Red Coat Cattle Feeders Inc.

Interim Management Discussion and Analysis

For the half-year ended December 31, 2023

Dated the 20th day of March, 2024

These financial statements have been prepared by management and have not been reviewed by the Corporation's external auditor.

These financial statements along with the notes to the financial statements have been reviewed and approved by the Board of Directors.

Approved on behalf of the board

_______________ Director   _______________ Director

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations has been prepared by Management to help readers interpret Red Coat Cattle Feeders Inc.'s ("Red Coat" or the "Company") financial results for the six months ended December 31, 2023 and should be read in conjunction with Red Coat's interim financial statements and related notes for the six months ended December 31, 2023. The interim financial statements have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"). Additional information related to Red Coat is available on SEDAR at www.sedar.com.

This MD&A was prepared as at March 20, 2024. All amounts are in Canadian dollars unless otherwise stated.

1. Forward Looking Information

Certain statements in this report may constitute forward looking statements. The results or events predicted in these statements may differ materially from actual results or events. These forward looking statements can generally be identified by the use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "likely", "will" or similar words or phrases. Similarly, statements that describe the Company's objectives, plans or goals are or may be forward looking statements.

These forward looking statements are based on the Company's current expectations and its projections about future events. However, whether actual results and developments will conform to the Company's expectations and projections is subject to a number of risks and uncertainties, including, among other things, the risks and uncertainties associated with adverse weather conditions, agricultural commodity prices, financial leverage, additional funding requirements, international trade and political uncertainty, competition, domestic regulation, environmental risks, diseases and other livestock industry risks, acceptance of genetically modified products, labour disruptions, dependence on key personnel, technological advances, credit and foreign exchange risks. These are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Company's forward looking statements. Other known and unpredictable factors could also harm its results. Consequently, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise.

2. Highlights of the Six Months Ended December 31, 2023

- Inventory and biological assets increased 37% as at December 31, 2023 to $17,461,904, from $12,776,708 as at June 30, 2023.
- The Company sold 5,061 head of cattle, an increase of 1,027 compared with the six month period ended December 31, 2022.
- EBITDA was $888,021 for the six months ended December 31, 2023 as compared to ($218,321) for the prior year's six months ended December 31, 2022.

3. Outlook

The cattle markets did rally, with feed costs staying in line with expectations. Any cattle that were sold from April to December showed a profit over and above all expenses.

Feedlot capacity has been increasing in Canada for the past few years, but it appears that increases in capacity have now slowed significantly. There have been a number of smaller feeding operations that have stopped feeding cattle. Going forward, with the smaller cow herds in North America, there is ample bunk space available to meet the needs of calving operations.

4. Financial Results

4.1 Summary of Annual Results

	Six Months Ended December 31		
	2023	**2022**	**2021**
Revenue	$ 22,208,502	$ 18,428,439	$ 17,924,295
Production expenses	20,384,268	17,536,126	16,565,011
Gross Margin	1,824,234	892,313	1,359,284
EBITDA (1)	888,021	(218,321)	(231,244)
Amortization	239,234	235,764	216,002
Interest on capital leases	-	1,093	4,885
Interest on long term debt	32,786	19,543	18,429
Total income and comprehensive income	616,001	(474,721)	(452,560)
Earnings per share (basic and diluted)	0.38	(0.29)	(0.27)
Total assets	24,264,734	27,679,949	16,834,148
Total long term liabilities	2,780,891	3,094,052	3,230,885
Increase (decrease) in cash	(72,910)	(55,277)	586,398
Dividends paid	-	-	33,325

(1) EBITDA is not recognized as a measure under IFRS and does not have a standardized meaning prescribed by IFRS and, therefore, it may not be comparable to similar measures reported by other companies. Refer to section 10 "Use of non-IFRS term and reconciliation".

4.2 Revenue, Gross Margin and EBITDA

	Six Months Ended December 31		
	2023	**2022**	**Change**
Revenue	$ 22,208,502	$ 18,428,439	20%
Production expenses	20,384,268	17,536,126	16%
Gross Margin	1,824,234	892,313	104%
EBITDA (1)	888,021	(218,321)	507%
Gross margin as a percentage of revenue	8%	5%	3%
EBITDA as a percentage of revenue	4%	(1%)	5%

(1) EBITDA is not recognized as a measure under IFRS and does not have a standardized meaning prescribed by IFRS and, therefore, it may not be comparable to similar measures reported by other companies. Refer to section 10 "Use of non-IFRS term and reconciliation".

4.3 Discussion of Year to Date Results

Gross profit increased 104%, with EBITDA increasing 507% for the six month period ended December 31, 2023 as compared to the six months in the previous fiscal year. Gross profit increased by $931,921 to $1,824,234 (2022 – decreased $466,971).

The change is largely attributed to the increase in cattle placements in September through December due in part to the drought. As a result, EBITDA has increased by $1,106,342 to $888,021. EBITDA is not recognized as a measure under IFRS and does not have a standardized meaning prescribed by IFRS and, therefore, it may not be comparable to similar measures reported by other companies; refer to section 10 "Use of non-IFRS term and reconciliation".

The increase in revenue was a result of increased custom fees and increased sales of company owned cattle. The company was able to sell 5,061 head of cattle, an increase of 1,027 (increase of 25%) compared with the same period in the previous fiscal year.

Custom fee revenue increased $1,810,331 (increase of 40%) compared with the same period in the previous fiscal year. The increase is due to increased head days from cattle that are not owned by Red Coat, but mainly by feeders that were looking to place cattle normally fed by the producer when there is an ample feed supply.

4.4 Expenses

	Six Months Ended December 31		
	2023	**2022**	**Change**
Operating expenses	$ 793,261	$ 859,872	(8%)
Administrative expenses	498,402	565,030	(12%)
Interest and service charges	59,451	77,446	(23%)
Amortization	239,234	235,764	0.1%

Operating and administrative expenses decreased a total of $133,239 as compared to the six month period ended December 31, 2022. The decrease is due to a combination of less salaries, wages, and lower fuel costs and interest charges than in the comparative period.

Interest and bank charges decreased $17,995. The decrease is primarily due to less usage of the line of credit, as well as more interest on the long term debt in the six month period ended December 31, 2023.

Amortization expense increased $3,470 to $239,234 in the period ended December 31, 2023.

5. Liquidity and Capital Resources

Liquidity risk is the risk that Red Coat cannot meet a demand for cash or fund its obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

Red Coat has experienced a small cash outflow, but through access to equity, operating lines, and other debt facilities, has maintained its operations and development activities. Red Coat's ability to generate sufficient cash resources from its operations will depend, among other things, on future demand for cattle and custom feeding. Further information relating to the financial instrument risks and uncertainties to which Red Coat is subject to is summarized in Red Coat's most recent audited financial statement, which is available, together with additional information relating to Red Coat, on SEDAR at www.sedar.com.

Red Coat's working capital requirements fluctuate from time to time as the supply of cattle fluctuates, since payments to suppliers form the largest item of the working capital requirements. Red Coat's working capital requirements are met from its earnings and its credit facilities.

Red Coat has two mortgages that have fixed interest rates ranging from 2.85% to 4.87%. Land with a net book value of $2,193,000 has been pledged as security for one of the mortgages, and land and buildings with a net book value of $3,809,200 have been pledged as security for the second mortgage. The total outstanding balance of the mortgages at December 31, 2023 was $1,204,258 (June 30, 2023 - $1,253,177).

Red Coat finances its cattle purchases with demand loans provided by Stockmen's Financial. The demand loans are secured by the cattle purchased with the funds advanced and are repayable when the cattle are sold. Interest rates on the demand loans are floating at prime plus 0.5%. The total demand loan payable at December 31, 2023 was $12,787,873 (June 30, 2023 - $10,821,148).

At December 31, 2023, Red Coat is in compliance with its financial covenants under all credit agreements.

5.1 Cash Flow

	Six Months Ended December 31		
	2023	**2022**	**Change**
Operating activities	($ 3,021,651)	($ 9,250,294)	67%
Investing activities	(118,581)	(142,238)	17%
Financing activities	3,067,322	9,337,255	(67%)
Change in cash	(72,910)	(55,277)	(32%)

Cash flow from continuing operations has decreased for the six month period ended December 31, 2023 as compared to the same period in the prior fiscal year. Cash used in operating activities was ($3,021,651) as compared to cash used in operating activities of $9,250,294 in the prior period. The majority of this change is associated with the increase in inventory and biological assets at December 31, 2023.

The cash used in investing activities was lower by $118,581 when compared to the same period in 2022. The majority of the change is associated with less purchases of equipment and building improvements in the December 31, 2023 six month period.

The increase of cash provided by financing activities was a result of the additional financing associated with the purchase of inventory and biological assets.

5.2 Working Capital Requirements

Working Capital is defined as current assets (cash, accounts receivable, notes receivable, inventories, biological assets, prepaid expenses) less current liabilities (bank indebtedness, accounts payable, accrued liabilities, term loans due on demand and current portion of long term debt).

	December 31, 2023	**June 30, 2023**	**Change**
Current assets	$ 19,407,964	$ 16,023,632	21%
Less: current liabilities	15,366,478	12,631,467	22%
Net working capital	$ 4,041,486	$ 3,392,165	20%

Current assets ended the six month period December 31, 2023 at $19,407,964, an increase of $3,384,332 when compared to June 30, 2023. The majority of the increase relates to an increase in inventories of $651,384 and an increase in biological assets of $4,033,812.

Current liabilities were $15,366,478 at the end of the period, an increase of $2,735,011. This is due to an increase in bank indebtedness of $1,149,515 and to the increase in term loans due on demand of $1,996,740.

Working capital was $4,041,486 at December 31, 2023, an increase of $649,321 over the balance at June 30, 2023. The increase was a result of the net impact of purchased biological assets and inventories and the associated debt.

5.3 Capital Expenditures

Net capital expenditures for the six months ended December 31, 2023 were $118,581, $23,657 less than the amount spent for the year ended June 30, 2023. All capital expenditures are funded from cash flows, operations and working capital.

5.4 Capital Management

Red Coat manages its capital to ensure financial flexibility and to increase shareholder value through organic growth. This allows Red Coat to respond to changes in economic and/or marketplace conditions. The Company's objective when managing capital is to safeguard liquidity to enable the internal financing of capital projects thereby facilitating expansion; maintain a strong capital base so as to maintain investor, creditor, and market confidence; and to provide an adequate return to shareholders. The Company considers the capital structure to consist of debt and shareholders' equity. The Company considers debt to include bank indebtedness, term loans due on demand, long term debt and obligation under capital lease. The Company seeks to maintain a balance between the level of debt and shareholders' equity to finance capital expenditures and building and equipment replacement. On a historical basis, it is Management's view that the Company has maintained a conservative and appropriate ratio of debt to total capitalization. The Company may occasionally need to increase these levels to facilitate acquisition or expansion activities, however there are no established quantitative returns on capital requirements for management. Red Coat's components of its capital structure are set out in the following table:

	December 31, 2023	**June 30, 2023**
Bank indebtedness	$ 1,649,257	$ 499,742
Term loans due on demand	12,737,770	10,821,148
Long term debt	1,204,258	1,253,177
Total equity	6,117,365	5,501,364
	$ 21,708,650	$ 18,075,431

The Company sets the amounts of its various forms of capital in proportion to risk. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. There were no changes to the Company's capital management objectives during the year.

6. Dividend

On November 16, 2021, the Company declared cash dividends of $0.02 on each common share outstanding, to shareholders of record at the close of business on December 7, 2021. The dividend was paid on December 7, 2021. No dividend was declared or paid in 2022 or 2023.

7. Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Class "A" common shares and an unlimited number of Class "D" common shares. The number of shares outstanding at both December 31, 2023 and June 30, 2023 was 1,620,257 Class "A" common shares and 15,890 Class "D" common shares. During the year ended June 30, 2022, the Company repurchased and cancelled 46,000 Class "A" shares at $2/share.

8. Off Balance Sheet Arrangements

As of the date of this MD&A, the Company had no off balance sheet arrangements.

9. General and Financial Instrument Risk Management

9.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk on the accounts receivable from its customers, however, does not have a significant exposure to any individual customer or counterpart. In order to reduce its credit risk, the Company has adopted credit policies, which include the review of a new customer's credit history and financial position before extending credit and conducting regular reviews of its existing customers' credit performance. The Company incurred insignificant bad debt expense during the past three years and its customers are mainly in the agricultural industry.

9.2 Price Risk

The Company is exposed to commodity price risk on future feedstock and cattle prices. As a result, fluctuations in the value of these commodities could result in a significant financial impact to the Company. The Company has a process in place to mitigate this risk, including: varying the number of head on the lot to reduce cattle and feed costs, changing the feed ratios of various commodities to insulate against price fluctuations and increase production of its own feed commodities on land held by the Company. The Company has not entered into any future commodity purchase commitments to manage this risk.

9.3 Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on its United States currency bank account. The Company does not use any derivative financial instruments to alter the effects of this risk.

9.4 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is limited to the bank indebtedness, term loans and long term debt.

The Company's bank indebtedness is subject to a variable rate of prime plus 0.65%. Term loans due on demand are subject to variable rates of prime plus 0.50% and 0.70%. Long term debt is subject to fixed interest rates ranging from 2.85% to 4.87%. The Company is not exposed to significant interest rate risk on its cash and cash equivalents, trade and other receivables or accounts payable and accruals. The Company does not currently use any derivative financial instruments to manage the exposure to interest rate fluctuations.

9.5 Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's exposure to liquidity risk is dependent on the receipt of funds from its operations, external borrowings and other related sources. Funds from these sources are primarily used to finance working capital and capital expenditure requirements and are considered adequate to meet the Company's financial obligations.

9.6 Regulatory and environmental risks

The Company is subject to laws and regulations in the business in which it operates. The Company has established policies and procedures to ensure its compliance with environmental laws and regulations, as well as other applicable laws. Management performs regular reviews to identify environmental risks and to ensure that the systems are in place to manage those risks.

9.7 Supply and demand risk

The Company is exposed to risks arising from fluctuations in the price and sales volume of both feed and cattle. When possible, the Company manages the risks by aligning its harvest volume to feedlot supply and demand. Management performs regular industry trend analysis to ensure that the Company's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

9.8 Classification and fair value of financial instruments and inventories

The following methods and assumptions were used to estimate fair values of financial instruments.

Cash, accounts receivable, notes receivable and patronage equity are classified as financial assets at amortized cost which approximates fair value. Bank indebtedness, accounts payable, accrued liabilities, term loans due on demand and long term debt are classified as financial liabilities at amortized cost and are initially recognized at fair value and subsequently carried at amortized cost which approximates fair value due to the short term nature of the balances.

9.9 Fair value hierarchy

The Company classifies its financial assets and liabilities at fair value using a fair value hierarchy made up of three levels, according to the inputs used in making the measurements.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in an active market that the Company can access at the measurement date.

Level 2: This category includes measurements that use, either directly or indirectly, observable inputs other than quoted Prices included in level 1. Derivative instruments in this category are measured using models or other standard valuation techniques using observable market data.

Level 3: The measurements in this category depend upon inputs that are less observable, not available, or for which observable inputs do not justify most of the instruments' fair value.

10. Use of non-IFRS term and reconciliation

Management uses a non-IFRS measure, EBITDA, to provide shareholders and investors with a supplemental measure of the Company's operating performance and to highlight trends on the Company's core business that may not otherwise be apparent when relying solely on IFRS financial measures. In particular, Management believes EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes. Management also believes that shareholders, lenders and other interested parties frequently use EBITDA in the evaluation and comparison of the performance of business in the sector in which the Company operates. However, such measures do not have any standardized meanings prescribed by IFRS and may differ from those of other businesses.

	Six Months Ended December 31		
	2023	**2022**	**2021**
Total income and comprehensive income	$ 616,001	($ 474,721)	($ 452,560)
+ Amortization	239,234	235,764	216,002
+ Interest on capital leases	-	1,093	4,885
+ Interest on long term debt	32,786	19,543	18,429
EBITDA	$ 888,021	($ 218,321)	($ 213,244)
Shares Outstanding	1,620,257	1,636,147	1,682,147
EBITDA per share	$ 0.55	($ 0.13)	($ 0.13)