



Canyon Creek Food Company Ltd.
Consolidated Financial Statements
May 31, 2017 and 2016



September 28, 2017

Independent Auditor's Report

To the Shareholders of Canyon Creek Food Company Ltd.

We have audited the accompanying consolidated financial statements of Canyon Creek Food Company Ltd. and its subsidiary, which comprise the consolidated statements of financial position as at May 31, 2017 and May 31, 2016 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canyon Creek Food Company Ltd. and its subsidiary as at May 31, 2017 and May 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Canyon Creek Food Company Ltd. to continue as a going concern.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants



Canyon Creek Food Company Ltd.
 Consolidated Statements of Financial Position
(in Canadian dollars)

	May 31 2017	May 31 2016
(Going Concern – note 1)		
Assets		
Current assets		
Trade and other receivables	177,117	104,916
Inventories (note 5)	227,957	267,706
Prepaid expenses	24,605	41,825
	<u>429,679</u>	<u>414,447</u>
Non-current assets		
Property and equipment (note 6)	<u>1,074,205</u>	<u>1,173,556</u>
Total assets	<u>1,503,884</u>	<u>1,588,003</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	585,600	582,547
Trade payables and other liabilities	338,373	543,452
Accrued interest (note 11)	6,286,744	4,966,333
Loans payable (note 9)	11,621,000	10,891,000
Bank loan payable (note 9)	1,000,000	1,000,000
Current portion of obligations under finance leases (note 10)	17,930	15,863
	<u>19,849,647</u>	<u>17,999,195</u>
Non-current liabilities		
Obligations under finance leases (note 10)	<u>10,693</u>	<u>28,623</u>
Total liabilities	<u>19,860,340</u>	<u>18,027,818</u>
Shareholders' deficiency		
Share capital (note 13)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	<u>(31,460,178)</u>	<u>(29,543,537)</u>
Total shareholders' deficiency	<u>(18,356,456)</u>	<u>(16,439,815)</u>
Commitments (note 12)		
Total shareholder's deficiency and liabilities	<u>1,503,884</u>	<u>1,588,003</u>

Approved by the Board of Directors

(Signed) "Brian Halina"

_____ Director

(Signed) "Terence Alty"

_____ Director

The accompanying notes are an integral part of these consolidated financial statements.



Canyon Creek Food Company Ltd.
 Consolidated Statements of Operations and Comprehensive Loss
(in Canadian dollars)

	May 31 2017 \$	May 31 2016 \$
Revenue	<u>5,651,170</u>	<u>3,569,097</u>
Direct expenses		
Cost of sales	4,549,915	3,422,693
Depreciation (note 6)	70,180	82,466
Product equipment impairment (note 6)	<u>60,554</u>	<u>209,892</u>
	<u>4,680,649</u>	<u>3,715,051</u>
Gross margin	<u>970,521</u>	<u>(145,954)</u>
Selling expenses (note 15)		
General	441,559	313,608
Wages and benefits	<u>76,248</u>	<u>173,766</u>
	<u>517,807</u>	<u>487,374</u>
General and administrative expenses (note 15)		
Wages and benefits	568,107	559,766
Office and general	328,340	365,301
Professional fees	<u>74,823</u>	<u>84,637</u>
	<u>971,270</u>	<u>1,009,704</u>
Research and technical expenses	<u>1,285</u>	<u>17,625</u>
Loss from operations before other expenses	<u>(519,841)</u>	<u>(1,660,657)</u>
Interest Expense (note 16)	1,396,800	1,221,659
Loss on disposal of equipment	-	6,000
Other income	<u>-</u>	<u>(11,751)</u>
	<u>1,396,800</u>	<u>1,215,908</u>
Net loss and comprehensive loss for the year	<u>(1,916,641)</u>	<u>(2,876,565)</u>
Loss per share	(0.05)	(0.08)
Basic and fully diluted (note 14)		

The accompanying notes are an integral part of these consolidated financial statements.



Canyon Creek Food Company Ltd.
 Consolidated Statements of Changes in Shareholders' Deficiency
(in Canadian dollars)

	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance at May 31, 2016	12,921,322	182,400	(29,543,537)	(16,439,815)
Comprehensive loss for the year	<u>-</u>	<u>-</u>	<u>(1,916,641)</u>	<u>(1,916,641)</u>
Balance at May 31, 2017	<u>12,921,322</u>	<u>182,400</u>	<u>(31,460,178)</u>	<u>(18,356,456)</u>
	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance at May 31, 2015	12,921,322	182,400	(26,666,972)	(13,563,250)
Comprehensive loss for the year	<u>-</u>	<u>-</u>	<u>(2,876,565)</u>	<u>(2,876,565)</u>
Balance at May 31, 2016	<u>12,921,322</u>	<u>182,400</u>	<u>(29,543,537)</u>	<u>(16,439,815)</u>

The accompanying notes are an integral part of these consolidated financial statements.



Canyon Creek Food Company Ltd.
Consolidated Statements of Cash Flows
(in Canadian dollars)

	May 31 2017 \$	May 31 2016 \$
Cash provided by (used in):		
Operating activities		
Net loss for the year	(1,916,641)	(2,876,565)
Items not involving cash:		
Depreciation	70,180	82,466
Loss on disposal of equipment	-	6,000
Production equipment impairment (note 6)	60,554	209,892
Interest expense	1,396,800	1,221,659
	<u>(389,107)</u>	<u>(1,356,548)</u>
Change in items of working capital		
Trade and other receivables	(72,201)	12,215
Inventories	39,749	(77,036)
Prepaid expenses	17,220	(14,028)
Trade payables and other liabilities	(205,079)	(126,960)
	<u>(220,311)</u>	<u>(205,809)</u>
Net cash used in operating activities	<u>(609,418)</u>	<u>(1,562,357)</u>
Investing activities		
Purchase of property and equipment	(31,383)	(177,864)
Net cash used in investing activities	<u>(31,383)</u>	<u>(177,864)</u>
Financing Activities		
Proceeds from long-term debt	730,000	775,000
Proceeds from bank loans	-	1,000,000
Repayment of obligation under capital lease	(15,863)	(32,836)
Interest paid	(76,389)	(76,135)
Increase in bank indebtedness	3,053	74,192
Net cash from financing activities	<u>640,801</u>	<u>1,740,221</u>
Net change in cash for the year	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of these consolidated financial statements.

1. Going Concern

These consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

During the year ended May 31, 2017, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$1,916,941 (2016: \$2,876,565). As at May 31, 2017, the Company has a working capital deficiency of \$19,419,968 (2016: \$17,584,748), bank indebtedness of \$585,600 (2016: \$582,547) (note 8), demand loans due to directors of \$11,621,000 (2016: \$10,891,000) and interest thereon of \$6,286,744 (2016: \$4,966,333), \$1,000,000 due to the bank (2016: \$1,000,000), a shareholders' deficiency of \$18,356,456 (2016: \$16,439,815), an accumulated deficit of \$31,460,178 (2016: \$29,543,537), negative cash flow from operations of \$609,418 (2016: \$1,562,357) and future commitments (note 12). Historically, the Company's operations have not yet been at the volume where the Company is profitable. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent upon the continuing support of related parties (notes 9 and 11), availability of operating and long-term financing, renewing and obtaining new customer supply contracts, achieving a profitable level of operations, and being able to meet future debt service requirements. Management is continuing to address the need to increase revenue, control costs, and obtain working capital and long-term financing. The Company's ability to raise financing may be impacted by its ability to meet the TSX Venture Exchange's (the Exchange) Continued Listing Requirements to maintain a specified amount of working capital. On August 3, 2017 the Company received a notice from the Exchange notifying them of such a deficiency. Under the Exchange policy the Company has 6 months from the date they received notice to meet the requirement. If after that six month period, or at an earlier date based on the discretion of the Exchange, the Company is unable to meet the requirement the TSX may either, at its discretion, suspend and delist the Company's shares or transfer its listing to NEX, which is a separate board from the TSX that provides a trading forum for listed companies that have fallen below the TSX ongoing listing standards. The Exchange uses discretion and flexibility in applying the Continued Listing Requirements. If an Issuer has a viable business, the Exchange may determine that it is not appropriate to transfer the Issuer to NEX even where the Issuer is unable to meet all of the Continued Listing Requirements. There is also a risk that the Company's shares could be subject to a cease trade order. To fund its working capital, subsequent to May 31, 2017, the Company has obtained additional financing from related parties and has entered into an amending agreement with the holders of \$11,276,000 of the demand loans and \$5,942,927 of the accrued interest thereon such that they can not demand repayment of these amounts until November 30, 2019 (note 20). As the outcome of management's actions is dependent on future events, there is no certainty that management will be able to successfully resolve these issues. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These financial statements do not reflect adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operation. These adjustments could be material.

2. The Company

Canyon Creek Food Company Ltd. is a food processing company based in Edmonton, Alberta providing fresh soups and other prepared food products for today's health conscious consumer. The Company provides their fresh food product line to both grocery retailers and a broad range of food service establishments, such as restaurants and institutions throughout Canada. The address of the Company's registered office is 8704-53 Avenue, Edmonton, Alberta T6E 5G2. The consolidated financial statements of the Company as at and for the year ended May 31, 2017 include the accounts of the Company and its subsidiary. Canyon Creek Food Company Ltd owns 100% of Canyon Creek Soup Company as at May 31, 2017. The Company's common shares are traded on the TSX Venture exchange under the symbol "CYF".

3. Basis of presentation and adoption of IFRS

The company prepares its consolidated financial statements in accordance with Part 1 of the CPA Canada Handbook which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

These consolidated financial statements were approved by the Board of Directors for issue on September 28, 2017.

4. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented, unless otherwise stated.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intercompany balances and transactions are eliminated on consolidation.

(b) Translation of foreign currencies

The accounts of the Company are presented in Canadian dollars. Transactions in foreign currencies are translated at the actual rates of exchange. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Canadian dollar at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in net earnings. Non-monetary assets and liabilities that are measured at the historical cost are translated using the exchange rate at the date of the transaction.

(c) Basis of measurement

The consolidated financial statements have been prepared under the historical-cost convention.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. The finished goods cost includes an appropriate share of variable and fixed overheads based on normal operating capacity. Any excess, unallocated, fixed overhead costs are expensed as incurred. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. All costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are included in the carrying value of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components).

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit of the item will occur and its cost can be measured reliably. The costs of day-to-day maintenance of property and equipment are recognized directly in the statement of operations and comprehensive loss.

Depreciation, based on the estimated useful life of the asset, is calculated on the diminishing balance basis using the following annual rates:

Production equipment	5%
Office equipment	20% and 30%

Leasehold improvements are depreciated on a straight-line basis over five years.

Depreciation methods, useful lives and residual values are reassessed annually when there is an indication that they have changed.

The gain or loss on the retirement of an item of property and equipment is the difference between the net sale proceeds and the carrying amount of the asset and is recognized in the statement of operations and comprehensive loss.

(f) Impairment of long lived assets

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(g) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company has made the following classifications:

- **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. The Company's loans and receivables are comprised of trade receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.
- **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include trade accounts payable, accrued liabilities, loans payable and obligation under finance lease. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Accrued interest, loans payable and obligation under finance lease are initially recognized at fair value, and subsequently at amortized cost using the effective interest method.

(h) Research and technical expenses

Research and technical expenses are expensed in the period in which the costs are incurred.

(i) Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

• **Finance lease**

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

• **Operational lease**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized in the income statement on a straight-line basis over the period of the lease.

(j) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rate and laws that have been enacted or substantively enacted at the statement of financial statement date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

(k) Revenue recognition

The majority of the Company's revenue is derived from the sale of product to retail and food service customers. The Company recognizes revenue from product sales at the fair value of the consideration received or receivable, net of estimated returns and an estimate of sales incentives provided to customers. Revenue is recognized when the product is shipped from the facility, title has transferred, all the risks and rewards of ownership have transferred to the customer or a third party, recovery of the consideration is probable, the Company has satisfied its performance obligations under the arrangement, and has no ongoing involvement with the sold product. If applicable, the value of sales incentives provided to customers are estimated using historical trends and are recognized at the time of sale as a reduction of revenue. Sales incentives include rebate and promotional programs provided to the Company's customers. The rebates are primarily based on achievement of specified volume or growth in volume levels. In subsequent periods, the Company monitors the progress of customers related to sales incentive programs and makes any required adjustments to both revenue and sales incentive accruals.

(l) Loss per common share

Basic loss per share is calculated based on the average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method which assumes that any proceeds from the exercise of in-the-money stock options would be used to purchase the Company's common shares at the average market price during the year. The computation of diluted loss per share is similar to basic loss per share except that the weighted average number

of shares outstanding is increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive.

(m) Stock based compensation

Where stock options are granted to employees under the Company's stock option plan, compensation expense is recorded based on the fair value method of accounting. The fair value is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock, its expected volatility and the risk-free interest rate over the expected life of the options. The resulting fair value of the options is amortized over the period in which related employee services are rendered which is assumed to be the vesting period.

(n) Critical accounting estimates, judgements and measurement uncertainty

The preparation of the Company's financial statements, in conformity with IFRS, requires management of the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgments have been applied in a manner consistent with prior periods.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

- **Allowance for doubtful accounts**

The Company must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. Also see note 18(d).

- **Impairment of property and equipment**

Property and equipment is reviewed for indicators of impairment at each reporting date. Where impairment indicators are identified, the Company uses the fair value less cost to sell approach to determine the recoverable amount of the assets included in property and equipment, which drives the conclusion of whether impairment exists, and if it does, the amount of impairment to record.

Fair value less cost to sell is determined based on the best information available to reflect the amount that the entity could obtain from the disposal of the assets in an arm's length transaction between knowledgeable, willing parties, after deducting costs to sell. This approach requires assumptions to be formulated about the overall physical condition of the assets and the costs involved to sell the equipment. Given the historical negative cash flows from operating activities management of the Company determined that the value in use model would result in a lower value. Also see note 6.

Management regularly evaluates these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(o) Accounting standards issued and not applied

Certain new accounting standards and interpretations have been published that are not mandatory for May 31, 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.
- IFRS 9, Financial Instruments, was issued July 2014 by the IASB and supersedes IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 addresses the classification, measurements and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and established three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is in the process of evaluation the impact that IFRS 9 may have on the financial statements.
- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liability for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Company is in the process of evaluating the impact that IFRS 16 may have on the financial statements.

5. Inventories

	May 31, 2017	May 31, 2016
	\$	\$
Raw Materials	152,309	108,954
Finished Goods	20,055	80,896
Supplies	55,593	77,856
	<u>227,957</u>	<u>267,706</u>

Inventories expensed in cost of sales for the year amounted to \$4,092,385 (2016 - \$3,044,208)

6. Property and equipment

	Production Equipment	Production Equipment Under Finance Lease	Office Equipment	Leasehold Improvements	Total
Year ended May 31, 2016	\$	\$	\$	\$	\$
Opening net book value	1,015,607	191,828	5,603	81,012	1,294,050
Additions	169,829	7,365	670	-	177,864
Disposals	(6,000)	-	-	-	(6,000)
Transfer	98,147	(98,147)	-	-	-
Depreciation	(57,329)	(7,322)	(1,612)	(16,203)	(82,466)
Impairment	(155,768)	(54,124)	-	-	(209,892)
Closing net book amount	1,064,486	39,600	4,661	64,809	1,173,556
Year ended May 31, 2017	\$	\$	\$	\$	\$
Opening net book value	1,064,486	39,600	4,661	64,809	1,173,556
Additions	31,383	-	-	-	31,383
Disposals	-	-	-	-	-
Depreciation	(54,008)	(1,980)	(1,230)	(12,962)	(70,180)
Impairment	(50,248)	(1,720)	-	(8,586)	(60,554)
Closing net book amount	991,613	35,900	3,431	43,261	1,074,205
At May 31, 2016					
Cost	4,031,418	398,860	180,289	240,713	4,851,280
Accumulated depreciation and impairment	(2,966,932)	(359,260)	(175,628)	(175,904)	(3,677,724)
Net book amount	1,064,486	39,600	4,661	64,809	1,173,556
At May 31, 2017					
Cost	4,062,801	398,860	180,289	240,713	4,882,663
Accumulated depreciation and impairment	(3,071,188)	(362,960)	(176,858)	(197,452)	(3,808,458)
Net book amount	991,613	35,900	3,431	43,261	1,074,205

Depreciation expense of \$70,180 (May 2016 - \$82,466) was incurred during the year on property and equipment.

The Company determined that the continued losses of the Company were an indicator of possible impairment of the property and equipment. The Property and equipment is tested for impairment on a cash generating unit (CGU) basis. The CGU identified includes all of the property and equipment of the Company as that is the lowest level in which the cash flows are independent.

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quote prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability

The Property and equipment are re-measured on a non-recurring basis to fair value and categorized as Level 3 in the fair value hierarchy. As at May 31, 2017, management engaged an independent appraiser to appraise the Company's production equipment and equipment under finance lease. Fair market value was determined using the sales comparison (market) approach. Under this approach, recently consummated sales transactions and offering prices of similar property are used to arrive at an indication of the most probable selling price of the contemplated property. If the comparables are not exactly like the items being appraised, the selling prices are adjusted to equate them to the selling characteristics of the subject property. Judgement and estimation is involved in determining these adjustments. The only significant unobservable input in the Level 3 valuation is the market price of the comparable equipment.

Recoverable amount, based on fair value less costs to sell was estimated to be \$1,069,205 as at May 31, 2017 (2016 - \$1,168,895). As a result, an impairment charge of \$60,554 (2016 - \$209,892) was recorded as a non-cash charge in the consolidated statement of operations.

The carrying values are based on an assessment of current economic conditions. The amount that could be realized from the actual sale and disposition of the assets may be affected by changes in the economic conditions or other factors and may vary from the carrying values by a material amount.

7. Income Taxes

(a) Income tax expense

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the statutory rate applicable to the Company as follows:

	2017 \$	2016 \$
Tax recovery at statutory rate	(517,000)	(772,000)
Adjusted for the tax effect of:		
Non-capital losses	361,000	589,000
Non-deductible expenses	125,000	116,000
Unrecognized deductible temporary differences	49,000	78,000
Other	(18,000)	(11,000)
	<u>517,000</u>	<u>772,000</u>
Total income tax provision	<u>-</u>	<u>-</u>

The statutory rate was 27.00% (2016 – 26.84%).

(b) Deferred income tax

The amounts of temporary differences that give rise to significant portions of the deferred tax assets are presented below:

	2017 \$	2016 \$
Property and equipment	4,438,734	4,308,000
License	1,425,654	1,425,654
Obligations under capital lease	28,623	44,486
Non-capital losses	14,872,000	13,536,000
	<u>20,765,011</u>	<u>19,314,140</u>

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of \$5,606,553 (2015 - \$5,166,000) in respect of deductible temporary differences amounting to \$20,765,011 (2016 - \$19,314,140) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$14,872,000 (2015 - \$13,536,000) that can be carried forward to use against future taxable income. These non-capital losses expire based on the dates listed below:

	\$
2026	543,000
2027	1,145,000
2028	817,000
2029	972,000
2030	568,000
2031	619,000
2032	1,284,000
2033	1,628,000
2034	1,769,000
2035	2,011,000
2036	2,180,000
2037	1,336,000
	<u>14,872,000</u>

8. Bank indebtedness

The Company has a \$600,000 line of credit that bears interest at the bank's prime lending rate plus 1%. The facility is due on demand and is subject to annual renewal. The facility is secured by, a general security agreement providing a first charge over all assets of the Company, limited corporate guarantees by companies owned by the controlling shareholder who is also a director and subrogation of demand loans payable to directors. At May 31, 2017, the bank's prime rate was 2.70% (May 31, 2016 - 3.00%) and the Company had outstanding cheques of \$32,905 (May 31, 2016 - \$45,811) and a bank overdraft of \$552,695 (May 31, 2016 - \$536,736).

9. Loans payable

	May 31, 2017	May 31, 2016
	\$	\$
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8% compounded annually	11,276,000	10,546,000
Demand loans payable to certain other directors of the Company, bearing interest at 8% compounded annually	345,000	345,000
	<u>11,621,000</u>	<u>10,891,000</u>
<p>The demand loans payable to the directors are unsecured. Subsequent to year-end the demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, were amended with respect to their repayment terms (note 20).</p>		
Bank demand loan, bearing interest payable monthly at the banks' prime lending rate plus 1%	<u>1,000,000</u>	<u>1,000,000</u>

The bank's prime lending rate at May 31, 2017 was 2.70% (2016 – 3%).

The demand loan payable to the bank is subject to annual renewal and is secured by a general security agreement providing a first charge over all assets of the Company, limited corporate guarantees by companies owned by the controlling shareholder, who is also a director, and subrogation of demand loans payable to directors.

The Company has incurred no events of default under the terms of its credit facility.

10. Obligations under finance leases

	May 31, 2017
	\$
2018	21,182
2019	11,550
Total minimum lease payments	32,732
Less: Amount representing imputed interest	4,109
	<u>28,623</u>
Less: Current portion	17,930
	<u>10,693</u>

Production equipment with a carrying value of \$35,900 (May 31, 2016 - \$39,600) has been pledged as collateral. The liability recorded under the capital lease represent the minimum lease payments payable net of imputed interest at rates ranging from 0% to 22.4% per annum. The leases expire December 2017, April 2018 and April 2019.

11. Related party balances and transactions

(a) In addition to the amounts described in note 9, at the end of the year, the amounts due to related parties are as follows:

	May 31, 2017	May 31, 2016
	\$	\$
Due to a company controlled by a director, included in accounts payable, unsecured, interest bearing at 8% annually, with no fixed terms of repayment	84,645	84,645
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8%, with no fixed terms of repayment	1,832	20,047
Accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual (note 9)	5,942,927	4,671,668
Accrued interest on demand loans payable to certain other directors of the Company (note 9)	343,817	294,665

Subsequent to year-end the accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual were amended with respect to the repayment terms (note 20).

(b) The following transactions were entered with related parties during the year:

	2017	2016
	\$	\$
Interest on demand loans, accrued but not paid (note 16)	1,320,410	1,145,524
Interest on amounts due to a company controlled by a director and amounts due to a director and an officer	6,830	8,626

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(c) Compensation of key management

Key management include the Company's directors and officers. Compensation awarded to key management included during the year ended:

	2017	2016
	\$	\$
Salaries and short-term employee benefits	262,000	262,000

12. Commitments

The Company has entered into an operating lease for the facility these leases expiring in 2026. The minimum annual lease payments are as follows:

	\$
2018	130,695
2019	134,945
2020	139,196
2021	143,446
2022 and beyond	<u>822,423</u>
Total	<u>1,370,705</u>

13. Share capital

Authorized

Unlimited number of voting, common shares
Unlimited number of non-voting, preferred shares, issuable in series

Issued

Common shares

	Number of Shares #	Amount \$
Common shares as at May 31, 2017 and 2016	<u>35,148,902</u>	<u>12,921,322</u>

Stock Option Plan

The company has a stock option plan (the "Plan"), which provides that the Board of Directors of the Company (the "Board") may from time to time, in its discretion, grant to directors, senior officers, employees and consultants the option to purchase common shares. The number of common shares reserved for issuance under the Plan shall not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. If the holder leaves the Company, the options expire 90 days after departure. As at May 31, 2017 and 2016 the Company did not have any outstanding stock options.

14. Loss per share

	May 31, 2017 \$	May 31, 2016 \$
Net loss for basic and diluted	<u>(1,916,641)</u>	<u>(2,876,565)</u>
	#	#
Weighted average number of common shares for basic and diluted	<u>35,148,902</u>	<u>35,148,902</u>

15. Expenses by nature

	May 31, 2017	May 31, 2016
	\$	\$
i) Cost of sales		
Ingredients	2,668,198	1,889,829
Wages and benefits	763,513	631,114
Freight	421,682	288,285
Packaging	221,189	137,276
Plant rental	163,709	179,447
Plant utilities	129,857	141,619
Plant repair and maintenance	93,686	70,933
Other	88,081	84,190
	<u>4,549,915</u>	<u>3,422,693</u>
ii) Selling and general and administrative expenses		
Salaries, wages and benefits	737,808	812,898
Advertising and promotion	410,778	270,535
Other	101,038	150,681
Professional Fees	74,823	84,637
Consulting services	48,067	52,099
Insurance	38,795	37,085
Quality Control	30,781	43,078
Utilities	25,201	20,245
Travel	21,786	25,820
	<u>1,489,077</u>	<u>1,497,078</u>

16. Interest expense

	2017	2016
	\$	\$
Interest on demand loans	1,320,410	1,145,524
Interest on bank indebtedness	15,177	19,789
Interest on bank loan	36,941	26,258
Interest on obligation under finance lease	6,365	8,891
Interest on accounts payable	17,907	21,197
	<u>1,396,800</u>	<u>1,221,659</u>

17. Segmented information and economic dependence

The Company operates in one industry, food manufacturing, and all of the Company's assets are in Canada. The Company earned \$5,651,170 (2016: \$3,513,516) of its revenue in Canada and \$nil (2016: \$55,581) of its revenue in the United States. Revenue is attributed to a geographic region based on the location of the customer.

The Company has recorded revenue of \$5,481,635 from three major customers, representing 97% of total revenue (2016 revenue of \$3,488,867 from three major customer representing 98%). The accounts receivable balance due from these customers amounts to 42% of total accounts receivable (2016 – 96%).

18. Financial Instruments

(a) Fair value

The Company's financial instruments at May 31, 2017 consist of trade receivables, bank indebtedness, trade payables and other liabilities, accrued interest, loans payable and obligations under finance leases. The carrying value approximates fair value due to the immediate or short-term maturity of these financial instruments.

b) Financial risk management

The Company's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

c) Price risk

(i) Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies. The Company occasionally purchases supplies in foreign currency however; it is not significantly exposed to foreign currency risk through these purchases.

(ii) Interest rate risk

The Company has a credit facility with a Canadian chartered bank which when utilized by the Company provides loans that are subject to interest rate fluctuations. At May 31, 2017, a 1% change in interest rates would change interest expense by \$5,856 (2016 - \$5,825).

(iii) Other price risk

The Company's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

d) Credit risk

The Company is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance due to the nature of its customers. The maximum credit risk is the fair value of the accounts receivable. The allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer. Management believes that the risk associated with concentrations of credit risk with respect to accounts receivable is limited due to the nature of the customers.

The aging of the Company's receivables and related allowance for doubtful accounts are:

	May 31, 2017	May 31, 2016
	\$	\$
Current	109,898	84,076
Past due, but not impaired amounts		
15 – 45 days	62,476	6,550
Greater than 45 days	4,743	14,290
	<u>67,219</u>	<u>20,840</u>
Accounts receivable net	<u>177,117</u>	<u>104,916</u>

e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit lines. The Company's trade payables, other liabilities, loans payable, accrued interest and bank loan payable are due within one year and the Company's line of credit is close to its limit. The degree to which the Company is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to improve cash flows from operations.

The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in note 19. It also manages liquidity risk by continuously monitoring actual cash flows. The Board of Directors and/or the Audit Committee reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The Company is exposed to liquidity risk as a result of its economic dependence on revenues coming from a few major customers, as outlined in note 17. See also going concern disclosures, note 1.

19. Capital disclosures

The Company's objectives in managing capital are:

- (b) to ensure sufficient liquidity to enable the internal financing of capital projects;
- (c) to ultimately develop a strong capital base to increase investor, creditor and market confidence; and
- (d) to ultimately provide an adequate return to shareholders.

The Company's capital is composed of bank indebtedness, bank loan and shareholder loans. The Company's primary uses of capital in the past have been to finance its operations, and property and equipment expenditures. The Company currently funds these requirements with shareholder financing. The Company maintains a secured operating line of credit with a chartered bank that it uses for its business activities. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements. See also going concern disclosure, note 1.

20. Subsequent Events

- (a) Subsequent to May 31, 2017, the Company received additional funding in the form of demand loans, bearing interest at 8% compounded annually, in the amount of \$600,000 from a company owned by the controlling shareholder of the Company who is also a director.

- (b) Subsequent to May 31, 2017, the Company and its controlling shareholder, who is also a director, and a company controlled by this individual entered into an amending agreement which waives the lender's right to demand repayment of demand loans payable in the amount of \$11,276,000 and accrued interest thereon of \$5,942,927, and the demand loans advanced subsequent to year-end as described in note 20(a), until November 30, 2019.