

CANYON CREEK FOOD COMPANY LTD.

*8704 – 53 Avenue
Edmonton, Alberta
T6E 5G2
Tel: 780-463-2991
Fax: 780-463-5511*

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MANAGEMENT DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of results of operations and financial position as at May 31, 2022 should be read in conjunction with the audited consolidated financial statements of Canyon Creek Food Company Ltd. ("Canyon Creek" or "the Company") for the years ended May 31, 2022 and 2021, 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 cyclicity.

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 September 28, 2022, the total number of issued and outstanding common shares is 35,148,902.

During the year ended May 31, 2022 and May 31, 2021 no securities were issued.

During the year ended May 31, 2022 and May 31, 2021 no options to purchase securities were granted. A balance of nil stock options was outstanding as at September 28, 2022.

There are no outstanding share purchase warrants as of September 28, 2022.

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. The company continues to look for cost reductions and plant efficiencies while expanding.

Selected Annual Information

Description	May 31, 2022 \$	May 31, 2021 \$	May 31, 2020 \$
<i>Total Revenues</i>	9,554,875	7,175,202	10,356,921
<i>Gross Margin</i>	669,316	1,726,353	315,924
<i>Net loss for the year</i>			
<i>Total</i>	(3,179,399)	(1,686,066)	(3,850,548)
<i>Per share</i>	(0.09)	(0.05)	(0.11)
<i>Total Assets</i>	7,816,306	5,530,627	4,864,335
<i>Long term liabilities</i>	30,603,639	29,443,602	27,392,480

Results of Operations

Revenue

Revenue increased by 33.2% during the year ended May 31, 2022, when compared to the previous year. The increase in revenue is the result of new customers and expanding sales with current customers.

Gross Margin

The gross margin for the year ended May 31, 2022, has decreased by \$1,057,037 when compared to the previous year. This decrease is the result of higher ingredient and logistic costs as well as challenges with product distribution for a new customer. Management has taken measures to improve efficiencies for the next Fiscal Year.

Net Loss

The net loss of \$3,179,399 for the year ended May 31, 2022 has increased from the net loss in the previous year by \$1,493,333. This is a result of decreased government assistance, reduced gross margins, and a significant write-down of property and equipment.

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	May 31, 2022 \$	Feb 28, 2022 \$	Nov 30, 2021 \$	Aug 31, 2021 \$	May 31, 2021 \$	Feb 28, 2021 \$	Nov 30, 2020 \$	Aug 31, 2020 \$
<i>Revenue</i>	2,082,082	3,667,423	3,127,508	677,862	586,017	2,629,742	2,919,392	1,040,051
<i>Gross Margin</i>	(198,844)	464,512	453,277	(49,629)	(3,796)	857,692	672,008	200,449
<i>Net loss for the period</i>								
<i>Total</i>	(1,690,416)	(395,700)	(384,204)	(709,079)	(781,212)	33,844	(325,577)	(613,121)
<i>Per share</i>	(0.05)	(0.01)	(0.01)	(0.02)	(0.02)	(0.00)	(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.

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 increased capital expenditure and inventory to increase plant capacity to meet new and future customer needs.

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 \$7,098,679 (2021: \$3,728,655).

The Company's bank and the Company's 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 \$13,936,882 (May 31, 2021 - \$12,801,134), until the Company has repaid all outstanding loans to its bank.

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 \$219,253 (2021: \$803,181) and Canada Emergency Rent Subsidy ("CERS") for \$77,553 (2021: \$135,891). See note 20 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. The director has entered an agreement waiving the right to demand the repayment of the demand loans payable and the accrued interest thereon.
- ***Accounts Payable*** – equipment purchases and services were rendered during the period with a Company, controlled by one or more of the shareholders and director.
- ***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 year ended May 31, 2022 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

Following year end, the Company has made another draw on the equipment loan of \$187,815 and has also increased its line of credit by \$650,000. The Company also reached a legal settlement with a supplier to purchase inventory equaling \$77,260, due in quarter two of Fiscal 2023.

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.