



Canyon Creek Food Company Ltd.  
Consolidated Financial Statements  
For the three months ended August 31, 2023  
(Unaudited)



Canyon Creek Food Company Ltd.  
Interim Consolidated Financial Statements  
For the three months ended August 31, 2023  
(Unaudited)

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, 2023 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.  
Consolidated Statements of Financial Position  
(in Canadian dollars) (unaudited)

	<b>August 31, 2023</b>	<b>May 31, 2023</b>
	<u>\$</u>	<u>\$</u>
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	636	213
Trade and other receivables	690,374	419,667
Inventories (note 6)	1,020,439	841,350
Prepaid expenses	38,406	38,888
	<u>1,749,855</u>	<u>1,300,118</u>
<b>Non-current assets</b>		
Property and equipment (note 7)	3,145,974	3,176,432
Right-of-use assets (note 12)	2,115,867	2,171,322
	<u>7,011,696</u>	<u>6,647,872</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 10)	3,304,455	3,069,982
Bank equipment loan (note 10)	1,806,636	1,940,651
Trade payables and other liabilities	2,955,882	3,053,638
Accrued interest (note 13)	771,105	749,217
Loans payable (note 11)	345,000	345,000
Current license and royalty liability (note 8)	339,219	339,219
Current lease liability (note 12)	294,071	398,093
	<u>9,816,368</u>	<u>9,895,800</u>
<b>Non-current liabilities</b>		
Accrued interest (notes 11 and 13)	15,400,109	15,082,631
Loans payable (note 11)	16,503,500	15,203,500
License and royalty liability (note 8)	962,421	962,421
Lease liability (note 12)	2,149,507	2,149,507
	<u>44,831,905</u>	<u>43,293,859</u>
<b>Total liabilities</b>		
<b>Shareholders' deficiency</b>		
Share capital (note 14)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	<u>(50,923,931)</u>	<u>(49,749,709)</u>
<b>Total shareholders' deficiency</b>		
	<u>(37,820,209)</u>	<u>(36,645,987)</u>
<b>Total shareholder's deficiency and liabilities</b>		
	<u>7,011,696</u>	<u>6,647,872</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) (unaudited)

	<b>3-month period ended August 31 2023 \$</b>	<b>3-month period ended August 31 2022 \$</b>
<b>Revenue (note 16)</b>		
Revenue from customers	1,405,370	1,911,615
<b>Direct expenses</b>		
Cost of sales (notes 17 and 21)	1,493,375	1,849,804
Depreciation on property and equipment (note 7)	59,015	61,621
Depreciation on right-of-use assets (note 12)	55,456	60,647
	1,607,846	1,972,072
<b>Gross margin</b>	(202,476)	(60,457)
<b>Selling expenses (note 17)</b>		
General	119,178	13,431
Wages and benefits (note 21)	47,985	54,846
	167,163	68,277
<b>General and administrative expenses (note 17)</b>		
Wages and benefits (note 21)	159,064	135,798
Office and general	104,676	85,107
Professional fees	30,716	25,789
	294,456	246,694
<b>Research and technical expenses</b>	3,825	14,214
<b>Loss from operations before other expenses</b>	(667,920)	(389,642)
Finance costs (note 18)	506,302	439,729
<b>Net loss and comprehensive loss for the period</b>	(1,174,222)	(829,371)
<b>Loss per share</b>		
Basic and fully diluted (note 15)	(0.03)	(0.02)

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



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

	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
<b>Balance at May 31, 2023</b>	12,921,322	182,400	(49,749,709)	(36,645,987)
Comprehensive loss for the period	<u>-</u>	<u>-</u>	<u>(1,174,222)</u>	<u>(1,174,222)</u>
<b>Balance at August 31, 2023</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(50,923,931)</u>	<u>(37,820,209)</u>

	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Deficiency \$
<b>Balance at May 31, 2022</b>	12,921,322	182,400	(45,073,219)	(31,969,497)
Comprehensive loss for the year	<u>-</u>	<u>-</u>	<u>(4,676,490)</u>	<u>(4,676,490)</u>
<b>Balance at May 31, 2023</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(49,749,709)</u>	<u>(36,645,987)</u>

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



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

	3-month period ended August 31 2023 \$	3-month period ended August 31 2022 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the period</b>	(1,174,222)	(829,371)
<b>Items not involving cash:</b>		
Depreciation on property and equipment	59,015	61,621
Depreciation on right-of-use assets	55,456	60,647
Interest expense	506,302	439,729
	(553,449)	(267,374)
<b>Change in items of working capital</b>		
Trade and other receivables	(270,707)	(508,447)
Inventories	(179,089)	331,325
Prepaid expenses	482	43,448
Trade payables and other liabilities	(97,756)	(414,702)
	(547,070)	(548,376)
<b>Net cash (used) provided by operating activities</b>	<u>(1,100,519)</u>	<u>(815,750)</u>
<b>Investing activities</b>		
Purchase of property and equipment	(28,557)	(128,661)
<b>Net cash used in investing activities</b>	<u>(28,557)</u>	<u>(128,661)</u>
<b>Financing activities</b>		
Proceeds from equipment loan	-	187,815
Principal portion of lease payments	(104,023)	(91,206)
Proceeds from loans payable	1,300,000	100,000
Interest paid	(166,936)	(139,623)
Repayment of equipment loan	(134,016)	(111,926)
Increase in bank indebtedness	234,474	998,082
<b>Net cash provided by financing activities</b>	<u>1,129,499</u>	<u>943,142</u>
<b>Net change in cash for the year</b>	423	(1,269)
Cash and cash equivalents, beginning of year	213	1,138
Cash and cash equivalents, end of year	<u>636</u>	<u>(131)</u>

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

## 1. Going Concern

These interim 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, 2023, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$1,174,222 (2022: loss of \$829,371). As at August 31, 2023, the Company has a working capital deficiency of \$8,066,513 (2022: \$7,651,039), bank indebtedness of \$3,304,456 (2022: \$3,467,463) (note 9), loans due to directors of \$16,848,500 (2022: \$14,498,500), an equipment loan of \$1,806,636 (2022: \$2,001,782) and accrued interest thereon of \$16,171,214 (2022: \$14,904,332), a shareholders' deficiency of \$37,820,209 (2022: \$32,798,868) and an accumulated deficit of \$50,923,931 (2022: \$45,902,590). The Company has reported negative cash flow from operations of \$1,100,519 (2022: \$815,750). 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.

The Company's ability to continue as a going concern is dependent upon the continuing support of related parties (notes 11 and 13), 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, 2023, 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, 2023. 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, 2023, 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 October 30, 2023.

### 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, 2023, 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 period.

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

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

	Aug 31, 2023	May 31, 2023
	\$	\$
Raw Materials	350,639	328,419
Finished Goods	88,733	67,612
Supplies	581,067	445,319
	1,020,439	841,350

Inventories expensed in cost of sales for the period amounted to \$788,350 (2022 - \$1,092,124).

**7. Property and equipment**

	<b>Production Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Year ended May 31, 2023</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	2,797,407	42,394	364,475	3,204,276
Additions	262,738	1,090	63,785	327,613
Disposals	(665)	(2,340)	-	(3,005)
Impairment	(102,402)	-	-	(102,402)
Depreciation	(156,562)	(9,322)	(84,166)	(250,050)
<b>Closing net book amount</b>	<b>2,800,516</b>	<b>31,822</b>	<b>344,094</b>	<b>3,176,432</b>
<b>Period ended Aug 31, 2023</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	2,800,516	31,822	344,094	3,176,432
Additions	26,957	-	1,600	28,557
Depreciation	(37,713)	(1,815)	(19,487)	(59,015)
<b>Closing net book amount</b>	<b>2,789,760</b>	<b>30,007</b>	<b>326,207</b>	<b>3,145,974</b>
<b>At May 31, 2023</b>				
Cost	5,770,875	237,100	1,030,019	7,037,994
Accumulated depreciation and impairment	(2,970,359)	(205,278)	(685,925)	(3,861,562)
<b>Net book amount</b>	<b>2,800,516</b>	<b>31,822</b>	<b>344,094</b>	<b>3,176,432</b>
<b>At Aug 31, 2023</b>				
Cost	5,797,833	237,100	1,031,619	7,066,552
Accumulated depreciation and impairment	(3,008,073)	(207,093)	(705,412)	(3,920,578)
<b>Net book amount</b>	<b>2,789,760</b>	<b>30,007</b>	<b>326,207</b>	<b>3,145,974</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.

Management calculated the recoverable amount of the CGU using a FVLCD model and allocated the impairment loss to the individual assets in the CGU. The carrying amount of the assets was reduced to the highest of FVLCD, its VIU or zero of the individual assets.

Management has concluded that the determination of FVLCD at the asset level would reflect the best estimate of the recoverable amounts of Property and equipment (P&E) and right-of-use assets (ROUA).

The determination of the recoverable amounts of P&E at the asset level included the use of management's experts to project these values based upon analysis of the items included in P&E and the consideration of the following three approaches:

- Cost approach,
- Sales Comparison or market approach, and
- Income approach

For the year ended May 31, 2023, management of the Company concluded that the recoverable amounts of certain individual assets included in P&E were below the carrying amounts and as such recorded an impairment charge of \$102,402 against production equipment.

During Fiscal 2022, the Company determined that the FVLCD was below the carrying amount of certain assets in the CGU and as such has concluded that an impairment charge of \$627,116 was necessary. This amount was netted against the related asset accounts with \$477,116 being netted against production equipment and \$150,000 against leasehold improvements.

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, 2023, 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. License and royalty liability

During the year, the Company entered into a license and royalty agreement (the Agreement) for a minimum of 5 years with another food manufacturing company (the Licensor) for the exclusive right and license to use their recipes to prepare and package certain products in association with the Licensor's marks and to distribute, dispense, offer for sale and sell such products.

Per the terms of the Agreement, the Company is obligated to make royalty payments due at the end of each calendar quarter equal to the greater of 10% of net sales and a specified amount per quarter for each contract year as follows:

<u>Contract year</u>	<u>Per quarter</u>
2023	\$50,000

2024	\$75,000
2025	\$100,000
2026	\$100,000
2027	\$100,000

The Agreement represents both a contractual right to the use of the recipes and marks of the Licensor giving rise to an intangible asset as required by IAS 38, *Intangible Assets*, and a contractual liability. At inception, both the asset and the liability were measured at the present value of the minimum amounts payable to the Licensor of \$1,260,016.

As required by IAS 36, impairment should be identified at the individual asset level, where possible. The recoverable amount should be calculated for the CGU to which the asset belongs only where the recoverable amount for the individual asset cannot be identified. Management concluded that the individual intangible asset resulting from the license and royalty agreement generates cash flows that are largely independent from the other assets. The Company reports negative cash flows associated with this agreement and absence of positive net cash inflows in the foreseeable future and as such, the intangible asset was fully written off in the consolidated statement of operations and comprehensive loss for the year at inception.

The following table presents the maturity analysis of contractual undiscounted cash flows related to the Company's license and royalty liabilities as of August 31, 2023:

	<b>Aug 31, 2023</b>
	<b>\$</b>
2024	366,623
2025	341,667
2026	400,000
2027	400,000
2028	233,333
Total minimum license and royalty payments	<u>1,741,623</u>
Less: Amount representing imputed interest	<u>439,983</u>
	<u>1,301,640</u>

The license and royalty liability recorded represents the minimum payments payable net of imputed interest at 11% per annum.

## 9. 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>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Tax recovery at statutory rate	<u>(1,076,000)</u>	<u>(731,000)</u>
Adjusted for the tax effect of:		
Non-deductible expenses	170,000	157,000
Unrecognized deductible temporary differences	980,000	589,000
Other	<u>(74,000)</u>	<u>(15,000)</u>
	<u>1,076,000</u>	<u>731,000</u>

Total income tax provision - -

The statutory rate was 23% (2022 – 23%).

**(b) Deferred income tax**

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

	2023 \$	2022 \$
Property and equipment	(179,368)	(4,061)
License	1,425,654	1,425,654
Right-of-use assets	(2,171,322)	(2,625,795)
Lease liability	2,547,600	2,949,473
Licensing and royalty liability	1,260,016	-
Non-capital losses	32,570,132	29,276,373
	<u>35,452,712</u>	<u>31,021,644</u>

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of \$8,154,124 (2022 - \$7,134,978) in respect of deductible temporary differences amounting to \$35,452,712 (2022 - \$31,021,644) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$32,570,132 (2022 - \$29,276,000) 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	3,298,000
2043	<u>3,361,000</u>
	<u>32,570,000</u>

**10. Bank indebtedness**

In 2021 the Company entered into a new banking agreement with a line of credit equaling \$2,500,000, replacing the previous line of credit. During the year the Company extended the new line of credit by \$650,000. The new line of credit bears interest at the bank's prime lending rate plus 0.25% and is due on demand. A general security agreement by a majority shareholder, who is also a director, was pledged as collateral. At August 31, 2023 the bank's prime rate was 7.20% (May 31, 2023 – 6.70%), the Company had outstanding cheques of \$179,301 (May 31, 2023 - \$112,124) and a bank overdraft of \$3,125,154 (May 31, 2023 - \$2,957,858).

In addition, in 2021, 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. During the year the Company extended the loan by \$200,000 and made draws of nil on the equipment loan (May 2023 - \$504,337).

**11. Loans payable**

	Aug 31, 2023 \$	May 31, 2023 \$
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8%	16,503,500	15,203,500
Demand loans payable to certain other directors of the Company, bearing interest at 8% compounded annually	345,000	345,000
	16,848,500	15,548,500
Less: Current portion	345,000	345,000
	<u>16,503,500</u>	<u>15,203,500</u>

The demand loans payable to the directors are unsecured.

During the prior year 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 \$16,503,500 and accrued interest thereon of \$15,400,109 (May 31, 2022 - \$13,936,882), 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.

**12. 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 ROUA:

	<b>Production Equipment</b>	<b>Building</b>	<b>Total</b>
<b>Year ended May 31, 2023</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	1,062,867	1,465,678	2,528,545
Disposals	(12,884)	-	(12,884)
Impairment	(116,168)	-	(116,168)
Depreciation	(50,515)	(177,656)	(228,171)
<b>Closing net book amount</b>	<b>883,300</b>	<b>1,288,022</b>	<b>2,171,322</b>
<b>Year ended Aug 31, 2023</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	883,300	1,288,022	2,171,322
Depreciation	(11,041)	(44,414)	(55,455)
<b>Closing net book amount</b>	<b>872,259</b>	<b>1,243,608</b>	<b>2,115,867</b>

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 recoverable amount of leased properties included in ROUA was calculated using a present value technique including the following significant assumptions: sublease market rates, sublease vacancy lag, discount rate and restoration costs. The recoverable amounts of leased equipment included in ROUA was determined through the use of management's experts to project its value in a manner consistent with the determination of recoverable amounts of P&E as described in Note 7.

For the year ended May 31, 2023, management of the Company concluded that the recoverable amounts of certain individual assets included in ROUA were below the carrying amounts and as such recorded an impairment charge of \$116,168 against production equipment included in ROUA. For the year ended May 31, 2022, no impairment was recorded.

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 period ended August 31, 2023:

	<b>May 31, 2023</b>
	<b>\$</b>
Lease liabilities, beginning of the year	2,547,600
Additions	-
Lease payments	(104,022)
Total lease liabilities, end of period	2,443,578
Of which are:	
Current lease liabilities	294,071
Non-current lease liabilities	2,149,507

The following table presents the maturity analysis of contractual undiscounted cash flows related to the Company's lease liabilities as of August 31, 2023:

	Aug 31, 2023 \$
2024	520,828
2025	576,615
2026	542,057
2027	463,475
2028	475,135
2029 and thereafter	1,008,799
Total minimum lease payments	3,586,909
Less: Amount representing imputed interest	1,143,331
	2,443,578

Leased production equipment with a carrying value of \$872,259 (May 31, 2023 - \$883,300) 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.

### 13. 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, 2023 \$	May 31, 2023 \$
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 11)	15,400,109	15,082,631
Due to a company controlled by a director, included in accounts payable for services provided	46,547	46,547
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8% compounded annually, with no fixed terms of repayment	34,894	34,071
Accrued interest on demand loans payable to certain other shareholders of the Company (note 11)	771,105	749,217

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

	Aug 31, 2023 \$	Aug 31, 2022 \$
Interest on demand loans, accrued but not paid (note 18)	339,366	300,105
Purchases of property and equipment	-	6,131

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:

	2023 \$	2022 \$
Salaries and short-term employee benefits	262,000	262,000
Reimbursement of expenses	774,576	602,560

14. 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 Aug 31, 2023 and 2022	<u>35,148,902</u>	<u>12,921,322</u>

**Stock Option Plan**

The Company has a stock option plan (the "Plan"), which provides that the Board of Directors of the Company (the "Board") may from time to time, in its discretion, grant to directors, senior officers, employees and consultants the option to purchase common shares. The number of common shares reserved for issuance under the Plan shall not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. If the holder leaves the Company, the options expire 90 days after departure. As at May 31, 2023 and May 31, 2022, the Company did not have any outstanding stock options.

15. Loss per share

	Aug 31, 2023 \$	Aug 31, 2022 \$
Net loss for basic and diluted	<u>(1,174,222)</u>	<u>(829,371)</u>
	#	#
Weighted average number of common shares for basic and diluted	<u>35,148,902</u>	<u>35,148,902</u>

16. Revenue

	Aug 31, 2023	Aug 31, 2022
	\$	\$
Revenue from contracts with customers		
Product sales	1,152,885	1,566,328
Freight services	252,485	345,287
	<u>1,405,370</u>	<u>1,911,615</u>

17. Expenses by nature

	Aug 31, 2023	Aug 31, 2022
	\$	\$
i) Cost of sales		
Ingredients	737,214	1,062,147
Freight	279,350	263,166
Wages and benefits	260,887	346,107
Plant utilities	65,464	70,757
Plant rental	56,460	50,099
Plant repair and maintenance	36,923	30,873
Other	31,858	21,185
Packaging	25,219	5,470
	<u>1,493,375</u>	<u>1,849,804</u>
ii) Selling and general and administrative expenses		
Salaries, wages, and benefits	240,010	228,123
Advertising and promotion	114,217	6,989
Other	49,080	29,842
Professional fees	30,716	25,789
Insurance	20,555	13,901
Quality control	4,961	6,443
Utilities	2,080	3,884
	<u>461,619</u>	<u>314,971</u>

18. Finance costs

	Aug 31, 2023	Aug 31, 2022
	\$	\$
Interest on demand loans	339,366	300,105
Interest on lease liabilities	75,255	84,486
Interest on bank indebtedness	54,770	32,022
Interest on bank loan	34,431	20,493
Interest on accounts payable	2,480	2,622
	<u>506,302</u>	<u>439,729</u>

## 19. Segmented information and economic dependence

The Company operates in one industry, food manufacturing, and all the Company's assets are in Canada. During Fiscal 2023, the Company has recorded revenue of \$9,194,461, from two major customers, representing 77.1% of total revenue (2022 revenue of \$8,150,308 from two major customers representing 85.3% of revenue). The accounts receivable balance due from these customers amounts to 52% of total receivable (2022 - 80%).

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:	2023 \$	2022 \$
Canada	10,652,657	8,371,174
US	1,272,714	1,183,701
	<b>11,925,371</b>	<b>9,554,875</b>

## 20. 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, 2023 or May 31, 2022. 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 \$5,486 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, 2023, a 1% change in interest rates would change interest expense by \$50,106 (2022 - \$43,953).

**(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 \$73,570 (2022 – \$198,962). 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, 2023 \$	May 31, 2023 \$
Current	373,140	183,009
Past due amounts		
15 – 45 days	136,705	48,177
Greater than 45 days	180,529	188,480
	317,234	236,657
Accounts receivable net	690,374	419,666

**(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. Due to the recurring history of significant losses and lack of consistent operating cash flows, the Company continues to rely on the majority shareholder to fund ongoing operations and cash flow deficiencies through the additional draws on the loans payable (note 10).

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 \$9,895,800 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. Due to the significant liquidity risk and lack of adequate cash flows to fund existing obligations and ongoing operations, the Company continues to make efforts to improve operating cash flows through certain strategic efforts, such as expanding operations, but to date the cash flow deficiencies have been funded by the majority shareholder. Until such time that the Company generates positive cash flows it is expected to remain reliant on the funding of the majority shareholder, or other sources of financing where possible. 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. 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.

In addition to the risks outlined above, the Company is exposed to further liquidity risk as a result of its economic dependence on the revenues 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.

### 21. Government assistance

The Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs were introduced by the Government of Canada in 2020 during the COVID-19 pandemic. These programs reimbursed eligible employers who experienced the required reduction in revenue for a portion of salaries paid out to employees and provided rental relief, respectively.

The Company received no government assistance during the year ended May 31, 2023. During the prior year, the Company submitted claims of \$219,253 of CEWS which were 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. Also, during the prior year, the Company claimed \$77,553 of 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.

**22. Subsequent events**

The Company has reported no subsequent events to the period end.