

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, 2019 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, 2019 and 2018, and the related notes thereto.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). 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”.

Our primary focus is to develop strategic alliances with both retailers and branded food companies. We believe this provides the greatest opportunity to drive plant throughput and efficiencies.

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 27, 2019, the total number of issued and outstanding common shares is 35,148,902.

During the period ended May 31, 2019 and 2018 no securities were issued.

During the period ended May 31, 2019 and 2018 no options to purchase securities were granted. A balance of nil stock options was outstanding as at September 27, 2019.

There are no outstanding share purchase warrants as of September 27, 2019.

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, 2019 \$	May 31, 2018 \$	May 31, 2017 (restated) \$
<i>Total Revenues</i>	7,479,311	7,199,943	5,372,623
<i>Gross Margin</i>	418,993	1,032,746	691,974
<i>Net loss for the year</i>			
<i>Total</i>	(2,835,424)	(2,061,604)	(1,916,641)
<i>Per share</i>	(0.08)	(0.06)	(0.05)
<i>Total Assets</i>	2,764,741	1,768,775	1,503,884
<i>Long term liabilities</i>	22,670,986	19,337,347	10,693

- The 2018 consolidated financial statements and comparative financial information in this MD&A were amended in the previous year 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 during the 2017 year-end as an expense in selling expenses. In 2018, 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. There was no impact on net loss.

Results of Operations

Revenue

Revenue increased by 3.8% during the year ended May 31, 2019 when compared to the previous year. This increase can be attributed to new product introductions, new formats used, distribution, an increase in demand for previously offered products.

Gross Margin

The gross margin for the year ended May 31, 2019 has decreased by 40.5% when compared to the previous year. This decrease can be traced to a change in product mix caused by the addition of a different product format, which has lower margins than previously sold formats.

Net Loss

The net loss of \$2,835,424 for the year ended May 31, 2019 has increased from the net loss in the previous year by \$773,820. This can be attributed directly to the decrease in the gross margin and the impact of compounded interest from shareholder loans.

Summary of Quarterly Results

Description	May 31, 2019 \$	Feb 28, 2019 \$	Nov 30, 2018 \$	Aug 31, 2018 \$	May 31, 2018 \$	Feb 28, 2017 \$	Nov 30, 2017 \$	Aug 31, 2017 \$
Revenue	691,282	3,125,326	3,225,360	437,343	198,960	3,593,153	2,842,650	565,178
Gross Margin	(456,271)	355,272	661,461	(141,469)	(631,444)	962,749	750,796	(49,355)
Net loss for the period								
Total	(1,394,353)	(466,202)	(148,644)	(826,225)	(1,238,534)	14,587	(147,090)	(690,567)
Per share	(0.04)	(0.01)	(0.00)	(0.02)	(0.04)	(0.00)	(0.00)	(0.02)

The first and fourth quarter's revenue are generally lower vs second and third quarters due to seasonality in the chilled soup category.

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 \$13,253,500 of the demand loans and \$8,903,157 of the accrued interest thereon such that effective May 21, 2019 they cannot demand repayment of these amounts for a period of 18 months. See note 9 in financial statements for more information.

Capital Asset Funding

There are capital expenditures planned for fiscal 2020 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 Q4 of fiscal 2019 the director indicated that he is not expecting any principal or interest repayment of these demand loans in fiscal 2020 and until November 30, 2021. The principle of the loan is \$13,253,500 and well as interest thereon of \$8,962,633.
- ***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

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments (IFRS 9), 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.

Impact of adoption

The adoption of IFRS 9 did not result in any adjustments upon transition. Financial assets which include trade and other receivables that were previously classified as Loans and Receivable are now classified as amortized cost. This change in classification did not result in any changes in the measurement of financial assets for the Company but did require a change to the Financial Instruments policy. See note 4 (g) in the financial statements.

The Company was required to revise its impairment methodology under IFRS 9 for its financial assets, to account for expected credit losses. To measure the expected credit loss, financial assets have been grouped based on shared credit risk characteristics and days past due. While the financial assets of the Company are subject to the expected credit loss requirements, the identified loss was immaterial.

There was no impact to the measurement, recognition or disclosures of financial liabilities, and the Company does not apply hedge accounting.

IFRS 15 Revenue from Contracts with Customers

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. The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

The Company adopted IFRS 15, effective June 1, 2018, considering 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.

Impact of adoption

IFRS 15 was adopted using the modified retrospective approach and resulted in certain procedural changes in accounting for revenue, however the timing of revenue recognition for all performance obligations remains the same. See note 4 (l) in the financial statements.

New amendment standards not yet adopted

IFRS 16 Leases

IFRS 16, Leases was issued in January 2016 and specifies how an entity shall recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease 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.

IFRS 16 is required to be applied for annual periods beginning on or after January 1, 2019. The Company is in the process of completing an in-depth assessment of IFRS 16 and the impact to the consolidated financial statements. The Company's preliminary assessment has identified certain leases that will be impacted by the implementation of IFRS 16, which would result in those leases with terms of more than 12 months to be included on-balance sheet by recognizing a "right-of-use" asset and a related lease liability at the commencement of the lease.

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, 2019 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, 2019, the Company received additional funding in the form of demand loans, bearing interest at 8% compounded annually, in the amount of \$650,000 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.