

CANYON CREEK FOOD COMPANY LTD.

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MANAGEMENT DISCUSSION & ANALYSIS

The following Management’s Discussion and Analysis (“MD&A”) of results of operations and financial position as at August 31, 2021 should be read in conjunction with the unaudited interim consolidated financial statements of Canyon Creek Food Company Ltd. (“Canyon Creek” or “the Company”) for the periods ended August 31, 2021 and 2020, and the related notes thereto.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). This MD&A provides information on the activities of the Company and all amounts are expressed in Canadian dollars unless otherwise noted.

Management is responsible for the information contained in the MD&A and its consistency with information presented, reviewed and approved by the Audit Committee and Board of Directors. Additional information pertaining to the Company can be found on the System for Electronic Document Analysis and Retrieval (“SEDAR”) web site at www.sedar.com.

Some information in this Management Discussion & Analysis is considered forward looking. It is subject to uncertainties and risks associated with industry and other economic factors. Forward looking statements contain assumptions and analysis made by us based on our experience, analysis of historical trends, current conditions and expected future developments, as well as other factors deemed appropriate. Readers are cautioned that we offer no assurance that events or results identified in any forward-looking statements will be realized in whole or in part. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the availability and price of raw materials and labour, competitive factors in the industry, regulatory decisions, economic conditions in North America, our ability to successfully implement our strategic initiatives, and whether such initiatives yield the expected benefits. We make no obligation to publicly update any forward –looking statements.

Overview

Canyon Creek Food Company Ltd. is a food processing company based in Edmonton, Alberta providing fresh soups and other prepared food products for today's health conscious consumer. We provide our fresh food product line to both grocery retailers and a broad range of food service establishments, such as restaurants and institutions throughout Canada. We are a public company trading on the TSX Venture under the symbol “CYF”.

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

With consumers having a continued focus on fresh ingredients and products without preservatives, the Company can meet the growing demand for products with cleaner ingredient profiles. The Company has continued to invest resources into product streams and customers that have reduce cyclicality.

Key Performance Drivers

- ***The ability to deliver superior product quality***

We continue to invest to ensure that our product is of high quality both in product safety and delivering superior innovative products. For every product run, the Quality Assurance Department undertakes extensive testing of product quality and packaging. This includes testing viscosity, taste, colour and product integrity. We continue to hold our BRC and Organic certifications in order to offer current and potential customers high standards in the manufacturing of our products.

- ***Competition***

The principal elements of competition in this industry include:

- Distribution
- Price
- Product quality and taste
- Innovation
- Trade and consumer promotions, and
- Labelling and packaging

Risk Factors

We need to effectively manage our resources in order to execute the business plan. Failure to execute would negatively impact our ability to achieve profitability.

To achieve profitability and manage operations effectively, we must continue to improve our operational, financial, and other management processes and systems. In addition, in order to grow and execute on our business plan and opportunities, we need to have adequate resources available, including capital and personnel. We also need to maintain controls and focus as we look to add new products and distribution channels.

To achieve a profit, we must:

- Increase sales volume to reflect the uniqueness of our products;
- Achieve and maintain efficiencies in operations;
- Maintain fixed costs at or near current levels; and
- Avoid significant increases in costs such as production, marketing and distribution.

Share Capital

The authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of non-voting preferred shares, issuable in series. As November 1, 2021, the total number of issued and outstanding common shares is 35,148,902.

During the period ended August 31, 2021 and August 31, 2020 no securities were issued.

During the period ended August 31, 2021 and August 31, 2020 no options to purchase securities were granted. A balance of nil stock options was outstanding as at November 1, 2021.

There are no outstanding share purchase warrants as of November 1, 2021.

Plan of Operation

We are committed to our mission of producing superior innovative food products that give our customers and consumers what they really want. “Favourite Foods Made Easy” in a way that is better, faster and more profitable than our competition. We aspire to be the “best food company” in Canada. This can be achieved through one guiding principal of superior quality, in people, products and customers. Our interaction, both internally and externally, will convey our commitment to superior quality every day. We are investing in equipment to further increase our capacity and efficiency.

Selected Annual Information

Description	May 31, 2021 \$	May 31, 2020 \$	May 31, 2019 \$
<i>Total Revenues</i>	7,175,202	10,356,921	7,479,311
<i>Gross Margin</i>	1,726,353	315,924	418,993
<i>Net loss for the year</i>			
<i>Total</i>	(1,686,066)	(3,850,548)	(2,835,424)
<i>Per share</i>	(0.05)	(0.11)	(0.08)
<i>Total Assets</i>	5,530,627	4,864,335	2,764,741
<i>Long term liabilities</i>	29,443,602	27,392,480	22,670,986

Results of Operations

Revenue

Revenue decreased by 30.7% during the year ended May 31, 2021 when compared to the previous year. The decrease in revenue is driven by a change in a co-packing arrangement with a customer where they purchase their own raw ingredients. This change lowers revenue and increases the gross margin percentage.

Gross Margin

The gross margin for the year ended May 31, 2021 has increased by \$1,410,429 when compared to the previous year. This increase is partially driven by the new co-packing arrangement. The gross margin improvement is also driven by implementation of equipment to streamline operations, reducing labour and general operating costs.

Net Loss

The net loss of \$1,686,066 for the year ended May 31, 2021 has decreased from the net loss in the previous year by \$2,164,482. This improvement is a direct result of operational efficiencies.

Due to the continued losses, the Company's future performance may be impacted by its ability to have sufficient cashflows to meet its obligations. (please see note 1 and 19 of financial statements).

Summary of Quarterly Results

Description	Aug 31, 2021 \$	May 31, 2021 \$	Feb 28, 2021 \$	Nov 30, 2020 \$	Aug 31, 2020 \$	May 31, 2020 \$	Feb 29, 2020 \$	Nov 30, 2019 \$
<i>Revenue</i>	677,862	586,017	2,629,742	2,919,392	1,040,051	801,119	3,997,246	4,614,481
<i>Gross Margin</i>	(49,629)	(3,796)	857,692	672,008	200,449	(302,773)	534,109	387,310
<i>Net loss for the period</i>								
<i>Total</i>	(709,079)	(781,212)	33,844	(325,577)	(613,121)	(1,641,342)	(470,889)	(634,322)
<i>Per share</i>	(0.02)	(0.02)	(0.00)	(0.01)	(0.02)	(0.05)	(0.01)	(0.02)

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

Revenue

Revenue decreased by 34.8% during the period ended August 31, 2021 when compared to the previous year. The decrease in revenue is driven by a change in a co-packing arrangement with a customer where they purchase their own raw ingredients and a shift in sales between Q1 and Q2.

Gross Margin

The gross margin for the period ended August, 31 2021 has decreased by \$250,078 when compared to the previous year. This is a result of a shift in sales as noted above.

Net Loss

The net loss of \$709,079 for the period ended August 31, 2021 has increased versus the previous years' net loss of \$613,121 in the previous year. This is driven by the decrease in gross margin as noted above.

Due to the continued losses, the Company's future performance may be impacted by its ability to have sufficient cashflows to meet its obligations. (please see note 1 and 19 of financial statements).

Liquidity and Capital Resources

The Company's ability to continue as a going concern is dependent upon the continuing support of related parties, availability of operating and long-term financing, renewing and obtaining new customer supply contracts, achieving a profitable level of operations, and being able to meet future debt service requirements. Management is continuing to address the need to increase revenue, control costs, and obtain working capital and long-term financing. As the outcome of management's actions is dependent on future events, there is no certainty that management will be able to successfully resolve these issues. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. The consolidated financial statements do not reflect adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operation. These adjustments could be material.

As a result of the worldwide pandemic of Covid-19, the Company has taken extended measures to ensure that the Company is prepared for the risks associated with the pandemic and future risks of similar nature. To ensure the Company can continue as going concern, management has reduced capital expenditure, continued lean inventory management and leveraged government assistance.

The Company is financed through the following:

Working Capital Funding

The Company has an operating loan with the CIBC for \$2,500,000. This loan is used to finance the daily operations. The loan is secured by a general security agreement and guarantees of a major shareholder who is also a director. The company currently has a working capital deficiency of \$4,771,150 (2020: \$3,730,229).

During Fiscal 2020, the Company entered into an amending agreement with certain holders of \$14,153,500 of the demand loans and \$13,098,972 of the accrued interest thereon such that effective May 26, 2020 they cannot demand repayment of these amounts for a period of 30 months. See note 10 in financial statements for more information.

Capital Asset Funding

There are \$2,000,000 capital expenditures planned for fiscal 2022 in order to meet the customer demand. These expenditures are expected to be financed through a conventional bank loan.

Going Concern Funding

A couple of the Company's shareholders have been investing in the Company through demand loans for over ten years and continue to support the Company.

Government Assistance Funding

Due to the impact of Covid-19 the Company has received additional funding from the Canadian Government through The Canada Emergency Wage Subsidy ("CEWS") program for \$180,785 and Canada Emergency Rent Subsidy ("CERS") for \$62,888 for the period. See note 19 in financial statements for more details.

Transactions with Related Parties

The related party transactions that we engaged in during the year are as follows:

- ***Demand Loans*** - one of the shareholders and director, Brian Halina, continues to invest in the Company by way of demand loans. In Q4 of fiscal 2020 the director indicated that he is not expecting any principal or interest repayment of these demand loans in fiscal 2021 and until November 30, 2022. The principal of the loan is \$14,153,500 and well as interest thereon of \$13,098,972.
- ***Accounts Payable*** – two of the officers, Terence Alty and Belva Rode continue to support the Company by way of payables that are unsecured, interest bearing at 8% annually and with no fixed terms of repayment.

These transactions are in the normal course of operations and are measured at the exchange value; the amount of consideration is established and agreed to by the related parties.

Changes in accounting policies

There have been no changes to accounting policies during the period.

Changes in Internal Control over Financial Reporting

There have been no changes in the internal controls over financial reporting during the period ended August 31, 2021 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Subsequent events

Subsequent to the period end, the Company has made another equipment loan draw for \$282,250.

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for designing and monitoring the effectiveness of the disclosure controls and procedures. Effective disclosure controls provide reasonable assurance that external financial reporting and statements are reliable. We are small with few administrative staff to ensure effective segregation of duties – a key factor in designing disclosure controls; however, both the Chief Executive Officer and Chief Financial Officer are directly involved in designing and maintaining disclosure controls and procedures. The Company is not required to certify the design and evaluation of DC&P and ICFR and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.