



Canyon Creek Food Company Ltd.  
Consolidated Financial Statements  
May 31, 2023, and 2022



## 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, 2023 and 2022, 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, 2023 and 2022;
- 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 to 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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## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended May 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

### Key audit matter

### How our audit addressed the key audit matter

#### Impairment assessment of property and equipment and right-of-use assets

*Refer to note 4 – Significant accounting policies and recent accounting pronouncements, note 7 – Property and equipment and note 12 – Leases to the consolidated financial statements.*

The carrying amounts of property and equipment (P&E) and right-of-use assets (ROUA) as at May 31, 2023 were \$3.2 million and \$2.2 million, respectively. At each reporting period, management assesses whether there are any indicators of impairment for the Company's P&E and ROUA. When such indicators are identified, management determines the recoverable amounts of the P&E and ROUA. The recoverable amount is the higher of fair value less cost of disposal (FVLCD) and value in use (VIU). For the purpose of determining the recoverable amounts, P&E and ROUA are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). For the purposes of impairment testing, the Company only has one CGU. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. In allocating the impairment loss, the carrying amount of an asset is not reduced below the highest of its FVLCD, its VIU and zero.

Our approach to addressing the matter included the following procedures, among others:

- For the recoverable amounts of P&E at the asset level and leased equipment included in ROUA, professionals with specialized skill and knowledge in the field of valuation assisted in developing an independent point estimate of the recoverable amounts for a sample of P&E assets and leased equipment included in ROUA and compared them to the recoverable amounts as calculated by management to evaluate the reasonableness of management's estimate.
- For leased properties included in ROUA, tested how management determined the recoverable amounts by:
  - Reading key terms of the lease agreements.
  - Testing the appropriateness of management's present value technique.
  - Testing the underlying data used by management in the determination of the recoverable amounts of the leased properties.



Management concluded that a number of impairment indicators existed as at May 31, 2023, including history of accumulated losses, negative cash flows from operations and the absence of positive net cash inflows or operating profits in the foreseeable future.

Management calculated the recoverable amount of the CGU using an 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 fair value less cost of disposal at the asset level would reflect the best estimate of the recoverable amounts of the P&E and ROUA.

The determination of the recoverable amounts of P&E at the asset level and the leased equipment included in ROUA is done, with the assistance of management's experts, based on one of the following three approaches:

- cost approach;
- sales comparison or market approach; and
- income approach.

The recoverable amounts of leased properties included in ROUA were calculated using a present value technique including the following significant assumptions: sublease market rates, sublease vacancy lag, discount rate and restoration costs. Management concluded that the recoverable amounts of certain individual assets included in P&E and ROUA were below their carrying amounts and as such has recorded an impairment charge in the amount of \$218,570.

- Using the professionals with specialized skill and knowledge in the field of valuation to assist in evaluating the reasonableness of the following significant assumptions used by management in the present value technique:
  - sublease market rates;
  - sublease vacancy lag;
  - discount rate; and
  - restoration costs.



We considered this a key audit matter due to the significant audit effort and subjectivity in performing procedures to test the recoverable amounts, which involved significant judgment by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

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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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2023



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

	<b>May 31, 2023</b>	<b>May 31, 2022</b>
	<b>\$</b>	<b>\$</b>
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	213	1,138
Trade and other receivables	419,667	321,122
Inventories (note 6)	841,350	1,635,968
Prepaid expenses	38,888	125,257
	<u>1,300,118</u>	<u>2,083,485</u>
<b>Non-current assets</b>		
Property and equipment (note 7)	3,176,432	3,204,276
Right-of-use assets (note 12)	2,171,322	2,528,545
	<u>6,647,872</u>	<u>7,816,306</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 10)	3,069,982	2,469,380
Bank equipment loan (note 10)	1,940,651	1,925,893
Trade payables and other liabilities	3,053,638	3,448,837
Accrued interest (note 13)	749,217	667,345
Loans payable (note 11)	345,000	345,000
Current license and royalty liability (note 8)	339,219	-
Current lease liability (note 12)	398,093	325,709
	<u>9,895,800</u>	<u>9,182,164</u>
<b>Non-current liabilities</b>		
Accrued interest (notes 11 and 13)	15,082,631	13,936,882
Loans payable (note 11)	15,203,500	14,153,500
License and royalty liability (note 8)	962,421	-
Lease liability (note 12)	2,149,507	2,513,257
	<u>43,293,859</u>	<u>39,785,803</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	(49,749,709)	(45,073,219)
	<u>(36,645,987)</u>	<u>(31,969,497)</u>
<b>Total shareholders' deficiency</b>		
	<u>(36,645,987)</u>	<u>(31,969,497)</u>
<b>Total shareholder's deficiency and liabilities</b>		
	<u>6,647,872</u>	<u>7,816,306</u>

**Approved by the Board of Directors**

(Signed) "Brian Halina"

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 Director

(Signed) "Terence Alty"

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 Director

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



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

	Year ended May 31 2023 \$	Year ended May 31 2022 \$
<b>Revenue (note 16)</b>		
Revenue from customers	11,925,371	9,554,875
<b>Direct expenses</b>		
Cost of sales (notes 17 and 21)	10,953,042	8,298,535
Depreciation on property and equipment (note 7)	250,050	224,588
Depreciation on right-of-use assets (note 12)	228,171	362,436
	11,431,263	8,885,559
<b>Gross margin</b>	494,108	669,316
<b>Selling expenses (note 17)</b>		
General	390,748	144,941
Wages and benefits (note 21)	241,024	194,256
	631,772	339,197
<b>General and administrative expenses (note 17)</b>		
Wages and benefits (note 21)	627,231	636,846
Office and general	441,817	450,479
Professional fees	118,462	123,140
	1,187,510	1,210,465
<b>Production equipment impairment (note 7)</b>	218,570	627,116
<b>License and royalty intangible asset impairment (note 8)</b>	1,260,016	-
<b>Loss on disposal of equipment</b>	1,054	-
<b>Research and technical expenses</b>	16,102	20,168
	1,495,742	647,284
<b>Loss from operations before other expenses</b>	(2,820,916)	(1,527,630)
Finance costs (note 18)	1,855,574	1,651,769
<b>Net loss and comprehensive loss for the year</b>	(4,676,490)	(3,179,399)
<b>Loss per share</b>		
Basic and fully diluted (note 15)	(0.13)	(0.09)

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)*

	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>

	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	<u>-</u>	<u>-</u>	<u>(3,179,399)</u>	<u>(3,179,399)</u>
<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>

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)

	Year ended May 31, 2023 \$	Year ended May 31, 2022 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the period</b>	(4,676,490)	(3,179,399)
<b>Items not involving cash:</b>		
Depreciation on property and equipment	250,050	224,588
Depreciation on right-of-use assets	228,171	362,436
Loss on equipment disposal	1,054	-
Intangible asset impairment (Note 8)	1,260,016	-
Production equipment impairment (Note 7)	218,570	627,116
Interest expense	1,855,574	1,651,769
	(863,055)	(313,490)
<b>Change in items of working capital</b>		
Trade and other receivables	(98,545)	(53,247)
Inventories	794,618	(1,041,587)
Prepaid expenses	86,369	(39,489)
Licensing liability	41,625	-
Trade payables and other liabilities	(395,199)	1,976,219
	428,868	841,896
<b>Net cash (used) provided by operating activities</b>	(434,187)	528,406
<b>Investing activities</b>		
Long-term deposit on asset	-	81,252
Proceeds on sale of property and equipment	104,999	-
Disposal of property and equipment	2,340	-
Purchase of property and equipment	(314,729)	(2,289,906)
<b>Net cash used in investing activities</b>	(207,390)	(2,208,654)
<b>Financing activities</b>		
Proceeds from equipment loan	504,337	2,175,917
Principal portion of lease payments	(396,755)	(332,374)
Proceeds from loans payable	1,050,000	-
Interest paid	(627,953)	(407,346)
Repayment of equipment loan	(489,579)	(283,304)
Increase in bank indebtedness	600,602	328,049
<b>Net cash provided by financing activities</b>	640,652	1,480,942
<b>Net change in cash for the year</b>	(925)	(199,306)
Cash and cash equivalents, beginning of year	1,138	200,444
Cash and cash equivalents, end of year	213	1,138

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, 2023, Canyon Creek Food Company Ltd. (the "Company") reported a loss of \$4,676,490 (2022: loss of \$3,179,399). As at May 31, 2023, the Company has a working capital deficiency of \$8,595,682 (2022: \$7,098,679), bank indebtedness of \$3,069,982 (2022: \$2,469,380) (note 9), loans due to directors of \$15,548,500 (2022: \$14,498,500), an equipment loan of \$1,940,651 (2022: \$1,925,893) and accrued interest thereon of \$15,831,848 (2022: \$14,604,227), a shareholders' deficiency of \$36,645,987 (2022: \$31,969,497) and an accumulated deficit of \$49,749,709 (2022: \$45,073,219). The Company has reported negative cash flow from operations of \$434,187 (2022: positive \$528,406). As disclosed in Note 21, the Company has received government assistance in the amount of nil (2022 - \$296,806); 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.

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 year ended May 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 May 31, 2023. 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, 2023.

### 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%
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) Intangible assets**

Intangible assets related to contractual rights to use external trademarks included in license and royalty agreements are identified and recognized where they meet the definition of an intangible asset, and the fair value can be measured reliably. The cost of such intangible assets is the fair value at the inception date of such agreements.

Subsequent to initial recognition, intangible assets related to contractual rights are reported at cost less accumulated amortization and accumulated impairment losses.

**(g) 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.

**(h) Impairment of long-lived assets**

Long-lived assets comprised of property and equipment, intangible assets 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 fair value less cost of disposal (FVLCD) and value in use (VIU). An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. In allocating the impairment loss the carrying amount of an asset is not reduced below the highest of its FVLCD, its VIU and zero.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

**(i) 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.

**(j) Research and technical expenses**

Research and technical expenses are expensed in the period in which the costs are incurred.

**(k) 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.

**(l) 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.

**(m) 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.

**(n) 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.

**(o) 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.

**(p) 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, 2023, gross accounts receivable was \$419,667 (2022 – \$321,122), and the expected loss allowance was in the amount of \$nil (2022 – \$nil).

- **Impairment of property and equipment, intangible assets and right-of-use assets**

Estimates

Property and equipment, intangible assets 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 2023, 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**

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 has determined this standard has no effect on the consolidated financial statements.

**(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

	May 31, 2023	May 31, 2022
	\$	\$
Raw Materials	328,419	977,228
Finished Goods	67,612	112,030
Supplies	445,319	546,710
	841,350	1,635,968

Inventories expensed in cost of sales for the period amounted to \$9,260,779 (2022 - \$7,006,561).

7. Property and equipment

	Production Equipment	Office Equipment	Leasehold Improvements	Total
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>
Year ended May 31, 2023	\$	\$	\$	\$
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>
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>
At May 31, 2023				
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>

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 May 31, 2023:

	<b>May 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>
	\$	\$
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	<u>-</u>	<u>-</u>

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:

	<b>2023</b>	<b>2022</b>
	\$	\$
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	<u>32,570,132</u>	<u>29,276,373</u>
	<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	3,361,000
	<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 May 31, 2023 the bank's prime rate was 6.70% (May 31, 2022 – 3.20%), the Company had outstanding cheques of \$112,124 (May 31, 2022 - \$63,872) and a bank overdraft of \$2,957,858 (May 31, 2022 - \$2,405,508).

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 \$504,337 on the equipment loan (May 2022 - \$2,175,917).

#### 11. Loans payable

	May 31, 2023 \$	May 31, 2022 \$
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8%	15,203,500	14,153,500
Demand loans payable to certain other directors of the Company, bearing interest at 8% compounded annually	345,000	345,000
	<u>15,548,500</u>	<u>14,498,500</u>
Less: Current portion	345,000	345,000
	<u>15,203,500</u>	<u>14,153,500</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 \$15,203,500 and accrued interest thereon of \$15,082,631 (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:

	Production Equipment	Building	Total
<b>Year ended May 31, 2022</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	1,118,807	1,416,025	2,534,832
Additions	-	356,149	356,149
Depreciation	(55,940)	(306,496)	(362,436)
<b>Closing net book amount</b>	<b>1,062,867</b>	<b>1,465,678</b>	<b>2,528,545</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>

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 May 31, 2023:

	<b>May 31, 2023 \$</b>
Lease liabilities, beginning of the year	2,838,966
Additions	105,389
Lease payments	(396,755)
Total lease liabilities, end of period	2,547,600
Of which are:	
Current lease liabilities	398,093
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 May 31, 2023:

	<b>May 31, 2023</b>
	<b>\$</b>
2024	680,102
2025	576,615
2026	542,057
2027	463,475
2028	475,135
2029 and thereafter	1,008,799
Total minimum lease payments	3,746,183
Less: Amount representing imputed interest	1,198,583
	<b>2,547,600</b>

Leased production equipment with a carrying value of \$883,300 (May 31, 2022 - \$1,062,864) 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:

	<b>May 31, 2023</b>	<b>May 31, 2022</b>
	<b>\$</b>	<b>\$</b>
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)	15,082,631	13,936,882
Due to a company controlled by a director, included in accounts payable for services provided	46,547	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	34,071	34,971
Accrued interest on demand loans payable to certain other shareholders of the Company (note 11)	749,217	667,345

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

	<b>May 31, 2023</b>	<b>May 31, 2022</b>
	<b>\$</b>	<b>\$</b>
Interest on demand loans, accrued but not paid (note 18)	1,227,621	1,211,142
Purchases of property and equipment	6,131	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:

	<b>2023</b> \$	<b>2022</b> \$
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

	<b>Number of Shares #</b>	<b>Amount \$</b>
Common shares as at May 31, 2023 and 2022	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, 2023 and May 31, 2022, the Company did not have any outstanding stock options.

**15. Loss per share**

	<b>May 31, 2023</b> \$	<b>May 31, 2022</b> \$
Net loss for basic and diluted	(4,676,490)	(3,179,399)
	#	#
Weighted average number of common shares for basic and diluted	35,148,902	35,148,902

16. Revenue

	May 31, 2023	May 31, 2022
	\$	\$
Revenue from contracts with customers		
Product sales	10,696,213	8,593,709
Freight services	1,229,158	961,166
	<u>11,925,371</u>	<u>9,554,875</u>

17. Expenses by nature

	May 31, 2023	May 31, 2022
	\$	\$
i) Cost of sales		
Ingredients	6,318,952	4,791,053
Wages and benefits	1,929,363	1,383,071
Freight	1,464,106	1,228,313
Packaging	347,258	150,925
Plant utilities	345,255	337,962
Plant rental	219,972	98,543
Other	157,060	158,222
Plant repair and maintenance	129,451	150,446
Royalty payments	41,625	-
	<u>10,953,042</u>	<u>8,298,535</u>
ii) Selling and general and administrative expenses		
Salaries, wages, and benefits	940,663	985,322
Advertising and promotion	358,001	57,530
Other	222,520	190,012
Professional fees	118,461	123,140
Insurance	94,510	89,668
Utilities	52,379	16,578
Quality control	32,748	87,411
	<u>1,819,282</u>	<u>1,549,661</u>

18. Finance costs

	May 31, 2023	May 31, 2022
	\$	\$
Interest on demand loans	1,227,621	1,211,142
Interest on lease liabilities	319,420	334,857
Interest on bank indebtedness	182,855	60,027
Interest on bank loan	115,408	33,281
Interest on accounts payable	10,270	12,462
	<u>1,855,574</u>	<u>1,651,769</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:

	<b>May 31, 2023</b>	<b>May 31, 2022</b>
	\$	\$
Current	183,009	186,957
Past due amounts		
15 – 45 days	48,177	96,032
Greater than 45 days	188,480	38,133
	<u>236,657</u>	<u>134,165</u>
Accounts receivable net	<u>419,666</u>	<u>321,122</u>

**(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.

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**

Subsequent to year end, due to address the immediate liquidity risk and fulfill current obligations, the Company drew an additional \$1,300,000 in shareholder loans from the majority shareholder, who is also a director, or company controlled by this individual, bearing interest at 8%. These loans are consistent with previous loans under agreement with the Company's bank and the Company's controlling shareholder, who is also a director, and a company controlled by this same which waives the lender's right to demand repayment of demand loans payable, until the Company has repaid all outstanding loans to its bank.