



Canyon Creek Food Company Ltd.  
Consolidated Financial Statements  
For the three months ended August 31, 2024  
(Unaudited)



Canyon Creek Food Company Ltd.  
Interim Consolidated Financial Statements  
For the three months ended August 31, 2024  
(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, 2024, 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)

	August 31, 2024	May 31, 2024
	\$	\$
<b>(Going Concern – note 1)</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash	5,570	997
Trade and other receivables (note 21c)	534,072	434,404
Inventories (note 6)	1,459,295	1,145,888
Prepaid expenses	118,670	58,141
	<u>2,117,607</u>	<u>1,639,430</u>
<b>Non-current assets</b>		
Property and equipment (note 7)	2,450,234	2,429,547
Right-of-use assets (note 13)	1,857,110	1,940,564
	<u>4,307,344</u>	<u>4,370,111</u>
<b>Total assets</b>	<u>6,424,951</u>	<u>6,009,541</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (notes 11 and 22)	3,067,287	3,256,846
Bank equipment loan (note 11)	1,483,028	1,404,588
Trade payables and other liabilities (note 8)	3,982,987	3,850,853
Current accrued interest (note 14)	860,246	836,754
Current loans payable (note 12)	345,000	345,000
Current license and royalty liability (note 9)	638,274	708,274
Current lease liability (note 13)	296,538	396,660
	<u>10,673,360</u>	<u>10,798,975</u>
<b>Non-current liabilities</b>		
Accrued interest (notes 12 and 14)	16,758,585	16,396,174
Loans payable (note 12)	18,253,500	17,153,500
License and royalty liability (note 9)	833,342	803,017
Lease liability (note 13)	1,983,330	1,982,303
	<u>37,828,762</u>	<u>36,335,074</u>
<b>Total liabilities</b>	<u>48,502,117</u>	<u>47,133,969</u>
<b>Shareholders' deficiency</b>		
Share capital (note 15)	12,921,322	12,921,322
Contributed surplus	182,400	182,400
Deficit	(55,180,888)	(54,228,150)
	<u>(42,077,166)</u>	<u>(41,124,428)</u>
<b>Total shareholders' deficiency</b>	<u>(42,077,166)</u>	<u>(41,124,428)</u>
<b>Total shareholder's deficiency and liabilities</b>	<u>6,424,951</u>	<u>6,009,541</u>

(Subsequent event – note 23)

**Approved by the Board of Directors**

(Signed) "Brian Halina"

\_\_\_\_\_  
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) (unaudited)

	<b>3-month period ended August 31 2024 \$</b>	<b>3-month period ended August 31 2023 \$</b>
<b>Revenue (notes 17 and 20)</b>		
Revenue from customers	1,596,809	1,405,370
<b>Direct expenses</b>		
Cost of sales (notes 18)	1,383,344	1,493,375
Depreciation on property and equipment (note 7)	71,670	59,015
Depreciation on right-of-use assets (note 13)	15,727	55,456
	1,470,741	1,607,846
<b>Gross margin</b>	126,068	(202,476)
<b>Selling expenses (note 18)</b>		
General	146,017	119,178
Wages and benefits	49,206	47,985
	195,223	167,163
<b>General and administrative expenses (note 18)</b>		
Wages and benefits	134,598	159,064
Office and general	106,550	104,676
Professional fees	41,696	30,716
	282,844	294,456
<b>Research and technical expenses</b>	-	3,825
<b>Loss from operations before other expenses</b>	(351,999)	(667,920)
Finance costs (note 19)	600,739	506,302
<b>Net loss and comprehensive loss for the period</b>	(952,738)	(1,174,222)
<b>Loss per share</b>		
Basic and diluted (note 16)	(0.03)	(0.03)

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, 2024</b>	12,921,322	182,400	(54,228,150)	(41,124,428)
Comprehensive loss for the period	-	-	(952,738)	(952,738)
<b>Balance at August 31, 2024</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(55,180,888)</u>	<u>(42,077,166)</u>
	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 year	-	-	(4,478,441)	(4,478,441)
<b>Balance at May 31, 2024</b>	<u>12,921,322</u>	<u>182,400</u>	<u>(54,228,150)</u>	<u>(41,124,428)</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)

	<b>3-month period ended August 31 2024</b>	<b>3-month period ended August 31 2023</b>
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
<b>Comprehensive loss for the period</b>	<u>(952,738)</u>	<u>(1,174,222)</u>
<b>Items not involving cash:</b>		
Depreciation on property and equipment (note 7)	71,670	59,015
Depreciation on right-of-use assets (note 13)	15,727	55,456
License and royalty liability accretion expense (note 9)	30,325	-
Finance costs	<u>570,414</u>	<u>506,302</u>
	<u>(264,602)</u>	<u>(553,449)</u>
<b>Changes in non-cash working capital</b>		
Trade and other receivables	(99,667)	(270,707)
Inventories	(313,408)	(179,089)
Prepaid expenses	(60,529)	482
License and royalty liability	(70,000)	-
Trade payables and other liabilities	<u>100,436</u>	<u>(97,756)</u>
	<u>(443,168)</u>	<u>(547,070)</u>
<b>Net cash used in operating activities</b>	<u>(707,770)</u>	<u>(1,100,519)</u>
<b>Investing activities</b>		
Disposal of property and equipment (note 13)	67,727	-
Purchase of property and equipment (note 7)	<u>(92,357)</u>	<u>(28,557)</u>
<b>Net cash used in investing activities</b>	<u>(24,631)</u>	<u>(28,557)</u>
<b>Financing activities</b>		
Proceeds from bank equipment loan (note 11)	219,118	-
Principal portion of lease liability payments	(99,095)	(104,023)
Proceeds from loans payable (note 12)	1,100,000	1,300,000
Finance costs paid	(152,813)	(166,936)
Repayment of bank equipment loan	(140,678)	(134,016)
Increase in bank indebtedness	<u>(189,558)</u>	<u>234,474</u>
<b>Net cash provided by financing activities</b>	<u>736,974</u>	<u>1,129,499</u>
<b>Net change in cash for the period</b>	4,574	423
Cash and cash equivalents, beginning of year	997	213
Cash and cash equivalents, end of year	<u>5,570</u>	<u>636</u>

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

## 1. Going concern

These annual consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

During the period ended August 31, 2024, Canyon Creek Food Company Ltd. (the Company) reported a loss of \$952,738 (2023 - \$1,174,222). As at August 31, 2024, the Company has a working capital deficiency of \$8,555,753 (2023 - \$8,066,513), bank indebtedness of \$3,067,287 (2023 - \$3,304,456) loans due to directors of \$18,253,500 (2023 - \$16,848,500), an equipment loan of \$1,483,028 (2023 - \$1,806,636) and accrued interest thereon of \$17,618,831 (2023 - \$16,171,214), a shareholders' deficiency of \$42,077,166 (2023 - \$37,820,209) and an accumulated deficit of \$55,180,889 (2023 - \$50,923,931). The Company has reported negative cash flow from operations of \$707,770 (2023 - \$1,100,519). The Company's operations were not profitable for the year ending May 31, 2024, which is consistent with prior years, and it is uncertain as to when the Company will become 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.

During the year ending May 31, 2024, the Company received an assessment from the Canada Revenue Agency (CRA) for unpaid payroll related remittances. The amount owing as at May 31, 2024 has been accrued and recorded in trade payable and other liabilities (note 8). The Company will be subject to secondary audit to confirm final assessment amount.

The Company's ability to continue as a going concern is dependent upon the continuing support of related parties, including the majority shareholder (notes 12 and 14), 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, manage working capital more effectively, and obtain 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 meet its liabilities as they become due. These consolidated financial statements do not reflect adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. These adjustments could be material.

## 2. Nature of 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, 2024, include the accounts of the Company and its subsidiary. Canyon Creek Food Company Ltd owns 100% of Canyon Creek Soup Company Ltd. as at August 31, 2024. 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, 2024, 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, 2024.

### 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*

*IAS 1, Disclosure of accounting policies* - amendments were made to IAS 1, Disclosure of accounting policies that are material accounting policy information instead of significant accounting policies. IAS 1 is required to be applied for annual periods beginning on or after January 1, 2023. Management performed an assessment and updated the disclosures accordingly.

*IAS 12, Global implementation of Pillar Two* – amendments were made to IAS 12 to (i) provide a temporary exception from the requirement to recognize and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two Model Rules published by the OECD, and (ii) introduce targeted disclosure requirements for affected entities. IAS 12 is required to be applied for annual periods beginning on or after January 1, 2023. The Company has determined that there is no impact of this standard on the consolidated financial statements.

*IAS 12 & IFRS 1, Deferred taxes related to assets and liabilities arising from a single transaction* – amendments were made to IAS 12 & IFRS 1 to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Consequential amendment to IFRS 1 to add an exception to retrospective application. IAS 12 & IFRS 1 are required to be applied for annual periods beginning on or after January 1, 2023. The Company has determined that there is no impact of this standard on the consolidated financial statements.

*IAS 8, Changes in estimates vs changes in accounting policies* - amendments were made to IAS 8 to help distinguish changes in accounting estimates from changes in accounting policies. IAS 8 is required to be applied for annual periods beginning on or after January 1, 2023. The Company has determined that there is no impact of this standard 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, 2024. The Company is currently evaluating the impact of this standard on the consolidated financial statements. The Company plans to apply the standard in Fiscal 2025.

*IFRS 16, Lease liability in a sale and leaseback* - amendments were made to IFRS 16, Lease liability in a sale and leaseback to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the

requirements in IFRS 15 to be accounted for as a sale. IFRS 16 is required to be applied for annual periods beginning on or after January 1, 2024. The Company is currently evaluating the impact of this standard on the consolidated financial statements. The Company plans to apply the standard in Fiscal 2025.

*IAS 7 & IFRS 7, Disclosures on supplier finance agreements* – amendments were made to require specific disclosures about supplier finance agreements. IAS 7 and IFRS 7 are required to be applied for annual periods beginning on or after January 1, 2024. The Company is currently evaluating the impact of this standard on the consolidated financial statements. The Company plans to apply the standard in Fiscal 2025.

**6. Inventories**

	<b>August 31, 2024</b>	<b>May 31, 2024</b>
	<b>\$</b>	<b>\$</b>
Raw Materials	504,663	480,572
Finished Goods	303,471	90,190
Supplies	651,161	575,126
	<b>1,459,295</b>	<b>1,145,888</b>

Inventories expensed in cost of sales for the period amounted to \$635,540 (2023 - \$788,350). Inventory write down in the year were \$nil (2023 - \$nil).

**7. Property and equipment**

	Production Equipment	Office Equipment	Leasehold Improvements	Total
Year ended May 31, 2024	\$	\$	\$	\$
Opening net book value	2,800,516	31,822	344,094	3,176,432
Additions	350,119	-	34,893	385,012
Disposals	(43,137)	-	-	(43,137)
Impairment	(528,907)	-	(297,710)	(826,617)
Depreciation	(173,605)	(7,261)	(81,277)	(262,143)
<b>Closing net book amount</b>	<b>2,404,986</b>	<b>24,561</b>	<b>-</b>	<b>2,429,547</b>
<b>Period ended Aug 31, 2024</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	2,404,986	24,561	-	2,429,547
Additions	89,357	-	3,000	92,357
Depreciation	(70,136)	(1,384)	(150)	(71,670)
<b>Closing net book amount</b>	<b>2,424,207</b>	<b>23,177</b>	<b>2,850</b>	<b>2,450,234</b>
<b>At May 31, 2024</b>				
Cost	5,939,971	237,100	1,064,913	7,241,984
Accumulated depreciation and impairment	(3,534,985)	(212,539)	(1,064,913)	(4,812,437)
<b>Net book amount</b>	<b>2,404,986</b>	<b>24,561</b>	<b>-</b>	<b>2,429,547</b>
<b>At Aug 31, 2024</b>				
Cost	6,029,328	237,100	1,067,913	7,334,341
Accumulated depreciation and impairment	(3,605,121)	(213,923)	(1,065,063)	(4,884,107)
<b>Net book amount</b>	<b>2,424,207</b>	<b>23,177</b>	<b>2,850</b>	<b>2,450,234</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, 2024, 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 \$528,907 (2023 - \$102,402) against production equipment and \$297,710 (2023 - \$nil) 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.

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, 2024, 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. Trade payables and other liabilities by nature

	May 31, 2024 \$	May 31, 2024 \$
Payables outstanding by nature		
Trade	1,511,832	1,521,615
Government	1,535,761	1,455,440
Other	935,394	873,798
	<b>3,982,987</b>	<b>3,850,853</b>

Payables outstanding to the Government are due to the Canada Revenue Agency for unpaid payroll remittances, and the related penalties and interests.

#### 9. License and royalty liability

In Fiscal 2023, 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. The specified amounts per quarter for each of the 5 years are as follows:

<u>Calendar 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 in Fiscal 2023, 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. During Fiscal 2023 the Company reported negative cash flows associated with this agreement and with the 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, 2024:

	<b>Aug 31, 2024</b>
	<b>\$</b>
2025	659,040
2026	400,000
2027	400,000
2028	233,333
Total minimum license and royalty payments	<u>1,692,373</u>
Less: Amount representing imputed interest	<u>220,757</u>
	<u>1,471,616</u>

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

Below is a summary of the activity related to the license and royalty liabilities for the period ended August 31, 2024:

	<b>Aug 31, 2024</b>
	<b>\$</b>
License and royalty liabilities, beginning of the year	1,511,291
Additional license and royalty payments	-
Accretion expense	30,325
License and royalty payments paid	<u>(70,000)</u>
Total license and royalty liabilities, end of period	1,471,616
Of which are:	
Current license and royalty liabilities	638,274
Non-current license and royalty liabilities	<u>833,342</u>

## 10. 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:

	2024 \$	2023 \$
Tax recovery at statutory rate	(1,030,000)	(1,076,000)
Adjusted for the tax effect of:		
Non-deductible expenses	272,000	170,000
Unrecognized deductible temporary differences	797,000	980,000
Other	(39,000)	(74,000)
	<u>1,030,000</u>	<u>1,076,000</u>
Total income tax provision	<u>-</u>	<u>-</u>

The statutory rate was 23% (2023 – 23%).

**(b) Deferred income tax**

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

	2024 \$	2023 \$
Property and equipment	150,608	(179,368)
License	1,425,654	1,425,654
Right-of-use assets	(1,940,564)	(2,171,322)
Lease liability	2,378,963	2,547,600
Licensing and royalty liability	1,511,291	1,260,016
Non-capital losses	35,391,574	32,570,132
	<u>38,917,526</u>	<u>35,452,712</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 \$8,951,031 (2023 - \$8,154,124) in respect of deductible temporary differences amounting to \$38,917,526 (2023 - \$35,452,712) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$35,391,574 (2023 - \$32,570,132) that can be carried forward to use against future taxable income. These non-capital losses (rounded to the nearest \$1,000) 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	4,621,000
2044	1,561,000
	<u>35,391,000</u>

**11. Bank indebtedness**

As at August 31, 2024, the Company has a banking agreement with a line of credit equalling \$3,150,000. The 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, 2024 the bank's prime rate was 5.95% (May 31, 2024 – 7.20%), the Company had outstanding cheques of \$184,491 (May 31, 2024 - \$127,928) and a bank overdraft of \$2,882,796 (May 31, 2024 - \$3,128,918).

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. In Fiscal 2024 the Company extended the loan by \$200,000 (2023 - \$200,000). Draws made during the current period were \$219,118 (2023 - \$nil). As at August 31, 2024 the balance of the loan is \$1,483,028 (2023 - \$1,806,636)

**12. Loans payable**

	Aug 31, 2024	May 31, 2024
	\$	\$
Demand loans payable to controlling shareholder, who is also a director, or company controlled by this individual, bearing interest at 8%	18,253,500	17,153,500
Demand loans payable to certain other directors of the Company, bearing interest at 8% compounded annually	345,000	345,000
	<u>18,598,500</u>	<u>17,498,500</u>
Less: Current portion	345,000	345,000
	<u>18,253,500</u>	<u>17,153,500</u>

The demand loans payable to the directors are unsecured.

In 2021 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 until the Company has repaid all outstanding loans to its bank. As at August 31, 2024, loans payable to this shareholder are \$18,253,500 (May 31, 2024 - \$17,153,500) and accrued interest thereon of \$16,758,585 (May 31, 2024 -

\$16,396,174). As indicated in note 1 the Company is dependent on the support from a controlling shareholder. During the period \$1,100,000 (2023 - \$1,300,000) was provided by this individual.

### 13. 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, 2024</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	883,300	1,288,022	2,171,322
Additions	217,221	-	217,221
Disposals	(53,200)	-	(53,200)
Impairment	(202,815)	-	(202,815)
Depreciation	(14,306)	(177,658)	(191,964)
<b>Closing net book amount</b>	<b>830,200</b>	<b>1,110,364</b>	<b>1,940,564</b>

  

<b>Period ended August 31, 2024</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening net book value	830,200	1,110,364	1,940,564
Disposals	(67,727)	-	(67,727)
Depreciation	28,687	(44,414)	(15,727)
<b>Closing net book amount</b>	<b>791,160</b>	<b>1,065,950</b>	<b>1,857,110</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, 2024, 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 \$202,815 (2023 - \$116,168) against production equipment included in ROUA.

Below is a summary of the activity related to the lease liabilities for the period ended May 31, 2024:

**May 31,  
2024  
\$**

Lease liabilities, beginning of the year	2,547,600
Additions	217,221
<u>Lease payments</u>	<u>(385,858)</u>
Total lease liabilities, end of period	2,378,963
Of which are:	
Current lease liabilities	396,660
<u>Non-current lease liabilities</u>	<u>1,982,303</u>

Below is a summary of the activity related to the lease liabilities for the period ended August 31, 2024:

	<b>Aug 31, 2024</b>
	<b>\$</b>
Lease liabilities, beginning of the year	2,378,963
Additions	-
<u>Lease payments</u>	<u>(99,095)</u>
Total lease liabilities, end of period	2,279,868
Of which are:	
Current lease liabilities	296,538
<u>Non-current lease liabilities</u>	<u>833,342</u>

The following table presents the maturity analysis of contractual undiscounted cash flows related to the Company's lease liabilities as of August 31, 2024:

	<b>Aug 31, 2024</b>
	<b>\$</b>
2025	489,020
2026	593,071
2027	518,195
2028	527,472
2029	534,376
<u>2030 and thereafter</u>	<u>522,005</u>
Total minimum lease payments	3,184,139
<u>Less: Amount representing imputed interest</u>	<u>904,271</u>
	<u>2,279,868</u>

Leased production equipment with a carrying value of \$791,160 (May 31, 2024 - \$830,200) has been pledged as collateral. The lease liability recorded represents the minimum lease payments payable net of imputed interest at rates ranging from 4.98% to 15.81% per annum.

#### 14. Related party balances and transactions

(a) In addition, to the amounts described in note 12, at the end of the period, the amounts due to related parties are as follows:

	<b>Aug 31, 2024</b>	<b>May 31, 2024</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, with no fixed terms of repayment (note 12)	16,758,585	16,396,174
Due to a director and an officer, included in accounts payable, unsecured, interest bearing at 8% compounded annually, with no fixed terms of repayment	5,478	3,989
Accrued interest on demand loans payable to certain other shareholders of the Company, with no fixed terms of repayment (note 12)	860,246	836,754

Subsequent to year-end, the Company has received additional shareholder funding (note 23), from a controlling shareholder, who is also a director, or company controlled by this individual.

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

	<b>Aug 31, 2024</b>	<b>Aug 31, 2023</b>
	<b>\$</b>	<b>\$</b>
Interest on demand loans, accrued but not paid (note 19)	385,903	339,366

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>2024</b>	<b>2023</b>
	<b>\$</b>	<b>\$</b>
Salaries and short-term employee benefits	262,000	262,000
Reimbursement of expenses	684,925	774,576

## 15. Share capital

**Authorized**

Unlimited number of voting, common shares  
Unlimited number of non-voting, preferred shares, issuable in series

**Issued**

Common shares

	Number of Shares #	Amount \$
Common shares as at August 31, 2024 and August 31, 2023	35,148,902	12,921,322

**16. Loss per share**

	Aug 31, 2024 \$	Aug 31, 2023 \$
Net loss for basic and diluted	(952,738)	(1,174,222)
	#	#
Weighted average number of common shares for basic and diluted	35,148,902	35,148,902

**17. Revenue**

	Aug 31, 2024 \$	Aug 31, 2023 \$
Revenue from contracts with customers		
Product sales	1,393,038	1,152,885
Freight services	203,771	252,485
	<b>1,596,809</b>	<b>1,405,370</b>

**18. Expenses by nature**

**Notes to the Consolidated Financial Statements**  
(in Canadian dollars) (unaudited)

	Aug 31, 2024 \$	Aug 31, 2023 \$
i) Cost of sales		
Ingredients	584,217	737,214
Salaries, wages and benefits	337,407	260,887
Freight	228,743	279,350
Plant utilities	69,371	65,464
Plant rental	55,630	56,460
Repairs and maintenance	55,399	36,923
Packaging	28,780	25,219
Other	23,798	31,858
	<b>1,383,345</b>	<b>1,493,375</b>
ii) Selling and general and administrative expenses		
Salaries, wages, and benefits	221,252	240,010
Advertising and promotion	92,818	114,217
Quality control	53,199	4,961
Professional fees	41,696	30,716
Other	40,429	49,080
Insurance	16,835	20,555
CRA	8,210	-
Utilities	3,628	2,080
	<b>478,067</b>	<b>461,619</b>
<b>19. Finance costs</b>		
	<b>Aug 31, 2024 \$</b>	<b>Au 31, 2023 \$</b>
Interest on loans payable	385,903	339,366
Interest on lease liabilities	70,242	75,255
Interest on bank indebtedness	54,212	54,770
Interest on accounts payable	31,697	2,480
Interest on license accretion	30,325	-
Interest on bank loan	28,360	34,431
	<b>600,739</b>	<b>506,302</b>

**20. Segmented information and economic dependence**

The Company operates in one industry, food manufacturing, and all the Company's assets are in Canada. During Fiscal 2024, the Company has recorded revenue of \$10,828,849, from one major Canadian customer and one major US based customer, representing 80% of total revenue (2023 - revenue of \$9,194,461 from two major Canadian customers representing 77% of revenue). The accounts receivable balance due from these customers amounts to 32% of total receivable (2023 - 52%).

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:	2024 \$	2023 \$
Canada	12,269,291	10,652,657
US	1,247,270	1,272,714
	<b>13,516,561</b>	<b>11,925,371</b>

As at May 31, 2024 there are no held assets located in foreign countries.

## 21. 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, 2024 or May 31, 2023. The carrying values of all financial instruments approximate their fair values due either to their short-term nature or their interest terms approximating current market rates.

### (b) Market risk

#### (i) Foreign exchange risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is exposed to foreign currency risk through revenues generated in US dollars. The Company occasionally purchases supplies in foreign currency; however, it is not significantly exposed to foreign currency risk through these purchases. The Company recognized a foreign currency exchange loss of \$714 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, 2024, a 1% change in interest rates would change interest expense by \$46,614 (2023 - \$50,106).

### (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 \$72,215 (2023 – \$73,570). 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, 2024 \$	May 31, 2024 \$
Current	294,723	190,017
Past due amounts		
15 – 45 days	59,068	56,723
Greater than 45 days	180,281	187,664
	239,349	244,387
Accounts receivable net	534,072	434,404

**(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 12).

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 \$10,798,975 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 21. 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 20. 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.

### **22. Government assistance**

During Fiscal 2020, the Company 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. This loan began accruing interest as of January 2024, with the full principal repayment is due December 31, 2026.

### **23. Subsequent events**

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