

Aliments Pasta Romana Inc.
Financial Statements
August 31, 2015

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Raymond Chabot Grant Thornton

Independent Auditor's Report

To the Shareholders of
Aliments Pasta Romana Inc.

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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, 2015 and the statements of earnings and 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 the 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, 2014 was qualified accordingly because of the possible effects of this limitation in scope.

Qualified opinion on the results of operations and cash flows

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion on the results of operations and cash flows paragraph, the statements of earnings and 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 presents fairly, in all material respects, the financial position of Aliments Pasta Romana Inc. as at August 31, 2015 in accordance with Canadian accounting standards for private enterprises.

Raymond Chobot Grant Thornton LLP¹

Laval
December 4, 2015

¹ CPA auditor, CA public accountancy permit no. A111141

Aliments Pasta Romana Inc.

Earnings and Retained Earnings

Year ended August 31, 2015

	<u>2015</u>	<u>2014</u>
	\$	\$
Sales (Schedule A)	20,329,772	19,080,261
Cost of sales (Schedule B)	<u>13,069,012</u>	<u>12,182,543</u>
Gross profit	<u>7,260,760</u>	<u>6,897,718</u>
Selling expenses (Schedule C)	2,621,714	2,906,337
Administrative expenses (Schedule D)	2,374,973	2,004,308
Financial expenses (Schedule E)	<u>154,736</u>	<u>205,729</u>
	<u>5,151,423</u>	<u>5,116,374</u>
Earnings before income taxes	2,109,337	1,781,344
Current income taxes (Note 10)	<u>462,571</u>	<u>425,315</u>
Net earnings	1,646,766	1,356,029
Retained earnings, beginning of year	<u>4,576,073</u>	<u>3,220,044</u>
Retained earnings, end of year	<u>6,222,839</u>	<u>4,576,073</u>

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

Aliments Pasta Romana Inc.**Cash Flows**

Year ended August 31, 2015

	<u>2015</u>	<u>2014</u>
	\$	\$
OPERATING ACTIVITIES		
Net earnings	1,646,766	1,356,029
Non-cash items		
Amortization of property and equipment	510,003	532,944
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	2,104	
Net change in working capital items	<u>(774,428)</u>	<u>(178,372)</u>
Cash flows from operating activities	<u>1,364,858</u>	<u>1,710,601</u>
INVESTING ACTIVITIES		
Net change in advances to shareholders having significant influence	(795,755)	
Property and equipment	(2,406,918)	(365,978)
Deposit on machinery purchase	<u>(157,056)</u>	
Cash flows from investing activities	<u>(3,359,729)</u>	<u>(365,978)</u>
FINANCING ACTIVITIES		
Net change in loan from a shareholder having significant influence	(1,267,826)	53,744
Long-term loans	2,000,000	37,404
Repayment of long-term loans	<u>(290,037)</u>	<u>(308,717)</u>
Cash flows from financing activities	<u>442,137</u>	<u>(217,569)</u>
Effect of exchange rate fluctuation	<u>(1,552,734)</u>	1,127,054
	<u>(58,964)</u>	<u>(7,241)</u>
Net increase (decrease) in cash	(1,611,698)	1,119,813
Cash, beginning of year	<u>1,913,096</u>	<u>793,283</u>
Cash, end of year	<u>301,398</u>	<u>1,913,096</u>

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

Aliments Pasta Romana Inc.

Balance Sheet

August 31, 2015

	<u>2015</u>	<u>2014</u>
	\$	\$
ASSETS		
Current		
Cash	301,398	1,913,096
Trade and other receivables (Note 3)	1,677,949	1,503,113
Inventories (Note 4)	1,121,917	842,751
Prepaid expenses and deposit	99,813	68,358
Advances to employees, without interest	400	11,732
	<u>3,201,477</u>	<u>4,339,050</u>
Long-term		
Advance to a corporate shareholder having significant influence, without interest	578,500	
Advances to a shareholder having significant influence, without interest	217,255	
Deposit on machinery purchase	157,056	16,772
Property and equipment (Note 5)	10,040,486	7,561,242
	<u>14,194,774</u>	<u>11,917,064</u>
LIABILITIES		
Current		
Trade and other payables (Note 7)	2,359,006	2,118,603
Current income tax liability	16,320	45,850
Loan from a shareholder having significant influence, 5%		1,160,000
Current portion of long-term debt	290,329	290,062
	<u>2,665,655</u>	<u>3,614,515</u>
Long-term		
Long-term debt (Note 8)	4,505,645	2,818,015
Loan from a shareholder having significant influence, without interest		107,826
	<u>7,171,300</u>	<u>6,540,356</u>
EQUITY		
Share capital (Note 9)	800,635	800,635
Retained earnings	6,222,839	4,576,073
	<u>7,023,474</u>	<u>5,376,708</u>
	<u>14,194,774</u>	<u>11,917,064</u>

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, 2015

1 - GOVERNING STATUTES

The Company is incorporated under the Canada Business Corporations Act.

2 - 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.

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 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". Transactions 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.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

Subsequent measurement

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

With respect to financial assets measured 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 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.

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%

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

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.

3 - TRADE AND OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
	\$	\$
Trade accounts receivable (a)	1,531,761	1,455,911
Indirect taxes receivable	<u>146,188</u>	<u>47,202</u>
	<u>1,677,949</u>	<u>1,503,113</u>

(a) As at August 31, 2015, amounts owing from one customer represent 77% of the total trade accounts receivable (77% as at August 31, 2014). Sales to this customer amount to 81% of total sales (86% in 2014).

4 - INVENTORIES

	<u>2015</u>	<u>2014</u>
	\$	\$
Raw materials	335,882	235,976
Finished goods	627,463	491,374
Packaging material	<u>158,572</u>	<u>115,401</u>
	<u>1,121,917</u>	<u>842,751</u>

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

5 - PROPERTY AND EQUIPMENT

	2015		2014
	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Land	640,000		340,000
Building	5,544,239	292,620	3,323,767
Machinery and equipment	6,128,023	2,158,488	3,688,881
Automotive equipment	286,737	230,592	75,139
Computer equipment	107,359	72,223	47,610
Furniture and fixtures	89,294	37,143	63,805
Software	59,441	23,541	22,040
	12,855,093	2,814,607	7,561,242

Machinery and equipment acquired during the year for a total cost of \$588,000 are included in trade accounts payable as at August 31, 2015 (none as at August 31, 2014).

6 - BANK LOAN

The Company has access to an operating line of credit for an authorized amount of \$1,700,000 as well as a foreign exchange credit facility for an authorized amount of \$315,000 and a leasing facility with a limit of \$1,200,000 (in US \$). The bank loan bears interest at prime plus 1% and is renewable in August 2016.

The bank loan is secured by a moveable hypothec of \$2,500,000 on the universality of all moveable property and by the joint and several personal guarantees signed by certain shareholders having significant influence for an amount of \$750,000. The Company did not pay any consideration in exchange for such guarantees.

The Company also has access to a credit card facility with an authorized limit of \$200,000, bearing interest at 19.75%.

Under the credit agreement, the Company is required to respect certain financial covenants.

7 - TRADE AND OTHER PAYABLES

	2015	2014
	\$	\$
Trade accounts payable	2,068,552	1,852,066
Salaries and vacation payable	276,665	209,016
Accrued interest	13,789	57,521
	2,359,006	2,118,603

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

8 - LONG-TERM DEBT

	<u>2015</u>	<u>2014</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)	1,191,541	1,312,687
Term loan, Farm Credit Canada, for the original amount of \$2,000,000, 3.45%, 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)	1,573,333	1,733,334
Term loan, Farm Credit Canada, for the original amount of \$2,000,000, net of an amount of \$23,154, representing deferred financing fees, 3.10%, payable in monthly instalments of \$13,889 starting January 2017, 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, maturing in December 2020 (a)	1,976,846	
Loan from a supplier, without interest or specific repayment terms	30,842	29,753
Term loan secured by automotive equipment having a net book value of \$21,214, 2.97%, payable by monthly instalments of \$811, maturing in February 2018	23,412	32,303
	4,795,974	3,108,077
Current portion	290,329	290,062
	4,505,645	2,818,015

(a) Under the loan agreement, these loans are subject to certain financial covenants.

The estimated instalments on long-term debt for the next five years are as follows:

	<u>\$</u>
2016	290,329
2017	2,604,251
2018	171,495
2019	166,673
2020	166,673
	3,399,421

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

9 - SHARE CAPITAL

As at August 31, 2015, the Company's issued shares are 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

	<u>2015</u>	<u>2014</u>
	\$	\$
313,900 class "A" shares	546,588	546,588
334,047 class "C" shares	254,047	254,047
	<u>800,635</u>	<u>800,635</u>

10 - 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>2015</u>	<u>2014</u>
	\$	\$
Earnings before income taxes	2,109,337	1,781,344
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 25.03% (24.69% in 2014)	527,912	439,682
Increase (decrease) in income taxes resulting from the following		
Non-deductible expenses	3,504	3,668
Difference arising from treatment of provisions	(10,011)	
Difference arising from treatment of financing expenses	(2,478)	(1,197)
Amortization of property and equipment	(43,906)	(18,656)
Other	(12,450)	1,818
Current income taxes	462,571	425,315
Effective income tax rate	21.93%	23.88%

11 - RELATED PARTY TRANSACTIONS

	<u>2015</u>	<u>2014</u>
	\$	\$
Companies controlled by certain shareholders exercising significant influence		
Purchases	-	511,351
Rental expenses	54,000	54,000
Shareholder having significant influence		
Interest expense	-	56,453

These transactions were concluded in the normal course of operations and were measured at the exchange amount.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

12 - 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, 2015, the Company is exposed to currency risk due to cash and trade and other receivables denominated in U.S. dollars totalling \$391,967 (\$1,590,328 as at August 31, 2014) and trade and other payables denominated in U.S. dollars totalling \$10,579 (\$14,268 as at August 31, 2014).

– Interest rate risk:

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

The long-term debt bears 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.

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 all measured at amortized cost totals \$2,628,914 (\$3,380,739 as at August 31, 2014).

Guaranteed financial liabilities

As at August 31, 2015, the total carrying amount of guaranteed financial liabilities is \$4,765,133.

Aliments Pasta Romana Inc.

Notes to Financial Statements

August 31, 2015

13 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year. These reclassifications resulted in an increase in sales, gross profit and selling expenses of \$603,664.

14 - SUBSEQUENT EVENT

On September 1, 2015, Les Aliments Pasta Romana Inc. and 9009566 Canada Inc., two companies under common control, were amalgamated under section 185 of the Canada Business Corporations Act. The corporate name of the amalgamated corporation is Les Aliments Pasta Romana Inc.

The Company's financial statements for the year ended August 31, 2016 will reflect the earnings, assets and liabilities of the amalgamated companies for the entire year and all previous years.

Aliments Pasta Romana Inc.

Schedules

Year ended August 31, 2015

	SCHEDULE A	
	<u>2015</u>	<u>2014</u>
	\$	\$
SALES		
Gross sales	20,763,203	19,574,150
Rebates and allowances	<u>(433,431)</u>	<u>(493,889)</u>
	<u>20,329,772</u>	<u>19,080,261</u>

	SCHEDULE B	
	<u>2015</u>	<u>2014</u>
	\$	\$
COST OF SALES		
Inventories, beginning of year	842,751	590,632
Manufacturing cost	4,009,405	4,062,723
Purchases	<u>9,338,773</u>	<u>8,371,939</u>
	14,190,929	13,025,294
Inventories, end of year	<u>1,121,917</u>	<u>842,751</u>
	<u>13,069,012</u>	<u>12,182,543</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>2015</u>	<u>2014</u>
	\$	\$
Direct labour and subcontracting	<u>2,520,465</u>	<u>2,485,024</u>
Factory overhead		
Taxes and licences	108,721	67,548
Equipment maintenance and repairs	334,705	493,798
Inspection	81,032	72,827
Rental expenses	89,113	86,687
Heating and power	310,573	281,735
Insurance	81,940	86,521
Amortization of building, machinery and equipment	<u>482,856</u>	<u>488,583</u>
	<u>1,488,940</u>	<u>1,577,699</u>
	<u>4,009,405</u>	<u>4,062,723</u>

Aliments Pasta Romana Inc.

Schedules

Year ended August 31, 2015

	SCHEDULE C	
	<u>2015</u>	<u>2014</u>
	\$	\$
SELLING EXPENSES		
Selling salaries	49,382	105,237
Shipping salaries	155,513	158,255
Commissions	107,913	113,678
Advertising and promotion	1,128,962	1,525,841
Travel and entertainment	85,304	71,615
Automotive equipment costs	102,343	102,556
Delivery	992,297	829,155
	<u>2,621,714</u>	<u>2,906,337</u>
	SCHEDULE D	
	<u>2015</u>	<u>2014</u>
	\$	\$
ADMINISTRATIVE EXPENSES		
Salaries and employee benefits	1,041,888	1,150,688
Severance pay packages	205,545	127,920
Insurance	114,826	115,712
Taxes and permits	27,421	23,018
Office supplies and expenses	69,284	83,362
Rental expenses	11,400	15,850
Power	45,510	46,406
Automotive equipment costs	41,258	47,075
Telecommunications	83,648	85,345
Travel and entertainment	15,524	50,716
Professional fees and consulting	587,734	211,598
Donations	8,508	7,541
Research and development tax credits	(43,388)	(1,695)
Foreign exchange (gain) loss	121,369	(10,681)
Bank charges and interest	11,628	7,092
Loss on disposal of property and equipment	5,671	
Amortization of property and equipment	27,147	44,361
	<u>2,374,973</u>	<u>2,004,308</u>
	SCHEDULE E	
	<u>2015</u>	<u>2014</u>
	\$	\$
FINANCIAL EXPENSES		
Interest on long-term debt	154,736	149,276
Interest on loan from a shareholder having significant influence		56,453
	<u>154,736</u>	<u>205,729</u>