

Aliments Pasta Romana Inc.
Financial Statements
August 31, 2016

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Raymond Chabot Grant Thornton

Independent Auditor's Report

To the Shareholders of
Aliments Pasta Romana Inc.

Raymond Chabot Grant Thornton LLP

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We have audited the accompanying financial statements of Aliments Pasta Romana Inc., which comprise the balance sheet as at August 31, 2016 and the statements of earnings, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the results of operations and cash flows and our unmodified audit opinion on the financial position.

Basis for qualified opinion on the results of operations and cash flows

Because we were appointed auditors of Aliments Pasta Romana Inc. during the year ended August 31, 2015, we were not able to observe the counting of the physical inventories at the beginning of that year or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and cash flows might be necessary for the year ended August 31, 2015. Our opinion on the financial statements for the year ended August 31, 2015 was qualified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current period's figures and the comparative information.

Qualified opinion on the results of operations and cash flows

In our opinion, except for the possible effects on the comparative information of the matter described in the Basis for Qualified Opinion on the Results of Operations and Cash Flows paragraph, the statements of income, retained earnings and cash flows present fairly, in all material respects, the results of operations and cash flows of Aliments Pasta Romana Inc. for the year ended August 31, 2015 in accordance with Canadian accounting standards for private enterprises.

Opinion on the financial position

In our opinion, the balance sheet present fairly, in all material respects, the financial position of Aliments Pasta Romana Inc. as at August 31, 2016 in accordance with Canadian accounting standards for private enterprises.

Raymond Chobot Grant Thornton LLP¹

Laval
December 9, 2016

¹ CPA auditor, CA public accountancy permit no. A111141

Aliments Pasta Romana Inc.

Earnings

Year ended August 31, 2016

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Sales (Schedule A) | 21,335,815 | 20,329,772 |
| Cost of sales (Schedule B) | <u>14,381,026</u> | <u>13,069,012</u> |
| Gross profit | <u>6,954,789</u> | 7,260,760 |
| Selling expenses (Schedule C) | 3,407,100 | 2,621,714 |
| Administrative expenses (Schedule D) | 2,013,609 | 2,374,973 |
| Financial expenses (Schedule E) | <u>249,292</u> | <u>154,736</u> |
| | <u>5,670,001</u> | <u>5,151,423</u> |
| Earnings before income taxes | 1,284,788 | 2,109,337 |
| Current income taxes (Note 13) | <u>249,516</u> | <u>462,571</u> |
| Net earnings | <u>1,035,272</u> | <u>1,646,766</u> |

The accompanying notes and schedules are an integral part of the financial statements.

Aliments Pasta Romana Inc. Retained Earnings

Year ended August 31, 2016

| | <u>2016</u> | <u>2015</u> |
|---|------------------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 6,222,839 | 4,576,073 |
| Net earnings | 1,035,272 | 1,646,766 |
| | 7,258,111 | 6,222,839 |
| Adjustment due to the amalgamation (Note 2) | 2,777,756 | |
| Balance, end of year | 4,480,355 | 6,222,839 |

The accompanying notes and schedules are an integral part of the financial statements.

Aliments Pasta Romana Inc.

Cash Flows

Year ended August 31, 2016

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net earnings | 1,035,272 | 1,646,766 |
| Non-cash items | | |
| Amortization of property and equipment | 575,424 | 510,003 |
| Loss on disposal of equipment | | 5,671 |
| Transaction costs related to long-term debt | | (25,258) |
| Amortization of transaction costs related to long-term debt | 23,154 | 2,104 |
| Net change in working capital items | <u>(622,479)</u> | <u>(774,428)</u> |
| Cash flows from operating activities | <u>1,011,371</u> | <u>1,364,858</u> |
| INVESTING ACTIVITIES | | |
| Net change in advances to subsidiaries of the parent company | (2,166,112) | |
| Net change in advances to shareholders of the parent company | (511,258) | |
| Net change in advances to shareholders having significant influence | 217,255 | (795,755) |
| Net change in advances to employees | (16,000) | |
| Property and equipment | (778,814) | (2,406,918) |
| Deposit on purchase of property and equipment | <u>105,423</u> | <u>(157,056)</u> |
| Cash flows from investing activities | <u>(3,149,506)</u> | <u>(3,359,729)</u> |
| FINANCING ACTIVITIES | | |
| Net change in loan from a shareholder having significant influence | | (1,267,826) |
| Long-term loans | 2,031,928 | 2,000,000 |
| Repayment of long-term loans | (290,327) | (290,037) |
| Share issuance | 100 | |
| Obligations under capital leases | (151,940) | |
| Adjustment due to the amalgamation (Note 2) | <u>7,151</u> | |
| Cash flows from financing activities | <u>1,596,912</u> | <u>442,137</u> |
| | (541,223) | (1,552,734) |
| Effect of exchange rate fluctuation | <u>(3,524)</u> | <u>(58,964)</u> |
| Net decrease in cash | (544,747) | (1,611,698) |
| Cash, beginning of year | <u>301,398</u> | <u>1,913,096</u> |
| Cash (bank overdraft), end of year | <u>(243,349)</u> | <u>301,398</u> |

The accompanying notes and schedules are an integral part of the financial statements.

Aliments Pasta Romana Inc.

Balance Sheet

August 31, 2016

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | | 301,398 |
| Trade and other receivables (Note 4) | 1,722,241 | 1,677,949 |
| Current income tax asset | 118,273 | |
| Inventories (Note 5) | 1,164,690 | 1,121,917 |
| Prepaid expenses and deposit | 302,843 | 99,813 |
| Advances to employees, without interest | <u>16,400</u> | <u>400</u> |
| | 3,324,447 | 3,201,477 |
| Long-term | | |
| Advances to subsidiaries of the parent company, without interest | 2,416,112 | |
| Advances to shareholders of the parent company, without interest | 511,258 | |
| Advance to a shareholder having a significant influence, without interest | | 217,255 |
| Advance to a corporate shareholder having significant influence, without interest | | 578,500 |
| Investment in a subsidiary of the parent company (Note 6) | 187,261 | |
| Deposit on purchase of property and equipment | 51,633 | 157,056 |
| Property and equipment (Note 7) | <u>8,006,918</u> | <u>10,040,486</u> |
| | 14,497,629 | 14,194,774 |
| LIABILITIES | | |
| Current | | |
| Bank overdraft (Note 8) | 243,349 | |
| Trade and other payables (Note 9) | 2,169,750 | 2,359,006 |
| Current income tax liability | | 16,320 |
| Current portion of long-term debt | 275,706 | 290,329 |
| Current portion of obligations under capital leases | <u>188,668</u> | |
| | 2,877,473 | 2,665,655 |
| Long-term | | |
| Long-term debt (Note 10) | 3,503,456 | 4,505,645 |
| Obligations under capital leases (Note 11) | <u>641,623</u> | |
| | 7,022,552 | 7,171,300 |
| EQUITY | | |
| Share capital (Note 12) | 2,994,722 | 800,635 |
| Retained earnings | <u>4,480,355</u> | <u>6,222,839</u> |
| | 7,475,077 | 7,023,474 |
| | 14,497,629 | 14,194,774 |

The accompanying notes and schedules are an integral part of the financial statements.

On behalf of the Board,

Director

Director

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

1 - GOVERNING STATUTES

The Company is incorporated under the Canada Business Corporations Act.

2 - AMALGAMATION

On September 1, 2015, Aliments Pasta Romana Inc. and 9009566 Canada Inc., a company having significant influence over Aliments Pasta Romana Inc., amalgamated under the name Aliments Pasta Romana Inc. (Pasta Romana Foods Inc.) (hereinafter the "Company"). The amalgamation was treated as a reorganization of capital of former Aliments Pasta Romana Inc. and as such the Company's financial statements reflect the earnings, assets and liabilities of the previous Aliments Pasta Romana Inc. for the entire year and all previous years. The assets and liabilities of 9009566 Canada Inc. that were transferred are detailed as follows:

| | |
|--|--------------------|
| | <u>\$</u> |
| Trade and other payables | (12,420) |
| Advance from a company subject to significant influence | (578,500) |
| Advance from a privately-held corporation | <u>(2,500,000)</u> |
| Total non-cash liabilities transferred | (3,090,920) |
| Adjustment due to the amalgamation recorded in retained earnings | 2,777,756 |
| Cancellation of share capital (Note 12) | <u>306,013</u> |
| Cash transferred | <u>7,151</u> |

3 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's financial statements are prepared in accordance with Canadian accounting standards for private enterprises.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts recorded in the financial statements, notes to financial statements and schedules. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates.

Revenue recognition

The Company's principal sources of revenue are the sale of specialty foods. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, that is, the customer has taken possession of the goods, the price to the buyer is fixed or determinable and collection is reasonably assured.

Sales incentives, in the form of rebates and allowances, are deducted from gross sales, unless the Company receives a benefit in exchange, for which it can determine fair value, in which case the sales incentives are included in the cost of goods sold. Sales incentives consisting of rebates and allowances are based on a contractual agreement with its major customer and are recorded when terms of the agreement are met based on management's best estimates.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities

Initial measurement

Upon initial measurement, the Company's financial assets and liabilities from transactions not concluded with related parties and those from transactions with parties whose sole relationship with the entity is in the capacity of management (and members of the immediate family) are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at cost or amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs. The Company's other financial assets and liabilities from related party transactions are measured in accordance with the recommendations of Section 3840, "Related Party Transactions". Transaction costs relating to financial assets and liabilities that will be measured subsequently at fair value are recognized in earnings in the year they are incurred.

Subsequent measurement

At each reporting date, the Company measures its financial assets and liabilities at cost or at amortized cost (including any impairment in the case of financial assets).

With respect to financial assets measured at cost or at amortized cost, the Company assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Company determines that during the year there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it will then recognize a reduction as an impairment loss in earnings. The reversal of a previously recognized impairment loss on a financial asset measured at cost or amortized cost is recognized in earnings in the year the reversal occurs.

Inventory valuation

Raw materials and packaging material are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

Finished goods and work in process are valued at the lower of cost and net realizable value. The cost includes raw materials, direct labour and manufacturing overhead and is determined by the first-in, first-out method.

Aliments Pasta Romana Inc.
Notes to Financial Statements
 August 31, 2016

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Amortization

Property and equipment are amortized over their estimated useful lives according to the following methods, annual rates and period:

| | <u>Methods</u> | <u>Rates and period</u> |
|-------------------------|------------------------|-----------------------------|
| Building | Straight-line | 40 years |
| Machinery and equipment | Diminishing balance | 10% or 20% |
| Automotive equipment | Diminishing balance | 30% |
| Computer equipment | Diminishing balance | 30% |
| Furniture and fixtures | Diminishing balance | 20% |
| Software | Diminishing balance | 30% |

Impairment

Property and equipment are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

Income taxes

The Company uses the taxes payable method of accounting for income taxes.

Foreign currency translation

The Company uses the temporal method to translate transactions denominated in a foreign currency. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, with the exception of those recognized at fair value, which are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the average rate for the period, with the exception of the amortization of assets translated at the historical exchange rates, which is translated at the same exchange rates as the related assets. The related exchange gains and losses are accounted for in the earnings for the year.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

4 - TRADE AND OTHER RECEIVABLES

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| | \$ | \$ |
| Trade accounts receivable | | |
| Others (a) | 1,570,778 | 1,531,761 |
| Subsidiary of the parent company | 5,447 | |
| Parent company (share subscription) | 100 | |
| Company controlled by a shareholder of the parent company | 94,211 | |
| Indirect taxes receivable | <u>51,705</u> | <u>146,188</u> |
| | <u>1,722,241</u> | <u>1,677,949</u> |

(a) As at August 31, 2016, amounts owing from one customer represent 61% of the total trade accounts receivable (77% as at August 31, 2015). Sales to this customer amount to 82% of total sales (81% in 2015).

5 - INVENTORIES

| | <u>2016</u> | <u>2015</u> |
|--------------------|------------------|------------------|
| | \$ | \$ |
| Raw materials | 321,212 | 335,882 |
| Finished goods | 703,894 | 627,463 |
| Packaging material | <u>139,584</u> | <u>158,572</u> |
| | <u>1,164,690</u> | <u>1,121,917</u> |

6 - INVESTMENT IN A SUBSIDIARY OF THE PARENT COMPANY

| | <u>2016</u> | <u>2015</u> |
|--|----------------|-------------|
| | \$ | \$ |
| Pasta Romana G.F. Inc., 437,261 class "E" preferred shares, redeemable at the option of the holder at a price of \$437,261 (Note 14) (a) | <u>187,261</u> | <u>-</u> |

(a) Upon redemption of the class "E" preferred shares, the deferred gain will be transferred to contributed surplus.

During the year, the Company had subscribed for 100 class "A" common shares, 100%, of Les Aliments Pizza Romana Inc. in exchange for an amount of \$100 in cash. These shares were subsequently transferred to the parent company as part of a tax rollover in exchange for \$100 in cash.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

7 - PROPERTY AND EQUIPMENT

| | 2016 | | 2015 |
|-----------------------------------|-------------------|-------------------------------------|--------------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| Land (Note 14) | 340,000 | | 640,000 |
| Building (Note 14) | 3,554,756 | 375,761 | 5,251,619 |
| Machinery and equipment (Note 14) | 5,926,318 | 2,544,980 | 3,969,535 |
| Automotive equipment | 286,737 | 244,273 | 56,145 |
| Computer equipment | 114,265 | 82,983 | 35,136 |
| Furniture and fixtures | 97,028 | 48,215 | 52,151 |
| Software | 71,541 | 34,416 | 35,900 |
| Leased property and equipment (b) | | | |
| Machinery and equipment | <u>1,004,795</u> | <u>57,894</u> | <u>946,901</u> |
| | <u>11,395,440</u> | <u>3,388,522</u> | <u>10,040,486</u> |

(a) During the year, the Company acquired machinery and equipment at a cost of \$1,004,795 by way of capital leases.

The accounts payable as at August 31, 2015 included machinery and equipment that had been acquired during the year for a total cost of \$588,000.

8 - BANK LOAN

The Company and a subsidiary of the parent company have collective access to an operating line of credit for an authorized amount of \$4,000,000 (\$1,700,000 in 2015) and leasing facilities with a limit of \$1,560,000 (\$1,200,000 in 2015) for the Company and \$1,500,000 for the subsidiary of the parent company. The bank loan can be drawn down in Canadian dollars at the rate of prime (2.7%; prime plus 1%, 3.7% in 2015) or in U.S. dollars at the U.S. base rate (4%) and is renewable in August 2017.

The bank loan is secured by a moveable hypothec of \$12,000,000 on the universality of all assets of each borrower, cross corporate guarantees between the co-borrowers in the amount of \$12,000,000 and joint and several personal guarantees signed by certain shareholders of the parent company having significant influence for an amount of \$500,000. A postponement agreement in the amount of \$2,500,000 was also granted by a corporate shareholder. The Company did not pay any consideration in exchange for such guarantees.

The Company and a subsidiary of the parent company also have collective access to a credit card facility with an authorized limit of \$200,000, bearing interest at 19.9% (19.75% in 2015).

Under the credit agreement, the Company and the subsidiary of the parent company are required to respect certain financial covenants (calculated on a combined basis). These covenants were met during the year and as at year-end.

Aliments Pasta Romana Inc.
Notes to Financial Statements
 August 31, 2016

9 - TRADE AND OTHER PAYABLES

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------------|-------------------------|
| | \$ | \$ |
| Trade accounts payable | 1,837,305 | 2,068,552 |
| Salaries and vacation payable | 318,656 | 276,665 |
| Accrued interest | 13,789 | 13,789 |
| | <u>2,169,750</u> | <u>2,359,006</u> |

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

10 - LONG-TERM DEBT

| | <u>2016</u> | <u>2015</u> |
|--|------------------|-------------|
| | \$ | \$ |
| Term loan, Farm Credit Canada, for the original amount of \$2,500,000, 3.85%, payable by monthly capital instalments of \$10,098, secured by an immovable and movable hypothec in the amount of \$7,000,000 registered as a first charge on the land and building and the universality of all movable property, both corporeal and incorporeal, present and future including trademarks and other intellectual property, due and renegotiable in December 2016 (a) (c) | 1,070,370 | 1,191,541 |
| Term loan, Farm Credit Canada, for the original amount of \$2,000,000, 3.95%, payable by monthly capital instalments of \$13,333, secured by an immovable and movable hypothec in the amount of \$7,000,000 registered as a first charge on the land and building and the universality of all movable property, both corporeal and incorporeal, present and future including trademarks and other intellectual property, due and renegotiable in December 2016 (a) (d) | 1,413,334 | 1,573,333 |
| Term loan, Farm Credit Canada, 3.1% (Note 14) | | 1,976,846 |
| Loan from a supplier, without interest or specific repayment terms | 31,203 | 30,842 |
| Term loan, secured by automotive equipment having a net book value of \$20,995, 2.97%, payable by monthly instalments of \$811, maturing in February 2018 | 14,255 | 23,412 |
| Loan from a corporate shareholder of the parent company, 10%, without specific terms of repayment (b) | 1,250,000 | |
| | 3,779,162 | 4,795,974 |
| Current portion | 275,706 | 290,329 |
| | 3,503,456 | 4,505,645 |

(a) Under the loan agreement, these loans are subject to certain financial covenants measured on a yearly basis. These covenants (measured on a consolidated basis) were met as at year-end.

(b) The lender has waived the right to receive reimbursements of this loan during the next financial year.

(c) Subsequent to year-end, the term loan was renewed with similar terms and conditions. Except for the following: monthly capital payments due are now \$8,608 and the loan is now due and renegotiable in September 2021.

(d) Subsequently to year-end, the term loan was renewed with similar terms and conditions. The loan is now due and renegotiable in September 2019 and bears an interest rate of 3.3% per annum.

The estimated instalments on long-term debt for the next five years are \$275,706 in 2017, \$268,115 in 2018, \$263,293 in 2019, \$1,036,627 in 2020 and \$103,293 in 2021.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

11 - OBLIGATIONS UNDER CAPITAL LEASES

| | <u>2016</u> | <u>2015</u> |
|--|----------------|-------------|
| | \$ | \$ |
| Obligation under a capital lease for machinery and equipment, 3.18%, payable in monthly instalments of \$6,685, maturing in August 2021 | 295,207 | |
| Obligation under a capital lease for machinery and equipment, 3.18%, payable in monthly instalments of \$4,164, maturing in October 2020 | 191,294 | |
| Obligation under a capital lease for machinery and equipment, 2.96%, payable in monthly instalments of \$6,788, maturing in March 2021 | 343,790 | |
| | 830,291 | |
| Current portion | 188,668 | |
| | 641,623 | - |

The minimum lease payments under the capital leases for the next five years and the balance of the obligations are as follows:

| | <u>\$</u> |
|---|----------------|
| Years ending August 31 | |
| 2017 | 211,649 |
| 2018 | 211,649 |
| 2019 | 211,649 |
| 2020 | 228,924 |
| 2021 | <u>53,068</u> |
| Total minimum lease payments | 916,939 |
| Interest expense included in minimum lease payments | <u>86,648</u> |
| Balance of the obligations | <u>830,291</u> |

12 - SHARE CAPITAL

As at August 31, 2016, the Company's issued shares are detailed as follows:

Unlimited number of shares

Common shares, voting and participating

Class "A", "B", "C", "D" and "E" preferred shares, non-voting, non-cumulative discretionary dividend, redeemable for an amount equal to the fair market value of the consideration for which the shares were issued (which is \$1 for each share issued) plus all declared and unpaid dividends

As at August 31, 2015, the previous Aliments Pasta Romana Inc.'s issued shares were detailed as follows:

Unlimited number of shares

Class "A" shares, voting and participating

Class "C" shares, non-voting, non cumulative dividend of 0.75% per month, redeemable at the paid-up capital amount

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

12 - SHARE CAPITAL (Continued)

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|------------------|----------------|
| | \$ | \$ |
| New Aliments Pasta Romana Inc. | | |
| 100 common shares issued for \$100 | 100 | |
| 2,500,000 class "A" preferred shares | 2,500,000 | |
| 341,143 class "B" preferred shares | 183,606 | |
| 493,452 class "C" preferred shares | 92,110 | |
| 469,848 class "D" preferred shares | 73,524 | |
| 1,195,557 class "E" preferred shares | 145,382 | |
| Previous Aliments Pasta Romana Inc. | | |
| 313,900 class "A" shares | | 546,588 |
| 334,047 class "C" preferred shares | | 254,047 |
| | <u>2,994,722</u> | <u>800,635</u> |

On September 1, 2015, the following transactions were effected as a result of the amalgamation described in Note 2:

- 30,000 class "A" shares and 52,428 class "C" shares having a paid-up capital of \$92,110 were exchanged for 493,452 class "C" preferred shares;
- 29,625 class "A" shares and 28,847 class "C" shares having a paid-up capital of \$73,524 were exchanged for 469,848 class "D" preferred shares;
- 78,500 class "A" shares and 11,428 class "C" shares having a total paid-up capital of \$145,382 were exchanged for 1,195,577 class "E" preferred shares;
- 175,775 class "A" shares and 241,344 class "C" shares having a paid-up capital of \$489,619 were cancelled and 341,143 class "B" preferred shares having a paid-up capital of \$183,606 were issued to the shareholder of 9009566 Canada Inc. in exchange for its shares in 9009566 Canada Inc.

On September 1, 2015, the advance from a private company of \$2,500,000 was converted into 2,500,000 class "A" preferred shares.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

13 - INCOME TAXES

The difference between the Company's effective income tax rate and the combined federal and provincial income tax rate in Canada arises from the following items:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| | \$ | \$ |
| Earnings before income taxes | <u>1,377,688</u> | <u>2,109,337</u> |
| Income taxes calculated using the combined federal and provincial income tax rate in Canada of 22.58% (25.03% in 2015) | 286,108 | 527,912 |
| Increase (decrease) in income taxes resulting from the following | | |
| Non-deductible expenses | 4,651 | 3,504 |
| Difference arising from the treatment of provisions | (7,892) | (10,011) |
| Difference arising from the treatment of financing expenses | 2,951 | (2,478) |
| Difference arising from the treatment of capital leases | (16,843) | |
| Amortization of property and equipment | (13,642) | (43,906) |
| Other | (5,817) | (12,450) |
| Current income taxes | <u>249,516</u> | <u>462,571</u> |
| Effective income tax rate | <u>18.11%</u> | <u>21.93%</u> |

14 - RELATED PARTY TRANSACTIONS

| | <u>2016</u> | <u>2015</u> |
|---|---------------|-------------|
| | \$ | \$ |
| Transactions concluded in the normal course of operations and measured at the exchange amount | | |
| Companies controlled by certain shareholders of the parent company | | |
| Commissions | 76,453 | - |
| Rental expenses | - | 54,000 |
| Corporate shareholder having a significant influence on the parent company | | |
| Consulting fees | 56,750 | - |
| Expenses accounts | 48,710 | - |
| Interest on loans | 29,107 | - |
| Subsidiary of the parent company | | |
| Gross sales | 5,447 | - |

During the year, as part of a tax rollover, the Company transferred land, a building and machinery and equipment with a net carrying amount of \$2,969,188 to a subsidiary of the parent company in exchange for the assumption of a debt in the amount of \$2,781,928 and 437,261 class "E" preferred shares of the aforementioned subsidiary, redeemable at the option of the holder at the amount of \$1 per share.

The Company also transferred its right to receive a financial contribution receivable with a net carrying amount of \$250,000 to a subsidiary of the parent company in exchange for an increase in the advances with the aforementioned subsidiary of the parent company.

These transactions were not concluded in the normal course of business, were measured at the carrying amount and had no effect on the Company's cash flow.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

15 - FINANCIAL INSTRUMENTS

Financial risks

The Company's main financial risk exposure is detailed as follows.

Credit risk

The Company is exposed to credit risk regarding the financial assets recognized on the balance sheet. The Company has determined that the financial assets with more credit risk exposure are trade accounts receivable and advances since failure of any of these parties to fulfil their obligations could result in significant financial losses for the Company.

Market risk

The Company's financial instruments expose it to market risk, in particular, currency risk and interest rate risk, resulting from its operating and financing activities:

– Currency risk:

The majority of the Company's transactions are in Canadian dollars. Currency risk results from the Company's sales and purchases denominated in foreign currency which are primarily in U.S. dollars. As at August 31, 2016, the Company is exposed to currency risk due to cash and trade and other receivables denominated in U.S. dollars totalling \$1,340,413 (\$391,967 as at August 31, 2015) and trade and other payables denominated in U.S. dollars totalling \$16,985 (\$10,579 as at August 31, 2015).

– Interest rate risk:

The Company is exposed to interest rate risk with respect to financial liabilities bearing fixed and variable interest rates.

The term loans and the loan from a corporate shareholder of the parent company bear interest at fixed rates and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The bank loan bears interest at a variable rate and the Company is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2016

15 - FINANCIAL INSTRUMENTS (Continued)

Financial risks (Continued)

Liquidity risk

The Company's liquidity risk represents the risk that the Company could encounter difficulty in meeting obligations associated with its financial liabilities. The Company is, therefore, exposed to liquidity risk with respect to all of the financial liabilities recognized in the balance sheet.

Carrying amount of financial assets by category

The carrying amount of the Company's financial assets that are measured at amortized cost totals \$4,614,306 (\$2,628,914 as at August 31, 2015) and the carrying amount of investments in equity instruments measured at costs totals \$187,261.

Guaranteed financial liabilities

As at August 31, 2016, the total carrying amount of guaranteed financial liabilities is \$2,741,308.

16 - GUARANTEES

The Company guarantees, jointly with a company under common control, the long-term loans of a company under common control with an amount outstanding of \$6,016,816 as at August 31, 2016. The Company has not required any consideration in exchange for such guarantee. Under the terms of the agreement, until April 30, 2021 the Company must be prepared to fulfill the company under common control's long-term loans repayment obligations if the latter is unable to do so. The maximum amount the Company may be required to settle under the agreement is \$7,350,000. In the opinion of management, it is unlikely that this guarantee will be exercised and accordingly, no liability has been recorded in the financial statements in this respect.

Moreover, the Company jointly and severally unconditionally guarantees until June 30, 2019 the due and prompt performance of any and all obligations of a subsidiary of the parent company, Les Aliments Pizza Romana Inc., pursuant to a supply agreement contracted by the entity. The Company has not required any consideration in exchange for such guarantee. In the opinion of management it is unlikely that this guarantee will be exercised and accordingly, no liability has been recorded in the financial statements in this respect.

Aliments Pasta Romana Inc.

Schedules

Year ended August 31, 2016

| | SCHEDULE A | |
|------------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| | \$ | \$ |
| SALES | | |
| Gross sales | 21,776,804 | 20,763,203 |
| Rebates and allowances | <u>(440,989)</u> | <u>(433,431)</u> |
| | <u>21,335,815</u> | <u>20,329,772</u> |

| | SCHEDULE B | |
|--------------------------------|-------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| | \$ | \$ |
| COST OF SALES | | |
| Inventories, beginning of year | 1,121,917 | 842,751 |
| Manufacturing cost | 4,477,179 | 4,009,405 |
| Purchases | <u>9,946,620</u> | <u>9,338,773</u> |
| | 15,545,716 | 14,190,929 |
| Inventories, end of year | <u>1,164,690</u> | <u>1,121,917</u> |
| | <u>14,381,026</u> | <u>13,069,012</u> |

Inventories recognized as expenses

The amount of inventories recognized as expenses during the year corresponds to the cost of sales presented in the statement of earnings.

Manufacturing cost

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| | \$ | \$ |
| Direct labour and subcontracting | <u>2,779,773</u> | <u>2,520,465</u> |
| Factory overhead | | |
| Taxes and licences | 174,519 | 108,721 |
| Equipment maintenance and repairs | 431,420 | 334,705 |
| Inspection | 105,428 | 81,032 |
| Rental expenses | 17,143 | 89,113 |
| Heating and power | 331,239 | 310,573 |
| Insurance | 88,139 | 81,940 |
| Amortization of building, machinery and equipment | <u>549,518</u> | <u>482,856</u> |
| | <u>1,697,406</u> | <u>1,488,940</u> |
| | <u>4,477,179</u> | <u>4,009,405</u> |

Aliments Pasta Romana Inc.

Schedules

Year ended August 31, 2016

| | SCHEDULE C | |
|---|-------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| | \$ | \$ |
| SELLING EXPENSES | | |
| Selling salaries | 343,165 | 49,382 |
| Shipping salaries | 166,257 | 155,513 |
| Commissions | 89,030 | 107,913 |
| Advertising and promotion | 1,650,871 | 1,128,962 |
| Travel and entertainment | 48,796 | 85,304 |
| Automotive equipment costs | 137,101 | 102,343 |
| Delivery | 971,880 | 992,297 |
| | <u>3,407,100</u> | <u>2,621,714</u> |
| | | |
| | SCHEDULE D | |
| | <u>2016</u> | <u>2015</u> |
| | \$ | \$ |
| ADMINISTRATIVE EXPENSES | | |
| Salaries and employee benefits | 1,149,189 | 1,041,888 |
| Severance pay packages | | 205,545 |
| Insurance | 95,996 | 114,826 |
| Taxes and permits | 28,747 | 27,421 |
| Office supplies and expenses | 103,670 | 69,284 |
| Rental expenses | 92,900 | 11,400 |
| Power | 80,024 | 45,510 |
| Automotive equipment costs | 39,857 | 41,258 |
| Telecommunications | 70,533 | 83,648 |
| Travel and entertainment | 34,394 | 15,524 |
| Professional fees and consulting | 354,386 | 587,734 |
| Donations | 1,250 | 8,508 |
| Research and development tax credits | (35,439) | (43,388) |
| Foreign exchange (gain) loss | (65,945) | 121,369 |
| Bank charges and interest | 38,141 | 11,628 |
| Loss on disposal of property and equipment | | 5,671 |
| Amortization of property and equipment | 25,906 | 27,147 |
| | <u>2,013,609</u> | <u>2,374,973</u> |
| | | |
| | SCHEDULE E | |
| | <u>2016</u> | <u>2015</u> |
| | \$ | \$ |
| FINANCIAL EXPENSES | | |
| Interest on long-term debt | 220,185 | 154,736 |
| Interest on loan from a corporate shareholder of the parent company | 29,107 | |
| | <u>249,292</u> | <u>154,736</u> |