

CANYON CREEK FOOD COMPANY LTD.

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MANAGEMENT DISCUSSION & ANALYSIS

The following Management’s Discussion and Analysis (“MD&A”) of results of operations and financial position as at May 31, 2018 should be read in conjunction with the audited consolidated financial statements of Canyon Creek Food Company Ltd. (“Canyon Creek” or “the Company”) for the years ended May 31, 2018 and 2017, and the related notes thereto.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and included in the CPA Canada Handbook – Accounting, Part I. This MD&A provides information on the activities of the Company and all amounts are expressed in Canadian dollars unless otherwise noted.

Management is responsible for the information contained in the MD&A and its consistency with information presented, reviewed and approved by the Audit Committee and Board of Directors. Additional information pertaining to the Company can be found on the System for Electronic Document Analysis and Retrieval (“SEDAR”) web site at www.sedar.com.

Some information in this Management Discussion & Analysis is considered forward looking. It is subject to uncertainties and risks associated with industry and other economic factors. Forward looking statements contain assumptions and analysis made by us based on our experience, analysis of historical trends, current conditions and expected future developments, as well as other factors deemed appropriate. Readers are cautioned that we offer no assurance that events or results identified in any forward-looking statements will be realized in whole or in part. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the availability and price of raw materials and labour, competitive factors in the industry, regulatory decisions, economic conditions in North America, our ability to successfully implement our strategic initiatives, and whether such initiatives yield the expected benefits. We make no obligation to publicly update any forward – looking statements.

Overview

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. We provide our fresh food product line to both grocery retailers and a broad range of food service establishments, such as restaurants and institutions throughout Canada. We are a public company trading on the TSX Venture under the symbol “CYF”.

The business strategy is to increase sales by expanding distribution of Canyon Creek Soup Company branded product in new and existing markets, stimulating consumer trial of products and increasing consumer awareness. In addition, we will selectively engage in co-packing opportunities. Some of the key elements of our strategy include:

- Developing unique alternative entrees and soups;
- Creating a strong distribution network;
- Stimulating strong customer demand of the Ready to Use soups in all food channels
- Co-packing arrangements

As there has been a considerable interest by several customers for a unique take on mainstream products, in fiscal 2019 the Company intends to continue to invest resources in research and development in several ready to eat products. The objective is to have products ready to go to market in the second quarter of Fiscal 2019.

Key Performance Drivers

- ***The ability to deliver superior product quality***

We continue to invest to ensure that our product is of high quality both in product safety and delivering superior innovative products. For every product run, the Quality Assurance Department undertakes extensive testing of product quality and packaging. This includes testing viscosity, taste, colour and product integrity. We continue to hold our BRC and Organic certifications in order to offer current and potential customers high standards in the manufacturing of our products.

- ***Competition***

The principal elements of competition in this industry include:

- Distribution
- Price
- Product quality and taste
- Innovation
- Trade and consumer promotions, and
- Labelling and packaging

Risk Factors

We need to effectively manage our resources in order to execute the business plan. Failure to execute would negatively impact our ability to achieve profitability.

To achieve profitability and manage operations effectively, we must continue to improve our operational, financial, and other management processes and systems. In addition, in order to grow and execute on our business plan and opportunities, we need to have adequate resources available, including capital and personnel. We also need to maintain controls and focus as we look to add new products and distribution channels.

To achieve a profit, we must:

- Increase sales volume to reflect the uniqueness of our products;
- Achieve and maintain efficiencies in operations;
- Maintain fixed costs at or near current levels; and
- Avoid significant increases in costs such as production, marketing and distribution.

Significant Events

The Company currently is building distribution in the traditional retail channels. In addition, the Company will continue to focus on building its' brand presence in box stores.

Share Capital

The authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of non-voting preferred shares, issuable in series. As September 28, 2018, the total number of issued and outstanding common shares is 35,148,902.

During the period ended May 31, 2018 and 2017 no securities were issued.

During the period ended May 31, 2018 and 2017 no options to purchase securities were granted. A balance of nil stock options was outstanding as at September 28, 2018.

There are no outstanding share purchase warrants as of September 28, 2018.

Plan of Operation

We are committed to our mission of producing superior innovative food products that give our customers and consumers what they really want. “Favourite Foods Made Easy” in a way that is better, faster and more profitable than our competition. We aspire to be the “best food company” in Canada. This can be achieved through one guiding principal of superior quality, in people, products and customers. Our interaction, both internally and externally, will convey our commitment to superior quality every day. We are investing in equipment to further increase our capacity and efficiency.

Selected Annual Information

Description	May 31, 2018 \$	May 31, 2017 (restated) \$	May 31, 2016 (restated) \$
<i>Total Revenues</i>	7,199,943	5,372,623	3,497,916
<i>Gross Margin</i>	1,032,746	691,974	(217,135)
<i>Net loss for the year</i>			
<i>Total</i>	(2,061,604)	(1,916,641)	(2,876,565)
<i>Per share</i>	(0.06)	(0.05)	(0.08)
<i>Total Assets</i>	1,768,775	1,503,884	1,588,003
<i>Long term liabilities</i>	19,337,347	10,693	28,623

- The consolidated financial statements and financial information in this MD&A have been amended to correct an error in the previously issued financial statements of the comparative period. The Company pays one of its customers a marketing allowance for promotions of its products. This allowance was previously accounted for as an expense in selling expenses. During this year, it was determined that the allowance should be recorded as a reduction of revenue as it constitutes a cash payment to the customer linked to the sale transaction. The impact on the comparative revenue and gross margin was a decrease of \$278,547 for fiscal 2017 and \$71,181 for fiscal 2016. There was no impact on net loss.
- With the continuing operating losses, management performed an impairment assessment of the Company's property and equipment. An independent appraiser was engaged in each of fiscal year since 2012 to assess the fair value of the production equipment. The independent valuator used the sales comparison (market) approach, an accepted valuation technique, to estimate the fair value of the equipment. As a result, the Company recognized an impairment charge of \$18,812 in fiscal 2018 (2017 - \$60,554). This impairment charge was recorded in Q4. Note 6 to the consolidated financial statements provides additional information regarding the impairment.

Results of Operations

Revenue

Revenue increased by 34.0% during the year ended May 31, 2018 versus the previous year. This increase can be attributed to new product introductions, distribution and an increase in demand for previously offered products.

Gross Margin

The gross margin for the year ended May 31, 2018 has improved versus the previous year \$1,032,746 2018 vs. \$691,974 in 2017. This improvement can be traced to an increase in revenue and operational efficiencies in labour and ingredient purchasing.

Net Gain/Loss

The net loss of \$2,061,604 for the year ended May 31, 2018 has increased from the net loss in the previous year by \$144,963. This can be attributed to an increase in internal investment in both human resources to ensure readiness for further growth and expansion. Additionally, increased interest and a loss on disposal of equipment negatively impacted the net loss of the Company.

Summary of Quarterly Results

Description	May 31, 2018 \$	Feb 28, 2018 \$	Nov 30, 2017 \$	Aug 31, 2017 \$	May 31, 2017 (restated) \$	Feb 29, 2017 \$	Nov 30, 2016 \$	Aug 31, 2016 \$
Revenue	198,960	3,593,153	2,842,652	565,178	610,002	2,155,610	1,997,270	609,741
Gross Margin	(631,444)	962,749	750,796	(49,355)	(324,610)	557,814	468,780	(10,010)
Net loss for the period								
Total	(1,238,534)	14,587	(147,090)	(690,567)	(816,174)	(280,080)	(240,770)	(579,617)
Per share	(.04)	(.00)	(.00)	(.02)	(0.02)	(0.01)	(0.01)	(.02)

The first and fourth quarter's revenue are generally lower vs second and third quarters due to seasonality in the chilled soup category. Revenue and Gross Margin of both 2018 and 2017 were adjusted in the fourth quarter by \$401,920 and \$278,547, respectively. The adjustment did not impact the net loss for those years as it relates to a marketing allowance for promotions previously accounted as an expense now reducing revenue as it constitutes a cash payment to a customer linked to the sale transaction. See note 21 to the consolidated financial statements.

Liquidity and Capital Resources

The Company's ability to continue as a going concern is dependent upon the continuing support of related parties, 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. 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. The consolidated 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.

The Company is financed through the following:

Working Capital Funding

The Company has an operating loan with the Bank of Montreal for \$600,000. This loan is used to finance the daily operations and has been in place for many years. In addition, in August 2015 the Company obtained a non-revolving demand loan in the amount of \$1,000,000 bearing interest at prime + 1%, payable monthly, from a Canadian chartered bank. The loan is secured by a general security agreement and guarantees of a major shareholder who is also a director.

During the year, the Company entered into an amending agreement with certain holders of \$11,876,000 of the demand loans and \$7,365,126 of the accrued interest thereon such that effective November 30, 2017 they cannot demand repayment of these amounts for a period of 24 months. See note 9 in financial statements for more information.

Capital Asset Funding

There are capital expenditures planned for fiscal 2019 in order to meet the customer demand. These expenditures are expected to be financed through a combination of equipment leasing and shareholder demand loans.

Going Concern Funding

A couple of the Company's shareholders have been investing in the Company through demand loans for over ten years and continue to support the Company.

Transactions with Related Parties

The related party transactions that we engaged in during the year are as follows:

- **Demand Loans** - one of the shareholders and director, Brian Halina, continues to invest in the Company by way of demand loans. In Q2 of Fiscal 2017 the director indicated that he is not expecting any principal repayment of these demand loans in fiscal 2019. The principle of the loan is \$11,876,000 and well as interest thereon of \$7,365,1256.
- **Accounts Payable** – two of the officers, Terence Alty and Belva Rode continue to support the Company by way of payables that are unsecured, interest bearing at 8% annually and with no fixed terms of repayment.

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

Changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for May 31, 2018 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 to be applied prospectively and 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 issues 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 to be applied prospectively and 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 issues 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 financial statements.

Changes in Internal Control over Financial Reporting

There have been no changes in the internal controls over financial reporting during the year ended May 31, 2018 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Subsequent events

After May 31, 2018, the Company received additional funding in the form of demand loans, bearing interest at 8% compounded annually, in the amount of \$300,000 from a company owned by the controlling shareholder of the Company, who is also a director

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for designing and monitoring the effectiveness of the disclosure controls and procedures. Effective disclosure controls provide reasonable assurance that external financial reporting and statements are reliable. We are small with few administrative staff to ensure effective segregation of duties – a key factor in designing disclosure controls; however, both the Chief Executive Officer and Chief Financial Officer are directly involved in designing and maintaining disclosure controls and procedures. The Company is not required to certify the design and evaluation of DC&P and ICFR and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.