



Canyon Creek Food Company Ltd.  
Consolidated Financial Statements  
May 31, 2020 and 2019



## *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, 2020 and 2019, 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, 2020 and 2019;
- the consolidated statements of operations and other 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 events or 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 28, 2020



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

	May 31, 2020 \$	May 31, 2019 \$
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Trade and other receivables	155,891	187,365
Inventories (note 6)	706,008	600,715
Prepaid expenses	96,309	85,115
	<u>958,208</u>	<u>873,195</u>
<b>Non-current assets</b>		
Long-term deposits	-	40,723
Property and equipment (note 7)	1,592,713	1,850,823
Right-of-use assets (note 5)	2,313,414	-
	<u>2,313,414</u>	<u>-</u>
<b>Total assets</b>	<u>4,864,335</u>	<u>2,764,741</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	1,766,225	541,824
Trade payables and other liabilities	1,671,275	837,239
Accrued interest (note 12)	522,711	517,912
Loans payable (note 10)	345,000	345,000
Bank loan payable (note 10)	-	1,000,000
Current lease liability (note 5 and 11)	270,676	105,264
	<u>4,575,887</u>	<u>3,347,239</u>
<b>Non-current liabilities</b>		
Accrued Interest (notes 10 and 12)	10,803,238	8,903,157
Loans payable (note 10)	14,153,500	13,253,500
Straight-line rent payable (note 5)	-	49,409
Deferred lease incentive (note 5)	-	35,500
Lease Liability (note 5 and 11)	2,435,742	429,420
	<u>2,435,742</u>	<u>429,420</u>
<b>Total liabilities</b>	<u>31,968,367</u>	<u>26,018,225</u>
<b>Shareholders' deficiency</b>		
Share capital (note 13)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	(40,207,754)	(36,357,206)
	<u>(40,207,754)</u>	<u>(36,357,206)</u>
<b>Total shareholders' deficiency</b>	<u>(27,104,032)</u>	<u>(23,253,484)</u>
<b>Total shareholder's deficiency and liabilities</b>	<u>4,864,335</u>	<u>2,764,741</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 2020 \$	Year ended May 31 2019 \$
<b>Revenue (note 15)</b>		
Revenue from customers	10,356,921	7,479,311
<b>Direct expenses</b>		
Cost of sales (note 16)	9,747,745	6,952,226
Depreciation on property and equipment (note 7)	102,038	108,092
Depreciation on right-of-use assets (note 11)	191,214	-
	10,040,997	7,060,318
<b>Gross margin</b>	315,924	418,993
<b>Selling expenses (note 16)</b>		
General	251,376	140,899
Wages and benefits	239,753	243,400
	491,129	384,299
<b>General and administrative expenses (note 16)</b>		
Wages and benefits	547,366	618,698
Office and general	421,747	386,416
Professional fees	82,888	83,523
	1,052,001	1,088,637
<b>Right-of-use assets write-down (note 11)</b>	467,000	-
<b>Production equipment write-down (note 7)</b>	3,694	-
<b>Research and technical expenses</b>	10,556	9,653
<b>Loss on disposal of equipment</b>	-	26,708
	481,250	36,361
<b>Loss from operations before other expenses</b>	(1,708,456)	(1,090,304)
Finance costs (note 17)	2,223,546	1,745,120
Other income	(81,454)	-
<b>Other expenses</b>	2,142,092	1,745,120
<b>Net loss and comprehensive loss for the period</b>	(3,850,548)	(2,835,424)
<b>Loss per share</b>		
Basic and fully diluted (note 14)	(0.11)	(0.08)

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



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, 2019</b>	12,921,322	182,400	(36,357,206)	(23,253,484)
Comprehensive loss for the year	<u>-</u>	<u>-</u>	<u>(3,850,548)</u>	<u>(3,850,548)</u>
<b>Balance at May 31, 2020</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(40,207,754)</u>	<u>(27,104,032)</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	<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>

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



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

	Year ended May 31 2020 \$	Year ended May 31 2019 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the period</b>	<u>(3,850,548)</u>	<u>(2,835,424)</u>
<b>Items not involving cash:</b>		
Depreciation on property and equipment	102,038	108,092
Depreciation on right-of-use assets	191,214	-
Production equipment write-down (note 7)	3,694	26,708
Right-of-use assets write-down (note 11)	467,000	-
Amortization of deferred lease incentive	-	(6,000)
Straight-line rent adjustment	-	11,688
Interest expense	<u>2,223,546</u>	<u>1,745,120</u>
	<u>(863,056)</u>	<u>(949,816)</u>
<b>Change in items of working capital</b>		
Trade and other receivables	31,474	(160,748)
Inventories	(105,293)	(178,921)
Prepaid expenses	(11,194)	(51,297)
Trade payables and other liabilities	<u>834,036</u>	<u>367,914</u>
	<u>749,023</u>	<u>(23,052)</u>
<b>Net cash used in operating activities</b>	<u>(114,033)</u>	<u>(972,868)</u>
<b>Investing activities</b>		
Purchase of property and equipment	(500,728)	(147,966)
Long-term deposit on asset	<u>40,723</u>	<u>(40,723)</u>
<b>Net cash used in investing activities</b>	<u>(460,005)</u>	<u>(188,689)</u>
<b>Financing activities</b>		
Proceeds from loans payable	900,000	977,500
Repayment of bank loan payable	(1,000,000)	-
Principal portion of lease payments	(231,697)	(49,014)
Interest paid	(318,666)	(90,818)
Increase in bank indebtedness	<u>1,224,401</u>	<u>323,889</u>
<b>Net cash from financing activities</b>	<u>574,038</u>	<u>1,161,557</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 year ended May 31, 2020, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$3,850,548 (2019: \$2,835,424). As at May 31, 2020, the Company has a working capital deficiency of \$3,617,679 (2019: \$2,474,044), bank indebtedness of \$1,766,225 (2019: \$541,824) (note 8), loans due to directors of \$14,498,500 (2019: \$13,598,500) and accrued interest thereon of \$11,325,949 (2019: \$9,421,069), a \$ nil bank loan payable (2019: \$1,000,000), a shareholders' deficiency of \$27,104,032 (2019: \$23,253,484) and an accumulated deficit of \$40,207,754 (2019: \$36,357,206). In addition, the Company has negative cash flow from operations of \$114,033 (2019: \$972,868). Historically, the Company's operations have not yet been at the volume where the Company is profitable. 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.

With the recent worldwide pandemic of Covid-19, companies are facing many new challenges such as demand for product, future cashflows, and overall stability to their business. The result of this pandemic could have a material adverse effect, including future cashflow of the business and the Company's ability to continue to operate as a going concern. Management is actively monitoring world events as they unfold and are preparing an action plan to mitigate the impact on the Company because of Covid-19. To ensure the Company can continue as going concern, management has reduced capital expenditure and leveraged government assistance.

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 May 31, 2020. 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 24, 2020.

### 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 (prior to adoption of IFRS 16)	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) Leases**

Until Fiscal 2019, 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 of 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.

Effective June 1, 2019, leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease 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.

Lease payments included in the measurement of the lease liability include the net present value of the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising 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. The incremental borrowing rate is the rate that the lessee would have to pay to borrow at prevailing interest rates, market precedents and the Company's specific credit spread, on similar terms and security.

Short-term leases (less than 12 months) or low value assets are recorded as an expense on a straight-line basis.

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

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use assets are typically depreciated on a straight-line basis over the lease term, unless the Company expects to obtain ownership of the leased asset at the end of the lease. The lease term consists of:

- The non-cancellable period of the lease;
- Periods covered by options to extend the lease, where we are reasonably certain to exercise the option; and
- Periods covered by options to terminate the lease, where we are reasonably certain not to exercise the option.

If the Company expects to obtain ownership of the leased asset at the end of the lease then the Company depreciates the right-of-use asset over the underlying asset's estimated useful life. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

Long-lived assets comprised of property and equipment and right-of-use assets 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.

Impairment losses on long-lived assets are allocated to reduce assets in a cash generating unit on a pro-rata basis except that in allocating an impairment loss, an asset is not reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero.

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

**(h) 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.

**(i) Research and technical expenses**

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

**(j) 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.

**(k) 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.

**(l) Government grants**

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

Government grants relating to Canadian Emergency Wage Subsidy (CEWS) are deducted from the related expense.

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.

**(m) 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.

**(n) 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.

**(o) 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.

There is significant uncertainty regarding the extent and duration of the impact that the COVID-19 pandemic will have on the Company's operations. The extent to which the impacts of the COVID-19 pandemic affects the judgments, estimates and assumptions described in note 4 to the Company's consolidated financial statements as at and for the year ended May 31, 2020 depend on future developments, which are highly uncertain and cannot be predicted. Management will continue to monitor and assess the impact of the pandemic on its judgments, estimates, assumptions, accounting policies and amounts recognized in these consolidated financial statements, including, but not limited to, impairment of property and equipment and right-of-use assets. After careful analysis, management has applied significant judgments, estimates and assumptions in the preparation of these consolidated financial statements as the severity and duration of the COVID-19 pandemic are unknown and the Company's operations have not been negatively impacted as at the date these consolidated financial statements were approved and authorized for issuance by the Board of Directors.

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**

Estimates

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, 2020, gross accounts receivable was \$155,891 (2019 – \$187,365), and the expected loss allowance was in the amount of \$nil (2019 – \$nil).

- **Impairment of property and equipment and right-of-use assets**

Estimates

Property and equipment and right-of-use assets 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 their long-lived assets, which drives the conclusion of whether impairment exists, and if it does, the amount of impairment to record.

Judgements

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.

- **Leases**

Estimates

In 2020, the Company estimates the incremental borrowing rate used to measure the lease liability for each lease contract. This includes estimation in determining the asset-specific security impact. In 2019, prior to the adoption of IFRS 16, an estimation related to leases did not exist.

Judgements

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.

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.

## 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 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 commencing September 1, 2019	2,467,906
Lease liability recognized at June 1, 2019	794,024

Of which are:

Current lease liability	69,266
Non-current lease liability	724,758
	794,024

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.

A reconciliation of the effect of transition to IFRS 16 on select accounts impacted on the Company's Consolidated Statement of Financial Position as at June 1, 2019 is outlined below.

Selected accounts	As originally reported at May 31, 2019	IFRS 16 adjustments	June 1, 2019
<b>Assets</b>			
Property, Plant and Equipment	1,850,823	(658,501)	1,192,322
Right of use assets	-	1,369,053	1,369,053
<b>Total assets</b>	2,764,741	710,552	3,475,293
<b>Liabilities</b>			
Straight-line rent payable	41,972	(41,972)	-
Deferred lease incentive	41,500	(41,500)	-
Current lease liability	105,264	69,266	174,530
Long-term lease liability	429,420	724,758	1,154,178
<b>Total liabilities</b>	26,018,225	710,552	26,728,777

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

i) *Impact on earnings per share*

Basic and diluted earnings per share 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,
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease,
- to rely on an onerous lease assessment as at May 31, 2019, as an alternative to performing an impairment review as at June 1, 2019; and
- not to account for leases for which the term ends within 12 months of June 1, 2019 as short-term leases or leases that meet the low-value exemption.

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***

Upon adoption of IFRS 16, the Company leased 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.

**6. Inventories**

	May 31, 2020	May 31, 2019
	\$	\$
Raw Materials	493,648	451,761
Finished Goods	44,338	36,812
Supplies	168,022	112,142
	<b>706,008</b>	<b>600,715</b>

Inventories expensed in cost of sales for the period amounted to \$8,346,637 (2019 - \$6,116,106).

**7. Property and equipment**

	Production Equipment	Production Equipment Under Lease	Office Equipment	Leasehold Improvements	Total
<b>Year ended May 31, 2019</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</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 20)	-	(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 May 31, 2020</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	1,029,855	658,501	11,612	150,855	1,850,823
Transition to IFRS 16 (note 5)	-	(658,501)	-	-	(658,501)
<b>Adjusted June 1, 2019</b>	<b>1,029,855</b>	<b>-</b>	<b>11,612</b>	<b>150,855</b>	<b>1,192,322</b>
Additions	525,812	-	3,493	18,528	547,833
Disposals	(17,277)	-	-	-	(17,277)
Equipment write-down	(3,694)	-	-	-	(3,694)
Depreciation	(63,382)	-	(2,975)	(35,681)	(102,038)
Government grants (note 20)	(24,433)	-	-	-	(24,433)
<b>Closing net book amount</b>	<b>1,446,881</b>	<b>-</b>	<b>12,130</b>	<b>133,702</b>	<b>1,592,713</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 May 31, 2020</b>					
Cost	4,753,636	1,027,450	196,709	425,880	6,403,675
Transition to IFRS 16 (note 5)	-	(1,027,450)	-	-	(1,027,450)
Accumulated depreciation and impairment	(3,306,755)	-	(184,579)	(292,178)	(3,783,512)
<b>Net book amount</b>	<b>1,446,881</b>	<b>-</b>	<b>12,130</b>	<b>133,702</b>	<b>1,592,713</b>

As indicated in note 1, a material uncertainty exists related to the entity's ability to continue as a going concern, driven primarily by a long history of negative cash flows from operations and accumulated deficits. In order to continue operations, the Company has received financial support from one of its shareholders every year. The Company has concluded that a number of impairment indicators exist, including (among others) failure to meet the TSX Venture Exchange minimum listing requirements associated with working capital and market capitalization, history of accumulated losses and negative cash flows from operations and the absence of positive net cash inflows or operating profits in the foreseeable future. As required by IAS 36 Impairment of Assets, the Company has performed an impairment test at the Cash Generating Unit (CGU) level.

Due to the nature of the business and operations of the Company, management has concluded that the property and equipment and right of use asset belong to one CGU and that given the expectation of negative cash flows from operations in the foreseeable future, management is unable to use the value in use model to determine the recoverable amount of the cash generating unit.

Similar to value in use, fair value of the assets cannot be determined using a discounted cash flow model because the assets are generating negative cash flows. However, an individual asset cannot be written down below its individual fair value less cost of disposal (if measurable). IFRS requires that the fair value of a non-financial asset considers its "highest and best use". The company has determined that the "highest and best use" of the individual assets differs from their current use and that a market participant may use such assets in a manner that would generate positive cash flows.

The management of the Company has taken into consideration various indicators of value to determine the recoverable amount of the CGU based on the fair value less cost of disposal model including an average of market capitalization over the past year, external valuations of assets and assess the likelihood to sublease their production facilities to cover their lease obligations as described in note 11.

The Company has calculated the excess in the carrying amount of the assets with respect to the estimated recoverable amount of the cash generating unit based on an average of market capitalization rates and allocated the impairment loss attributable to the CGU to the assets on a pro-rata basis based on the carrying amount of each asset in the CGU.

Within this allocation framework, each asset is reduced only to the highest of its fair value less cost of disposal, if measurable, its value in use, if determinable or zero.

As indicated above, management engaged an independent appraiser to determine the fair value less cost of disposal of the Company's production equipment, equipment under capital lease and certain leasehold improvements. Fair 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.

As a result of the pandemic there has been additional uncertainty about the economy and disruptions to businesses. As a result, determining the fair value of assets at May 31, 2020 was subject to additional challenges. The management of the Company has made their best estimates about the impact of the pandemic on the price we would receive in an orderly transaction for the individual assets, but because of these challenges fair value requires additional judgements to be made and the fair values determined at May 31 could be subject to significant changes after the balance sheet date based on the evolution of the market's expectations in response to the pandemic.

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 approach used by the independent valuator, is categorized as Level 3 in the fair value hierarchy. As at May 31, 2020, The significant unobservable input in the Level 3 valuation is the market price of the comparable equipment. 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.

For the year ended May 31, 2020, an impairment write-down in the amount of \$3,694 was recorded against the carrying amount of property and equipment. There was no write-down in 2019. The Company also recorded a write-down in the amount of \$467,000 against the carrying amount of the right of use asset as described in note 11.

## 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:

	<b>2020</b>	<b>2019</b>
	\$	\$
Tax recovery at statutory rate	<u>(988,000)</u>	<u>(759,000)</u>
Adjusted for the tax effect of:		

Substantially enacted tax rates	77,000	978,000
Non-deductible expenses	150,000	159,000
Unrecognized deductible temporary differences	789,000	(362,000)
Other	(28,000)	(16,000)
	<u>988,000</u>	<u>759,000</u>
Total income tax provision	<u>-</u>	<u>-</u>

The statutory rate was 25.67% (2019 – 26.75%).

**(b) Deferred income tax**

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

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Property and equipment	1,866,568	2,566,253
License	1,425,654	1,425,654
Right-of-use assets	(2,707,414)	-
Lease liability	2,706,418	-
Obligation under capital lease	-	534,684
Non-capital losses	24,343,000	20,118,000
	<u>27,634,226</u>	<u>24,664,591</u>

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of \$6,355,872 (2019 - \$5,668,256) in respect of deductible temporary differences amounting to \$27,634,226 (2019 - \$24,664,591) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$24,343,000 (2018 - \$20,118,000) that can be carried forward to use against future taxable income. These non-capital losses expire based on the dates listed below:

	<b>\$</b>
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	3,733,000
2040	<u>4,291,000</u>
	<u>24,343,000</u>

**9. Bank indebtedness**

During the year, the Company entered into amending agreements to increase the existing line of credit from \$600,000 to \$1,850,000 with the purpose of repaying the bank demand loan with the same financial institution (refer to note 10). The new line of credit continues to bear interest at the bank's prime lending rate plus 1% and it's due on demand. A general security agreement by a major shareholder, who is also a director, has been pledge as collateral. At May 31, 2020 the bank's prime rate was 2.45% (May 31, 2019 – 3.95%) and the Company had outstanding cheques of \$87,888 (May 31, 2019 - \$70,617) and a bank overdraft of \$1,638,337 (May 31, 2019 - \$471,207).

**10. Loans payable**

	May 31, 2020 \$	May 31, 2019 \$
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8% compounded annually	14,153,500	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
	<u>14,498,500</u>	<u>14,598,500</u>
Less: Current portion	345,000	1,345,000
	<u>14,153,500</u>	<u>13,253,500</u>

The demand loans payable to the directors are unsecured.

The bank's prime lending rate at May 31, 2020 was 2.45% (May 31, 2019 – 3.95%). During the year and as a result of the increase to the Line of Credit disclosed in Note 9, the demand loan payable to the bank was repaid in full.

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 \$14,153,500 and accrued interest thereon of \$10,803,238 (May 31, 2019 - \$8,962,633), until November 31, 2022. 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. Leases**

The Company leases production equipment, warehouse, and office space. Lease contracts are typically for fixed periods of four to ten years but often have extension options. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions.

Below is a summary of the activity related to the Company's right-of-use assets for the year ended May 31, 2020:

	Production Equipment \$	Building \$	May 31, 2020 \$
Right-of-use asset, beginning of the year	658,501	710,551	1,369,052
Additions	349,592	1,334,691	1,684,283
Disposals	(81,706)	-	(81,706)
Right-of-use asset impairment write-down	(73,000)	(394,000)	(467,000)
Depreciation	(39,656)	(151,559)	(191,215)
Total right-of-use assets, end of year	813,731	1,499,683	2,313,414

As described in note 7, the Company has concluded that a number of impairment indicators existed at year end and tested the CGU for impairment. The right-of-use assets are tested for impairment on a CGU basis. As described in note 7, the Company allocated the impairment loss attributable to the CGU to the assets on a pro-rata basis based on the carrying amount of each asset in the CGU.

Within this allocation framework, each asset is reduced only to the highest of its fair value less cost of disposal, if measurable, its value in use, if determinable or zero. \$467,000 were allocated as impairment write-down to the Right-of-use asset.

Below is a summary of the activity related to the lease liabilities for the year ended May 31, 2020:

	May 31, 2020 \$
Lease liabilities, beginning of the year	1,328,708
Additions	1,683,283
Disposals	(73,876)
Lease payments	(231,697)
Total lease liabilities, end of year	2,706,418
Of which are:	
Current lease liabilities	270,676
Non-current lease liabilities	2,435,742

The following table presents the maturity analysis of contractual undiscounted cash flows related to the Company's lease liabilities as of May 31, 2020:

	May 31, 2020 \$
2021	541,932
2022	544,256
2023	547,873
2024	477,273
2025	371,561
2026 and thereafter	1,618,488
Total minimum lease payments	4,101,383
Less: Amount representing imputed interest	1,394,965
	2,706,418

Leased production equipment with a carrying value of \$813,731 (May 31, 2019 - \$658,501) has been pledged as collateral. The lease liability recorded represents the minimum lease payments payable net of imputed interest at rates ranging from 5.3% to 16.8% per annum.

**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>May 31, 2020</b>	<b>May 31, 2019</b>
	<b>\$</b>	<b>\$</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	-	1,038
Accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual (note 10)	10,803,238	8,962,633
Accrued interest on demand loans payable to certain other shareholders of the Company (note 10)	522,711	458,436

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

	<b>May 31, 2020</b>	<b>May 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Interest on demand loans, accrued but not paid (note 17)	1,904,881	1,654,302

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>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Salaries and short-term employee benefits	262,000	262,000
Reimbursement of expenses	415,872	361,406

**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, 2020 and May 31, 2019	<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, 2020 and May 31, 2019, the Company did not have any outstanding stock options.

**14. Loss per share**

	May 31, 2020 \$	May 31, 2019 \$
Net loss for basic and diluted	<u>(3,456,548)</u>	<u>(2,835,424)</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, 2020 \$	May 31, 2019 \$
Revenue from contracts with customers		
Product sales	9,454,004	6,942,311
Freight services	<u>902,917</u>	<u>537,000</u>
	<u>10,356,921</u>	<u>7,479,311</u>

**16. Expenses by nature**

	May 31, 2020 \$	May 31, 2019 \$
i) Cost of sales		
Ingredients	6,012,404	4,053,911
Wages and benefits	1,387,590	1,048,262
Freight	1,241,233	758,555
Packaging	307,276	286,162
Plant utilities	267,713	218,471
Plant rental	188,972	312,285
Other	183,066	150,434
Plant repair and maintenance	159,491	124,146
	<u>9,747,745</u>	<u>6,952,226</u>

ii) Selling and general and administrative expenses

Salaries, wages and benefits	955,549	963,683
Advertising and promotion	181,473	81,778
Other	140,593	133,089
Professional fees	82,888	83,523
Quality Control	69,903	59,121
Insurance	64,967	48,760
Utilities	23,574	20,023
Travel	16,088	34,884
Consulting	8,095	48,075
	<u>1,543,130</u>	<u>1,472,936</u>

**17. Finance costs**

	May 31, 2020 \$	May 31, 2019 \$
Interest on demand loans	1,904,881	1,654,302
Interest on bank loan	31,186	48,221
Interest on bank indebtedness	35,007	21,421
Interest on accounts payable	8,645	8,916
Interest on obligation under capital lease	-	12,260
Interest on lease liabilities	243,827	-
	<u>2,223,546</u>	<u>1,745,120</u>

**18. 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 \$9,866,376 from two major customers, representing 89.7% of total revenue (2019 revenue of \$6,949,024 from two major customers representing 93% of revenue). The accounts receivable balance due from these customers amounts to 100% of total receivable (2019 100%).

## 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, 2020 or May 31, 2019. 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 \$11,527 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, 2020, a 1% change in interest rates would change interest expense by \$17,262 (2019 - \$5,418).

### (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 \$34,899 (2019 – \$81,070). 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:

	May 31, 2020 \$	May 31, 2019 \$
Current	126,891	95,464
Past due amounts		
15 – 45 days	28,058	86,680
Greater than 45 days	942	5,221
	29,000	91,901
Accounts receivable net	155,891	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, lease liabilities, other liabilities, loans payable and accrued interest in the amount of \$4,575,887 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. To manage liquidity risk, the Company has historically monitored 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. Given the novel coronavirus pandemic, the business environment in which the Company operates has changed, as have the opportunities. As a response, the Company has enhanced its capital management and liquidity monitoring to also reduce capital expenditures and limited inventory purchases. In addition, management has focused on accounts receivable collection to ensure sufficient cash flows to meet the Company's current liabilities and service its debt.

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.

### **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, and lease liabilities. The Company's primary uses of capital in the past have been to finance its operations, and property and equipment expenditures. The Company currently funds these requirements with shareholder financing. The Company maintains a secured operating line of credit with a chartered bank that it uses for its business activities. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements. See also going concern disclosure, note 1.

### **20. 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.

The Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada on March 27, 2020, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of salaries paid out to employees during the pandemic. During the year, the Company submitted claims of \$171,159 under the CEWS program, of which \$75,472 have been fully received, and \$95,687 remains outstanding in receivables on the Company's consolidated financial statements. This amount was netted against the related expense.

The Company also received financing through Canada Emergency Business Account (CEBA), which is an interest-free small business loan for \$40,000, which has been recorded in bank indebtedness.

### **21. Subsequent events**

Following May 31, 2020, the Company submitted new claims and subsequently received \$164,126 under the CEWS program.