line, which included hard candy and cinnamon candy. Both products have experienced significant sales growth, approximating $31.3 million and $13.5 million, respectively, in gross sales in LTM Apr-20.
- **SVP of Sales and Marketing hired (Jan-19):** The Company has built out its marketing and sales functions during the Historical Period from an average of 4 FTEs in FY18 to 22 FTEs in LTM Apr-20. In Jan-19, the Company hired David Evetts, SVP of Sales and Marketing. Within the Sales and Marketing department, there have been one-time investments related to customer demographic study, event sponsorship, and brand strategy development spend. *Refer to the Quality of Earnings section for one-time marketing initiatives*.
- **Toffee launched (Spring 2019):** In Spring 2019, the Company launched toffee, recording its first month of sales in Apr-19. Toffee generated strong first-year gross sales of approximately $16.0 million in LTM Apr-20.
- **New national customer relationships (Q3 and Q4'19):** In Q3 and Q4'19, Southern Snacks launched directly with several national retailers and grocery chains, including Customer 7 and Customer 13. The Company hired a third-party marketing firm to execute a significant in-store marketing campaign with Customer 13 and facilitate its national launch that has not been performed with other new retail customers. *Refer to the Quality of Earnings section for one-time marketing initiatives related to Customer 13*.
- **Customer 12 (Q1'20):** The Company entered the club channel with Customer 12 in Q1'20, which generated $1.7 million of gross sales from Feb-20 to Apr-20.

POINTS OF INTEREST



Adjusted EBITDA bridge	The Company's adjusted EBITDA increased by $15.2 million from $1.8 million in FY18 to $17.0 million in LTM Apr-20. Key drivers of the increase are as follows: • **Net sales:** Growth in adjusted net sales from FY18 to LTM Apr-20 approximated $57.8 million from $15.0 million in FY18 to $72.8 million in LTM Apr-20, primarily driven by higher volume sales as a result of new product launches, new mass and club customer acquisitions, as well as higher velocities in existing customer base, specifically Customer 1. The Company launched directly with large retailers, including Customer 10 in Feb-19, Customer 13 in Aug-19, Customer 7 in Sep-19, and Customer 12 in Feb-20. The Company maintains a tiered pricing system by channel. Sales dilution has increased from 12.7% in FY18 to 18.0% in LTM Apr-20 as a result of increased trade spend to support higher sales growth with its major U.S. retail customers. *Refer to the Exhibits section for sales and margin by product and by customer and gross-to-net sales trends*. • **Gross margin:** Gross margin increased from 40.6% in FY18 to 45.3% in LTM Apr-20. The improvement in gross margin was primarily driven by a reduction in logistics costs (i.e., freight and warehouse costs) as product costs remained relatively consistent during the Historical Period. Management indicated that a decrease in logistics costs from 12.9% of net sales in FY18 to 7.7% of net sales in LTM Apr-20 was due to reliable services and efficient shipping (i.e., full truck loads) with Vendor 2, the Company's current 3PL, compared to its former 3PL (i.e., Vendor 4). Further, Southern Snacks expanded its 3PL relationship with Vendor 2, specifically utilizing its West Coast location in Jan-20, which further reduced costs. *Refer to the following pages and the Exhibits section for further detail on gross margin trends by channel and customer.* • **Operating expenses:** Operating expenses primarily consist of salaries and benefits for the Administrative department, advertising and promotions, free product giveaways, broker fees, and various other administrative expenses. The increase of $11.7 million, from $4.3 million in FY18 to $16.0 million in LTM Apr-20, is driven by: (i) increases in headcount to support the overall business growth; and (ii) increased marketing and advertising spend. *Refer to the Exhibits section for a detailed breakdown of operating expenses*.

POINTS OF INTEREST

Product innovation	As previously discussed, the Company launched several product categories during the Historical Period. Management indicated that new products are developed and introduced into the market strategically based on customer demand, retailer partnerships, marketing campaigns, etc. Product innovation efforts are led by Erin Rehfuss, Founder and CEO, along with the Company's in-house R&D department. Adjusted R&D spend (including employee salaries and benefits) approximated $317 thousand, $339 thousand, and $662 thousand in FY18, FY19, and LTM Apr-20, respectively. We highlight the following items as its pertains to the Company's product innovation process during the Historical Period: • Since FY19, the Company's R&D department has been continuously innovating and working its way toward a fourth recipe evolution. Management expects to actively ship the evolved recipe in H2'20 after completing product trial runs. In anticipation of this launch, the Company has managed inventory levels to factor in forecast sell-through of its current product. Further, management indicated that the Company has no plans to accelerate or modify its trade spend programs. The Company has notified its customers of the upcoming recipe evolution, and does not expect any disruption to monthly sales orders. The Company recorded one-time trial run fees and inventory write-offs for pre-ordered packaging that was unusable. *Refer to the Quality of Earnings section for further details on recipe evolution costs*. • The Company incurred certain one-time costs on new product development of $166 thousand in LTM Apr-20 related to new product categories (i.e., sour gummy bears and mini cinnamon candy) expected to launch in FY20-e and 2021, excluding trial run fees. *Refer to the Quality of Earnings section for the related due diligence adjustment for new product costs.*
Co-manufacturing (co-man) arrangement	On September 14, 2018, the Company entered into a three-year turnkey production arrangement with Manufacturer 1, a co-manufacturer located in Michigan, U.S. Management indicated that product costs have remained consistent year over year during the Historical Period. A summary of the Company's current co-man arrangement is as follows: • All purchase orders are placed with an eight-week lead time for finished goods inventory. Each month, the Company provides its co-man with a three-month rolling forecast for inventory planning purposes. The Company's terms are net 30. The Company currently has a credit limit of $2.9 million with Manufacturer 1. • During the Historical Period, Manufacturer 1 had exclusivity on chocolate products, and all chocolate production was performed by Manufacturer 1. Management represented that on a go-forward basis, the Company is able to produce organic chocolate products intended for sale in Canada and products intended for sale at Customer 15 with alternative manufacturing partners. During the Historical Period and on a go-forward basis, Southern Snacks is not bound by exclusivity with Manufacturer 1 as it relates to the manufacturing of other products. • Manufacturer 1 performs all new product development trial runs (post-kitchen phase) for a flat fee per run. In accordance with its current arrangement, the co-man will reimburse the Company for trial run fees incurred if the trial is successful and results in full-scale production. Historically, the current co-man has not consistently charged the Company for trial run fees. Trial run fees approximated $0, $110 thousand, and $557 thousand in FY18, FY19, and LTM Apr-20, respectively. *Refer to the Quality of Earnings section for a related due diligence adjustment for trial run fees related to the recipe evolution and an other EBITDA consideration of new product trial run fees*. • All formulas, including foreground and background IP, are owned exclusively by Southern Snacks. Management indicated that in May- and Jun-20, the Company finalized production contracts with two new co-manufacturers based in the U.S., and a third production contract with a new co-man based in Canada. Consequently, the Company agreed to a minimum production volume commitment of 5.5 million pounds to Manufacturer 1 in an effort to offset the impact from the new Canada co-man arrangement. Currently, the Company produces 7.5 million pounds, and along with its experienced growth trajectory, the Company believes it should be able to meet, if not exceed, its minimum volume commitments to Manufacturer 1. *Refer to the following pages and the Quality of Earnings section for the related pro forma due diligence adjustment related to product cost savings under the new co-man arrangement.*

POINTS OF INTEREST

Supply chain optimization initiatives	In 2020, the Company began implementing certain operational changes in efforts to optimize its supply chain. A summary of these supply chain initiatives is as follows: • In YTD Apr-20, the Company utilized Vendor 4, a 3PL based in Canada, in a more limited capacity and transitioned most of its logistics efforts to Vendor 2 (Canada) as a result of its reliable services. The Company has had a long-standing relationship with Vendor 2 (U.S.) in the East region location since 2018 and elected to expand its relationship to its West region location in Dec-19. Management indicated that there were no significant freight rate changes upon the 3PL transition to its existing provider; on the contrary, the Company has experienced fewer shipment issues, efficiency in delivery routes, and lower retailer fines as a result. • As previously discussed, the Company finalized a new co-man based in Canada in Jun-20. Although the current co-man has the capacity to expand production with Southern Snacks, management indicated the Company intends to shift certain production efforts of existing Canadian organic products to the new co-man by the second half of FY20-e to service the Canadian market. Consequently, management represented the Company has agreed to a minimum production volume commitment with Manufacturer 1 for 2021 and 2022 to replace lost production volume. Management believes the Company will be able to achieve this production commitment even with flat U.S. sales. For the existing Canadian hard candy, toffee and cinnamon candy production, management estimates total Company product cost savings of approximately 9% based on preliminary negotiations with its new co-man based in Canada. *Refer to the Quality of Earnings section for the pro forma due diligence adjustment related to product cost savings under the new co-man arrangement*. *Note that our analysis did not contemplate incremental adjustments that buyers may achieve based on the scale and nature of their operations.*
Customer 3 relationship	In Jun-20, Customer 3 filed for Chapter 11 bankruptcy. Customer 3 was the Company's third largest customer based on net sales in LTM Apr-20. Customer 3 US and Canada contributed to approximately 8.3% of gross sales in LTM Apr-20. Management indicated that Customer 3 gave notice that it would not place additional sales orders in Q2'20 as a response to the adverse impact from COVID-19 to the customer's business. Management anticipates that the Company will continue to replace Customer 3 sales with new customers and gain market share from existing customers. This is further evidenced by May-20 gross sales at $11.8 million, the Company's highest month to date, which did not include Customer 3 sales. As of April 30, 2020, the Company had aged accounts receivables outstanding with Customer 3 that were greater than 60 days of approximately $328 thousand (i.e., $241 thousand with Customer 3 U.S. and $87 thousand with Customer 3 Canada). Management believes there is minimal collection risk with Customer 3 as those aged receivables were substantially collected as of June 12, 2020, with only $10 thousand remaining as aged greater than 60 days. Management has conditioned further Customer 3 sales with a tighter credit limit and a 25% deposit prior to shipment for future purchase orders. However, the Company's revised FY20-e forecast does not contemplate incremental Customer 3 sales subsequent to Apr-20.

QUALITY OF EARNINGS

QUALITY OF EARNINGS (SUMMARY)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
Due diligence adjustments					
8. FOB destination terms	-	-	81	(784)	(704)
Adjusted net sales	**14,983**	**53,144**	**72,783**	**12,340**	**31,980**
EBITDA, as reported	**1,614**	**10,258**	**13,440**	**3,978**	**7,160**
EBITDA %, as reported	***10.8%***	***19.3%***	***18.5%***	***30.3%***	***21.9%***
Due diligence adjustments					
1. Recipe evolution and new innovations	-	646	1,348	29	731
2. Stock-based compensation	60	906	945	73	113
3. One-time new product costs	-	-	166	-	166
4. One-time marketing initiatives	-	370	610	-	240
5. Transaction expenses	-	-	257	-	257
6. Nonrecurring other (income) expenses	33	8	(36)	(53)	(97)
7. Capitalizable trade show booth	-	74	99	31	56
8. FOB destination terms	-	-	90	(389)	(299)
9. Bad debt normalization	85	(51)	61	(50)	62
Total due diligence adjustments	**177**	**1,954**	**3,540**	**(358)**	**1,228**
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**	**3,620**	**8,387**
Adjusted EBITDA %	***12.0%***	***23.0%***	***23.3%***	***29.3%***	***26.2%***
Pro forma adjustments					
10. New co-man arrangement	183	1,363	1,995	311	944
Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**	**3,931**	**9,331**
Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***
Other EBITDA considerations					
1. New product trial run fees	-	-	198	-	198
2. Consumer events	-	36	36	-	-
3. COVID-19			NQ		NQ

Basis of Presentation

The following quality of earnings analysis summarizes the identified adjustments to reported EBITDA. Reported EBITDA for the periods presented was derived from management's monthly internal financial statements, which we separately reconciled to the audited financial statements. Adjustments were traced back to the detail in the accounting records and other supporting documents where appropriate or as noted in the commentary below. This analysis should be read in conjunction with the Points of Interest detailed in this report.

Summary of Adjustments

The adjustments identified principally relate to the following: (i) recipe evolution costs; (ii) stock-based compensation; (iii) one-time new product costs; (iv) one-time marketing initiatives; and (v) transaction expenses.

Transaction Consideration

Our analysis did not contemplate incremental adjustments that buyers may achieve based on the scale and nature of their operations.

QUALITY OF EARNINGS (ADJUSTMENTS)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
Due diligence adjustments					
8. FOB destination terms	-	-	81	(784)	(704)
Adjusted net sales	**14,983**	**53,144**	**72,783**	**12,340**	**31,980**
EBITDA, as reported	**1,614**	**10,258**	**13,440**	**3,978**	**7,160**
EBITDA %, as reported	***10.8%***	***19.3%***	***18.5%***	***30.3%***	***21.9%***
Due diligence adjustments					
1. Recipe evolution and new innovations	-	646	1,348	29	731
a. Old packaging materials write-off	-	537	919	-	382
b. Recipe evolution trial run fees	-	110	557	29	477
c. Out-of-period recipe evolution-related credit	-	-	(129)	-	(129)
2. Stock-based compensation	60	906	945	73	113
3. One-time new product costs	-	-	166	-	166
a. Packaging write-off	-	-	81	-	81
b. Mold boards	-	-	69	-	69
c. Out-of-period new product reimbursement	-	-	16	-	16
4. One-time marketing initiatives	-	370	610	-	240
5. Transaction expenses	-	-	257	-	257
6. Nonrecurring other (income) expenses	33	8	(36)	(53)	(97)
7. Capitalizable trade show booth	-	74	99	31	56
8. FOB destination terms	-	-	90	(389)	(299)
9. Bad debt normalization	85	(51)	61	(50)	62
Total due diligence adjustments	**177**	**1,954**	**3,540**	**(358)**	**1,228**
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**	**3,620**	**8,387**
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Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***

Quality of Earnings Adjustments

Due Diligence Adjustments

1. **Recipe evolution and new innovations:** In FY19, Southern Snacks dedicated significant resources to product recipe evolution and new product innovation. The following items represent one-time costs incurred by the Company related to the two aforementioned endeavors.
   - a. **Old packaging materials write-off:** The Company wrote off unusable packaging inventory for existing products as a result of adopting the new recipes. Management represented that packaging materials were disposed of upon write-off.
   - b. **Recipe evolution trial run fees:** During the Historical Period, the Company incurred one-time trial run fees specific to the recipe evolution. Amounts were traced to itemized vendor invoices. Furthermore, the Company has continued to receive reimbursements under its current co-man arrangement in Mar-20 and Jun-20. *See Due Diligence Adjustment No. 1c below.*
   - c. **Out-of-period recipe evolution-related credit:** In Mar-20, the Company received a $129 thousand credit from its co-man related to trial run fees incurred primarily in FY19 as part of the recipe evolution initiative. This adjustment reverses the impact of this credit to earnings.
2. **Stock-based compensation:** This adjustment adds back noncash expenses recorded for stock-based compensation awarded to employees. These amounts were recorded in a discrete trial balance account.
3. **One-time new product costs:** The Company has incurred certain one-time costs related to new product development expected to launch in FY20-e and beyond.
   - a. **Packaging write-off:** This adjustment adds back nonrecurring packaging write-offs approximating $81 thousand related to new products (i.e., sour gummy bears) to launch in FY20-e prior to finalizing the formula.
   - b. **Mold boards:** These amounts represent an addback for one-time expenses related to new SKU mold boards for: (i) sour gummy bears of $34 thousand (expected launch date in Q3'20); and (ii) mini cinnamon candy of $35 thousand (expected launch date in FY21 or FY22). The Company is charged for initial mold design in advance of production for new SKU designs. Management views this expense as nonrecurring for new products as production costs are lowered for future periods as a result. These expenses were traced to third-party documentation and general ledger detail.
   - c. **Out-of-period new product reimbursement:** In Jun-20, the Company received a credit from its U.S. co-man related to new product trial production runs incurred in YTD Apr-20. This adjustment adds back the reimbursed trial run fees that were initially expensed.

QUALITY OF EARNINGS (ADJUSTMENTS)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
Adjusted net sales	**14,983**	**53,144**	**72,783**	**12,340**	**31,980**
EBITDA, as reported	**1,614**	**10,258**	**13,440**	**3,978**	**7,160**
EBITDA %, as reported	***10.8%***	***19.3%***	***18.5%***	***30.3%***	***21.9%***
Due diligence adjustments					
1. Recipe evolution and new innovations	-	646	1,348	29	731
2. Stock-based compensation	60	906	945	73	113
3. One-time new product costs	-	-	166	-	166
4. One-time marketing initiatives	-	370	610	-	240
a. Consumer demographic study	-	-	240	-	240
b. Customer 13 program	-	202	202	-	-
c. Custom sampling box	-	82	82	-	-
d. Brand strategy development	-	87	87	-	-
5. Transaction expenses	-	-	257	-	257
6. Nonrecurring other (income) expenses	33	8	(36)	(53)	(97)
7. Capitalizable trade show booth	-	74	99	31	56
8. FOB destination terms	-	-	90	(389)	(299)
9. Bad debt normalization	85	(51)	61	(50)	62
Total due diligence adjustments	**177**	**1,954**	**3,540**	**(358)**	**1,228**
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**	**3,620**	**8,387**
Adjusted EBITDA %	***12.0%***	***23.0%***	***23.3%***	***29.3%***	***26.2%***
Pro forma adjustments					
10. New co-man arrangement	183	1,363	1,995	311	944
Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**	**3,931**	**9,331**
Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***

5. Transaction Expenses

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Third-party contractors	-	-	144	-	144
Professional fees	-	-	108	-	108
Travel and other	-	-	5	-	5
EBITDA adjustment	**-**	**-**	**257**	**-**	**257**

Quality of Earnings Adjustments (continued)

Due Diligence Adjustments (continued)

4. **One-time marketing initiatives:** As previously discussed, the Company executed certain marketing initiatives that are one time in nature. Amounts were agreed to third-party vendor invoices and traced to the general ledger.

   a. **Consumer demographic study:** This adjustment represents an addback for one-time consumer demographic study performed by Vendor 11. Management indicated that this study did not result in incremental sales or changes in strategy, and it does not expect to conduct another study in the foreseeable future. These expenses were traced to third-party vendor invoices and general ledger detail.

   b. **Customer 13 program:** At the onset of its partnership with Customer 13 in Q3'19, the Company engaged a third-party marketing firm to execute a significant in-store marketing program across Customer 13's more than 1,000 stores. This adjustment represents expenses incurred with the Company's vendor, Vendor 12, related to Customer 13's marketing program. Management represented that this program was unique to Customer 13 to facilitate its national launch. The Company has not performed any similar marketing programs with other new retailers during the Historical Period but, rather, has continued to make investments in building out its internal Marketing department coupled with developing its trade spend program offerings with new customers. As a result, management expects this one-time marketing launch will not reoccur in the foreseeable future. These expenses were traced to third-party documentation and general ledger detail.

   c. **Custom sampling box:** This adjustment adds back one-time consulting fees incurred with Vendor 13 related to the development of a custom litho printed box used to distribute to the Company's influencers. Management indicated this type of marketing initiative is not expected to reoccur in the near term. These expenses were traced to third-party vendor invoices and general ledger detail.

   d. **Brand strategy development:** This adjustment represents an addback for nonrecurring brand strategy development costs incurred with Vendor 14. Management indicated that the expenses were related to one-time investment to develop the Company's brand awareness strategy and are not expected to recur in the foreseeable future. These expenses were traced to third-party vendor invoices and general ledger detail.

5. **Transaction expenses:** The Company incurred one-time advisor fees and other professional fees in relation to the ongoing transaction as summarized in the schedule at bottom left. These expenses were traced to third-party documentation and general ledger detail.

QUALITY OF EARNINGS (ADJUSTMENTS)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
Due diligence adjustments					
8. FOB destination terms	-	-	81	(784)	(704)
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4. One-time marketing initiatives	-	370	610	-	240
5. Transaction expenses	-	-	257	-	257
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Total due diligence adjustments	**177**	**1,954**	**3,540**	**(358)**	**1,228**
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**	**3,620**	**8,387**
Adjusted EBITDA %	***12.0%***	***23.0%***	***23.3%***	***29.3%***	***26.2%***
Pro forma adjustments					
10. New co-man arrangement	183	1,363	1,995	311	944
Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**	**3,931**	**9,331**
Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***

Quality of Earnings Adjustments (continued)

Due Diligence Adjustments (continued)

6. **Nonrecurring other (income) expenses:** This adjustment reverses the impact of nonrecurring other expenses and income as summarized in the schedule below.

6. Nonrecurring Other (Income) Expenses

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
i. Realized (gain)/loss	4	6	(270)	(7)	(283)
ii. (Gain)/loss on disposal	-	61	61	-	-
iii. Unrealized (gain)/loss	35	(42)	174	(31)	185
iv. Other income	(6)	(16)	(1)	(15)	0
EBITDA adjustment	**33**	**8**	**(36)**	**(53)**	**(97)**

i. **Realized (gain)/loss:** This represents the Company's realized transaction gains/losses resulting from foreign currency fluctuations (CAD to USD).

ii. **(Gain)/loss on disposal:** This represents noncash losses related to a virtual character (intangible asset) purchased in 2018 for the purposes of customer engagement on social media platforms, which was never utilized as intended and subsequently written off. This amount was agreed to the FY19 audited financial statements.

iii. **Unrealized (gain)/loss:** This represents the Company's unrealized transaction gains/losses resulting from foreign currency fluctuations (CAD to USD).

iv. **Other income:** This represents an addback for a grant received by the Founder that is nonoperational in nature.

7. **Capitalizable trade show booth:** The Company hired third-party vendors to design and manufacture custom trade show booths, which management indicated as expenses that could have been capitalized. As a result of COVID-19, the Company canceled all trade show appearances and has been unable to utilize these assets. We traced the amounts to itemized vendor invoices, which excluded storage, setup fees, and other ancillary charges.

QUALITY OF EARNINGS (ADJUSTMENTS)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
Due diligence adjustments					
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Adjusted EBITDA %	***12.0%***	***23.0%***	***23.3%***	***29.3%***	***26.2%***
Pro forma adjustments					
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Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**	**3,931**	**9,331**
Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***

9. Bad Debt Normalization

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	14,983	53,144	72,702	13,124	32,683
Bad debt write-offs	67	27	48	(13)	8
Write-off experience rate	*0.4%*	*0.1%*	*0.1%*	*-0.1%*	*0.0%*
Avg. write-off experience - Historical Period	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
Normalized bad debt expense	15	54	74	13	33
Bad debt expense, as reported	100	3	135	(37)	95
EBITDA adjustment	**85**	**(51)**	**61**	**(50)**	**62**

Quality of Earnings Adjustments (continued)

Due Diligence Adjustments (continued)

8. **FOB destination terms:** The Company recognizes revenue upon shipment, including those customers with FOB destination terms. This adjustment reflects the estimated earnings impact of sales to customers with FOB destination terms at April 30, 2019 and April 30, 2020. For products shipped within the last two weeks of year-end, the Company corrects for sales orders shipped under FOB destination terms based on the delivery confirmation received subsequent to year-end as part of the annual close process. As such, no adjustment is required for FY18 and FY19. A detailed calculation is presented in the schedule below.

8a. FOB Destination Net Sales Impact

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
L7D net sales Apr-19[1]	-	-	784	(784)	-
L7D net sales Apr-20[1]	-	-	(704)	-	(704)
Net sales adjustment	**-**	**-**	**81**	**(784)**	**(704)**

1. Net sales is calculated based on total gross sales less Customers 2, 4, 5, 7, 8, 11, 16, and 17 sales, which are on FOB shipping terms, and the monthly trade spend %.

8b. FOB Destination Gross Margin Impact

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
L7D gross margin Apr-19[1]	-	-	389	(389)	-
L7D gross margin Apr-20[1]	-	-	(299)	-	(299)
EBITDA adjustment	**-**	**-**	**90**	**(389)**	**(299)**

1. Gross margin is calculated based on total gross sales less Customers 2, 4, 5, 7, 8, 11, 16, and 17 sales, which are on FOB shipping terms, and the monthly gross margin.

9. **Bad debt normalization:** The Company records allowance for doubtful accounts on a customer-by-customer basis. Aged customer receivables that are outstanding after reasonable collection efforts taken by management are written off against the allowance for doubtful accounts or directly as bad debt expense. This adjustment represents the normalization of bad debt expense based on historical total write-offs as a percentage of net sales. The Company's write-off experience in the Historical Period approximated 0.1%. A detailed calculation is presented in the scheduled at bottom left.

QUALITY OF EARNINGS (PRO FORMA ADJUSTMENTS)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
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EBITDA %, as reported	***10.8%***	***19.3%***	***18.5%***	***30.3%***	***21.9%***
Total due diligence adjustments	**177**	**1,954**	**3,540**	**(358)**	**1,228**
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**	**3,620**	**8,387**
Adjusted EBITDA %	***12.0%***	***23.0%***	***23.3%***	***29.3%***	***26.2%***
Pro forma adjustments					
10. New co-man arrangement	183	1,363	1,995	311	944
a. Production savings	183	1,363	1,995	311	944
b. Freight and custom savings	+NQ	+NQ	+NQ	+NQ	+NQ
Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**	**3,931**	**9,331**
Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***

Pro Forma Adjustments

The following analysis represents estimates for pro forma EBITDA from run-rate cost savings applied to the Historical Period. The commentary herein details our analysis of the adjustments, which are subject to customary execution and market risks that will drive differences between estimated and actual results.

These adjustments are based on financial information provided by management. We obtained these estimates of expected savings and analyzed them to the extent possible. Our procedures included agreeing financial information to trial balances or applicable financial information, and we have outlined our due diligence procedures below.

10. New co-man arrangement: The Company has historically purchased all finished goods from Manufacturer 1, its current co-man. In 2020, management decided on switching the majority of Canada sales and consumption to a new Canada co-man. This new Canada co-man would produce all Canadian hard candy, toffee, and cinnamon candy, which are most of the products sold in the Canadian market. A summary of this transition is outlined below:

The Company finalized contract negotiations with the new co-man based in Canada in Jun-20. Management expects to fully transition Canadian hard candy, toffee and cinnamon candy production to the new co-man by the latter half of FY20-e.

– As part of this transition, we understand, the Company has agreed to backfill Manufacturer 1's lost Canada production volume with incremental U.S. volume on existing products, specifically committed to a minimum production volume of 5.5 million pounds for 2021 and 2022. Management believes this minimum production volume commitment will be achievable, if not exceeded, based on the Company's current production level of 7.5 million pounds and along with its experienced growth trajectory. Furthermore, management does not expect pricing for other product categories to change.

Pro Forma Adjustments (continued)

10a. Production savings: The earnings impact from the shift from the current to new co-man of approximately $2.0 million in product cost savings for LTM Apr-20 was estimated on a 30% cost reduction, which was based on per-unit SKU pricing included in the new co-man agreement. A detailed calculation of this product savings adjustment is shown below.

10a. Production savings

US$ in thousands	Cost Per Unit	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20	Ref
Canada product cost[1]	**Current**						
Hard candy	$11.89	332	2,283	3,489	611	1,819	
Toffee	$12.95	-	958	1,780	-	820	
Cinnamon candy	$12.67	320	1,431	1,502	475	550	
Total Canada product cost		**652**	**4,672**	**6,771**	**1,086**	**3,188**	A
Product cost savings %[2]	**Quoted**						
Hard candy	$8.52	*28.3%*	*28.3%*	*28.3%*	*28.3%*	*28.3%*	
Toffee	$8.83	*31.8%*	*31.8%*	*31.8%*	*31.8%*	*31.8%*	
Cinnamon candy	$8.91	*29.7%*	*29.7%*	*29.7%*	*29.7%*	*29.7%*	
Total product cost savings %		***30.0%***	***30.0%***	***30.0%***	***30.0%***	***30.0%***	B
Estimated product cost savings							
Hard candy		91	641	989	172	520	
Toffee		-	302	563	-	261	
Cinnamon candy		92	420	444	140	163	
Total estimated product cost savings		**183**	**1,363**	**1,995**	**311**	**944**	= A*B

1. These amounts represent product costs for actual Canada sales generated during the Historical Period.

2. Cost savings are based on the difference between the current co-man's current price per unit and the new co-man's quoted price per unit (i.e., carton: 12 pouches x 1.8 oz) based on trial production runs completed.

10b. Freight and custom savings: There will likely be further cost savings with the new co-man on freight and customs as the production and shipping of the Canadian hard candy, toffee, and cinnamon candy products are Canada-based as opposed to the current setting of the production and shipments into Canada occurring from the U.S. Management has not fully determined the exact impact on the savings but, at a high level, is expecting a 5% to 10% cost reduction in Canada freight, which approximated $1.0 million in LTM Apr-20. Consequently, we have not included a savings estimate, as we were not provided with detailed calculations in support.

QUALITY OF EARNINGS (OTHER EBITDA CONSIDERATIONS)

Quality of Earnings

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Net sales, as reported	**14,983**	**53,144**	**72,702**	**13,124**	**32,683**
Due diligence adjustments					
8. FOB destination terms	-	-	81	(784)	(704)
Adjusted net sales	**14,983**	**53,144**	**72,783**	**12,340**	**31,980**
EBITDA, as reported	**1,614**	**10,258**	**13,440**	**3,978**	**7,160**
EBITDA %, as reported	***10.8%***	***19.3%***	***18.5%***	***30.3%***	***21.9%***
Due diligence adjustments					
1. Recipe evolution and new innovations	-	646	1,348	29	731
2. Stock-based compensation	60	906	945	73	113
3. One-time new product costs	-	-	166	-	166
4. One-time marketing initiatives	-	370	610	-	240
5. Transaction expenses	-	-	257	-	257
6. Nonrecurring other (income) expenses	33	8	(36)	(53)	(97)
7. Capitalizable trade show booth	-	74	99	31	56
8. FOB destination terms	-	-	90	(389)	(299)
9. Bad debt normalization	85	(51)	61	(50)	62
Total due diligence adjustments	**177**	**1,954**	**3,540**	**(358)**	**1,228**
Adjusted EBITDA +/- NQ	**1,791**	**12,212**	**16,980**	**3,620**	**8,387**
Adjusted EBITDA %	***12.0%***	***23.0%***	***23.3%***	***29.3%***	***26.2%***
Pro forma adjustments					
10. New co-man arrangement	183	1,363	1,995	311	944
Pro forma EBITDA +/- NQ	**1,975**	**13,575**	**18,975**	**3,931**	**9,331**
Pro forma EBITDA %	***13.2%***	***25.5%***	***26.1%***	***31.9%***	***29.2%***
Other EBITDA considerations					
1. New product trial run fees	-	-	198	-	198
2. Consumer events	-	36	36	-	-
3. COVID-19			NQ		NQ

Other EBITDA Considerations

1. **New product trial run fees:** We highlight that as the Company continues to innovate new products, R&D spend in trial run fees may be required to support new product development efforts. Historically, the Company's current co-man has not consistently charged the Company for trial run fees. Trial run fees for new products, net of co-man reimbursement, approximated $0, $0, and $198 in FY18, FY19, and LTM Apr-20, respectively, as summarized in the schedule below. Note that to the extent that new products move into production, the Company anticipates its co-man to reimburse the Company for these trial run fees. *See Due Diligence Adjustment No. 3c for the related due diligence adjustment.*

Summary of New Product Trial Run Fees

US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
6382 - R&D - trial fees	-	-	563	-	563
6390 - R&D - product development expenses	-	110	80	29	-
Total trial run fees, as reported	**-**	**110**	**643**	**29**	**563**
Less: recipe evolution trial fees DD Adj. 1 b	-	(110)	(557)	(29)	(477)
Less: out-of-period credit DD Adj. 1c in Mar-20	-	-	129	-	129
Less: reimbursement for new product fees DD Adj. 3c	-	-	(16)	-	(16)
New product trial run fees, net	**-**	**-**	**198**	**-**	**198**

2. **Consumer events:** This represents expenses related to a booth and event sponsorship fees incurred by Vendor 15. Management represented that this marketing spend had minimal impact to the Company's sales growth. Also, due to the impact of COVID-19, the Company intends to participate in fewer consumer events in the near future. These expenses were traced to third-party documentation and general ledger detail.

3. **COVID-19:** As previously discussed, the Company experienced heightened sales levels during Mar-20. While the gross sales exceeded the Company's budget for this period, management represented the sales levels were in line with short-term and year-over-year business growth trends. We understand management has incorporated the impact from COVID-19 to sales within its revised forecast for FY20-e.

PRO FORMA INCOME STATEMENT BRIDGE

Pro Forma Income Statement

US$ in thousands	Reported FY18	Reported FY19	Reported LTM Apr-20	Diligence Adjustments FY18	Diligence Adjustments FY19	Diligence Adjustments LTM Apr-20	Adjusted FY18	Adjusted FY19	Adjusted LTM Apr-20	Pro Forma Adjustments FY18	Pro Forma Adjustments FY19	Pro Forma Adjustments LTM Apr-20	Pro Forma FY18	Pro Forma FY19	Pro Forma LTM Apr-20
Gross sales	17,171	64,673	88,640	-	-	65	17,171	64,673	88,705	-	-	-	17,171	64,673	88,705
Trade spend	(2,189)	(11,529)	(15,937)	-	-	16	(2,189)	(11,529)	(15,922)	-	-	-	(2,189)	(11,529)	(15,922)
Total sales	**14,983**	**53,144**	**72,702**	**-**	**-**	**81**	**14,983**	**53,144**	**72,783**	**-**	**-**	**-**	**14,983**	**53,144**	**72,783**
Product cost	6,790	24,783	34,063	-	-	(9)	6,790	24,783	34,053	(183)	(1,363)	(1,995)	6,606	23,420	32,058
Logistics	1,928	4,054	5,625	-	-	-	1,928	4,054	5,625	-	-	-	1,928	4,054	5,625
Inventory adjustments and write-offs	187	636	1,088	-	(537)	(1,000)	187	99	88	-	-	-	187	99	88
Other cost of goods sold	1	4	16	-	-	-	1	4	16	-	-	-	1	4	16
Total cost of goods sold	**8,907**	**29,477**	**40,792**	**-**	**(537)**	**(1,009)**	**8,907**	**28,940**	**39,783**	**(183)**	**(1,363)**	**(1,995)**	**8,723**	**27,577**	**37,787**
Gross profit	**6,076**	**23,667**	**31,910**	**-**	**537**	**1,090**	**6,076**	**24,203**	**33,000**	**183**	**1,363**	**1,995**	**6,259**	**25,567**	**34,996**
Gross profit %	***40.6%***	***44.5%***	***43.9%***				***40.6%***	***45.5%***	***45.3%***				***41.8%***	***48.1%***	***48.1%***
Marketing	1,636	5,561	7,586	-	(370)	(610)	1,636	5,191	6,976	-	-	-	1,636	5,191	6,976
Selling	920	3,357	4,488	-	(74)	(99)	920	3,283	4,389	-	-	-	920	3,283	4,389
Finance/administrative	1,160	3,101	3,805	(144)	(855)	(1,006)	1,016	2,247	2,799	-	-	-	1,016	2,247	2,799
Research and development	317	448	1,176	-	(110)	(514)	317	339	662	-	-	-	317	339	662
Operations	395	889	931	-	-	-	395	889	931	-	-	-	395	889	931
Executive	-	55	512	-	-	(257)	-	55	255	-	-	-	-	55	255
Squad and culture	-	-	10	-	-	-	-	-	10	-	-	-	-	-	10
Total operating expenses	**4,429**	**13,412**	**18,507**	**(144)**	**(1,409)**	**(2,486)**	**4,284**	**12,003**	**16,020**	**-**	**-**	**-**	**4,284**	**12,003**	**16,020**
Net operating income	**1,647**	**10,254**	**13,403**	**144**	**1,946**	**3,576**	**1,792**	**12,200**	**16,980**	**183**	**1,363**	**1,995**	**1,975**	**13,563**	**18,975**
Operating income %	***11.0%***	***19.3%***	***18.4%***				***12.0%***	***23.0%***	***23.3%***				***13.2%***	***25.5%***	***26.1%***
Other (income) expense															
Other expenses	457	3,073	4,256	(39)	(24)	36	418	3,049	4,292	-	-	-	418	3,049	4,292
Other income	(25)	(76)	(65)	6	16	1	(19)	(60)	(64)	-	-	-	(19)	(60)	(64)
Net income	**1,216**	**7,258**	**9,213**	**177**	**1,954**	**3,540**	**1,393**	**9,212**	**12,753**	**183**	**1,363**	**1,995**	**1,577**	**10,575**	**14,748**
Net income %	***8.1%***	***13.7%***	***12.7%***				***9.3%***	***17.3%***	***17.5%***				***10.5%***	***19.9%***	***20.3%***
EBITDA															
Net income	1,216	7,258	9,213	177	1,954	3,540	1,393	9,212	12,753	183	1,363	1,995	1,577	10,575	14,748
Income tax expense	339	2,920	4,130	-	-	-	339	2,920	4,130	-	-	-	339	2,920	4,130
Interest expense, net	55	71	85	-	-	-	55	71	85	-	-	-	55	71	85
Depreciation and amortization	4	9	12	-	-	-	4	9	12	-	-	-	4	9	12
EBITDA	**1,614**	**10,258**	**13,440**	**177**	**1,954**	**3,540**	**1,791**	**12,212**	**16,980**	**183**	**1,363**	**1,995**	**1,975**	**13,575**	**18,975**
EBITDA %	***10.8%***	***19.3%***	***18.5%***				***12.0%***	***23.0%***	***23.3%***				***13.2%***	***25.5%***	***26.1%***

SUMMARY FINANCIALS

ACCOUNTING AND FINANCIAL REPORTING CONSIDERATIONS

Sales Recognition

- The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collection is reasonably assured. Note that the majority of the Company's customer terms are on FOB destination, but revenue has consistently been recognized upon FOB shipment. At year-end, the Company records entries to correct revenue recognition for customers on FOB destination terms. *Refer to the Quality of Earnings section.*
- The Company records revenue net of trade spend, which represents discounts, incentives, returns, and other promotions. Trade spend is accrued at month-end based on gross sales generated in that period, and the outlook of planned promotions for major customers based on prior experience.

Financial Statement Close Process/Accounting Team

- NetSuite is currently utilized as the accounting and ERP software. The accounting and finance function is overseen by the VP of Finance, who is supported by an Assistant Controller, Accounting Manager, as well as other staff.
- The monthly accounting close process takes approximately 14 – 21 days. The Company performs a hard close on a monthly basis. At year-end, management performs a robust closing process in preparation for the financial statements audit.

Inventory

- Inventory includes finished goods, packaging, and certain promotional materials. Inventory is recorded using the average costing method and is valued at the lower of cost and net realizable value.
- The Company performed a physical inventory count in Dec-19 at the Ontario and Tennessee 3PL facilities. Cycle counts are performed by the 3PLs throughout the year.
- Management performs a regular review of inventory for the need of any excess and obsolete reserves; however, it has not been deemed necessary to date. The Company's products have a "best before date" period of one year, and the Company has consistently sold through units produced within the year. *Refer to the Exhibits section for further details.*

Foreign Exchange

- The Company transacts with customers and vendors in Canada. Transactions denominated in CAD are converted to USD in NetSuite using a daily spot rate.
- Management indicated the impact from foreign currency exposure is limited as approximately 70% of sales occur in USD.
- In YTD Apr-20, the Company realized $283 thousand in transaction gains/losses attributed to FX fluctuation between USD/CAD, which was primarily due to fluctuations in Mar-20 and Apr-20 as a result of COVID-19. *Refer to the Quality of Earnings section for the related FX adjustments.*

Bonuses and Commissions

- The Company pays bonuses based on sales and EBITDA targets, as well as an employee's individual performance. Bonus targets range from 0% to 50% of an employee's gross salary, with an average bonus target of 14%. The bonus expense is accrued throughout the year. At year-end, the Company trues up or down bonus amounts based on the expected bonus payout. Bonuses are paid in either April or May in the subsequent year.
- The Company does not pay commissions to employees; however, commissions are paid monthly to outside brokers based on gross sales.

Payroll and Vacation

- Payroll is processed by Payment Evolution in Canada and Paychex in the U.S., which are third-party payroll providers. Payroll is paid bi-weekly, one week in arrears. Any unpaid payroll at month-end is accrued.
- The Company changed its vacation policy as of March 1, 2020, from a minimum of 10 to 15 vacation days per year. Employees receive 15 to 25 vacation days per year.
- Employees have the ability to carry forward up to five unused vacation days at year-end, and unused vacation is paid out upon termination of employment.

INCOME STATEMENT OVERVIEW

Income Statement

US$ in thousands	(Reviewed) FY18	(Audited) FY19	(Internal) LTM Apr-20	Inc / (Dec) FY18 to FY19	Inc / (Dec) FY19 to LTM Apr-20
Gross sales	17,171	64,673	88,640	47,501	23,967
Trade spend	(2,189)	(11,529)	(15,937)	(9,340)	(4,408)
Net sales	14,983	53,144	72,702	38,161	19,559
% increase		***254.7%***	***36.8%***		
Product cost	6,790	24,783	34,063	17,993	9,280
Logistics	1,928	4,054	5,625	2,125	1,572
Inventory adjustments and write-offs	37	77	398	40	321
Other cost of goods sold	1	4	16	3	11
Cost of goods sold	8,756	28,918	40,101	20,161	11,183
Gross profit	6,226	24,226	32,601	17,999	8,375
Gross profit %	***41.6%***	***45.6%***	***44.8%***		
Operating expenses					
Marketing	1,636	5,561	7,586	3,926	2,025
Selling	920	3,357	4,488	2,436	1,131
Finance/administrative	1,160	3,101	3,805	1,941	704
Research and development	317	448	1,176	131	727
Operations	395	889	931	494	41
Executive	-	55	512	55	457
Squad and culture	-	-	10	-	10
Total operating expenses	4,429	13,412	18,507	8,983	5,095
Net operating income	1,797	10,814	14,094	9,016	3,281
Operating income %	***12.0%***	***20.3%***	***19.4%***		
Other (income) expense					
Other expenses	607	3,632	4,947	3,025	1,315
Other income	(25)	(76)	(65)	(51)	11
Net income	**1,216**	**7,258**	**9,213**	**6,042**	**1,955**
Net income %	***8.1%***	***13.7%***	***12.7%***		
EBITDA					
Net income	1,216	7,258	9,213	6,042	1,955
Income tax expense	339	2,920	4,130	2,581	1,210
Interest expense, net	55	71	85	16	14
Depreciation and amortization	4	9	12	5	3
Reported EBITDA	**1,614**	**10,258**	**13,440**	**8,644**	**3,182**
Reported EBITDA %	***10.8%***	***19.3%***	***18.5%***		

Commentary

- **Net sales:** The increase in net sales of $57.7 million, or 385.2%, from FY18 to LTM Apr-20 is primarily attributable to velocity gains, new product launches, and new retailer and distributor relationships, including Customer 10 in Feb-19, Customer 13 in Aug-19, Customer 7 in Sep-19, and Customer 12 in Feb-20. *Refer to the Net Sales and Gross Margin by Customer for further discussion.*
- **Gross profit percentages:** The increase in gross profit from 41.6% to 44.8% from FY18 to LTM Apr-20 was primarily driven by a reduction in logistics costs (i.e., freight and warehouse costs) from 12.9% of net sales in FY18 to 7.7% of net sales in LTM Apr-20. Management indicated that the decrease in logistics costs as a percentage of net sales was due to more favorable terms and efficient shipping (i.e., full truck loads) with Vendor 2, the Company's 3PL. The Company began utilizing Vendor 2 at the second U.S. location in Jan-20, which further reduced costs. In Mar-20, the Company wrote off unsaleable inventory resulting from its recipe evolution initiative. *Refer to the Quality of Earnings section for further discussion and related adjustments. Refer to the Exhibits section for further commentary on gross margin by product category*.
- **Operating expenses:** Operating expenses primarily consist of salaries and benefits for the Administrative department, advertising and promotions, free product giveaways, broker fees, and various other administrative expenses. Note that the Executive and Squad and Culture departments' expenses were previously recorded within finance/administrative. Further, transaction expenses were recorded within the Executive department in LTM Apr-20. *Refer to the Quality of Earnings section for further discussion and the related adjustments and the Exhibits section for further commentary.*
- **Other expenses:** Other expenses primarily consist of income taxes, inventory write-downs, interest expense, losses on the disposal of assets, and amortization. The majority of these items are added back to adjusted EBITDA. *Refer to the Quality of Earnings section for further discussion and the related adjustments*.
- **Other income:** Other income primarily consists of interest income, which is removed from adjusted EBITDA. *Refer to the Quality of Earnings section for further discussion and the related adjustments.*

BALANCE SHEET OVERVIEW

Balance Sheet

US$ in thousands	(Reviewed) 12/31/18	(Audited) 12/31/19	(Internal) 4/30/19	(Internal) 4/30/20
Cash	3,758	8,943	6,618	9,866
Accounts receivable, net	3,046	7,645	4,256	11,313
Prepaids	37	71	94	(225)
Inventory	2,677	11,074	2,215	9,510
Total current assets	**9,518**	**27,732**	**13,182**	**30,464**
Equipment, net	16	40	28	40
Intangible assets - capitalized software costs	60	-	60	-
Total assets	**9,594**	**27,772**	**13,270**	**30,503**
Bank indebtedness	2,424	4,021	92	1,431
Accounts payable and accrued liabilities	1,792	6,420	2,084	7,691
Government remittances payable	245	90	306	265
Income tax payable	339	2,104	(180)	(107)
Demand loan	32	0	0	0
Total current liabilities	**4,832**	**12,635**	**2,302**	**9,280**
Stockholders' equity	4,761	15,137	10,968	21,223
Total liabilities and equity	**9,594**	**27,772**	**13,270**	**30,503**

Commentary

- **Cash:** The Company maintains its operating and savings accounts with RBC Bank, TD Bank, and Amegy. Cash is reconciled and reviewed on a monthly basis, with cash presented net of outstanding checks.
- **Accounts receivable, net:** The Company offers general payment terms of net 30 days, but extends payment terms to 60 days for certain large customers, such as Customer 2. Management indicated that payment terms are negotiated on a customer-by-customer basis. As of April 30, 2020, 98% of accounts receivables were aged less than 90 days and the Company maintained an allowance for doubtful accounts of $94 thousand. Management represented that the Company has not historically experienced collectability issues from customers, and has recorded minimal bad debt write-offs. *Refer to the Exhibits section for an accounts receivable aging schedule.*
- **Prepaids:** This account primarily consists of prepaid income tax installments, trade show costs, and rent. As a response to COVID-19, the Canadian government delayed the collection of tax withholdings, resulting in a $330 thousand credit balance in prepaid income tax installments as of April 30, 2020. The credit balance is offset by a $330 thousand debit balance in cash. The withholding is expected to be paid in Jun-20. *Refer to the Exhibits section for details on prepaid expenses.*
- **Inventory:** Inventory primarily consists of finished goods, inventory in transit, and certain promotional materials. Inventory cost is determined by the average cost method and includes product costs, net of vendor allowances, freight, and any other direct costs to bring the inventories to their present location and condition. The Company maintained an average of approximately two months of inventory on hand during LTM Apr-20. Management indicated that the increased inventory at Dec-19 was due to maintaining sufficient inventory on hand in anticipation of new customer orders of acquired national accounts, including Customer 13 (Aug-19) and Customer 7 (Sep-19). Historically, the Company has not recorded a reserve for excess and obsolete inventory, which is supported by the following: (i) management's tightly managed “best before date” stock levels; (ii) high inventory turns of approximately 6x per year; (iii) minimal inventory write-downs, excluding the impact of the recipe evolution; and (iv) lack of liquidation sales history.
- **Equipment, net:** *Refer to the Exhibits section for a fixed asset rollforward.*
- **Intangible assets – capitalized software costs:** The Company’s intangible assets relate to a virtual character purchased in 2018 for the purpose of customer engagement on social media platforms, which was never utilized as intended and subsequently written off in Sep-19. *Refer to the Quality of Earnings section for further discussion of the one-time write-off.*

BALANCE SHEET OVERVIEW

Balance Sheet

US$ in thousands	(Reviewed) 12/31/18	(Audited) 12/31/19	(Internal) 4/30/19	(Internal) 4/30/20
Cash	3,758	8,943	6,618	9,866
Accounts receivable, net	3,046	7,645	4,256	11,313
Prepaids	37	71	94	(225)
Inventory	2,677	11,074	2,215	9,510
Total current assets	**9,518**	**27,732**	**13,182**	**30,464**
Equipment, net	16	40	28	40
Intangible assets - capitalized software costs	60	-	60	-
Total assets	**9,594**	**27,772**	**13,270**	**30,503**
Bank indebtedness	2,424	4,021	92	1,431
Accounts payable and accrued liabilities	1,792	6,420	2,084	7,691
Government remittances payable	245	90	306	265
Income tax payable	339	2,104	(180)	(107)
Demand loan	32	0	0	0
Total current liabilities	**4,832**	**12,635**	**2,302**	**9,280**
Stockholders' equity	4,761	15,137	10,968	21,223
Total liabilities and equity	**9,594**	**27,772**	**13,270**	**30,503**

Commentary (continued)

- **Bank indebtedness:** The Company maintains an $11 million revolving line of credit with TD Bank. As of April 30, 2020, the line of credit balance was $1.4 million. The Company pays interest at the prime rate in the U.S. and Canada, depending on the currency of the advance, plus 0.5%; interest is accounted for on a cash basis.
- **Accounts payable and accrued liabilities:** The Company engages in annual purchase contract negotiations with its major suppliers, and management indicated that the Company receives net 30-day terms from the majority of its vendors. As of April 30, 2020, 98.6% of accounts payable was aged less than 90 days. Management represented that the increase in accounts payable at April 30, 2020, was due to increased purchases of inventory to meet customer demand. Accrued liabilities primarily consist of accrued payroll and benefits. *Refer to the Exhibits section for an accounts payable aging schedule.*
- **Government remittances payable:** The balance represents Canadian GST taxes.
- **Income tax payable:** The Company records income tax payable on an annual basis, but records withholdings monthly, resulting in a debit balance in income taxes payable as of April 30, 2020.
- **Demand loan:** This represents loans to the Company through various organizations that were repaid in Feb-19.
- **Stockholders' equity:** *Refer to the Exhibits section for a rollforward of stockholders' equity.*

EXHIBITS

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INTERNAL-TO-REVIEW/AUDIT INCOME STATEMENT RECONCILIATION

Internal-to-Review/Audit Income Statement Reconciliation

US$ in thousands	(Internal) FY18	(Internal) FY19	Adjustments/ Reclassifications FY18	Adjustments/ Reclassifications FY19	(Reviewed) FY18	(Audit) FY19
Gross sales	17,171	64,673	0	(0)	17,171	64,673
Discounts and trade deductions	(2,189)	(11,529)	(0)	0	(2,189)	(11,529)
Net sales	14,983	53,144	(0)	(0)	14,983	53,144
Product costs	6,790	24,783	730	165	7,519	24,948
Shipping and distribution	-	-	1,387	3,970	1,387	3,970
Logistics	1,928	4,054	(1,928)	(4,054)	-	-
Inventory adjustments and write-offs	37	77	(37)	(77)	-	-
Other cost of goods sold	1	4	(1)	(4)	-	-
Cost of goods sold	8,756	28,918	150	(0)	8,907	28,918
Gross profit	6,226	24,226	(150)	0	6,076	24,226
Gross profit %	***41.6%***	***45.6%***			***40.6%***	***45.6%***
Selling, general and administrative expense	4,429	13,412	(59)	(920)	4,370	12,492
Net operating income	1,797	10,814	(91)	920	1,706	11,734
Operating income %	***12.0%***	***20.3%***			***11.4%***	***22.1%***
Other (income) expense						
Stock-based compensation expense	-	-	60	906	60	906
Write-off on inventory	150	559	(150)	(0)	-	559
Interest expense	74	119	0	0	74	119
Loss on disposal of assets	-	61	-	0	-	61
Interest income	(19)	(48)	0	(0)	(19)	(48)
Foreign exchange gain (loss)	39	(37)	0	0	39	(37)
Other income	(6)	(16)	(1)	3	(7)	(13)
Amortization	4	9	0	0	4	9
Samples income	-	(12)	-	12	-	-
Income tax expense	339	2,920	(180)	-	159	2,920
Net income	**1,216**	**7,258**	**180**	**(0)**	**1,396**	**7,258**
Net income %	***8.1%***	***13.7%***			***9.3%***	***13.7%***
EBITDA						
Net income	1,216	7,258	180	(0)	1,396	7,258
Income tax expense	339	2,920	(180)	-	159	2,920
Interest expense, net	55	71	0	(0)	55	71
Depreciation and amortization	4	9	0	0	4	9
Reported EBITDA	**1,614**	**10,258**	**(0)**	**(0)**	**1,614**	**10,258**
Reported EBITDA %	***10.8%***	***19.3%***			***10.8%***	***19.3%***

Refer to the Rollforward of Stockholders' Equity exhibit for further discussion.

PRICE/VOLUME BY TOP PRODUCT SKU

Price/Volume by Top Product SKU

		Avg. Price Per Unit (Actual)			Volume (000's)			Gross Sales (000's)			FY19 Sales Inc (Dec)			LTM Apr-20 Sales Inc (Dec)		
US$ in thousands	Country	FY18	FY19	LTM Apr-20	FY18	FY19	LTM Apr-20	FY18	FY19	LTM Apr-20	Price	Volume	Total	Price	Volume	Total
Hard candy U.S. (12X1.8oz)	U.S.	30.75	31.27	31.20	50	459	658	1,529	14,344	20,519	237	12,578	12,814	(48)	6,223	6,175
Candy-coated chocolates U.S. (12X1.8oz)	U.S.	30.22	31.05	31.48	95	274	347	2,885	8,518	10,913	229	5,405	5,633	148	2,247	2,395
Toffee U.S. (12X1.8oz)	U.S.	-	31.32	31.58	-	195	335	-	6,114	10,571	-	6,114	6,114	89	4,368	4,457
Cinnamon candy U.S. (12X1.8oz)	U.S.	30.24	30.91	30.94	37	224	295	1,128	6,928	9,125	152	5,648	5,800	9	2,187	2,196
Hard candy CA (12X50g)	Canada	29.09	29.57	29.69	30	196	236	864	5,787	7,007	94	4,829	4,923	29	1,191	1,220
Chocolate chews U.S. (12X1.8oz)	U.S.	29.88	30.54	30.73	76	149	167	2,257	4,561	5,142	98	2,206	2,304	33	548	581
Toffee CA (12X50g)	Canada	-	28.36	29.04	-	82	150	-	2,327	4,369	-	2,327	2,327	102	1,940	2,042
Candy-coated chocolates CA (12X50g)	Canada	28.46	29.11	29.12	77	130	145	2,197	3,799	4,220	85	1,517	1,602	1	420	421
Cinnamon candy CA (12X50g)	Canada	29.17	29.56	29.69	26	112	117	754	3,298	3,475	43	2,501	2,544	16	161	177
Chocolate chews CA (12X50g)	Canada	27.62	29.32	29.64	70	94	85	1,933	2,751	2,520	159	659	818	27	(258)	(231)
Other products (305 products)		n/a	n/a	n/a	515	1,137	1,445	3,624	6,246	10,780	(312)	2,934	2,622	(31)	4,566	4,535
Totals		**n/a**	**n/a**	**n/a**	**976**	**3,052**	**3,979**	**17,171**	**64,673**	**88,640**	**784**	**46,717**	**47,501**	**375**	**23,593**	**23,968**

Commentary

- **Average price trends:** Management indicated that pricing has largely remained consistent during the Historical Period. Changes in average price per unit are primarily driven by changes in foreign exchange rates between CAD and USD, as products are sold to the Canadian customers in CAD and converted to USD for financial reporting purposes. The Company also maintains a tiered pricing system by channel, specifically among the following: (i) direct to consumer; (ii) distributors; and (iii) e-commerce. Thus, fluctuations in sales by channel also contribute to changes in price per unit.
- **Volume trends:** The Company generated higher volume across all product SKUs during the Historical Period. *Refer to the Net Sales and Gross Margin by Customer exhibit for further discussion.*

GROSS-TO-NET SALES ADJUSTMENTS

Gross-to-Net Sales Adjustments

US$ in thousands	FY18	FY19	LTM Apr-20	Inc (Dec) FY18 to FY19	Inc (Dec) FY19 to LTM Apr-20	% of Gross Sales FY18	% of Gross Sales FY19	% of Gross Sales LTM Apr-20
Gross sales	**17,171**	**64,673**	**88,640**	**47,501**	**23,967**	***100.0%***	***100.0%***	***100.0%***
Trade spend								
BLB (billbacks)	-	(2,675)	(4,009)	(2,675)	(1,334)	*0.0%*	*-4.1%*	*-4.5%*
OIP (off-invoice promotion)	(415)	(2,688)	(3,145)	(2,272)	(458)	*-2.4%*	*-4.2%*	*-3.5%*
Program/OA/BDF	(346)	(1,754)	(2,780)	(1,408)	(1,025)	*-2.0%*	*-2.7%*	*-3.1%*
Discounts	(184)	(986)	(1,450)	(801)	(464)	*-1.1%*	*-1.5%*	*-1.6%*
ADV (advertising & display fees)	(113)	(758)	(1,321)	(644)	(564)	*-0.7%*	*-1.2%*	*-1.5%*
WA (warehouse allowance)	(65)	(480)	(753)	(414)	(273)	*-0.4%*	*-0.7%*	*-0.8%*
SLT (slotting fees)	(290)	(786)	(735)	(496)	50	*-1.7%*	*-1.2%*	*-0.8%*
UNS (unsaleable)	(57)	(335)	(514)	(279)	(179)	*-0.3%*	*-0.5%*	*-0.6%*
EDLP (everyday low price)	-	-	(423)	-	(423)	*0.0%*	*0.0%*	*-0.5%*
CPN (coupons - redemption)	-	(175)	(389)	(175)	(214)	*0.0%*	*-0.3%*	*-0.4%*
SCD (scan downs)	-	(387)	4	(387)	392	*0.0%*	*-0.6%*	*0.0%*
Manufacturer chargebacks	(565)	(118)	-	447	118	*-3.3%*	*-0.2%*	*0.0%*
Others	(153)	(388)	(422)	(235)	(34)	*-0.9%*	*-0.6%*	*-0.5%*
Total gross-to-net adjustments	**(2,189)**	**(11,529)**	**(15,937)**	**(9,340)**	**(4,408)**	***-12.7%***	***-17.8%***	***-18.0%***
Net sales	**14,983**	**53,144**	**72,702**	**38,161**	**19,559**	***87.3%***	***82.2%***	***82.0%***

Increase in trade spend as a percentage of net sales from 12.7% in FY18 to 18.0% LTM Apr-20 was attributed to customer mix as U.S. retailers are more promotional compared to Canadian retailers. Management anticipates trade spend levels to remain at approximately 17% on a go-forward basis.

Commentary

- **Trade spend:** During the Historical Period, the Company has expanded its trade spend program offerings. Management represented each sales representative is responsible for executing against the plan with their respective retailers. The annual trade spend plan is prepared by the sales team and approved by the board as part of the annual budget review. Management tracks all trade spend programs using NetSuite. Promotion allowances, including scanbacks, billbacks, everyday low price, off-invoice discount, and other allowances, are accrued at month-end based on gross sales generated in the same period. Actual invoices are typically received from customers within 14 days subsequent to month-end.
- **Slotting fees:** The Company expenses slotting fees when incurred. Historically, the Company may offer slotting trade spend to top customers (i.e., Customers 5, 6, 7, etc.).
- **Sales allowances:** The Company offers early payment discounts to certain customers, which are recorded on a cash basis.

NET SALES AND GROSS MARGIN BY CUSTOMER

Net Sales and Gross Margin by Customer

US$ in thousands	Net Sales FY19	Net Sales LTM Apr-20	Net Sales YTD Apr-19	Net Sales YTD Apr-20	Gross Profit FY19	Gross Profit LTM Apr-20	Gross Profit YTD Apr-19	Gross Profit YTD Apr-20	Gross Margin* FY19	Gross Margin* LTM Apr-20	Gross Margin* YTD Apr-19	Gross Margin* YTD Apr-20	Net Sales - % of Total FY19	Net Sales - % of Total LTM Apr-20
Customer 1	11,331	12,493	3,421	4,583	5,026	5,654	1,468	2,096	44.4%	45.3%	42.9%	45.7%	21.3%	17.2%
Customer 2	8,066	12,023	1,765	5,723	4,352	6,592	859	3,099	54.0%	54.8%	48.7%	54.2%	15.2%	16.5%
Customer 3	5,249	5,497	1,454	1,701	2,791	2,986	748	943	53.2%	54.3%	51.5%	55.4%	9.9%	7.6%
Customer 4	4,422	4,784	1,267	1,629	2,122	2,281	568	727	48.0%	47.7%	44.8%	44.7%	8.3%	6.6%
Customer 5	3,005	4,086	655	1,736	1,720	2,326	365	970	57.2%	56.9%	55.7%	55.9%	5.7%	5.6%
Customer 6	2,062	3,490	408	1,837	979	1,682	207	910	47.5%	48.2%	50.9%	49.6%	3.9%	4.8%
Customer 7	1,391	3,521	-	2,130	730	1,867	-	1,138	52.5%	53.0%	0.0%	53.4%	2.6%	4.8%
Southernsnacks.com	1,971	2,934	538	1,501	1,485	2,195	408	1,118	75.3%	74.8%	75.8%	74.5%	3.7%	4.0%
Customer 9	1,977	2,421	616	1,060	1,115	1,386	333	604	56.4%	57.3%	54.1%	57.0%	3.7%	3.3%
Customer 10	1,215	1,888	198	871	700	1,103	115	518	57.6%	58.4%	58.3%	59.5%	2.3%	2.6%
Top 10 customers	**40,689**	**53,137**	**10,321**	**22,769**	**21,020**	**28,072**	**5,072**	**12,125**	**51.7%**	**52.8%**	**49.1%**	**53.3%**	**76.6%**	**73.1%**
Unallocated costs	-	-	-	-	(3,767)	(5,557)	(1,035)	(2,825)	n/a	n/a	n/a	n/a	0.0%	0.0%
Other customers (344)	12,454	19,587	2,803	9,936	6,772	10,489	1,518	5,235	54.4%	53.6%	54.1%	52.7%	23.4%	26.9%
Unreconciled variance	-	(22)	-	(22)	201	(403)	742	138	n/a	n/a	n/a	n/a	0.0%	0.0%
Total	**53,144**	**72,702**	**13,124**	**32,683**	**24,226**	**32,601**	**6,297**	**14,673**	**45.6%**	**44.8%**	**48.0%**	**44.9%**	**100.0%**	**100.0%**

** Gross margin includes the impact of trade spend to product margin.*

Commentary

Overall, the Company's brand contribution margin declined slightly during the Historical Period as the Company shifted to a new formulary mix in the U.S., and incurred one-time costs related to the disposal of obsolete products. *Refer to the Quality of Earnings section for further discussion.*

- **Customer 1 / Customer 4:** Customers 1 and 4 had declining brand contribution margins during the Historical Period, primarily due to increased trade spend. Customer 1's trade spend has increased from 9.4% of gross sales in FY18 to 26.3% in LTM Apr-20, as the Company ran several promotions including a "2 for $5 deal" (recorded in the billbacks GL account) in Jan-20 and off-invoice discounts of 10% from Jan-20 to Feb-20. Customer 4's trade spend has also increased from 8.8% in FY18 to 11.1% of gross sales in LTM Apr-20, which management indicated was due to supporting the launch of new retailer partners and marketing campaigns.
- **Customer 7 / Customer 10:** Customers 7 and 10 became customers of the Company in Sep-19 and Feb-19, respectively. The customers are among the Company's top 10 largest customers, and have above average LTM Apr-20 brand contribution margins, 53.0% and 58.4%, respectively, due to reduced trade spend. Trade spend as a percentage of gross sales in LTM Apr-20 was 9.9% and 10.9% for Customer 7 and Customer 10, respectively.
- **Southernsnacks.com:** This represents products sold direct-to-consumer via the Company's website. The Company's direct-to-consumer brand contribution margin was significantly higher than sales to customers primarily due to low trade spend, which was 5.1% of gross sales in LTM Apr-20, compared to an average of approximately 18.0% in the comparable period. The Company's direct-to-consumer sales increased from $248 thousand in Mar-20 to $923 thousand in Apr-20, as the Company experienced increased demand for e-commerce due to COVID-19. *Refer to the Points of Interest section for further discussion of the impact of COVID-19 on the Company's operations.*
- **Unallocated costs:** This represents shipping and warehousing costs, which are billed monthly by the Company's 3PL and are not tracked at the customer level. The YTD Apr-20 unallocated costs also contain $331 thousand of obsolete product write-offs. *Refer to the Quality of Earnings section for further discussion.*

GROSS SALES AND MARGIN BY PRODUCT

Gross Sales and Margin by Product

	Gross Sales					Product Costs					*Product Margin**				
US$ in thousands	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20	FY18	FY19	LTM Apr-20	YTD Apr-19	YTD Apr-20
Hard candy	2,813	21,591	31,312	5,454	15,175	1,051	8,357	12,269	2,106	6,018	*62.6%*	*61.3%*	*60.8%*	*61.4%*	*60.3%*
Chocolate	10,823	21,483	24,809	6,363	9,688	4,141	7,404	8,460	2,191	3,247	*61.7%*	*65.5%*	*65.9%*	*65.6%*	*66.5%*
Toffee	-	9,061	16,006	16	6,961	-	3,686	6,443	7	2,765	*0.0%*	*59.3%*	*59.7%*	*56.0%*	*60.3%*
Cinnamon candy	2,149	10,947	13,476	3,326	5,856	882	4,627	5,636	1,395	2,404	*59.0%*	*57.7%*	*58.2%*	*58.1%*	*58.9%*
Mixed SKUs	-	1,242	2,402	55	1,215	-	549	1,080	23	554	*0.0%*	*55.8%*	*55.1%*	*57.6%*	*54.4%*
Caramel chews	-	-	617	-	617	-	-	179	-	179	*0.0%*	*0.0%*	*71.0%*	*0.0%*	*71.0%*
Other	0	1	26	-	25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Seasonal chocolate	-	298	(14)	311	-	-	147	(6)	153	-	*0.0%*	*50.5%*	*56.7%*	*50.8%*	*0.0%*
Seasonal sour candy	819	48	4	44	-	392	12	1	11	-	*52.2%*	*74.7%*	*81.9%*	*74.0%*	*0.0%*
Fruit snacks	306	2	1	1	-	119	1	0	0	0	*61.0%*	*72.4%*	*66.9%*	*77.0%*	*0.0%*
Marshmallow treats	261	0	-	0	-	204	(0)	(0)	0	-	*21.8%*	*289.4%*	*0.0%*	*48.9%*	*0.0%*
Total	**17,171**	**64,673**	**88,640**	**15,570**	**39,537**	**6,790**	**24,783**	**34,063**	**5,887**	**15,167**	***60.5%***	***61.7%***	***61.6%***	***62.2%***	***61.6%***

** Product margin excludes trade spend and non-product-cost-related COGS.*

Product margin increased slightly from 60.5% in FY18 to 61.6% in LTM Apr-20 primarily due to the increased margins on chocolate from 61.7% in FY18 to 65.9% in LTM Apr-20 as a result of: (i) a shift in channel mix from organic / specialty to conventional, which has higher gross margins; and (ii) increased direct relationships, which experience higher gross margins than distributors.

COST OF GOODS SOLD

Cost of Goods Sold

US$ in thousands	FY18	FY19	LTM Apr-20	% of Net Sales FY18	% of Net Sales FY19	% of Net Sales LTM Apr-20
Net sales	**14,983**	**53,144**	**72,702**			
Product costs	6,790	24,783	34,063	*45.3%*	*46.6%*	*46.9%*
Freight-out and distribution	1,652	3,262	4,425	*11.0%*	*6.1%*	*6.1%*
Freight transfers	175	429	669	*1.2%*	*0.8%*	*0.9%*
Warehouse storage	59	271	401	*0.4%*	*0.5%*	*0.6%*
Inventory adjustments and write-offs	37	77	398	*0.2%*	*0.1%*	*0.5%*
All other	43	96	146	*0.3%*	*0.2%*	*0.2%*
Total cost of goods sold	**8,756**	**28,918**	**40,101**	***58.4%***	***54.4%***	***55.2%***
Gross profit	**6,226**	**24,226**	**32,601**	***41.6%***	***45.6%***	***44.8%***

Commentary

- **Product costs:** The increase in product costs as a percentage of net sales from 45.3% in FY18 to 46.9% in LTM Apr-20 is primarily attributable to a new formula mix for the U.S. products, which is slightly more expensive than the Company's traditional Canadian formula mix.
- **Freight-out and distribution:** Freight-out and distribution costs represent fees paid to the Company's 3PLs. The reduction in costs as a percentage of net sales from 11.0% in FY18 to 6.1% in LTM Apr-20 is a result of negotiating more favorable terms with the 3PL and gaining operational efficiencies, such as utilizing full truck loads.
- **Freight transfers:** Freight transfers represent shipments from co-manufacturers to the Company's 3PLs. The Company's freight-transfer costs remained relatively consistent with the increase in net sales over the Historical Period.
- **Warehouse storage:** Warehouse storage fees increased from $59 thousand (0.4% of net sales) in FY18 to $401 thousand (0.6% of net sales) in LTM Apr-20 as the Company built up inventory to meet demand from new customers with higher order volumes.
- **Inventory adjustments and write-offs:** Inventory adjustments and write-offs increased in LTM Apr-20 as the Company wrote off $331 thousand of obsolete packaging materials in YTD Apr-20. Note that the Company recorded other inventory write-offs to the other (income) expense financial statement line item in FY19. *Refer to the Quality of Earnings section for further discussion.*
- **All other:** This primarily consists of packaging, freight-in, and certain promotional materials. These costs remained relatively consistent as a percentage of net sales over the Historical Period.
- **Gross margin:** The increase in gross margin from 41.6% in FY18 to 45.6% in FY19 was driven by the aforementioned reduction in freight costs. The decrease in gross margin from 45.6% in FY19 to 44.8% in LTM Apr-20 was driven by one-time recipe evolution costs. *Refer to the Quality of Earnings section for further discussion*.

OPERATING EXPENSES

Operating Expenses

US$ in thousands	FY18	FY19	LTM Apr-20	% of Net Sales FY18	% of Net Sales FY19	% of Net Sales LTM Apr-20
Payroll and employee benefits	1,642	5,294	6,723	11.0%	10.0%	9.2%
Advertising and promotions	790	3,868	5,627	5.3%	7.3%	7.7%
Broker fees and commissions	427	863	1,250	2.9%	1.6%	1.7%
Free product giveaways	327	821	1,002	2.2%	1.5%	1.4%
Research and development	204	248	927	1.4%	0.5%	1.3%
Licenses and dues	174	377	500	1.2%	0.7%	0.7%
Travel	128	485	484	0.9%	0.9%	0.7%
Professional services	247	231	500	1.6%	0.4%	0.7%
Administrative fees	185	375	402	1.2%	0.7%	0.6%
Trade show expenses	17	323	375	0.1%	0.6%	0.5%
Rent and utilities	71	137	169	0.5%	0.3%	0.2%
Bad debt	100	3	135	0.7%	0.0%	0.2%
Office and supplies	25	106	132	0.2%	0.2%	0.2%
Insurance	24	95	112	0.2%	0.2%	0.2%
Meals and entertainment	22	61	59	0.1%	0.1%	0.1%
Professional development	14	36	32	0.1%	0.1%	0.0%
Other	31	89	78	0.2%	0.2%	0.1%
Total operating expenses	**4,429**	**13,412**	**18,507**	***29.6%***	***25.2%***	***25.5%***
% of net sales	***29.6%***	***25.2%***	***25.5%***			

Advertising and Promotions

US$ in thousands	FY18	FY19	LTM Apr-20
Paid digital media	565	1,969	2,667
Influencers & strategic partners	28	637	940
Shopper marketing / strategic customer accounts	-	490	801
Agency & production	-	97	341
Consumer events & field activation support	-	183	193
Trade marketing - research & data	-	40	170
PR	51	154	140
Others	145	298	376
Advertising and promotions	**790**	**3,868**	**5,627**
Free product giveaways	327	821	1,002
Total A&P consistent with industry	**1,117**	**4,689**	**6,629**
As % of net sales	*7.5%*	*8.8%*	*9.1%*

Commentary

A summary of significant fluctuations in reported operating expenses is as follows:

- **Advertising and promotions:** The increase as a percentage of net sales from 5.3% to 7.7% from FY18 to LTM Apr-20 is primarily attributable to the Company increasing spend with influencers and strategic partners. The Company also incurred one-time marketing expenses primarily related to: (i) a consumer demographic study; and (ii) a Customer 13 program. *Refer to the Quality of Earnings section for further discussion.*
- **Broker fees and commissions:** Management indicated that these amounts relate to outside sales representatives as the Company does not pay commissions to employees. The decline in broker fees and commissions from 2.9% in FY18 to 1.7% in LTM Apr-20 is primarily driven by channel mix as e-commerce sales experienced strong growth sales.
- **Free product giveaways:** Management indicated that these amounts primarily relate to sample costs and associated shipping costs that are allocated to select recipients by the marketing team.
- **Research and development:** The increase in research and development as a percentage of net sales from 0.5% to 1.3% from FY19 to LTM Apr-20 is primarily attributable to one-time costs incurred in the development of new formulas and performing new trial runs with new co-manufacturers. *Refer to the Quality of Earnings section for further discussion.*
- **Professional services:** The increase in professional services as a percentage of net sales from 0.4% in FY19 to 0.7% in LTM Apr-20 is primarily attributable to professional service fees incurred related to the proposed transaction. *Refer to the Quality of Earnings section for further discussion.*
- **Administrative fees:** These include e-commerce charges, financing fees, payroll processing fees, QuickBooks fees, and bank charges. Administrative fees decreased as a percentage of net sales from 1.2% in FY18 to 0.6% in LTM Apr-20 due to an overall improvement in leverage from higher net sales growth.
- **Bad debt:** The Company records an allowance for doubtful accounts on a customer-by-customer basis. Balances that are outstanding after reasonable efforts by management are written off either against the allowance for doubtful accounts or directly against bad debt expense. *Refer to the Quality of Earnings section for further discussion.*

COMPENSATION AND BENEFITS

Compensation & Benefits

US$ in thousands	FY18	FY19	LTM Apr-20	Inc (Dec) FY18 to FY19	Inc (Dec) FY19 to LTM Apr-20
Salaries and wages:					
Sales	369	1,418	1,783	1,050	364
Finance and Administrative	395	1,054	1,315	660	261
Marketing	156	542	717	386	175
Operations	348	724	784	376	60
Executive expenses	-	-	164	-	164
R&D	73	109	136	36	27
Salaries and wages total	**1,340**	**3,847**	**4,898**	**2,507**	**1,051**
Contractors	**131**	**218**	**393**	**87**	**175**
Payroll taxes and benefits:					
Stock option compensation expense	60	906	945	846	40
Payroll taxes	71	204	304	132	100
Benefits	23	74	97	51	23
Vacation	17	45	85	28	41
Payroll taxes and benefits total	**171**	**1,228**	**1,432**	**1,057**	**204**
Total	**1,642**	**5,294**	**6,723**	**3,652**	**1,429**
% of salaries and wages					
Stock option compensation	*4.5%*	*23.5%*	*19.3%*		
Payroll taxes	*5.3%*	*5.3%*	*6.2%*		
Benefits	*1.7%*	*1.9%*	*2.0%*		
Vacation	*1.3%*	*1.2%*	*1.7%*		
Total	***12.8%***	***31.9%***	***29.2%***		
FTE #					
Sales	2	10	13		
Finance and Administrative	4	8	9		
Marketing	2	7	9		
Operations	5	11	12		
Total	**14**	**36**	**44**		
Average salaries and wages per FTE	**96**	**108**	**110**		

Commentary

A summary of significant fluctuations in reported compensation and benefits is as follows:

- **Salaries and wages:** The increase in salaries and wages from FY18 to LTM Apr-20 is primarily driven by increased headcount, which averaged 14 FTEs in FY18 and 44 FTEs in LTM Apr-20, to support the overall business growth. The largest increase in headcount was attributed to the sales function, which increased from an average of 2 FTEs in FY18 to an average of 13 FTEs in LTM Apr-20.
- **Contractors:** Contract and temporary labor primarily represents fees paid to marketing contractors to support overall business growth. These contractors included a digital marketing agency, website designers, and other online managed services.
- **Stock option compensation expense:** All employees are eligible to participate in the Company's stock option plan. *Refer to the Quality of Earnings section for further discussion.*
- **Payroll taxes:** Fluctuations in payroll taxes as a percentage of salaries and wages during the year are due to fluctuations in the proportion of employees who lived in the U.S. versus employees who lived in Canada.
- **Vacation:** Vacation expenses increased as the Company amended its minimum vacation allowance per employee from a minimum of 10 to 15 vacation days per year to 15 to 25 vacation days per year, effective March 1, 2020.

INTERNAL-TO-REVIEW/AUDIT BALANCE SHEET RECONCILIATION

Internal-to-Review/Audit Balance Sheet Reconciliation

US$ in thousands	(Internal) FY18	FY19	Adjustments/ Reclassifications FY18	FY19	(Reviewed) FY18	(Audited) FY19
Cash	3,758	8,943	(0)	(0)	3,758	8,943
Accounts receivable	3,046	7,645	0	0	3,046	7,645
Prepaids	37	71	(0)	(0)	37	71
Inventory	2,677	11,074	(0)	(0)	2,677	11,074
Total current assets	**9,518**	**27,732**	**0**	**(0)**	**9,518**	**27,732**
Equipment	16	40	(0)	0	16	40
Intangible assets	60	-	0	-	60	-
Total assets	**9,594**	**27,772**	**0**	**(0)**	**9,594**	**27,772**
Bank indebtedness	2,424	4,021	(0)	(0)	2,424	4,021
Accounts payable and accrued liabilities	1,792	6,420	(0)	0	1,792	6,420
Government remittances payable	245	90	(0)	(0)	245	90
Income taxes payable	339	2,104	(180)	-	159	2,104
Demand loan	32	0	(0)	(0)	32	-
Total current liabilities	**4,832**	**12,635**	**(180)**	**(0)**	**4,652**	**12,635**
Stockholders' equity	4,761	15,137	180	0	4,942	15,137
Total liabilities and equity	**9,594**	**27,772**	**0**	**(0)**	**9,594**	**27,772**

Refer to the Equity Rollforward exhibit for further discussion.

ACCOUNTS RECEIVABLE

Accounts Receivable

Aged by Invoice Date US$ in thousands	12/31/18	12/31/19	4/30/19	4/30/20	As a % of Total A/R *12/31/18*	*12/31/19*	*4/30/19*	*4/30/20*
1-30	1,665	4,206	3,062	7,049	*54.6%*	*55.7%*	*72.3%*	*62.2%*
31-60	925	2,500	759	3,564	*30.3%*	*33.1%*	*17.9%*	*31.5%*
61-90	384	712	342	487	*12.6%*	*9.4%*	*8.1%*	*4.3%*
91-120	60	79	52	121	*2.0%*	*1.1%*	*1.2%*	*1.1%*
121-360	15	47	(28)	114	*0.5%*	*0.6%*	*-0.7%*	*1.0%*
>360	1	13	48	(9)	*0.0%*	*0.2%*	*1.1%*	*-0.1%*
Total A/R per aging	**3,050**	**7,558**	**4,236**	**11,326**	***100.0%***	***100.0%***	***100.0%***	***100.0%***
Other receivables	(4)	13	20	35				
Unreconciled variance	(0)	74	(0)	(47)				
A/R, net	**3,046**	**7,645**	**4,256**	**11,313**				
Statistics								
Sales (most recent qtr.)	6,898	17,377	10,529	25,553				
*Days sales outstanding**	*40.2*	*40.0*	*36.8*	*40.3*				
Reserve %								
Bad debt reserve - % total	*1.1%*	*0.1%*	*0.2%*	*0.8%*				
Bad debt reserve - % past 90	*43.2%*	*6.3%*	*12.4%*	*41.6%*				

** DSO is calculated based on the ending A/R balance and the most recent quarter's net sales.*

Commentary

- Note that total A/R per aging reports is net of trade spend. As previously discussed, trade spend includes coupons, discounts, programs, slotting fees, rebates, allowances, etc. On a monthly basis, management accrues for any expected but unrealized trade spend amounts based on planned programs.
- **DSO:** The payment terms for a majority of the Company's customers are net 30 days. However, several of the Company's largest customers, such as Customer 2, have net 60-day payment terms. Due to the mix of payment terms, DSO averages approximately 40 days. Management represented that customers generally pay within invoice terms.
- **Aged > 90 days:** As of April 30, 2020, the outstanding A/R balance of $226 thousand aged greater than 90 days was made up of several small receivable balances, including $44 thousand from Customer 14. Management indicated that the Company agreed to extend payment terms to Customer 14 as the customer primarily services airports and has been significantly impacted by COVID-19. The remainder of the aged 90+ day balance is primarily related to receivables that are being disputed by the Company's larger clients. However, management still expects a majority of the balance to be collectible. As of June 12, 2020, $144 thousand of the 90+ day aged balance has been collected.
- **Bad debt reserve:** The Company reviews its allowance for doubtful account on a quarterly basis and uses a specific identification methodology to reserve for uncollectible receivables. Management represented that the Company has not historically experienced collectability issues from customers and has recorded minimal bad debt write-offs in the Historical Period.

CUSTOMER CONCENTRATION

Customer Concentration at April 30, 2020

US$ in thousands	0-30 days	31-60 days	61-90 days	91-120 days	121+ days	Total
Customer 2	2,204	27	11	-	10	2,251
Customer 3	(3)	954	232	-	10	1,193
Customer 7	460	682	5	1	34	1,181
Customer 5	463	491	-	12	2	968
Customer 6	690	76	0	-	(2)	764
Customer 4	752	-	-	-	-	752
Customer 11	282	332	81	-	(1)	694
Customer 12	532	-	12	-	-	545
Customer 9	371	121	0	-	(1)	492
Customer 10	263	224	(2)	-	-	485
Top 10 customers	**6,014**	**2,907**	**340**	**13**	**52**	**9,325**
Other customers (51 customers)	1,035	658	147	108	54	2,001
Total A/R per A/R aging	**7,049**	**3,564**	**487**	**121**	**105**	**11,326**
% of total accounts receivable	***62.2%***	***31.5%***	***4.3%***	***1.1%***	***0.9%***	***100.0%***

Customer Concentration at June 12, 2020

US$ in thousands	0-30 days	31-60 days	61-90 days	91-120 days	121+ days	Total
Customer 2	1,958	362	-	(11)	1	2,310
Customer 3	203	8	-	-	10	221
Customer 7	2,833	18	1	(13)	18	2,856
Customer 5	781	467	2	(4)	2	1,248
Customer 6	429	153	47	37	(2)	665
Customer 4	593	215	-	-	-	809
Customer 11	714	42	-	1	(1)	756
Customer 12	-	-	-	-	-	-
Customer 9	171	229	-	0	(1)	399
Customer 10	387	40	-	-	-	427
Top 10 customers	**8,069**	**1,536**	**50**	**10**	**27**	**9,691**
Other customers (51 customers)	4,906	862	40	38	106	5,953
Total A/R per A/R aging	**12,975**	**2,397**	**90**	**48**	**133**	**15,643**
% of total accounts receivable	***82.9%***	***15.3%***	***0.6%***	***0.3%***	***0.8%***	***100.0%***

The Company has collected the majority of the April 30, 2020, 31+ day aged receivable balances as of June 12, 2020.

PREPAIDS

Prepaids

US$ in thousands	12/31/18	12/31/19	4/30/19	4/30/20	Inc (Dec) 12/31/19	Inc (Dec) 4/30/20
Prepaid income tax installments	-	-	-	(330)	-	(330)
Prepaid trade show costs	-	54	9	73	54	64
Prepaid rent	3	9	-	18	6	18
Prepaid other	34	8	85	14	(26)	(71)
Total prepaids	**37**	**71**	**94**	**(225)**	**34**	**(318)**

Commentary

- **Prepaid income tax installments:** As a response to COVID-19, the Canadian government delayed the collection of tax withholdings, resulting in a $330 thousand credit balance in prepaid income tax installments as of April 30, 2020. The credit balance is offset by a $330 thousand debit balance in cash. The withholding is expected to be paid in Jun-20.
- **Prepaid trade show costs:** As of April 30, 2020, the increase in prepaid trade show costs primarily relates to deposits on trade shows that have been postponed due to COVID-19. Management represented that several of the trade shows will be postponed to 2021, and the deposits will be applied to the trade show costs in 2021.
- **Prepaid rent:** The balance as of April 30, 2020, represents a security deposit on the Company's headquarters, which was recorded in Mar-20.
- **Prepaid other:** Prepaid other primarily consists of retainers paid to the Company's intellectual property legal team.

INVENTORY SUMMARY

Inventory Summary

US$ in thousands	12/31/18	1/31/19	2/28/19	3/31/19	4/30/19	5/31/19	6/30/19	7/31/19	8/31/19	9/30/19	10/31/19	11/30/19	12/31/19	1/31/20	2/29/20	3/31/20	4/30/20
Finished goods	2,567	3,046	3,342	2,170	1,922	1,385	2,640	3,493	6,428	6,356	7,428	9,970	10,567	9,793	8,223	7,058	8,325
Inventory in transit	0	234	213	127	230	357	254	132	150	734	1,618	415	377	290	33	227	853
Promotional materials	11	18	20	20	18	19	17	29	40	52	72	87	85	90	112	148	155
Packaging	7	7	16	7	3	4	6	4	215	116	60	39	38	39	53	43	40
Displays	34	28	25	19	14	13	19	14	15	21	38	34	33	124	131	146	136
Co-packing	0	2	4	9	16	16	11	11	11	18	6	6	(27)	0	0	0	0
Work in process	(0)	0	1	1	1	0	0	0	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Raw materials	57	41	28	26	10	10	(2)	0	10	0	0	0	0	0	0	0	0
Total inventory	**2,677**	**3,376**	**3,650**	**2,378**	**2,215**	**1,804**	**2,945**	**3,684**	**6,870**	**7,297**	**9,222**	**10,551**	**11,074**	**10,336**	**8,554**	**7,623**	**9,510**
DIOH (countforward three months)	**62**	**62**	**60**	**34**	**34**	**25**	**39**	**40**	**65**	**66**	**85**	**94**	**84**	**67**	**55**	**49**	**68**

Management indicated that DIOH was elevated in Q4'19 as the Company won two new large customers, Customer 13 (Aug-19) and Customer 7 (Sep-19), and maintained higher-than-average inventory on hand to meet demand.

Commentary

- **Finished goods:** This balance includes products that have been produced, packaged, and shipped to the Company's 3PL warehouses and subsequently shipped to various customers on order.
- **Inventory in transit:** This balance includes inventory not yet received.
- **Raw materials:** As of April 30, 2020, raw material inventory balance was $0. In the Historical Period, this balance included raw materials (i.e., ingredients) not yet sent to the co-man for production.
- **Work in process:** This balance includes products that are waiting to be packaged by the Company's co-packers. The Company will utilize co-packers when the co-man has limited capacity to fulfill the production and packaging requirements of a monthly purchase order. The inventory is subsequently transitioned from WIP to finished goods once the packed product has been shipped from the co-packer to a 3PL warehouse.
- **Inventory reserve:** The Company has not recorded a reserve in the Historical Period. The products have a shelf life of one year, and are monitored for obsolescence based on this "best-before date." If products get close to their "best-before date," the Company will try to donate or give the inventory away as samples. If products are past the expiry date, the Company disposes of such products.
- **Inventory counts:** The Company performs an annual inventory count at the end of the fiscal year, and the 3PL warehouses will perform independent counts throughout the year.

EQUIPMENT AND INTANGIBLE ASSET ROLLFORWARD

Equipment and Intangible Asset Rollforward

US$ in thousands	12/31/17	Add.	Disp.	12/31/18	Add.	Disp.	12/31/19	Add.	Disp.	4/30/20
Computer equipment	3	17	-	20	33	-	53	3	-	57
Intangible assets - capitalized software costs	-	60	-	60	-	(60)	-	-	-	-
Gross equipment and intangible assets	3	77	-	80	33	(60)	53	3	-	57
Accumulated amortization - computer equipment	-	4	-	4	9	-	14	4	-	17
Equipment and intangible assets, net	**3**	**73**	**-**	**76**	**24**	**(60)**	**40**	**(0)**	**-**	**40**

The intangible asset was related to an interactive marketing character, which the Company determined would not be used in future campaigns and was written off. *Refer to the Quality of Earnings section for further discussion.*

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts Payable - Trade

Aged by Invoice Date US$ in thousands	12/31/18	12/31/19	4/30/19	4/30/20	As a % of Total A/P 12/31/18	12/31/19	4/30/19	4/30/20
0-30	1,211	4,498	1,509	6,427	*89.3%*	*91.5%*	*94.7%*	*90.5%*
31-60	125	419	82	42	*9.3%*	*8.5%*	*5.1%*	*0.6%*
61-90	13	1	(0)	534	*0.9%*	*0.0%*	*0.0%*	*7.5%*
91-120	7	(1)	0	1	*0.5%*	*0.0%*	*0.0%*	*0.0%*
121-360	0	-	3	96	*0.0%*	*0.0%*	*0.2%*	*1.3%*
360+	-	-	-	-	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total	**1,356**	**4,917**	**1,593**	**7,099**	***100.0%***	***100.0%***	***100.0%***	***100.0%***
Unreconciled variance	-	257	-	(2)				
Total trade A/P	**1,356**	**5,174**	**1,593**	**7,097**				

The entire 121+ day aged A/P balance has been paid as of June 12, 2020. *Refer to the following page for further details.*

Accounts Payable and Accrued Expenses

US$ in thousands	12/31/18	12/31/19	4/30/19	4/30/20
Accounts payable	1,356	5,174	1,593	7,097
Accrued bonus	201	625	377	381
Accrued commissions	8	145	32	169
Accrued payroll Canada	33	84	16	51
Accrued vacation Canada	20	40	20	68
Accrued vacation U.S.	3	27	13	51
Accrued payroll U.S.	6	24	4	14
Payroll clearing - U.S.	-	0	-	33
Accrued payroll and benefits	271	945	461	766
Accrued freight-out	-	-	-	28
Other accrued expenses	30	611	6	22
Credit card payable	32	39	24	12
Accrued discounts and returns	103	28	14	10
Accrued purchases	0	(377)	(14)	(244)
Total accounts payable and accrued expenses	**1,792**	**6,420**	**2,084**	**7,691**

Commentary

- **Accrued bonus:** As of April 30, 2020, the Company is accruing bonuses consistent with budget of $1.2 million. Bonus expense for FY19 approximated 1.2% of net sales, while FY20-e is planned at approximately 1.4% of net sales.
- **Accrued – other:** As of December 21, 2019, accrual primarily relates to a write-off of unusable packaging inventory due to the FDA and CFIA regulation changes. *Refer to the Quality of Earnings section for further discussion.*
- **Accrued purchases:** Accrued purchases represent liability for goods received but not invoiced. Upon receipt of goods, the Company will record a credit entry to accrued purchases until the vendor invoice is received and matched. In certain instances, the Company may receive a vendor invoice before the inventory is received, thus resulting in a debit balance position.

ACCOUNTS PAYABLE AGING BY VENDOR

A/P Aging by Vendor at April 30, 2020

US$ in thousands	0-30 days	31-60 days	61-90 days	91-120 days	121+ days	Total
Vendor 1	4,034	-	532	-	-	4,566
Vendor 2	705	-	-	-	1	706
Vendor 3	423	-	-	-	-	423
Vendor 4	192	-	-	-	-	192
Vendor 5	178	-	-	-	-	178
Vendor 6	14	-	-	-	95	109
Vendor 7	89	-	-	-	-	89
Vendor 8	64	-	-	-	-	64
Vendor 9	50	-	-	-	-	50
Vendor 10	46	-	-	-	-	46
Total, top vendors	**5,795**	**-**	**532**	**-**	**96**	**6,422**
Other vendors	630	42	2	1	-	675
Total trade A/P	**6,425**	**42**	**534**	**1**	**96**	**7,097**
% of total trade A/P	***90.5%***	***0.6%***	***7.5%***	***0.0%***	***1.3%***	***100.0%***

This represents payables related to the recipe evolution packaging write-off. Management indicated this balance will be applied to future purchase orders. *Refer to the Quality of Earnings section for further discussion.*

Aged payables outstanding at April 30, 2020, was subsequently paid down as of June 12, 2020.

A/P Aging by Vendor at June 12, 2020

US$ in thousands	0-30 days	31-60 days	61-90 days	91-120 days	121+ days	Total
Vendor 1	3,797	-	-	-	532	4,329
Vendor 2	247	-	-	-	-	247
Vendor 3	152	-	-	-	-	152
Vendor 4	112	-	-	-	-	112
Vendor 5	111	-	-	-	-	111
Vendor 6	66	-	-	-	-	66
Vendor 7	47	-	-	-	-	47
Vendor 8	47	-	-	-	-	47
Vendor 9	-	-	-	-	43	43
Vendor 10	31	-	-	-	-	31
Total, top vendors	**4,609**	**-**	**-**	**-**	**575**	**5,184**
Other vendors	233	31	1	(4)	(1)	260
Total trade A/P	**4,842**	**31**	**1**	**(4)**	**574**	**5,444**
% of total trade A/P	***88.9%***	***0.6%***	***0.0%***	***-0.1%***	***10.5%***	***100.0%***

ROLLFORWARD OF STOCKHOLDERS' EQUITY

Rollforward of Stockholders' Equity

US$ in thousands	Common Stock	Contributed Surplus	Retained Earnings	Total
Balance, December 31, 2017	0	-	(530)	(530)
Net income	-	-	1,216	1,216
Series A - share issuance	3,272	-	-	3,272
Convertible note conversion	723	-	-	723
Stock options exercised	28	-	-	28
Stock compensation	-	53	-	53
Balance, December 31, 2018	4,023	53	686	4,761
Net income	-	-	7,258	7,258
Stock compensation	-	266	-	266
Share issuance	2,672	-	-	2,672
Taxes payable adjusting entry	-	-	180	180
Balance, December 31, 2019	6,694	319	8,124	15,137
Net income	-	-	5,915	5,915
Stock issuance	73	-	-	73
Stock compensation	-	98	-	98
Balance, April 30, 2020	**6,767**	**417**	**14,039**	**21,223**

The adjusting entry represents an audit adjustment related to taxes payable. *Refer to the Internal-to-Review/Audit Income Statement Reconciliation exhibit.*

DUE DILIGENCE PROCEDURES

The following is an outline of the procedures that we performed on the financial records of Southern Snacks, Inc. (Southern Snacks or the Company) during our due diligence and upon which the scope of our work has been based.

The due diligence scope focused on the last two fiscal years 2018 and 2019 (FY18 and FY19, respectively) and interim period ended April 30, 2020 (YTD Apr-20), as well as an analysis of the last 12-month period, May 1, 2019 to April 30, 2020 (LTM Apr-20).

Overview

- Interviewed key management to gain an understanding of operations, competitive environment, customers, vendors, and future outlook for the business. Interviewed accounting and finance personnel to understand significant accounting policies, procedures, accounting organization, and the month- and year-end closing process.
- Read the external accountant's workpapers and management or other letters for the last year noting matters about adjustments, passed adjustments, accounting policies, practices and methods, and any recent changes in those practices or methods.

Quality of Earnings

- Reviewed management-provided, nonrecurring adjustments to revenue and expenses for the periods covered in the due diligence scope, traced to underlying accounting records or other support, and assessed the validity of these adjustments.
- Prepared an adjusted EBITDA analysis (quality of earnings) for the periods covered in the due diligence scope.
- Prepared a monthly quality of earnings for the LTM period and generated an adjusted income statement for each period covered in the scope.
- Inquired as to other likely nonrecurring adjustments that may be present, including run-rate or pro forma adjustments from operational changes.

Income Statement Focus

- Reviewed revenue, gross profit, and trends by type, product group, and geography, and developed an understanding of any significant changes during the periods under scope. Gained an understanding of seasonality and the impact of new and lost customers, acquisitions, new products or services, and discontinued products or services.

Income Statement Focus (continued)

- Inquired as to and reviewed the revenue recognition policies, monthly revenue accounting cutoff, deferred revenue, sales and deposit terms, and any one-time or nonrecurring revenue.
- Reviewed gross-to-net sales adjustments; gained an understanding of the nature of any unusual trends and correlated analysis to balance sheet reserves. Inquired as to the return policy and handling of revenue adjustments, credits, rebates, discounts, or allowances.
- Obtained and analyzed a schedule of the components of cost of goods sold and reviewed trends. Discussed any unusual variances for any potential EBITDA adjustments.
- Obtained an overall understanding as to the Company's costing methodologies.
- Obtained and reviewed customer and product line margin reports. Inquired as to how the Company determines customer and product line profit margins, and obtained an understanding of cost allocation methodologies used.
- Inquired as to raw material price increases and current pricing conditions.
- Obtained a list of top vendors, including payment terms and discounts or rebates offered.
- Obtained a list of the components of selling, and general and administrative expenses, and compared to prior periods and months. Obtained explanations for any significant increases or decreases or nonrecurring items for potential EBITDA adjustments.
- Reviewed compensation (including bonus and deferred compensation plans) for owners and relatives, management, and highly compensated employees; compared to prior periods and estimated post-closing management compensation, and considered normalizing adjustments. Compared reported compensation to W-2s and/or the payroll records.
- Obtained an understanding of bonus, deferred compensation, and severance programs.
- Reviewed professional, consulting, and other outside professional fees and normalized costs.

DUE DILIGENCE PROCEDURES

Balance Sheet Focus

- Reviewed the most recent and prior year-end account reconciliations for significant balance sheet accounts.
- Discussed any related-party, significant nontrade receivables, or other unusual items included in accounts receivable.
- Reviewed accounts receivable due from top customers and obtained payment terms for these customers. Considered the need for other reserves, such as early pay discounts, customer volume rebates and discounts, returns, pricing promotions, unprocessed credit memos, etc.
- Analyzed accounts receivable aging categories and gained an understanding of processes related to establishing bad debt reserves; evaluated reserve levels relative to historical levels and past due amounts, as well as collectability of past due amounts based on discussions with management.
- Obtained an analysis of inventory by type and location for year-end and the most recent interim period, and reconciled to the trial balance. Reviewed inventory trends by month or quarter, and obtained management's explanations for significant changes.
- Gained an understanding of the method of costing for inventories at both year-end and interim reporting.
- Reviewed an analysis of excess or slow-moving inventories as of the most recent date available to gain an understanding of Company policies for establishing reserves. Evaluated reserve levels for the past year and the interim period.
- Gained an understanding of cycle counting practices and recent physical inventories, including book-to-physical adjustments.
- Discussed overall inventory policies and procedures including internal controls in relation to inventory counts and book-to-physical adjustments.
- Inquired as to inventory purchase commitments, customer-specific or customer-owned inventory, pledged or consigned inventories, dependence on suppliers, in-transit inventories, etc.

Balance Sheet Focus (continued)

- Reviewed fixed asset schedules, including leased assets and facilities owned by the Company and/or related parties, and gained an understanding of the Company's capitalization policy.
- Gained an understanding of the nature of prepaid expenses and other current or noncurrent assets recorded in the financial statements.
- Obtained a reconciliation of the accounts payable aging detail to the trial balance and gained an understanding as to the cutoff procedures and accrual for unvouched payables. Compared the accounts payable aging at year-end(s) and at the interim period. Obtained an understanding of any significant vendor concentration and terms, and analyzed significant balances past due over 90 days.
- Reviewed details of accrued liabilities and evaluated significant accrual balances in terms of value compared to the same time last year and end of fiscal year. Analyzed accrual balances, including warranty, bonuses, commissions, self-insured plans, such as workers' compensation and medical, as well as other vacation and employee benefits.

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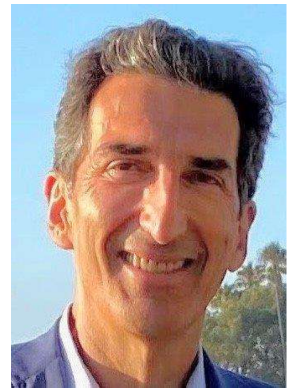

Summary of experience

Bill Spizman is a partner and enterprise account leader in transaction advisory services for private equity funds, strategic buyers and sellers of privately held companies, having considerable experience with mid-sized companies. With more than 30 years of transaction experience representing buyers and sellers of businesses, Bill's areas of concentration include acquisitions, dispositions, business planning, tax structuring, forecasts and various financing transactions. He has assisted more than 100 clients in their business sales transactions. Bill's industry specialization includes food and beverage, manufacturing, distribution, and business services. Prior to selection as an enterprise account leader, Bill served as the Great Lakes market leader for transaction advisory services.

Publications and presentations:

- "10 Mistakes to Avoid When Selling Your Business," The SRR Journal, a publication of Stout Risius Ross, spring 2011
- "Avoiding Pitfalls of Working Capital True-Ups," Buyouts, 2009
- "Finding a World of Opportunities in a World of Risks — An International Perspective on Due Diligence," The Journal, a publication of ACG Chicago (winter 2007)
- "How PE Keeps Food Portfolio Companies Fresh," Privcap Food and Beverage Series, September 2013

Professional affiliations and credentials

- Illinois Society of Certified Public Accountants
- American Institute of Certified Public Accountants
- Illinois Venture Capital Association
- Chicagoland Chamber of Commerce
- Mount Sinai Hospital Medical Center, board of trustees (former)
- Schwab Rehabilitation Hospital and Sinai Community Institute, board of trustees (former)
- Chicago Regional Board of the Anti-Defamation League of B'nai Brith, executive committee (former)
- Illinois Institute of Technology Stuart School of Business, board of overseers (former)

Education

- Bachelor of Science, accounting (magna cum laude), Drake University

Jason Lesch

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Summary of Experience

Mr. Lesch is a Chicago based Director. Jason focuses on buy- and sell-side transaction advisory services to private equity groups, investment banking and strategic clients. Jason has practiced financial due diligence for more than 15 years. Jason has worked on over 250 transactions, primarily ranging from $5 million to $35 billion.

Areas of Specialization

- Financial Due Diglience
- Quality of Earnings and Net Working Capital
- Business Performance Advisory

Industry Experience

- Private Equity
- Consumer Products
- Business Professional Services

Education

- Bachelor of Accounting, DePaul University

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INDUSTRY BEST PRACTICES ROUNDTABLE

NOTES: