



Canyon Creek Food Company Ltd.  
Interim Consolidated Financial Statements  
For the three months ended August 31, 2019  
(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 ended August 31, 2019 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)

	<b>Aug 31, 2019</b>	<b>May 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Trade and other receivables	324,385	187,365
Inventories (note 6)	1,224,937	600,715
Prepaid expenses	140,816	85,115
	<u>1,690,138</u>	<u>873,195</u>
<b>Non-current assets</b>		
Long-term deposits – net of government grant \$24,433 (note 22)	-	40,723
Right-of-use assets (note 5)	836,831	-
Property and equipment (note 7)	2,233,473	1,850,823
	<u>2,233,473</u>	<u>1,850,823</u>
<b>Total assets</b>	<u>4,760,442</u>	<u>2,764,741</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	486,112	541,824
Trade payables and other liabilities	1,825,155	837,239
Notes payable	250,000	-
Accrued interest (note 12)	481,461	517,912
Loans payable (note 10)	995,000	345,000
Bank loan payable (note 10)	1,000,000	1,000,000
Current lease liability (note 5 and 11)	150,066	105,264
	<u>5,187,794</u>	<u>3,347,239</u>
<b>Non-current liabilities</b>		
Accrued Interest (notes 10 and 12)	9,399,181	8,903,157
Loans payable (note 10)	13,253,500	13,253,500
Straight-line rent payable (note 5)	-	49,409
Deferred lease incentive (note 5)	-	35,500
Lease Liability (note 5 and 11)	1,277,446	429,420
	<u>1,277,446</u>	<u>429,420</u>
<b>Total liabilities</b>	<u>29,117,921</u>	<u>26,018,225</u>
<b>Shareholders' deficiency</b>		
Share capital (note 14)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	(37,461,201)	(36,357,206)
	<u>(37,461,201)</u>	<u>(36,357,206)</u>
<b>Total shareholders' deficiency</b>	<u>(24,357,479)</u>	<u>(23,253,484)</u>
<b>Commitments</b> (note 13)		
<b>Total shareholder's deficiency and liabilities</b>	<u>4,760,442</u>	<u>2,764,741</u>

**Approved by the Board of Directors**

(Signed) "Brian Halina"

\_\_\_\_\_  
Director

(Signed) "Terence Alty"

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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)

	<b>3-month period ended Aug 31 2019 \$</b>	<b>3-month period ended Aug 31 2018 \$</b>
<b>Revenue (note 16)</b>	944,075	437,343
<b>Direct expenses</b>		
Cost of sales (note 17)	1,187,639	556,045
Depreciation (note 7)	59,158	22,767
Production equipment write-down (note 7)	-	-
	<u>1,246,797</u>	<u>578,812</u>
<b>Gross margin</b>	<u>(302,722)</u>	<u>(141,469)</u>
<b>Selling expenses (note 17)</b>		
General	25,774	19,025
Wages and benefits	63,374	31,320
	<u>89,148</u>	<u>50,345</u>
<b>General and administrative expenses (note 17)</b>		
Wages and benefits	127,340	136,386
Office and general	53,528	58,567
Professional fees	11,924	16,705
	<u>192,792</u>	<u>212,658</u>
<b>Research and technical expenses</b>	<u>7,346</u>	<u>55</u>
<b>Loss from operations before other expenses</b>	<u>(592,008)</u>	<u>(403,527)</u>
Interest Expense (note 18)	511,987	422,698
<b>Net loss and comprehensive loss for the year</b>	<u>(1,103,995)</u>	<u>(826,225)</u>
<b>Loss per share</b>	(0.03)	(0.02)
Basic and fully diluted (note 15)		

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 \$
<b>Balance at May 31, 2019</b>	12,921,322	182,400	(36,357,206)	(23,253,484)
Comprehensive loss for the 3-month period	-	-	(1,103,995)	(1,103,995)
<b>Balance at Aug 31, 2019</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(37,461,201)</u>	<u>(24,357,479)</u>
	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
<b>Balance at May 31, 2018</b>	12,921,322	182,400	(33,521,782)	(20,418,060)
Comprehensive loss for the year	-	-	(2,835,424)	(2,835,424)
<b>Balance at May 31, 2019</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(36,357,206)</u>	<u>(23,253,484)</u>



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

	3-month period ended Aug 31 2019 \$	3-month period ended Aug 31 2018 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the period</b>	(1,103,995)	(826,225)
<b>Items not involving cash:</b>		
Depreciation	33,472	22,767
Depreciation on right-of-use assets	25,686	-
Straight-line rent adjustment	-	2,922
Interest expense	511,987	422,698
	571,145	446,887
<b>Change in items of working capital</b>		
Trade and other receivables	(137,020)	(309,235)
Inventories	(624,222)	(175,982)
Prepaid expenses	(55,700)	(56,057)
Trade payables and other liabilities	987,915	305,179
	170,973	(236,095)
<b>Net cash used in operating activities</b>	<u>(361,877)</u>	<u>(615,433)</u>
<b>Investing activities</b>		
Purchase of property and equipment	(416,120)	(49,707)
<b>Net cash used in investing activities</b>	<u>(416,120)</u>	<u>(49,707)</u>
<b>Financing Activities</b>		
Proceeds from notes payable	250,000	-
Proceeds from loans payable	650,000	300,000
Receipt of leasehold incentive	-	-
Repayment of obligation under finance lease	(13,877)	32,073
Interest paid	(52,413)	(21,107)
Increase (decrease) in bank indebtedness	(55,713)	354,174
<b>Net cash from financing activities</b>	<u>777,997</u>	<u>665,140</u>
<b>Net change in cash for the year</b>	-	-
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, 2019, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$1,103,995 (2018: \$826,225). As at August 31, 2019, the Company has a working capital deficiency of \$3,497,656 (2018: \$2,817,338), bank indebtedness of \$486,112 (2018: \$572,108) (note 8), loans due to directors of \$14,248,500 (2018: \$12,921,000) and accrued interest thereon of \$9,880,642 (2018: \$8,168,357), a \$1,000,000 bank loan payable (2018: \$1,000,000), a shareholders' deficiency of \$24,357,479 (2018: \$21,244,285) and an accumulated deficit of \$37,461,201 (2018: \$34,348,007). In addition, the Company has negative cash flow from operations of \$361,877 (2018: \$266,314). Historically, the Company's operations have not yet been at the volume where the Company is profitable. The Company also has future commitments (note 13). 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 10 and 12), 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, 2019 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, 2019. The Company's common shares are traded on the TSX Venture exchange under the symbol "CYF".

## 3. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and should be read in conjunction with the Company's annual financial statements for the year ended May 31, 2019 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These unaudited interim consolidated financial statements were approved by the Board of Directors for issue on October 30, 2019.

**4. Significant accounting policies and recent accounting pronouncements**

The significant accounting policies used in the preparation of these interim consolidated financial statements are the same accounting policies and method of computation as disclosed in the consolidated annual financial statements for the year ended May 31, 2019, except for the adoption of a new and amended standard as described in Note 5.

**5. Adoption of new accounting standards**

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements and discloses the new accounting policies that have been applied from June 1, 2019 in note 5(b) below.

The Company has adopted IFRS 16 retrospectively from June 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on June 1, 2019.

**a) Adjustments recognized on adoption of IFRS 16**

On adoption of IFRS 16, the Company recognized lease liabilities in relation to lease which had previously been classified as operating lease under the principles of IAS 17 Leases. This liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of June 1, 2019. The average lessee's incremental borrowing rate applied to the Company's lease liability on June 1, 2019 for was 9.29%.

	<b>2019</b>
	<b>\$</b>
Operating lease commitments disclosed as at May 31, 2019	3,572,971
Discounted using the lessee's incremental borrowing rate at the date of initial application	(311,041)
Less: leases entered subsequent to August 31, 2019	2,467,906
<b>Lease liability recognized at June 1, 2019</b>	<b>794,024</b>

Of which are:

Current lease liability	69,266
Non-current lease liability	724,758
	<b>794,024</b>

The associated right-of-use asset for the building lease was measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at May 31, 2019. There were no material onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on June 1, 2019:

- Right-of-use assets – increased by \$710,552
- Lease liabilities:
  - Lease liabilities – increased by \$794,024
  - Straight-line rent payable – decreased by \$41,972
  - Deferred lease incentive – decreased by \$41,500

There was no net impact on retained earnings on June 1, 2019.

i) *Impact on earnings per share*

Basic and diluted earnings per share for the three months to August 31, 2019 decreased by \$nil as a result of the adoption of IFRS 16.

ii) *Practical expedients applied*

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

b) ***The Company's leasing activities and how these are accounted for***

The Company leases one building and certain production equipment. Rental contracts are typically made for fixed periods of one to ten years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From June 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

*i) Variable lease payments*

Based on the valuation of the Company's leases, no leases have been identified that are directly tied to an index or rate, and whereby an estimate would be required in determining the uncertainty arising from variable lease payments.

*ii) Extension and termination options*

Extension and termination options are included in several property and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. Most of the extension and termination options held are exercisable only by the Company and not by the respective lessor.

***Critical judgements in determining the lease term***

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For many of the leases the cash outflows associated with the lease extension term would be material. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

**6. Inventories**

	<b>Aug 31, 2019</b>	<b>May 31, 2019</b>
	\$	\$
Raw Materials	756,395	451,761
Finished Goods	139,506	36,812
Supplies	329,036	112,142
	<b>1,224,937</b>	<b>600,715</b>

Inventories expensed in cost of sales for the period amounted to \$687,290 (2018 - \$229,921).

**7. Property and equipment**

	<b>Production Equipment</b>	<b>Production Equipment Under Finance Lease</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Year ended May 31, 2019</b>					
Opening net book value	1,124,832	39,298	11,981	110,435	1,286,546
Additions	68,519	684,989	2,432	77,015	832,955
Disposals	(109,547)	-	-	-	(109,547)
Depreciation	(53,949)	(14,747)	(2,801)	(36,595)	(108,092)
Government grants (note 21)	-	(51,039)	-	-	(51,039)
<b>Closing net book amount</b>	<b>1,029,855</b>	<b>658,501</b>	<b>11,612</b>	<b>150,855</b>	<b>1,850,823</b>
<b>Period ended Aug 31, 2019</b>					
Opening net book value	1,029,855	658,501	11,612	150,855	1,850,823
Additions	431,654	-	3,493	5,408	440,555
Disposals	-	-	-	-	-
Depreciation	(15,267)	(8,869)	(744)	(8,592)	(33,472)
Government grants (note 22)	(24,433)	-	-	-	(24,433)
<b>Closing net book amount</b>	<b>1,421,809</b>	<b>649,632</b>	<b>14,361</b>	<b>147,671</b>	<b>2,233,473</b>
<b>At May 31, 2019</b>					
Cost	4,269,533	1,027,450	193,216	407,352	5,897,551
Accumulated depreciation and impairment	(3,239,678)	(368,949)	(181,604)	(256,497)	(4,046,728)
<b>Closing net book amount</b>	<b>1,029,855</b>	<b>658,501</b>	<b>11,612</b>	<b>150,855</b>	<b>1,850,823</b>
<b>At Aug 31, 2019</b>					
Cost	4,676,754	1,179,417	196,709	412,760	6,465,640
Accumulated depreciation and impairment	(3,254,945)	(529,785)	(182,348)	(265,089)	(4,232,167)
<b>Net book amount</b>	<b>1,421,809</b>	<b>649,632</b>	<b>14,361</b>	<b>147,671</b>	<b>2,233,473</b>

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 are 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, 2019, management engaged an independent appraiser to appraise the Company's production equipment, equipment under capital lease and certain leasehold improvements. 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 are involved in determining these adjustments. The only significant unobservable input in the Level 3 valuation is the market price of the comparable equipment.

For the period ended August 31, 2019, the recoverable amount, based on fair value less cost to sell, approximated carrying amounts, therefore no impairment was recognized.

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.

On May 2, 2019, the Company entered into a sale-leaseback agreement with a third party with respect of certain production equipment. The term of the lease is four years maturing on May 1, 2023 with an option to purchase the equipment for \$10 plus applicable taxes at the end of the lease. If the purchase option is not exercised, then the lease agreement will renew under the same terms on an annual basis. The first payment under the terms of the lease agreement was \$146,000 with subsequent 47 monthly payments of \$5,036.

The amount of the finance lease liability was calculated as the present value of the cash outflow of the four-year lease payments using a 11.36% discount rate resulting in an initial capital lease liability of \$333,917.

There was no gain on the sale of the production equipment associated with the sale-leaseback transaction.

## 8. 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:

	2019 \$	2018 \$
Tax recovery at statutory rate	(759,000)	(557,000)
Adjusted for the tax effect of:		
Substantially enacted tax rates	978,000	-
Non-deductible expenses	159,000	135,000
Unrecognized deductible temporary differences	(362,000)	432,000
Other	(16,000)	(1,000)
	759,000	557,000
Total income tax provision	-	-

The statutory rate was 26.75% (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:

	2019 \$	2018 \$
Property and equipment	2,566,253	4,555,290
License	1,425,654	1,425,654
Obligations under finance lease	534,684	32,587
Non-capital losses	20,118,000	16,319,000
	<u>24,664,591</u>	<u>22,332,531</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 \$5,668,256 (2018 - \$6,030,000) in respect of deductible temporary differences amounting to \$24,664,591 (2018 - \$22,333,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$20,118,000 (2018 - \$16,319,000) 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	1,447,000
2039	<u>3,799,000</u>
	<u>20,118,000</u>

**9. 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, 2019, the bank's prime rate was 3.95% (May 31, 2019 - 3.95%) and the Company had outstanding cheques of \$150,115 (May 31, 2018 - \$70,617) and a bank overdraft of \$335,997 (May 31, 2018 - \$471,207).

10. Loans payable

	May 31, 2019 \$	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	13,903,500	13,253,500
Demand loans payable to certain other directors of 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
	15,248,500	14,598,500
Less: Current portion	995,000	1,345,000
	<u>14,253,500</u>	<u>13,253,500</u>

The demand loans payable to the directors are unsecured.

The bank's prime lending rate at August 31, 2019 was 3.95% (May 31, 2019 – 3.95%).

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 \$13,253,500 and accrued interest thereon of \$9,399,181 (May 31, 2019 - \$8,962,633), until November 31, 2021. This amending agreement represented a modification to the original agreement as prescribed by IFRS 9. The amount resulted from this modification approximates carrying value, therefore no gain or loss was recorded as a result of this modification.

11. Obligations under finance leases

	Aug 31, 2019 \$	May 31, 2019 \$
2020	247,747	152,437
2021	331,634	150,544
2022	328,772	143,432
2023	327,912	138,322
2024	270,309	73,751
2025	160,447	-
2026	164,697	-
2027	41,440	-
Total minimum lease payments	1,872,958	658,486
Less: Amount representing imputed interest	445,446	123,802
	1,427,512	534,684
Less: Current portion	150,066	105,264
	<u>1,277,446</u>	<u>429,420</u>

Production equipment with a carrying value of \$709,540 (May 31, 2019 - \$658,501) has been pledged as collateral. The liability recorded under the finance lease represents the minimum lease payments payable net of imputed interest at rates ranging from 5.3% to 16.8% per annum. The leases expire March 2021, March 2023, April 2023, July 2023, August 2023, January 2024, February 2024, March 2024, and May 2024.

Addition of a right-of-use asset previously recorded as an operating lease has been recognized in this quarter based on the adoption of IFRS 16. The liability recorded represents the minimum lease payments net of imputed interest rate based off the Company's' IBR determined to be 9.29%, with the lease expiring in August 2026. The obligation represents the expected payments known at the time of recognition and is subject to change due to changes in lease rates and potential lease extension.

**12. Related party balances and transactions**

(a) In addition to the amounts described in note 10, at the end of the period, the amounts due to related parties are as follows:

	<b>Aug 31, 2019</b>	<b>May 31, 2019</b>
	\$	\$
Due to a company controlled by a director, included in accounts payable, unsecured, interest bearing at 8% compounded annually, with no fixed terms of repayment	49,910	49,910
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8% compounded annually, with no fixed terms of repayment	487	132
Accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual (note 10)	9,406,118	7,367,756
Accrued interest on demand loans payable to certain other shareholders of the Company (note 10)	474,524	399,011

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

	<b>Aug 31, 2019</b>	<b>Aug 31, 2018</b>
	\$	\$
Interest on demand loans, accrued but not paid (note 17)	459,573	401,590
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:

	2019 \$	2018 \$
Salaries and short-term employee benefits	262,000	262,000

13. Commitments

Subsequent to August 31, 2019, the Company entered into a new lease agreement expiring in 2029 to expand its current production facility. The minimum annual lease payments are as follows:

	\$
2020	128,378
2021	170,061
2022	180,248
2023	185,435
2024 and beyond	<u>1,798,784</u>
Total	<u>2,467,906</u>

14. 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, 2019 and 2018	<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 August 31, 2019 and 2018, the Company did not have any outstanding stock options.

15. Loss per share

	Aug 31, 2019 \$	Aug 31, 2018 \$
Net loss for basic and diluted	<u>(1,103,995)</u>	<u>(826,225)</u>
	#	#
Weighted average number of common shares for basic and diluted	35,148,902	35,148,902

16. Revenue

	May 31, 2019 \$	May 31, 2018 \$
Revenue from contracts with customers		
Product sales	6,942,311	6,833,104
Freight services	<u>537,000</u>	<u>366,839</u>
	<u><b>7,479,311</b></u>	<u><b>7,199,943</b></u>

17. Expenses by nature

	Aug 31, 2019 \$	Aug 31, 2018 \$
i) Cost of sales		
Ingredients	608,274	228,526
Wages and benefits	229,934	136,873
Freight	197,916	36,051
Plant rental	19,028	74,550
Packaging	11,112	9,523
Plant utilities	49,011	28,280
Other	34,767	15,129
Plant repair and maintenance	<u>37,597</u>	<u>27,113</u>
	<u><b>1,187,639</b></u>	<u><b>556,045</b></u>
ii) Selling and general and administrative expenses		
Salaries, wages and benefits	217,618	172,023
Other	28,946	22,259
Professional fees	11,924	16,705
Advertising and promotion	11,205	10,829
Quality Control	14,569	8,196
Insurance	12,822	10,458
Consulting	(28,042)	12,013
Travel	7,664	4,734
Utilities	<u>5,234</u>	<u>4,787</u>
	<u><b>281,940</b></u>	<u><b>262,004</b></u>

**18. Interest expense**

	Aug 31, 2019 \$	Aug 31, 2018 \$
Interest on demand loans	459,573	401,590
Interest on bank loan	12,477	11,567
Interest on bank indebtedness	5,962	5,736
Interest on accounts payable	2,355	2,511
Interest on obligation under finance lease	31,620	1,294
	<b>511,987</b>	<b>422,698</b>

**19. Segmented information and economic dependence**

The Company operates in one industry, food manufacturing, and all the Company's assets are in Canada. The Company has recorded revenue of \$6,949,024 from two major customers, representing 93% of total revenue (2018 revenue of \$5,671,121 from two major customers representing 80% of revenue). The accounts receivable balance due from these customers amounts to 100% of total receivable (2018 nil%).

**20. Financial Instruments**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and commodity prices 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.

**(a) Fair value**

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are no financial instruments carried at fair value as at August 31, 2019 or 2018. The carrying values of all financial instruments approximate their fair values due either to their short-term nature or their interest terms approximating current market rates.

**(b) Market risk**

**(i) Foreign exchange 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) Cash flow and fair value interest rate risk**

Interest rate risk is the risk the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may influence the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price 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, 2019, a 1% change in interest rates would change interest expense by \$5,418 (2018 - \$2,179).

**(c) Credit risk**

Credit risk is the risk of financial loss because a counterparty to a financial instrument fails to discharge its contractual obligations. Credit risk is managed by analysing the credit risk for new customers before standard payment, and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and credit exposures to customers, including outstanding trade receivables and committed transactions. Customers are assessed on their credit quality, considering their financial position, past experience and other factors. The maximum exposure to credit risk is the total carrying value of cash and cash equivalents and trade and other receivables.

A simplified credit loss approach is applied for trade and other receivables. Under this approach, lifetime expected credit losses are recognized for all accounts receivable balances by applying an expected loss rate based on historical credit losses adjusted for current and forward-looking information which may affect the ability of the customers to settle receivables. Trade and other receivables have been grouped based on shared credit risk characteristics and days past due. In previous years the impairment of accounts receivable and loan receivable was assessed based on the incurred loss model whereby individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. Where the Company assessed a potential impairment, the estimated impairment losses were recognized in a separate provision. Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan, and failure to make contractual payments for a period of greater than 120 days past due.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade and other receivables. The maximum credit risk exposure to a single customer is \$81,070 (2018 – \$16,153). The Company believes there is minimal risk associated with the collection of these amounts based on historical and subsequent collections. The Company manages its credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

The aging of the Company's receivables is:

	Aug 31, 2019 \$	May 31, 2019 \$
Current	212,020	95,464
Past due amounts		
15 – 45 days	100,124	86,680
Greater than 45 days	12,241	5,221
	112,365	91,901
Accounts receivable net	324,385	187,365

**(d) Liquidity risk**

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters into transactions to purchase goods and services on credit, borrow funds from financial institutions; and lease warehouse space from various lessors, for which

repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of negative net cash flows.

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 and accrued interest in the amount of \$3,240,412 and bank loan payables 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 19. See also going concern disclosures, note 1.

## **21. 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, loans payable, bank loan payable, and obligations under finance lease. 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.

## **22. Government assistance**

On December 19, 2018, the Company entered into an agreement with the Minister of Agriculture and Forestry of the Government of Alberta. During the year, the Company received \$75,472 which was netted against the carrying amount of the assets they relate to included in Property and Equipment.