



Canyon Creek Food Company Ltd.
Interim Consolidated Financial Statements
For the three months ended August 31, 2021
(Unaudited)



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To the Shareholders of Canyon Creek Food Company Ltd.

The consolidated interim financial statements of Canyon Creek Food Company Ltd. as at and for the three-month period ended August 31, 2021 have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

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



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

	August 31, 2021	May 31, 2021
	\$	\$
(Going Concern – note 1)		
Assets		
Current assets		
Cash and cash equivalents	1,593	200,444
Trade and other receivables	482,912	267,874
Inventories (note 6)	1,001,364	594,382
Prepaid expenses	103,075	85,768
	<u>1,588,944</u>	<u>1,148,468</u>
Non-current assets		
Long-term deposits	335,827	81,252
Property and equipment (note 7)	2,240,470	1,766,074
Right-of-use assets (note 11)	2,897,622	2,534,833
	<u>2,897,622</u>	<u>2,534,833</u>
Total assets	<u>7,062,863</u>	<u>5,530,627</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	3,299,520	2,141,331
Trade payables and other liabilities	1,848,647	1,472,618
Accrued interest (note 12)	611,367	591,951
Loans payable (note 10)	345,000	345,000
Current lease liability (note 11)	255,560	326,223
	<u>6,360,094</u>	<u>4,877,123</u>
Non-current liabilities		
Accrued interest (notes 10 and 12)	13,098,972	12,801,134
Loans payable (note 11)	14,153,500	14,153,500
Lease liability (note 5 and 11)	2,949,474	2,488,968
	<u>2,949,474</u>	<u>2,488,968</u>
Total liabilities	<u>36,562,040</u>	<u>34,320,725</u>
Shareholders' deficiency		
Share capital (note 13)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	(42,602,899)	(41,893,820)
	<u>(42,602,899)</u>	<u>(41,893,820)</u>
Total shareholders' deficiency	<u>(29,499,177)</u>	<u>(28,790,098)</u>
Total shareholder's deficiency and liabilities	<u>7,062,863</u>	<u>5,530,627</u>

Approved by the Board of Directors

(Signed) "Brian Halina"

Director

(Signed) "Terence Alty"

Director

Canyon Creek Food Company Ltd.
Interim Consolidated Statements of Operations and Comprehensive Loss
(in Canadian dollars) (unaudited)

	3-month period ended August 31 2021 \$	3-month period ended August 31 2020 \$
Revenue (note 15)		
Revenue from customers	677,862	1,040,051
Direct expenses		
Cost of sales (notes 16 and 20)	600,924	737,851
Depreciation on property and equipment (note 7)	35,958	31,898
Depreciation on right-of-use assets (note 11)	90,609	69,853
	<u>727,491</u>	<u>839,602</u>
Gross margin	<u>(49,629)</u>	<u>200,449</u>
Selling expenses (note 16)		
General	25,651	6,282
Wages and benefits (note 20)	13,181	17,715
	<u>38,832</u>	<u>23,997</u>
General and administrative expenses (note 16)		
Wages and benefits (note 20)	91,240	95,663
Office and general	81,889	82,370
Professional fees	18,778	14,000
	<u>191,907</u>	<u>192,033</u>
Research and technical expenses	<u>220</u>	<u>-</u>
Earnings (loss) from operations before other expenses	<u>(280,588)</u>	<u>(15,581)</u>
Finance costs (note 17)	428,491	597,540
Net loss and comprehensive loss for the year	<u>(709,079)</u>	<u>(613,121)</u>
Loss per share		
Basic and fully diluted (note 14)	(0.02)	(0.02)



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

	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance at May 31, 2021	12,921,322	182,400	(41,893,820)	(28,790,098)
Comprehensive loss for the year	-	-	(709,079)	(709,079)
Balance at August 31, 2021	<u>12,921,322</u>	<u>182,400</u>	<u>(42,602,899)</u>	<u>(29,499,177)</u>
	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
Balance at May 31, 2020	12,921,322	182,400	(40,207,754)	(27,104,032)
Comprehensive loss for the year	-	-	(1,686,066)	(1,686,066)
Balance at May 31, 2021	<u>12,921,322</u>	<u>182,400</u>	<u>(41,893,820)</u>	<u>(28,790,098)</u>

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



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

	3-month period ended August 31 2021 \$	3-month period ended August 31 2020 \$
Cash provided by (used in):		
Operating activities		
Comprehensive loss for the year	(709,079)	(613,121)
Items not involving cash:		
Depreciation on property and equipment	35,958	31,898
Depreciation on right-of-use assets	90,609	69,853
Interest expense	428,491	597,540
	555,058	699,291
Change in items of working capital		
Trade and other receivables	(215,037)	(224,122)
Inventories	(406,982)	(101,378)
Prepaid expenses	(17,308)	(11,272)
Trade payables and other liabilities	376,029	443,432
	(263,298)	106,660
Net cash provided by (used in) operating activities	(417,319)	192,830
Investing activities		
Long-term deposit on asset	(254,575)	-
Purchase of property and equipment	(510,354)	(82,692)
Net cash used in investing activities	(764,929)	(82,692)
Financing activities		
Principal portion of lease payments	(63,555)	(65,131)
Interest paid	(111,237)	(89,262)
Increase in bank indebtedness	1,158,189	44,255
Net cash (used in) provided by financing activities	983,397	(110,138)
Net change in cash for the year	(198,851)	-
Cash and cash equivalents, beginning of year	200,444	-
Cash and cash equivalents, end of year	1,593	-

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

1. Going Concern

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

During the period ended August 31, 2021, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$709,079 (2020: loss of \$606,447). As at August 31, 2021, the Company has a working capital deficiency of \$4,771,150 (2020: \$3,730,229), bank indebtedness of \$3,299,520 (2020: \$1,810,479) (note 9), loans due to directors of \$14,498,500 (2020: \$14,498,500) and accrued interest thereon of \$13,710,339 (2020: \$11,834,227), a shareholders' deficiency of \$29,499,177 (2020: \$27,710,479) and an accumulated deficit of \$42,602,899 (2020: \$40,814,201). In addition, the Company has negative cash flow from operations of \$417,319 (2020: positive \$192,830). 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.

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'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, 2021 include the accounts of the Company and its subsidiary. Canyon Creek Food Company Ltd owns 100% of Canyon Creek Soup Company as at August 31, 2021. The Company's common shares are traded on the TSX Venture exchange under the symbol "CYF".

3. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and should be read in conjunction with the Company's annual financial statements for the year ended May 31, 2021 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These unaudited interim consolidated financial statements were approved by the Board of Directors for issue on November 1, 2021.

4. Accounting Standards

The accounting standards applied by the Company in these financial statements are the same as those applied by the Company as described in its consolidated financial statements as at and for the year ended May 31, 2020, and there have been no changes to those standards.

5. Adoption of new accounting standards

(a) *New and amended standards adopted*

No new and amended standards were adopted during the current year.

(b) *New and amended standards, not yet adopted*

IAS 37, Provisions, contingent liabilities and contingent assets amendments were made to IAS 37, Provisions, contingent liabilities and contingent assets in order to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. IAS 37 is required to be applied for annual periods beginning on or after January 1, 2022. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

IAS 1, Presentation of financial statements amendments were made to IAS 1, Presentation of financial statements in order to clarify how to classify debt and other liabilities as either current or non-current. IAS 1 is required to be applied for annual periods beginning on or after January 1, 2023. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

6. Inventories

	August 31, 2021	May 31, 2021
	\$	\$
Raw Materials	541,542	351,061
Finished Goods	14,981	6,166
Supplies	474,803	237,155
	1,001,364	594,382

Inventories expensed in cost of sales for the period amounted to \$354,101 (2020 - \$321,296).

7. Property and equipment

	Production Equipment	Office Equipment	Leasehold Improvements	Total
Year ended May 31, 2021	\$	\$	\$	\$
Opening net book value	1,446,881	12,130	133,702	1,592,713
Additions	156,949	8,505	223,802	389,256
Disposals	(29,558)	-	-	(29,558)
Depreciation	(100,030)	(4,513)	(81,794)	(186,337)
Closing net book amount	1,474,242	16,122	275,710	1,766,074
Period ended Aug 31, 2021	\$	\$	\$	\$
Opening net book value	1,474,242	16,122	275,710	1,766,074
Additions	432,162	-	78,192	510,354
Disposals	-	-	-	-
Depreciation	(25,147)	(873)	(9,938)	(35,958)
Closing net book amount	1,881,257	15,249	343,964	2,240,470
At May 31, 2021				
Cost	3,571,919	205,214	649,682	4,426,815
Accumulated depreciation and impairment	(2,097,677)	(189,092)	(373,972)	(2,660,741)
Net book amount	1,474,242	16,122	275,710	1,766,074
At August 31, 2021				
Cost	4,004,080	205,214	727,874	4,937,168
Accumulated depreciation and impairment	(2,122,823)	(189,965)	(383,910)	(2,696,698)
Net book amount	1,881,257	15,249	343,964	2,240,470

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 uncertainty surrounding the generation of positive cash flows from operations, management is unable to rely on the value in use model or fair value less cost of disposal model to determine the recoverable amount of the cash generating unit.

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 determined that the fair value less cost of disposal exceeds the carrying amount of each asset in the CGU and as such has concluded that no impairment charges are necessary in the current year. 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. The Company also recorded a write-down in the amount of \$467,000 against the carrying amount of the right of use asset.

Management relied on independent appraisals 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.

During the year, management has considered the impacts of the pandemic on the assets and the additional risks associated with the ability to fairly measure the price that would be received for the assets in an orderly transaction given the unpredictable economic impacts the pandemic has had. 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 in the appraisals, is categorized as Level 3 in the fair value hierarchy. As at May 31, 2021, 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.

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:

	2021 \$	2020 \$
Tax recovery at statutory rate	(390,000)	(988,000)
Adjusted for the tax effect of:		
Substantially enacted tax rates	2,000	77,000
Non-deductible expenses	146,000	150,000
Unrecognized deductible temporary differences	225,000	789,000
Other	17,000	(28,000)
	390,000	988,000
Total income tax provision	-	-

The statutory rate was 23.16% (2020 – 25.67%).

(b) Deferred income tax

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

	2020 \$	2020 \$
Property and equipment	1,387,891	1,866,568
License	1,425,654	1,425,654
Right-of-use assets	(2,534,832)	(2,707,414)
Lease liability	2,815,191	2,706,418
Non-capital losses	25,911,000	24,343,000
	29,004,904	27,634,226

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 \$6,671,128 (2020 - \$6,355,872) in respect of deductible temporary differences amounting to \$29,004,904 (2020 - \$27,634,226) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$25,911,000 (2020 - \$24,036,000) 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	3,733,000
2040	3,984,000
2041	1,875,000
	<u>25,911,000</u>

9. Bank indebtedness

During Fiscal 2021, the previous line of credit was reduced from \$1,850,000 to \$1,600,000. The Company entered into a new banking agreement with a line of credit equaling \$2,500,000, replacing the previous line of credit. The new line of credit bears interest at the bank's prime lending rate plus 0.25% and its due on demand. A general security agreement by a major shareholder, who is also a director, has been pledged as collateral. At August 31, 2021 the bank's prime rate was 2.45% (May 31, 2020 – 2.45%), the Company had outstanding cheques of \$149,813 (May 31, 2021 - \$69,331) and a bank overdraft of \$2,231,458 (May 31, 2020 - \$2,072,000). The Company entered into a \$2,500,000 bank demand instalment loan for the purchase of equipment, bearing interest at the bank's prime rate plus 0.25% per annum. There were draws of 918,249 made during the period.

10. Loans payable

	Aug 31, 2021 \$	May 31, 2021 \$
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	14,153,500
Demand loans payable to certain other directors of the Company, bearing interest at 8% compounded annually	345,000	345,000
	<u>14,498,500</u>	<u>14,498,500</u>
Less: Current portion	345,000	345,000
	<u>14,153,500</u>	<u>14,153,500</u>

The demand loans payable to the directors are unsecured.

In Fiscal 2020, 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 \$13,098,972 (May 31, 2021 - \$12,801,134), 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 period ended August 31, 2021:

	Production Equipment \$	Building \$	Aug 31, 2021 \$
Right-of-use asset, beginning of the year	1,118,808	1,416,025	2,534,833
Additions	-	453,398	453,398
Depreciation	(13,988)	(76,621)	(90,609)
Total right-of-use assets, end of period	1,104,820	1,792,802	2,897,622

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. In Fiscal 2020, \$467,000 were allocated as impairment write-down to the Right-of-use asset. In Fiscal 2021, the Company signed a lease agreement extending the building lease for one year, increasing the right-of-use asset and liability by \$151,319. The extension of the lease included new property in Fiscal 2020, increasing the right-of-use asset and liability by \$453,398.

Below is a summary of the activity related to the lease liabilities for the period ended August 31, 2021:

	Aug 31, 2021 \$
Lease liabilities, beginning of the year	2,815,191
Additions	453,398
Lease payments	(63,555)
Total lease liabilities, end of period	3,205,034
Of which are:	
Current lease liabilities	255,560
Non-current lease liabilities	2,949,474

The following table presents the maturity analysis of contractual undiscounted cash flows related to the Company's lease liabilities as of August 31, 2021:

	August 31, 2021 \$
2022	514,110
2023	705,691
2024	637,313

2025	533,823
2026	509,963
2027 and thereafter	2,007,637
Total minimum lease payments	4,908,537
Less: Amount representing imputed interest	1,703,503
	<u>3,205,034</u>

Leased production equipment with a carrying value of \$1,104,820 (May 31, 2021 - \$1,118,807) 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:

	Aug 31, 2021 \$	May 31, 2021 \$
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
Accrued interest on demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual (note 10)	13,098,972	12,801,134
Accrued interest on demand loans payable to certain other shareholders of the Company (note 10)	611,367	591,951

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

	Aug 31, 2021 \$	Aug 31, 2020 \$
Interest on demand loans, accrued but not paid (note 17)	317,257	508,279

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:

	2021 \$	2020 \$
Salaries and short-term employee benefits	262,000	262,000
Reimbursement of expenses	275,006	415,872

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 August 31, 2021 and August 31, 2020	<u>35,148,902</u>	<u>12,921,322</u>

Stock Option Plan

The company has a stock option plan (the "Plan"), which provides that the Board of Directors of the Company (the "Board") may from time to time, in its discretion, grant to directors, senior officers, employees and consultants the option to purchase common shares. The number of common shares reserved for issuance under the Plan shall not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. If the holder leaves the Company, the options expire 90 days after departure. As at August 31, 2021 and August 31, 2020, the Company did not have any outstanding stock options.

14. Loss per share

	Aug 31, 2021 \$	Aug 31, 2020 \$
Net loss for basic and diluted	<u>(709,079)</u>	<u>(618,121)</u>
	#	#
Weighted average number of common shares for basic and diluted	<u>35,148,902</u>	<u>35,148,902</u>

15. Revenue

	Aug 31, 2021 \$	Aug 31, 2020 \$
Revenue from contracts with customers		
Product sales	572,473	946,166
Freight services	<u>105,389</u>	<u>93,885</u>
	<u>677,862</u>	<u>1,040,051</u>

16. Expenses by nature

	Aug 31, 2021 \$	Aug 31, 2020 \$
i) Cost of sales		
Ingredients	335,452	294,165
Freight	105,389	140,838
Wages and benefits	81,021	135,711
Plant utilities	53,179	51,870
Plant repair and maintenance	18,745	34,661
Other	7,072	74,215
Packaging	67	6,391
	<u>600,924</u>	<u>737,851</u>
ii) Selling and general and administrative expenses		
Salaries, wages and benefits	127,487	136,113
Other	37,416	42,374
Quality Control	19,790	4,315
Professional fees	18,778	14,000
Insurance	17,235	7,246
Advertising and promotion	5,861	1,967
Utilities	4,173	6,012
Consulting	-	4,003
	<u>230,739</u>	<u>216,030</u>

17. Finance costs

	Aug 31, 2021 \$	Aug 31, 2020 \$
Interest on demand loans	317,257	508,278
Interest on lease liabilities	89,564	71,409
Interest on bank loan	3,152	-
Interest on bank indebtedness	13,949	15,140
Interest on accounts payable	4,569	2,713
	<u>428,491</u>	<u>597,540</u>

18. Segmented information and economic dependence

The Company operates in one industry, food manufacturing, and all the Company's assets are in Canada. During Fiscal 2021, the Company has recorded revenue of \$6,078,610 from two major customers, representing 84.7% of total revenue (2020 revenue of \$9,866,376 from two major customers representing 89.7% of revenue). The accounts receivable balance due from these customers amounts to 50% of total receivable (2020 100%).

Although all manufacturing operations of the Company are conducted in Canada, revenue attributed to the location of the customer occurs primarily in two geographical regions as follows:

Net revenue attributed to:	2021 \$	2020 \$
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Canada	6,078,610	9,509,584
US	1,096,592	847,337
	7,175,202	10,356,921

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, 2021 or May 31, 2020. 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 \$15,231 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, 2021, a 1% change in interest rates would change interest expense by \$19,409 (2020 - \$17,262).

(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 \$33,708 (2020 – \$34,899). The Company believes there is minimal risk associated with the collection of these amounts based on historical and subsequent collections. The Company manages its credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

The aging of the Company's receivables is:

	Aug 31, 2021 \$	May 31, 2021 \$
Current	416,490	197,545
Past due amounts		
15 – 45 days	35,096	7,536
Greater than 45 days	31,326	-
	66,422	7,536
Accounts receivable net	482,912	205,081

(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 \$4,694,180 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:

- a) to ensure sufficient liquidity to enable the internal financing of capital projects;
- b) to ultimately develop a strong capital base to increase investor, creditor, and market confidence; and
- c) 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. In September 2020, the Company completed the agreement and received \$15,927.

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. The Company submitted claims of \$803,181 under the CEWS program during the Fiscal 2021. This amount was netted against the related expense, with \$516,609 being netted against cost of sales, \$90,200 against selling expenses and \$196,372 reducing general and administrative expenses. The Company also claimed \$135,891 of rental relief through the Government of Canada program called Canada Rent Subsidy ("CERS"). During the current period the Company submitted claims of \$180,785 under the CEWS program and \$62,888 of rental relief through CERS.

During Fiscal 2020, 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

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