



Canyon Creek Food Company Ltd.  
Consolidated Financial Statements  
May 31, 2022, and 2021



## 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, 2022 and 2021, 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, 2022 and 2021;
- the consolidated statements of operations and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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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 in 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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## **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.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Edmonton, Alberta  
September 28, 2022



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

	<b>May 31, 2022</b>	<b>May 31, 2021</b>
	<b>\$</b>	<b>\$</b>
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,138	200,444
Trade and other receivables	321,122	267,874
Inventories (note 6)	1,635,968	594,382
Prepaid expenses	125,257	85,768
	<u>2,083,485</u>	<u>1,148,468</u>
<b>Non-current assets</b>		
Long-term deposits	-	81,252
Property and equipment (note 7)	3,204,276	1,766,075
Right-of-use assets (note 11)	2,528,545	2,534,832
	<u>2,528,545</u>	<u>2,534,832</u>
<b>Total assets</b>	<u>7,816,306</u>	<u>5,530,627</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	2,469,380	2,141,331
Bank equipment loan (note 9)	1,925,893	-
Trade payables and other liabilities	3,448,837	1,472,618
Accrued interest (note 12)	667,345	591,951
Loans payable (note 10)	345,000	345,000
Current lease liability (note 11)	325,709	326,223
	<u>9,182,164</u>	<u>4,877,123</u>
<b>Non-current liabilities</b>		
Accrued interest (notes 10 and 12)	13,936,882	12,801,134
Loans payable (note 10)	14,153,500	14,153,500
Lease liability (note 5 and 11)	2,513,257	2,488,968
	<u>25,603,639</u>	<u>29,443,602</u>
<b>Total liabilities</b>	<u>39,785,803</u>	<u>34,320,725</u>
<b>Shareholders' deficiency</b>		
Share capital (note 13)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	(45,073,219)	(41,893,820)
	<u>(31,969,497)</u>	<u>(28,790,098)</u>
<b>Total shareholders' deficiency</b>	<u>(31,969,497)</u>	<u>(28,790,098)</u>
<b>Total shareholder's deficiency and liabilities</b>	<u>7,816,306</u>	<u>5,530,627</u>

**Approved by the Board of Directors**

(Signed) "Brian Halina"

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Director

(Signed) "Terence Alty"

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Director

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

	Year ended May 31 2022 \$	Year ended May 31 2021 \$
<b>Revenue (note 15)</b>		
Revenue from customers	9,554,875	7,175,202
<b>Direct expenses</b>		
Cost of sales (notes 16 and 20)	8,298,535	4,971,647
Depreciation on property and equipment (note 7)	224,588	186,337
Depreciation on right-of-use assets (note 11)	362,436	290,865
	8,885,559	5,448,849
<b>Gross margin</b>	669,316	1,726,353
<b>Selling expenses (note 16)</b>		
General	144,941	51,762
Wages and benefits (note 20)	194,256	76,624
	339,197	128,386
<b>General and administrative expenses (note 16)</b>		
Wages and benefits (note 20)	636,846	423,479
Office and general	450,479	337,764
Professional fees	123,140	93,360
	1,210,465	854,603
<b>Production equipment write-down (note 7)</b>	627,116	-
<b>Research and technical expenses</b>	20,168	6,065
	647,284	6,065
<b>(Loss) earnings from operations before other expenses</b>	(1,527,630)	737,299
Finance costs (note 17)	1,651,769	2,423,365
<b>Net loss and comprehensive loss for the year</b>	(3,179,399)	(1,686,066)
<b>Loss per share</b>		
Basic and fully diluted (note 14)	(0.09)	(0.05)

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, 2021</b>	12,921,322	182,400	(41,893,820)	(28,790,098)
Comprehensive loss for the year	-	-	(3,179,399)	(3,179,399)
<b>Balance at May 31, 2022</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(45,073,219)</u>	<u>(31,969,497)</u>
	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
<b>Balance at May 31, 2020</b>	12,921,322	182,400	(40,207,754)	(27,104,032)
Comprehensive loss for the year	-	-	(1,686,066)	(1,686,066)
<b>Balance at May 31, 2021</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(41,893,820)</u>	<u>(28,790,098)</u>

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

	Year ended May 31 2022 \$	Year ended May 31 2021 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the year</b>	(3,179,399)	(1,686,066)
<b>Items not involving cash:</b>		
Depreciation on property and equipment	224,588	186,337
Depreciation on right-of-use assets	362,436	290,865
Production equipment write-down (note 7)	627,116	-
Interest expense	1,651,769	2,423,365
	(313,490)	1,214,501
<b>Change in items of working capital</b>		
Trade and other receivables	(53,247)	(111,983)
Inventories	(1,041,587)	111,626
Prepaid expenses	(39,489)	10,541
Trade payables and other liabilities	1,976,219	(198,657)
	841,896	(188,473)
<b>Net cash provided by operating activities</b>	528,406	1,026,028
<b>Investing activities</b>		
Long-term deposit on asset	81,252	(81,252)
Government grant adjustment	-	(37,077)
Purchase of property and equipment	(2,289,906)	(389,256)
<b>Net cash used in investing activities</b>	(2,208,654)	(507,585)
<b>Financing activities</b>		
Proceeds from equipment loan	2,175,917	-
Principal portion of lease payments	(332,374)	(336,876)
Interest paid	(407,346)	(356,229)
Repayment of line of credit	-	(1,600,000)
Repayment of equipment loan	(283,304)	-
Increase in bank indebtedness	328,049	1,975,106
<b>Net cash provided by (used in) financing activities</b>	1,480,942	(317,999)
<b>Net change in cash for the year</b>	(199,306)	200,444
Cash and cash equivalents, beginning of year	200,444	-
Cash and cash equivalents, end of year	1,138	200,444

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 year ended May 31, 2022, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$3,179,399 (2021: loss of \$1,686,066). As at May 31, 2022, the Company has a working capital deficiency of \$7,098,679 (2021: \$3,728,655), bank indebtedness of \$2,469,380 (2021: \$2,141,331) (note 9), loans due to directors of \$14,498,500 (2021: \$14,498,500), an equipment loan of \$1,925,893 (2021: nil) and accrued interest thereon of \$14,604,227 (2021: \$13,393,085), a shareholders' deficiency of \$31,969,497 (2021: \$28,790,098) and an accumulated deficit of \$45,073,219 (2021: \$41,893,820). The Company has reported cash flow from operations of \$528,406 (2021: \$1,026,028). As disclosed in Note 20, the Company has received government assistance in the amount of \$296,806 (2021 - 939,072); these amounts are included in the cash flow from operations. 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 increased capital expenditure and inventory to increase plant capacity to meet new and future customer needs.

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 year ended May 31, 2022, 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, 2022. 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 28, 2022.

**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 ten 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**

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 re-measurements 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 assistance**

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

Government assistance relating to Canadian Emergency Wage Subsidy (CEWS) and Canadian Emergency Rent Subsidy (CERS) 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.

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, 2022, gross accounts receivable was \$321,122 (2021 – \$205,081), and the expected loss allowance was in the amount of \$nil (2021 – \$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 7.

- **Leases**

Estimates

In 2022, 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

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

**(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

	May 31, 2022	May 31, 2021
	\$	\$
Raw Materials	977,228	351,061
Finished Goods	112,030	6,166
Supplies	546,710	237,155
	<b>1,635,968</b>	<b>594,382</b>

Inventories expensed in cost of sales for the period amounted to \$7,006,561 (2021 - \$4,064,393).

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)
<b>Closing net book amount</b>	<b>1,474,242</b>	<b>16,122</b>	<b>275,710</b>	<b>1,766,074</b>
Year ended May 31, 2022	\$	\$	\$	\$
Opening net book value	1,474,242	16,122	275,710	1,766,074
Additions	1,940,219	33,135	316,552	2,289,906
Disposals	-	-	-	-
Impairment	(477,116)	-	(150,000)	(627,116)
Depreciation	(139,938)	(6,863)	(77,787)	(224,588)
<b>Closing net book amount</b>	<b>2,797,407</b>	<b>42,394</b>	<b>364,475</b>	<b>3,204,276</b>
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)
<b>Net book amount</b>	<b>1,474,242</b>	<b>16,122</b>	<b>275,710</b>	<b>1,766,074</b>
At May 31, 2022				
Cost	5,512,138	238,349	966,234	6,716,721
Accumulated depreciation and impairment	(2,714,731)	(195,955)	(601,759)	(3,512,445)
<b>Net book amount</b>	<b>2,797,407</b>	<b>42,394</b>	<b>364,475</b>	<b>3,204,276</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 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 is below the carrying amount of each asset in the CGU and as such has concluded that an impairment charge of \$627,116 is necessary. This amount was netted against the related asset accounts with \$477,116 being netted against production equipment and \$150,000 against leasehold improvements, in the current year. For the year ended May 31, 2021, no impairment was recorded.

As indicated above, 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 by the appraisals, is categorized as Level 3 in the fair value hierarchy. As at May 31, 2022, 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:

	<b>2022</b>	<b>2021</b>
	\$	\$
Tax recovery at statutory rate	(731,000)	(390,000)
Adjusted for the tax effect of:		
Substantially enacted tax rates	-	2,000
Non-deductible expenses	157,000	146,000
Unrecognized deductible temporary differences	589,000	225,000
Other	(15,000)	17,000
	731,000	390,000
Total income tax provision	-	-

The statutory rate was 23% (2021 – 23%).

**(b) Deferred income tax**

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

	<b>2022</b>	<b>2021</b>
	\$	\$
Property and equipment	(4,061)	1,387,891
License	1,425,654	1,425,654
Right-of-use assets	(2,625,795)	(2,534,832)
Lease liability	2,949,473	2,815,191
Non-capital losses	29,276,373	25,911,000
	31,021,644	29,004,904

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 \$7,134,978 (2021 - \$6,671,128) in respect of deductible temporary differences amounting to \$31,021,644 (2021 - \$29,004,904) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$29,276,000 (2021 - \$25,911,000) 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
2042	3,365,000
	29,276,000

**9. Bank indebtedness**

During the prior year, 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, was pledged as collateral. At May 31, 2022 the bank's prime rate was 3.20% (May 31, 2021 – 2.45%), the Company had outstanding cheques of \$63,872 (May 31, 2021 - \$69,331) and a bank overdraft of \$2,405,508 (May 31, 2021 - \$2,072,000). In addition, during the prior year, the Company entered 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. During the year the Company made draws of \$2,175,917 on the equipment loan (2021 - \$nil).

**10. Loans payable**

	<b>May 31, 2022</b>	<b>May 31, 2021</b>
	<b>\$</b>	<b>\$</b>
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8% (May 31, 2021: 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
	14,498,500	14,498,500
Less: Current portion	345,000	345,000
	14,153,500	14,153,500

The demand loans payable to the directors are unsecured.

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. 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 because 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, 2022:

	<b>Production Equipment</b>	<b>Building</b>	<b>May 31, 2022</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Right-of-use asset, beginning of the year	1,118,807	1,416,025	2,534,832
Additions	-	356,149	356,149
Depreciation	(55,940)	(306,496)	(362,436)
Total right-of-use assets, end of period	1,062,867	1,465,678	2,528,545

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. In Fiscal 2022, the Company recognized a lease extension increasing the building lease to 46,639 sq feet, increasing the right-of-use asset and liability by \$285,608.

Below is a summary of the activity related to the lease liabilities for the year ended May 31, 2022:

	<b>May 31, 2022</b>
	<b>\$</b>
Lease liabilities, beginning of the year	2,815,191
Additions	356,149
Lease payments	(332,374)
Total lease liabilities, end of period	2,838,966
Of which are:	
Current lease liabilities	325,709
Non-current lease liabilities	2,513,257

The following table presents the maturity analysis of contractual undiscounted cash flows related to the Company's lease liabilities as of May 31, 2022:

	<b>May 31, 2022</b>
	<b>\$</b>
2023	642,461
2024	637,313
2025	533,823

2026	509,963
2027	463,475
2028 and thereafter	1,585,727
Total minimum lease payments	4,372,762
Less: Amount representing imputed interest	1,533,796
	<u>2,838,966</u>

Leased production equipment with a carrying value of \$1,062,864 (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:

	May 31, 2022	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)	13,936,882	12,801,134
Due to a company controlled by a director, included in accounts payable for services provided	173,972	-
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8% compounded annually, with no fixed terms of repayment	34,971	-
Accrued interest on demand loans payable to certain other shareholders of the Company (note 10)	667,345	591,951

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

	May 31, 2022	May 31, 2021
	\$	\$
Interest on demand loans, accrued but not paid (note 17)	1,211,142	2,067,136
Purchases of property and equipment	348,912	-

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 \$	2021 \$
Salaries and short-term employee benefits	262,000	262,000
Reimbursement of expenses	602,560	275,006

**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, 2022 and May 31, 2021	35,148,902	12,921,322

**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, 2022 and May 31, 2021, the Company did not have any outstanding stock options.

**14. Loss per share**

	May 31, 2022 \$	May 31, 2021 \$
Net loss for basic and diluted	(3,179,399)	(1,686,066)
	#	#
Weighted average number of common shares for basic and diluted	35,148,902	35,148,902

**15. Revenue**

	May 31, 2022 \$	May 31, 2021 \$
Revenue from contracts with customers		
Product sales	8,593,709	6,706,300
Freight services	961,166	468,902
	<u>9,554,875</u>	<u>7,175,202</u>

**16. Expenses by nature**

	May 31, 2022 \$	May 31, 2021 \$
i) Cost of sales		
Ingredients	4,791,053	2,743,067
Wages and benefits	1,383,071	714,132
Freight	1,228,313	719,994
Plant utilities	337,962	283,834
Other	158,222	114,415
Packaging	150,925	216,441
Plant repair and maintenance	150,446	135,730
Plant rental	98,543	44,034
	<u>8,298,535</u>	<u>4,971,647</u>
ii) Selling and general and administrative expenses		
Salaries, wages, and benefits	985,322	593,722
Other	190,012	157,563
Professional fees	123,140	93,360
Insurance	89,668	61,662
Quality Control	87,411	40,651
Advertising and promotion	57,530	11,110
Utilities	16,578	20,918
Consulting	-	4,003
	<u>1,549,661</u>	<u>982,989</u>

**17. Finance costs**

	May 31, 2022 \$	May 31, 2021 \$
Interest on demand loans	1,211,142	2,067,136
Interest on lease liabilities	334,857	282,910
Interest on bank indebtedness	60,027	55,373
Interest on bank loan	33,281	-
Interest on accounts payable	12,462	17,946
	<u>1,651,769</u>	<u>2,423,365</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 2022, the Company has recorded revenue of \$8,150,308, from two major customers, representing 85.3% of total revenue (2021 revenue of \$6,078,610 from two major customers representing 84.7% of revenue). The accounts receivable balance due from these customers amounts to 80% of total receivable (2021 - 50%).

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:	2022 \$	2021 \$
Canada	8,371,174	6,078,610
US	1,183,701	1,096,592
	<b>9,554,875</b>	<b>7,175,202</b>

## 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, 2022 or May 31, 2021. 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 loss of \$2,054 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, 2022, a 1% change in interest rates would change interest expense by \$43,953 (2021 - \$19,409).

**(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 \$198,962 (2021 – \$33,708). 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, 2022 \$	May 31, 2021 \$
Current	186,957	197,545
Past due amounts		
15 – 45 days	96,032	7,536
Greater than 45 days	38,133	-
	134,165	7,536
Accounts receivable net	321,122	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 \$9,233,333 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. 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 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 ensure sufficient liquidity to meet the demands of the existing current and long term obligations;
- 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. 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. During the current period, The Company submitted claims of \$219,253. This amount was netted against the related expense, with \$126,749 being netted against cost of sales, \$26,948 against selling expenses and \$65,556 reducing general and administrative expenses. The Company also claimed \$77,553 of rental relief through the Government of Canada program called Canada Rent Subsidy ("CERS"). 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 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**

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.