



Canyon Creek Food Company Ltd.
Interim Consolidated Financial Statements
For the three months ended August 31, 2018
(Unaudited)



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To the Shareholders of Canyon Creek Food Company Ltd.

The consolidated interim financial statements of Canyon Creek Food Company Ltd. as at and for the three-month period ending August 31, 2018 have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

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



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

	Aug 31 2018 \$	May 31 2018 \$
(Going Concern – note 1)		
Assets		
Current assets		
Trade and other receivables	335,852	26,617
Inventories (note 5)	597,777	421,794
Prepaid expenses	89,873	33,818
	<u>1,023,502</u>	<u>482,229</u>
Non-current assets		
Property and equipment (note 6)	<u>1,313,485</u>	<u>1,286,546</u>
Total assets	<u>2,336,987</u>	<u>1,768,775</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	572,108	217,934
Trade payables and other liabilities	780,442	473,264
Accrued interest (note 11)	425,980	401,641
Loans payable (note 9)	1,045,000	745,000
Bank loan payable (note 9)	1,000,000	1,000,000
Current portion of obligations under capital leases (note 10)	17,310	11,649
	<u>3,840,840</u>	<u>2,849,488</u>
Non-current liabilities		
Accrued Interest (notes 9 and 11)	7,742,377	7,365,126
Loans payable (note 9)	11,876,000	11,876,000
Straight-line rent payable	33,206	30,283
Deferred lease incentive	41,500	45,000
Obligations under capital leases (note 10)	47,349	20,938
	<u>23,581,272</u>	<u>22,186,835</u>
Total liabilities	<u>23,581,272</u>	<u>22,186,835</u>
Shareholders' deficiency		
Share capital (note 13)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	<u>(34,348,007)</u>	<u>(33,521,782)</u>
Total shareholders' deficiency	<u>(21,244,285)</u>	<u>(20,418,060)</u>
Commitments (note 12)		
Total shareholder's deficiency and liabilities	<u>2,336,987</u>	<u>1,768,775</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.
Interim Consolidated Statements of Operations and Comprehensive Loss
(in Canadian dollars) (unaudited)

	Aug 31 2018 \$	Aug 31 2017 \$
Revenue	<u>437,343</u>	<u>565,178</u>
Direct expenses		
Cost of sales (note 15)	556,045	597,575
Depreciation (note 6)	22,767	16,958
Product equipment write-down (note 6)	-	-
	<u>578,812</u>	<u>614,533</u>
Gross margin	<u>(141,469)</u>	<u>(49,355)</u>
Selling expenses (note 15)		
General	19,025	19,873
Wages and benefits	<u>31,320</u>	<u>19,569</u>
	<u>50,345</u>	<u>39,442</u>
General and administrative expenses (note 15)		
Wages and benefits	136,386	134,526
Office and general	58,567	68,251
Professional fees	<u>16,705</u>	<u>21,252</u>
	<u>211,658</u>	<u>224,029</u>
Research and technical expenses	<u>55</u>	<u>1,429</u>
Loss from operations before other expenses	<u>(403,527)</u>	<u>(314,255)</u>
Interest Expense (note 16)	422,698	376,312
Loss on disposal of equipment	-	-
	<u>422,698</u>	<u>376,312</u>
Net loss and comprehensive loss for the year	<u>(826,225)</u>	<u>(690,567)</u>
Loss per share	(0.02)	(0.02)
Basic and fully diluted (note 14)		



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

	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance at May 31, 2018	12,921,322	182,400	(33,521,782)	(20,418,060)
Comprehensive loss for the year	-	-	(826,225)	(826,225)
Balance at August 31, 2018	<u>12,921,322</u>	<u>182,400</u>	<u>(34,348,007)</u>	<u>(21,244,285)</u>
	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance at May 31, 2017	12,921,322	182,400	(31,460,178)	(18,356,456)
Comprehensive loss for the year	-	-	(2,061,604)	(2,061,604)
Balance at May 31, 2018	<u>12,921,322</u>	<u>182,400</u>	<u>(33,521,782)</u>	<u>(20,418,060)</u>

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



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

	Aug 31 2018 \$	Aug 31 2017 \$
Cash provided by (used in):		
Operating activities		
Comprehensive loss for the year	<u>(826,225)</u>	<u>(690,567)</u>
Items not involving cash:		
Depreciation	22,767	16,958
Loss on disposal of equipment	-	-
Production equipment write-down (note 6)	-	-
Amortization of deferred lease incentive	(1,500)	-
Straight-line rent adjustment	2,922	-
Interest expense	<u>422,698</u>	<u>376,312</u>
	<u>446,887</u>	<u>393,270</u>
Change in items of working capital		
Trade and other receivables	(309,235)	(204,657)
Inventories	(175,982)	(304,148)
Prepaid expenses	(56,057)	(36,708)
Trade payables and other liabilities	<u>305,179</u>	<u>457,740</u>
	<u>(236,095)</u>	<u>(87,773)</u>
Net cash used in operating activities	<u>(615,433)</u>	<u>(385,070)</u>
Investing activities		
Purchase of property and equipment	(49,707)	(54,763)
Proceeds on disposal of property and equipment	-	-
Net cash used in investing activities	<u>(49,707)</u>	<u>(54,763)</u>
Financing Activities		
Proceeds from loans payable	300,000	600,000
Receipt of leasehold incentive	-	-
Repayment of obligation under capital lease	32,073	(4,425)
Interest paid	(21,107)	(17,484)
(Decrease) increase in bank indebtedness	<u>354,174</u>	<u>(138,258)</u>
Net cash from financing activities	<u>665,140</u>	<u>439,833</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 period ended August 31, 2018, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$826,225 (2017: \$690,567). As at August 31, 2018, the Company has a working capital deficiency of \$2,817,338 (2017: \$20,151,111), bank indebtedness of \$572,108 (2017: \$447,342) (note 8), loans due to directors of \$12,921,000 (2017: \$12,221,000) and interest thereon of \$8,168,357 (2017: \$6,645,572) and \$1,000,000 due to the bank (2017: \$1,000,000), a shareholders' deficiency of \$21,244,285 (2017: \$19,047,023) and an accumulated deficit of \$34,348,007 (2017: \$31,150,745). In addition, the Company has negative cash flow from operations of \$615,433 (2017: \$385,070). Historically, the Company's operations have not yet been at the volume where the Company is profitable. The Company also has future commitments (note 12). 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. 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 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 period ended August 31, 2018 include the accounts of the Company and its subsidiary. Canyon Creek Food Company Ltd owns 100% of Canyon Creek Soup Company as at August 31, 2018. 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) applicable to the preparation of interim financial statements including IAS 34, Interim Financial Reporting.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for year ended May 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These consolidated financial statements were approved by the Board of Directors for issue on October 30, 2018.

4. Significant Accounting Policies and New Standards Adopted

The principal accounting policies applied in these interim financial statements are consistent with those of the previous financial year, except as described below. Beginning June 1, 2019 IFRS 16, Leases, will be in effect. The Company is in the process of assessing the impact of this new standard on the financial statements.

The Company has adopted the following new IFRS standards effective June 1, 2018.

a) IFRS 15 Revenue from contracts with customers, supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 is to be applied to each prior reporting period presented retrospectively or through the recognition of the cumulative effect to opening retained earnings.

The Company considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services offered, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things.

The adoption of IFRS 15 resulted in certain procedural changes in accounting for revenue, however accounting policies and the timing of revenue recognition for all revenue streams remains the same.

b) IFRS 9, Financial Instruments replaces IAS 39 and introduces a new classification and measurement model with three classification categories, 'amortized cost', 'fair value' and 'fair value through other comprehensive income', for financial assets, as well as an expected loss impairment model that requires more timely recognition of expected credit losses and a new hedge accounting model.

This Standard was adopted on June 1, 2018, with the only impact being with respect to revising the Company's impairment methodology for its trade and other receivables. The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The adoption of this standard has not had a material impact on the interim financial statements.

5. Inventories

	Aug 31, 2018	May 31, 2018
	\$	\$
Raw Materials	347,937	238,545
Finished Goods	35,449	22,933
Supplies	214,391	160,316
	<u>597,777</u>	<u>421,794</u>

Inventories expensed in cost of sales for the period amounted to \$229,921 (2017 - \$329,269)

6. Property and equipment

	Production Equipment	Production Equipment Under Finance Lease	Office Equipment	Leasehold Improvements	Total
Year ended May 31, 2018	\$	\$	\$	\$	\$
Opening net book value	991,613	35,900	3,431	43,261	1,074,205
Additions	226,103	23,485	10,495	89,624	349,707
Disposals	(36,724)	-	-	-	(36,724)
Transfer	28,845	(28,845)	-	-	-
Transfer of Depreciation	(16,483)	16,483	-	-	-
Depreciation	(55,053)	(2,382)	(1,945)	(22,450)	(81,830)
Impairment	(13,469)	(5,343)	-	-	(18,812)
Closing net book amount	1,124,832	39,298	11,981	110,435	1,286,546
Year ended August 31, 2018	\$	\$	\$	\$	\$
Opening net book value	1,124,832	39,298	11,981	110,435	1,286,546
Additions	9,281	38,187	2,238	-	49,706
Depreciation	(14,119)	(730)	(695)	(7,223)	(22,767)
Impairment	-	-	-	-	-
Closing net book amount	1,119,994	76,755	13,524	103,212	1,313,485
At May 31, 2018					
Cost	4,310,561	393,500	190,784	330,337	5,225,182
Accumulated depreciation and impairment	(3,185,729)	(354,202)	(178,803)	(219,902)	(3,966,133)
Net book amount	1,124,832	39,298	11,981	110,435	1,286,546
At August 31, 2018					
Cost	4,319,843	431,687	193,022	330,337	5,274,889
Accumulated depreciation and impairment	(3,199,849)	(354,932)	(179,498)	(227,125)	(3,961,404)
Net book amount	1,119,994	76,755	13,524	103,212	1,313,485

Depreciation expense of \$22,767 (2017 - \$16,958) was incurred during the period 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 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, 2018, management engaged an independent appraiser to appraise the Company's production equipment and equipment under capital 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 comparable 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 \$1,254,049 as at May 31, 2018 (2017 - \$1,069,205). As a result, a write down of \$42,762 (2017 - \$60,554) 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:

	2018 \$	2017 \$
Tax recovery at statutory rate	(557,000)	(517,000)
Adjusted for the tax effect of:		
Non-capital losses	391,000	361,000
Non-deductible expenses	135,000	125,000
Unrecognized deductible temporary differences	32,000	49,000
Other	(1,000)	(18,000)
	(557,000)	517,000
Total income tax provision	-	-

The statutory rate was 27.00% (2017 – 27.00%).

(b) Deferred income tax

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

	2018 \$	2017 \$
Property and equipment	4,555,290	4,438,734
License	1,425,654	1,425,654
Obligations under capital lease	32,587	28,623
Non-capital losses	16,319,000	14,872,000
	<u>22,332,531</u>	<u>20,765,011</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 \$6,030,000 (2017 - \$5,607,000) in respect of deductible temporary differences amounting to \$22,333,000 (2017 - \$20,765,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$16,319,000 (2017 - \$14,872,000) 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
2038	<u>1,447,000</u>
	<u>16,319,000</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%. A general security agreement by a major shareholder, who is also a director, has been pledged as collateral. At August 31, 2018, the bank's prime rate was 3.70% (May 31, 2018 – 3.45%) and the Company had outstanding cheques of \$66,569 (May 31, 2018 - \$53,064) and a bank overdraft of \$505,539 (May 31, 2018 - \$164,870).

9. Loans payable

	Aug 31, 2018	May 31, 2018
	\$	\$
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8% compounded annually	12,576,000	12,276,000
Demand loans payable to certain other directors or the Company, bearing interest at 8% compounded annually	345,000	345,000
Bank demand loan, bearing interest payable monthly at the banks' prime lending rate plus 1%	1,000,000	1,000,000
	<hr/>	<hr/>
	13,921,000	13,621,000
Less: Current portion	2,045,000	1,745,000
	<hr/>	<hr/>
	11,876,000	11,876,000

The demand loans payable to the directors are unsecured.

The bank's prime lending rate at August 31, 2018 was 3.70% (May 31, 2018 – 3.45%).

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 a major shareholder, who is also a director, and subrogation of demand loans payable to directors.

During the year, the Company and its controlling shareholder, who is also a director, and a company controlled by this same individual entered into an agreement which waives the lender's right to demand repayment of demand loans payable in the amount of \$11,876,000 and accrued interest thereon of \$7,745,377, until November 30, 2019.

10. Obligations under capital leases

	Aug 31, 2018
	\$
2019	22,356
2020	18,595
2021	16,712
2022	9,600
2023	9,600
2024	4,260
Total minimum lease payments	81,123
Less: Amount representing imputed interest	16,464
	<hr/>
Less: Current portion	17,310
	<hr/>
	47,349

Production equipment with a carrying value of \$76,755 (May 31, 2018 - \$39,885) 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 7.7% to 16.8% per annum. The leases expire April 2019 and March 2021.

11. Related party balances and transactions

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

	Aug 31, 2018	May 31, 2018
	\$	\$
Due to a company controlled by a director, included in accounts payable, unsecured, interest bearing at 8% annually, with no fixed terms of repayment	49,910	60,570
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8%, with no fixed terms of repayment	1,419	132
Accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual (note 9)	7,754,538	7,367,756
Accrued interest on demand loans payable to certain other shareholders of the Company (note 9)	413,819	399,011

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

	Aug 31, 2018	Aug 31, 2017
	\$	\$
Interest on demand loans, accrued but not paid (note 16)	401,590	358,828
Interest on amounts due to a company controlled by a director and amounts due to a director and an officer	-	-

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:

	2018	2017
	\$	\$
Salaries and short-term employee benefits	262,000	262,000

12. Commitments

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

	\$
2019	101,209
2020	139,196
2021	143,446
2022	147,696
2023 and beyond	674,727
Total	1,206,274

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 August 31, 2018 and 2017	35,148,902	12,921,322

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 August 31, 2018 and 2017, the Company did not have any outstanding stock options.

14. Loss per share

	Aug 31, 2018 \$	Aug 31, 2017 \$
Net loss for basic and diluted	(826,225)	(690,567)
	#	#
Weighted average number of common shares for basic and diluted	35,148,902	35,148,902

15. Expenses by nature

	Aug 31, 2018 \$	Aug 31, 2017 \$
i) Cost of sales		
Ingredients	228,526	311,520
Wages and benefits	136,873	128,356
Freight	36,051	58,141
Plant rental	74,550	25,367
Packaging	9,523	24,792
Plant utilities	28,280	26,757
Other	15,129	16,200
Plant repair and maintenance	27,113	6,442
	<u>556,045</u>	<u>597,575</u>
ii) Selling and general and administrative expenses		
Salaries, wages and benefits	172,023	169,600
Advertising and promotion	10,829	21,252
Other	22,259	13,325
Professional fees	16,705	12,012
Consulting services	12,013	2,575
Insurance	10,458	12,446
Quality control	8,196	6,548
Travel	4,734	20,517
Utilities	4,787	5,196
	<u>262,004</u>	<u>263,471</u>

16. Interest expense

	2018 \$	2017 \$
Interest on demand loans	401,590	358,828
Interest on bank loan	11,567	4,155
Interest on bank indebtedness	5,736	9,669
Interest on accounts payable	2,511	1,132
Interest on obligation under finance lease	1,294	2,528
	<u>422,698</u>	<u>376,312</u>

17. Segmented information and economic dependence

The Company operates in one industry, food manufacturing, and all the Company's assets are in Canada

18. Financial Instruments

(a) Fair value

The Company's financial instruments at May 31, 2018 consist of trade receivables, bank indebtedness, trade payables and other liabilities, accrued interest, loans payable, bank loan payable and obligations under capital leases. The carrying value of trade receivables, bank indebtedness, trade payables and other liabilities and accrued shareholder interest approximate 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 exposed to foreign currency risk through revenues generated in US dollars. The Company occasionally purchases supplies in foreign currency however; it is not significantly exposed to foreign currency risk through these purchases. The Company recognized a foreign currency exchange gain of \$3,491 included in cost of sales.

(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, 2018, a 1% change in interest rates would change interest expense by \$2,179 (2017 - \$5,856).

(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:

	Aug 31, 2018 \$	May 31, 2018 \$
Current	325,557	24,889
Past due amounts		
15 – 45 days	10,295	1,728
Greater than 45 days	-	-
	<u>10,295</u>	<u>1,728</u>
Accounts receivable net	<u>335,852</u>	<u>26,617</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 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 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

There are no subsequent events that have occurred after August 31, 2018.