



Canyon Creek Food Company Ltd.  
Consolidated Financial Statements  
May 31, 2019 and 2018



## *Independent auditor's report*

To the Shareholders of Canyon Creek Food Company Ltd.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canyon Creek Food Company Ltd. and its subsidiary (together, the Company) as at May 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at May 31, 2019 and 2018;
- the consolidated statements of operations and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Material uncertainty related to going concern*

We draw attention to note 1 to the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



The engagement partner on the audit resulting in this independent auditor's report is Armando Pinedo Zamudio.

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants

Edmonton, Alberta  
September 27, 2019



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

	<b>May 31 2019 \$</b>	<b>May 31 2018 \$</b>
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Trade and other receivables	187,365	26,617
Inventories (note 5)	600,715	421,794
Prepaid expenses	85,115	33,818
	<u>873,195</u>	<u>482,229</u>
<b>Non-current assets</b>		
Long-term deposits – net of government grant \$24,433 (note 21)	40,723	-
Property and equipment (note 6)	1,850,823	1,286,546
	<u>1,891,546</u>	<u>1,286,546</u>
<b>Total assets</b>	<u>2,764,741</u>	<u>1,768,775</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 8)	541,824	217,934
Trade payables and other liabilities	837,239	473,264
Accrued interest (note 11)	517,912	401,641
Loans payable (note 9)	345,000	745,000
Bank loan payable (note 9)	1,000,000	1,000,000
Current portion of obligations under finance leases (note 10)	105,264	11,649
	<u>3,347,239</u>	<u>2,849,488</u>
<b>Non-current liabilities</b>		
Accrued Interest (notes 9 and 11)	8,903,157	7,365,126
Loans payable (note 9)	13,253,500	11,876,000
Straight-line rent payable	49,409	30,283
Deferred lease incentive	35,500	45,000
Obligations under finance leases (note 10)	429,420	20,938
	<u>13,776,986</u>	<u>19,637,347</u>
<b>Total liabilities</b>	<u>26,018,225</u>	<u>22,186,835</u>
<b>Shareholders' deficiency</b>		
Share capital (note 13)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	(36,357,206)	(33,521,782)
	<u>(23,253,484)</u>	<u>(20,418,060)</u>
<b>Total shareholders' deficiency</b>	<u>(23,253,484)</u>	<u>(20,418,060)</u>
<b>Commitments</b> (note 12)		
<b>Total shareholder's deficiency and liabilities</b>	<u>2,764,741</u>	<u>1,768,775</u>

**Approved by the Board of Directors**

(Signed) "Brian Halina"

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 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.  
Consolidated Statements of Operations and Comprehensive Loss  
(in Canadian dollars)

	Year ended May 31 2019 \$	Year ended May 31 2018 \$
<b>Revenue (note 15)</b>	7,479,311	7,199,943
<b>Direct expenses</b>		
Cost of sales (note 16)	6,952,226	6,066,555
Depreciation (note 6)	108,092	81,830
Production equipment write-down (note 6)	-	18,812
	7,060,318	6,167,197
<b>Gross margin</b>	418,993	1,032,746
<b>Selling expenses (note 16)</b>		
General	140,899	254,193
Wages and benefits	243,400	117,280
	384,299	371,473
<b>General and administrative expenses (note 16)</b>		
Wages and benefits	618,698	659,009
Office and general	386,416	379,386
Professional fees	83,523	89,747
	1,088,637	1,128,142
<b>Research and technical expenses</b>	9,653	7,711
<b>Loss on disposal of equipment</b>	26,708	28,974
<b>Loss from operations before other expenses</b>	(1,090,304)	(503,554)
Interest Expense (note 17)	1,745,120	1,558,050
<b>Net loss and comprehensive loss for the year</b>	(2,835,424)	(2,061,604)
<b>Loss per share</b>	(0.08)	(0.06)
Basic and fully diluted (note 14)		

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

	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	<u>-</u>	<u>-</u>	<u>(2,835,424)</u>	<u>(2,835,424)</u>
<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>
	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
<b>Balance at May 31, 2017</b>	12,921,322	182,400	(31,460,178)	(18,356,456)
Comprehensive loss for the year	<u>-</u>	<u>-</u>	<u>(2,061,604)</u>	<u>(2,061,604)</u>
<b>Balance at May 31, 2018</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(33,521,782)</u>	<u>(20,418,060)</u>



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

	Year ended May 31 2019 \$	Year ended May 31 2018 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the year</b>	<u>(2,835,424)</u>	<u>(2,061,604)</u>
<b>Items not involving cash:</b>		
Depreciation	108,092	81,830
Loss on disposal of equipment	26,708	28,974
Production equipment write-down (note 6)	-	18,812
Amortization of deferred lease incentive	(6,000)	(2,500)
Straight-line rent adjustment	11,688	30,283
Interest expense	<u>1,745,120</u>	<u>1,558,050</u>
	<u>(949,816)</u>	<u>(346,155)</u>
<b>Change in items of working capital</b>		
Trade and other receivables	(160,748)	150,500
Inventories	(178,921)	(193,837)
Prepaid expenses	(51,297)	(9,213)
Trade payables and other liabilities	<u>367,914</u>	<u>132,391</u>
	<u>(23,052)</u>	<u>79,841</u>
<b>Net cash used in operating activities</b>	<u>(972,868)</u>	<u>(266,314)</u>
<b>Investing activities</b>		
Purchase of property and equipment	(147,966)	(349,707)
Long-term deposit on asset	(40,723)	-
Proceeds on disposal of property and equipment	<u>-</u>	<u>7,750</u>
<b>Net cash used in investing activities</b>	<u>(188,689)</u>	<u>(341,957)</u>
<b>Financing Activities</b>		
Proceeds from loans payable	977,500	1,000,000
Receipt of leasehold incentive	-	50,000
Repayment of obligation under finance lease	(49,014)	3,964
Interest paid	(90,818)	(78,027)
Increase (decrease) in bank indebtedness	<u>323,889</u>	<u>(367,666)</u>
<b>Net cash from financing activities</b>	<u>1,161,557</u>	<u>608,271</u>
<b>Net change in cash for the year</b>	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>-</u>	<u>-</u>

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

## 1. Going Concern

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

During the year ended May 31, 2019, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$2,835,484 (2018: \$2,061,604). As at May 31, 2019, the Company has a working capital deficiency of \$2,474,044 (2018: \$2,367,259), bank indebtedness of \$541,824 (2018: \$217,934) (note 8), loans due to directors of \$13,598,500 (2018: \$12,621,000) and accrued interest thereon of \$9,421,069 (2018: \$7,766,767), a \$1,000,000 bank loan payable (2018: \$1,000,000), a shareholders' deficiency of \$23,253,484 (2018: \$20,418,060) and an accumulated deficit of \$36,357,206 (2018: \$33,521,782). In addition, the Company has negative cash flow from operations of \$972,868 (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 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 May 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 May 31, 2019. The Company's common shares are traded on the TSX Venture exchange under the symbol "CYF".

## 3. Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors for issue on September 27, 2019.

#### 4. Significant Accounting Policies and Recent Accounting Pronouncements

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

**(a) Principles of consolidation**

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

**(b) Translation of foreign currencies**

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

**(c) Basis of measurement**

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

**(d) Inventories**

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

**(e) Property and equipment**

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

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

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

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

Production equipment	5%
Production equipment under finance lease	5%
Office equipment	20% and 30%

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

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

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

**(f) Impairment of long-lived assets**

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

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

**(g) Financial instruments**

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

**Financial assets**

Financial assets that are held for collection of contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. This includes trade and other receivables. Financial assets are initially recognized at fair value plus transaction costs, adjusted for any expected credit loss. Subsequently, receivables are measured at amortized cost using the effective interest method adjusted for expected credit losses.

For financial assets, the Company applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition of the trade receivables.

**Financial liabilities**

Financial liabilities include trade payables and other liabilities, bank indebtedness, loans payable, bank loan payable and accrued interest are recorded at fair value on initial recognition. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

**(h) Research and technical expenses**

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

**(i) Leases**

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

- **Finance lease**

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

- **Operational lease**

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

**(j) Deferred lease incentives**

Lease incentives include tenant inducements received in cash and are amortized to income on a straight-line basis over the life of the lease.

**(k) Income taxes**

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

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

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

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

**(l) Revenue recognition**

The Company manufactures and sells a range of food products in the wholesale market. Revenue is generated from implied business practices with customers and comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities, net of estimated returns and an estimate of sales incentives provided to customers.

All transactions related to the sale of goods have two performance obligations, the delivery of products to the customer and freight services to the customer through a common carrier. The freight costs incurred by the Company are embedded in the transaction price of the product and therefore subsequently recovered from its customers.

The Company has determined that the promise to provide freight services constitutes a separate performance obligation and that they are the principal in this arrangement, as they continue to have control of the products after being delivered to the common carrier and until the products are delivered to the customers.

Revenue from the sale of goods is recognized at a point in time, which is when the common carrier has delivered the product to the customer. Sales are recorded based on the prices specified, net of the estimated sales incentives and returns at the time of sale.

Customers have a right to return faulty products in the wholesale market. Implied business practices and accumulated experience is used to estimate and provide for sales incentives and returns. No element of financing is deemed present as the sales are made with credit terms up to 30 days, which is consistent with market practice.

Freight recoveries are satisfied when the products are delivered to the customer and are presented gross of freight cost incurred in the statement of operations and comprehensive loss.

**(m) Government grants**

Government grants relating to the purchase of property and equipment are deducted from the carrying amount of the asset.

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Company will comply with all attached conditions.

**(n) Loss per common share**

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

**(o) Stock based compensation**

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

**(p) Critical accounting estimates, judgements and measurement uncertainty**

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

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

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

- **Trade and other receivables**

Trade and other receivables are reviewed on a regular basis for estimating the risk of default on outstanding balances. Factors such as the related customer's reputation and financial status and the length of time the accounts receivable have been outstanding are all considered when estimating any impairment on accounts receivable, in accordance with the expected credit loss model.

As of May 31, 2019, gross accounts receivable was \$184,494 (2018 – \$26,617), and the expected loss allowance was in the amount of \$nil (2018 – \$nil).

- **Impairment of property and equipment**

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

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

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

**(q) Recent Accounting Pronouncements**

**New and Amended Standards Adopted**

**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 (note 4 (g)).

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.

#### **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.

**5. Inventories**

	May 31, 2019	May 31, 2018
	\$	\$
Raw Materials	451,761	238,545
Finished Goods	36,812	22,933
Supplies	112,142	160,316
	<b>600,715</b>	<b>421,794</b>

Inventories expensed in cost of sales for the period amounted to \$6,116,106 (2018 - \$5,550,117).

**6. Property and equipment**

	Production Equipment	Production Equipment Under Finance Lease	Office Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
<b>Year ended May 31, 2018</b>					
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)
<b>Closing net book amount</b>	<b>1,124,832</b>	<b>39,298</b>	<b>11,981</b>	<b>110,435</b>	<b>1,286,546</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>At May 31, 2018</b>					
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)	(3,966,136)
<b>Net book amount</b>	<b>1,124,832</b>	<b>39,298</b>	<b>11,981</b>	<b>110,435</b>	<b>1,286,546</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>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>

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, 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 is 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 year ended May 31, 2019, the recoverable amount, based on fair value less cost to sell, approximated carrying amounts, therefore no impairment was recognized. For the year ended May 31, 2018, a write down of \$18,812 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.

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.

## 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:

	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
	24,664,591	22,332,531

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>

#### 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 May 31, 2019, the bank's prime rate was 3.95% (May 31, 2018 – 3.45%) and the Company had outstanding cheques of \$70,617 (May 31, 2018 - \$53,064) and a bank overdraft of \$471,207 (May 31, 2018 - \$164,870).

#### 9. 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	13,253,500	12,276,000
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
	<u>14,598,500</u>	<u>13,621,000</u>
Less: Current portion	1,345,000	1,745,000
	<u>13,253,500</u>	<u>11,876,000</u>

The demand loans payable to the directors are unsecured.

The bank's prime lending rate at May 31, 2019 was 3.95% (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 \$13,253,500 and accrued interest thereon of \$8,962,633 (May 31, 2018 - \$7,365,126), 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.

**10. Obligations under finance leases**

	<b>May 31, 2019</b>	<b>May 31, 2018</b>
	\$	\$
2019	-	20,555
2020	152,437	8,995
2021	150,544	7,113
2022	143,432	-
2023	138,322	-
2024	73,751	-
Total minimum lease payments	658,486	36,663
Less: Amount representing imputed interest	123,802	4,076
	534,684	32,587
Less: Current portion	105,264	11,649
	429,420	20,938

Production equipment with a carrying value of \$658,501 (May 31, 2018 - \$39,885) 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, January 2024, February 2024, March 2024, and May 2024.

**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:

	<b>May 31, 2019</b>	<b>May 31, 2018</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	60,570
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8% compounded annually, with no fixed terms of repayment	1,038	132
Accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual (note 9)	8,962,633	7,367,756
Accrued interest on demand loans payable to certain other shareholders of the Company (note 9)	458,436	399,011

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

	<b>May 31, 2019</b>	<b>May 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Interest on demand loans, accrued but not paid (note 17)	1,654,302	1,480,023
Interest on amounts due to a company controlled by a director and amounts due to a director and an officer	-	6,270

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:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Salaries and short-term employee benefits	262,000	262,000

## 12. Commitments

Subsequent to May 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:

	<b>\$</b>
2020	267,574
2021	318,507
2022	327,944
2023	337,382
2024 and beyond	2,321,564
Total	<b>3,572,971</b>

**13. Share capital**

**Authorized**

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

**Issued**

Common shares

	Number of Shares #	Amount \$
Common shares as at May 31, 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 May 31, 2019 and 2018, the Company did not have any outstanding stock options.

**14. Loss per share**

	May 31, 2019 \$	May 31, 2018 \$
Net loss for basic and diluted	<u>(2,835,424)</u>	<u>(2,061,604)</u>
	#	#
Weighted average number of common shares for basic and diluted	<u>35,148,902</u>	<u>35,148,902</u>

**15. Revenue**

	May 31, 2019 \$	May 31, 2018 \$
i) 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>

**16. Expenses by nature**

	<b>May 31, 2019</b>	<b>May 31, 2018</b>
	<b>\$</b>	<b>\$</b>
ii) Cost of sales		
Ingredients	4,053,911	3,713,987
Wages and benefits	1,048,262	894,698
Freight	758,555	505,295
Plant rental	312,285	294,970
Packaging	286,162	254,692
Plant utilities	218,471	178,744
Other	150,434	119,925
Plant repair and maintenance	124,146	104,244
	<u><b>6,952,226</b></u>	<u><b>6,066,555</b></u>
iii) Selling and general and administrative expenses		
Salaries, wages and benefits	963,683	883,642
Other	133,089	144,172
Professional fees	83,523	89,747
Advertising and promotion	81,778	207,776
Quality Control	59,121	34,797
Insurance	48,760	42,468
Consulting	48,075	48,073
Travel	34,884	26,618
Utilities	20,023	22,322
	<u><b>1,472,936</b></u>	<u><b>1,499,615</b></u>
<b>17. Interest expense</b>		
	<b>May 31, 2019</b>	<b>May 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Interest on demand loans	1,654,302	1,480,023
Interest on bank loan	48,221	41,959
Interest on bank indebtedness	21,421	16,572
Interest on accounts payable	8,916	15,761
Interest on obligation under finance lease	12,260	3,735
	<u><b>1,745,120</b></u>	<u><b>1,558,050</b></u>
<b>18. Segmented information and economic dependence</b>		

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%).

## 19. 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 May 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:

	<b>May 31, 2019</b>	<b>May 31, 2018</b>
	\$	\$
Current	95,464	24,889
Past due amounts		
15 – 45 days	86,680	1,728
Greater than 45 days	5,221	-
	<u>91,901</u>	<u>1,728</u>
Accounts receivable net	<u>187,365</u>	<u>26,617</u>

**(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 18. See also going concern disclosures, note 1.

**20. 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.

**21. 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 (\$51,039) and Long-term deposits (\$24,433).

**22. Subsequent events**

Subsequent to May 31, 2019, the Company received shareholders' loans in the amount of \$650,000 bearing interest at 8%, compounded annually from a company owned by the controlling shareholder of the Company, who is also a director.