CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER: | | | | | | | | |

Common Final Examination
September 13, 2023 – Day 2
(Booklet #1 – Case)

Total examination time: 5 hours.
Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the writing centre.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

Policy Statement and Agreement Regarding Examination Confidentiality

I understand that all examination materials are the property of CPA Canada and are under the exclusive custody and control of CPA Canada. CPA Canada has the exclusive authority over examination materials to determine the content, use, retention, disposition and disclosure of this material. Candidates will not have access to their examination response, the examination marking keys or any other marking materials. The examination questions and marking guides will only be publicly available when published by CPA Canada.

I hereby agree that I will not:

- Obtain or use answers or information from, or give answers or information to, another candidate or person during the sitting of the examination;
- Refer to unauthorized material or use unauthorized equipment during the examination including but not limited to generative artificial intelligence and similar technologies (for example, ChatGPT, Grammarly, ChatBots etc.); or
- Remove or attempt to remove any CPA Canada Examination materials, notes or any other items from the writing centre.

I further agree to report to CPA Canada any situations where there is a material risk of compromising the integrity of the examination.

I affirm that I have had the opportunity to read the *CPA Examination Regulations* and I agree to all of its terms and conditions.

In addition, I understand that failure to comply with this Policy Statement and Agreement will result in the invalidation of my results, and may result in my disqualification from future examinations, expulsion from the profession and possible legal action.

____________________________ ____________________________

CANDIDATE NAME (Please print) SIGNATURE

Examination Details

The examination consists of:
Booklet #1 – Case (this booklet)
Booklet #2 – Rough notes

Candidates are allowed **five (5) hours** to respond.

The case should be answered using the examination software provided, which includes a word processor and spreadsheet for inputting your response.

The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. All financial tables in the case with ten lines or more have been preloaded into the spreadsheets that follow Sheet 1. Those spreadsheets are in read-only mode. You must copy and paste the financial information into your Sheet 1, where you can then do all your calculations. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded on anything other than the examination software or, in the event of computer failure, the CPA Canada writing paper provided.

Rough-note paper is available in a separate booklet. Rough notes, and any other notations made in the examination booklets, will not be evaluated.

The CPA Canada Handbooks, the *Income Tax Act* and the *Excise Tax Act* are available in the examination software throughout the entire examination. These materials provide the standards in effect and tax laws substantively enacted as at December 31, 2022.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Candidates are instructed to consider and respond to the examination questions as presented even though the circumstances described in the examination questions may not be reflective of the current environment.

Common Final Examination, 2023

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case

Assume the pre-selected role in which you will be formulating your response. Answer all requireds as specifically directed in your role. Within the requireds for each role, candidates are directed to look at specific additional appendices, which are unique to each role. Use only the information you have been directed to refer to.

Information that is shared by all roles is presented in the "Common Information" section. Additional information, customized to each role, is presented in the "Specific Information" section.

INDEX

(CONTINUED ON PAGE 3)

BACKGROUND
COMMON INFORMATION FOR ALL ROLES

Bold Plant Foods Limited (Bold) manufactures plant-based chicken (chick'n) products in the form of burgers, nuggets, and sausages, as well as plant-based turkey (turk'y) bacon. Its manufacturing facilities and head office are in Winnipeg, Manitoba. Bold sells to small grocery retail chains and independent grocery stores in Canada and the western United States and to a few restaurants. Bold prepares its financial statements using ASPE.

The company was started in 2012, selling only chick'n products at the time. The founding shareholders are two friends: Juliette Pfeiffer, an industrial engineer, and Simon Kinnunen, a food scientist. Each owns 10,000 common shares. In 2019, Treadstone Investment Limited (Treadstone), a private equity investment firm, invested $8 million for 30,000 voting fully-participating preferred shares, giving Treadstone 60% of the voting shares. Soon after, Bold acquired the net assets of a company that produced turk'y bacon.

Treadstone is solely owned by Richard Derman. Two Treadstone representatives, Allan Tokko and Yasmin Ozar, both CPAs, sit on Bold's four-member Board of Directors (the board) with Juliette and Simon. Treadstone invests in private companies with the goal of improving the company's share value, and to ultimately dispose of the shares after a period of five to eight years. For all its investments, Treadstone is very involved in day-to-day operational decisions. Operational decisions are made with the objective of maximizing divisional monthly profits.

Treadstone has called a board meeting because Allan and Yasmin are concerned that Bold is struggling to maintain profitability and has been unable to meet sales and profit targets. Treadstone has been approached by several strategic buyers interested in acquiring its Bold shares, but discussions are still preliminary, and Treadstone has received no offers.

Today is March 10, 2023. Juliette and Simon believe Bold can achieve substantial growth and value creation, especially given its patents and proprietary technology. Their goals are to invest more in automated equipment, reduce operating costs by achieving greater efficiency and economies of scale, reduce product development timelines, and build the brand name, to remain competitive.

Additional information, customized to your role, is presented in your role package.

(CONTINUED ON PAGE 4)

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS

You, CPA, work as an internal auditor for Treadstone and report directly to Kayla Minhas, the internal audit manager at Treadstone. Treadstone's internal audit department has two main priorities: performing assurance projects to assess the operations and financial results of the companies Treadstone invests in, and offering consulting services to them on any issues encountered.

The board of Treadstone has asked the internal audit department to perform an analysis of specific issues and opportunities at Bold. Kayla has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. She has also asked you to discuss the financial reporting issues noted by Juliette, as well as the Meals 2 Go Inc. transaction entered into in 2022, since the board of Treadstone would like internal audit's opinion of these items for when they review Bold's financial results.

Treadstone requires a fraud risk assessment to be performed every two years on all its investments. Kayla asks you to document the fraud risk factors associated with the possibility of fraud by Bold management and employees, at both the overall financial statement level and specific to revenue, and to describe the auditor's expected response to each of the risk factors.

To prepare Bold for its upcoming year-end audit, Kayla would like you to describe the audit procedures the external auditors will likely perform on the financial reporting issues identified by Juliette and Kayla. In addition, she asks you to discuss any internal control weaknesses you identify in Bold's purchases and payables process, and provide recommendations to address them.

As part of an internal audit project to review Bold's property, plant, and equipment, Bold has provided a report of a sample of data from the equipment subledger. Kayla asks you to analyze this report for anomalies, and recommend additional audit procedures to address the anomalies identified.

Bold is planning to acquire Gretta's Mobile Vegan Foods Limited (Gretta), and wants to verify that Gretta follows provincial regulations on food handling, storage, and preparation. Bold has asked Treadstone's internal audit department for assistance in reviewing the potential acquisition. Kayla asks you to recommend audit procedures that could be performed to verify that Gretta complies with the provincial regulations.

Kayla has also asked you to comment on the draft internal audit plan for Bold for 2023 that a junior associate has prepared. Both Bold and Treadstone's external auditors have confirmed that they will not be relying on the work of the internal audit department for the 2023 year-end audit.

In addition to the common appendices (I to IV), information provided in Appendix V (Assurance) is relevant for your analysis.

(CONTINUED ON PAGE 5)

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS

You, CPA, work as a financial analyst for Treadstone and report directly to Yasmin. Yasmin has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. She has also asked you to discuss the financial reporting issues noted by Juliette.

Treadstone's goal is to dispose of its investments for an annualized return of 20%. Yasmin wants you to prepare a valuation of Bold using the capitalized cash flow method based on 2022 information only, and estimate Treadstone's annualized return on its investment based on this valuation.

Bold is considering replacing the machine used to produce chick'n burgers with a machine that will automate the production process. Yasmin asks you to prepare a capital budget analysis of the project, discuss assumptions and risks that would affect your analysis, and make a recommendation.

The shareholders are concerned about Bold's cash flow. Yasmin asks you to calculate Bold's cash conversion cycle, discuss Bold's working capital, and estimate the cash impact of bringing Bold's working capital in line with industry averages. Next, she asks you to prepare a quarterly cash flow for each of the next three quarters, incorporating existing financing costs and assuming working capital is in line with industry averages. You are to conclude on the amount of additional short-term financing required, if any.

Bold requires an additional $10 million in long-term financing, to invest in increasing its production capacity and generating economies of scale, allowing it to increase its market share. Planet Earth Ethical Fund has provided a financing proposal. Alternatively, Treadstone offered to invest $10 million with the same payment and conversion terms. Yasmin asks you to analyze these options from the perspectives of Bold and each of its shareholders, and provide a recommendation.

Treadstone needs to decide whether to remain invested in Bold or sell. To support this analysis, Treadstone has gathered some industry data. Yasmin asks you to assess the quality and relevance of the data and provide an analysis of Bold's performance against the relevant data.

Yasmin would like you to calculate the price at which Treadstone would need to sell to realize its targeted annualized return, and discuss the implications of selling according to the terms and conditions of the shareholders' agreement. Taking into account all of your analyses, she would also like you to recommend whether Treadstone should remain invested in Bold or sell.

In addition to the common appendices (I to IV), information provided in Appendix V (Finance) is relevant for your analysis.

(CONTINUED ON PAGE 6)

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, work as a financial analyst for Treadstone in their management consulting department and report directly to Allan. Allan has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. He has also asked you to discuss the financial reporting issues noted by Juliette.

Currently, Bold has contracts with two pea protein suppliers, but a new pea protein manufacturer, AgroPea Inc. (AgroPea), recently opened a facility in Manitoba. Allan would like you to analyze whether Bold should terminate its existing contracts and enter into a new, long-term supply contract with AgroPea.

A potential new customer has requested just-in-time delivery to various locations across Canada. Treadstone has an investment in a logistics company, FFD Inc. (FFD), so Allan has prepared cost estimates for this customer using either Bold's existing shipping company or FFD. Allan asks you to analyze this information and recommend which company to use.

The manager of the turk'y division has voiced concerns that the internal transfer price for the protein mixture is too high. Allan asks you to review the current transfer pricing policy, and to analyze other potential options from a quantitative and qualitative perspective, and make a recommendation.

Recently, the company received results from a market survey. Allan asks you to interpret the survey results and recommend how Bold could improve.

The sales employees have complained about the new compensation plan that went into effect in 2022. Allan asks you to analyze the compensation plan's strengths and weaknesses and recommend improvements.

Based on goals identified by the shareholders and the various analyses you have performed, Allan also asks you to develop a new balanced scorecard that identifies goals, an underlying measure for each goal identified, and a proposed target for 2023.

Finally, Allan asks you to assess whether Bold still meets Treadstone's strategic objectives and, if it does not, to summarize all operational improvements required to do so.

In addition to the common appendices (I to IV), information provided in Appendix V (Performance Management) is relevant for your analysis.

(CONTINUED ON PAGE 7)

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

TAXATION REQUIREMENTS

You, CPA, work as a taxation specialist for Gaber & Peterson LLP (G&P), and report to Sharon Chung, CPA. G&P has provided taxation and financial consulting services to Bold and its shareholders for many years. Sharon has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. She has also asked you to discuss the financial reporting issues noted by Juliette.

Next, Sharon asks you to calculate Bold's taxable income and federal income taxes payable for 2022. As part of this work, she would like you to determine which companies Bold is related to and which companies it is associated with, and to explain why these relationships are important to understand. Sharon would like you to evaluate the income tax treatment of a proposed intercompany transaction.

The shareholders have decided that Juliette should visit existing and potential customers more often. As a result, Juliette will require the use of an automobile. Sharon asks you to discuss the income tax and GST/HST implications for Juliette personally, and for the company, if Bold purchases or leases an automobile.

Juliette also needs assistance preparing her personal income tax return. Sharon asks you to calculate the income tax implications of the sales of shares, and then estimate Juliette's federal income taxes payable for 2022.

In addition to the common appendices (I to IV), information provided in Appendix V (Taxation) is relevant for your analysis.

(CONTINUED ON PAGE 8)

APPENDIX I – COMMON
BACKGROUND AND INDUSTRY INFORMATION

Bold creates a protein mixture consisting primarily of sunflower oil and pea protein. Using proprietary technology and a recipe developed by Simon, the mixture is processed into products with the look and taste of chicken. The shareholders believe this unique process results in a better-tasting product, even though it costs more to produce. The same protein mixture is used, after being further processed, to produce turk'y bacon. The price of pea protein fluctuates significantly.

Bold has three divisions that each track their revenues and expenses separately:

- The protein mixture division processes raw materials into the mixture used in the products sold by the other two divisions.
- The chick'n division manufactures and sells nuggets, burgers, and sausages.
- The turk'y division manufactures and sells turk'y bacon.

The plant-based alternative industry is in a growth stage, with annual growth rates expected to be 15% for the next two years. Products in this industry include plant-based alternatives for beef, pork, chicken, turkey, and seafood in many forms. Companies in this industry, including Bold, continuously look for ways to reduce their environmental impact.

Bold's sales have not grown as quickly as expected due to poor brand recognition and limited presence in some distribution channels. Bold has not had the capacity to meet the production volumes required by national restaurants and grocery chains, and has been unable to meet the prices demanded by these customers. During the past year, Bold has lost market share to competitors.

In the first quarter of 2023, Bold implemented different marketing strategies to increase sales. For burgers, Bold charged independent retailers a slightly higher-than-average price on the assumption that a small increase would not affect sales volumes. However, sales declined from this customer group. To increase the number of sausages sold, Bold offered a temporary discount on the price of sausages to retailers. In February 2023, Bold negotiated a contract for the sale of chick'n nuggets to a new customer, a small chain of vegan grocery retailers. A lower-than-average price was negotiated, and the customer committed to a large sales volume.

(CONTINUED ON PAGE 9)

APPENDIX II – COMMON
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Bold Plant Foods Limited
Balance Sheet
As at December 31
(in thousands of Canadian dollars)

	2022 Draft	2021 Audited
Assets		
Current assets:		
Cash and cash equivalents	$ 1,193	$ 1,421
Accounts receivable	10,404	9,044
Inventories	12,403	10,355
Prepaid expenses	2,120	1,790
Total current assets	26,120	22,610
Property, plant, and equipment (PP&E) – net	27,121	25,271
Patents	464	0
Goodwill	2,640	2,640
Total assets	$ 56,345	$ 50,521
Liabilities		
Current liabilities:		
Line of credit	$ 4,000	$ 4,000
Trade payables	15,204	13,442
Accrued liabilities	3,870	2,753
Current portion – term loan	1,000	1,000
Total current liabilities	24,074	21,195
Asset retirement obligation	1,398	1,052
Note payable – supplier	2,000	0
Long-term debt – term loan	14,300	15,300
Total liabilities	41,772	37,547
Shareholders' equity		
Preferred shares	8,000	8,000
Common shares	2,000	2,000
Retained earnings	4,573	2,974
Total shareholders' equity	14,573	12,974
Total liabilities and shareholders' equity	$ 56,345	$ 50,521

(CONTINUED ON PAGE 10)

APPENDIX II – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Bold Plant Foods Limited
Statement of Earnings and Retained Earnings
For the years ended December 31
(in thousands of Canadian dollars)

	2022 Draft	2021 Audited
Revenues	$ 108,500	$ 96,400
Cost of goods sold	75,500	66,357
Gross profit	33,000	30,043
Expenses		
Research and development (R&D)	2,138	2,519
Selling, general, and administration	27,500	24,250
Total expenses	29,638	26,769
Operating income	3,362	3,274
Other expenses (income)		
Loss on disposal of assets	22	0
Foreign exchange (gains) losses	210	(150)
Interest – line of credit	260	371
Interest – note payable	13	0
Interest – long-term debt	964	1,024
Total other expenses (income)	1,469	1,245
Income before taxes	1,893	2,029
Income taxes	(294)	(370)
Net income for the year	1,599	1,659
Opening retained earnings	2,974	1,315
Closing retained earnings	$ 4,573	$ 2,974

(CONTINUED ON PAGE 11)

APPENDIX II – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Additional Notes (in thousands of Canadian dollars)

1. All development costs and patent registration fees are expensed as incurred.

2. Total amortization for 2022 was $3,899 for PP&E and $31 for patents. Amortization is calculated monthly on a straight-line basis and includes the month of acquisition and the month of disposal.

3. Accretion expense on the asset retirement obligation was $50 in 2022 (2021 – $45).

4. The line of credit bears interest at prime (currently 5.0%) plus 1.5%. It is secured by the accounts receivable and inventories.

5. The term loan bears fixed interest at 6%, payable at the end of every month. Annual principal payments of $1,000 are payable on August 31. The term loan matures in August 2036 and is secured by all the company's PP&E. The current fair market value of the loan is $13,200.

6. Information from the 2022 statement of cash flows is as follows:

Operating cash flows	$ 4,742
Investing cash flows	$ (5,970)
Financing cash flows	$ 1,000

(CONTINUED ON PAGE 12)

APPENDIX III – COMMON
EMAIL FROM VICE PRESIDENT CHICK’N DIVISION

To: CPA
From: Carolyn Abbotsford, Vice President Chick’n Division

Hi CPA,

The following three tasks need to be completed as soon as possible.

First-in, first-out (FIFO) versus Weighted-average Process Costing Method

We currently use the weighted-average costing method for process costing. I would like to know whether we should switch to FIFO. Please determine the work-in-progress inventory balance on January 31, 2023, and the cost of goods manufactured for January for chick’n nuggets, using each method. Also, please discuss the qualitative considerations of switching to FIFO for management decision-making, and recommend which method to use going forward.

Direct materials and conversion costs incurred for the work-in-progress at January 1 were $82,070. During January, total direct materials and conversion costs were $2,005,580. These costs were incurred uniformly throughout the production process.

Here is the production information for chick’n nuggets for the month of January 2023:

Work-in-progress, January 1	3,750 units (60% complete)
Started during January	43,500 units
Completed during January	35,250 units
Work-in-progress, January 31	12,000 units (80% complete)

(CONTINUED ON PAGE 13)

APPENDIX III – COMMON (CONTINUED)
EMAIL FROM VICE PRESIDENT CHICK'N DIVISION

New Product Breakeven Analysis

The R&D department has spent the last six months developing a new product, chick'n strips, for use in salads and stir-fries. To date, Bold has incurred $256,000 in development costs on this product.

I found a machine, called "Pythagoras," that could produce this product specifically. It would be leased for five years for $1.12 million per year. To decide whether we should lease Pythagoras or use the traditional labour-intensive processes, we need to know the annual breakeven volumes with and without Pythagoras, as well as the volume of sales where we would be indifferent between the two alternatives.

The marketing department suggested a selling price of $35.00 per unit and forecasted that we could sell 250,000 units in the first year. For both options, direct labour is $20.00 per hour and variable overhead cost is $9.80 per direct labour hour. Other estimates are as follows:

Item	Without Pythagoras	With Pythagoras
Direct material cost	$8.00 per unit	$7.00 per unit
Direct labour hours	0.60 hours per unit	0.25 hours per unit

Annual fixed manufacturing overhead costs are $750,000 with or without Pythagoras. By using Pythagoras, Bold will incur annual maintenance of $460,000 regardless of production volumes, plus additional maintenance of $2.50 per unit of production. Annually, Pythagoras will incur additional electricity costs of $390,000, but provide savings of $65,000 from reduced waste disposal costs.

Bold pays its salespeople a commission equal to 20% on the contribution margin (CM) before commissions. Annual fixed salaries and marketing costs will be $680,000 for the new product.

(CONTINUED ON PAGE 14)

APPENDIX III – COMMON (CONTINUED)
EMAIL FROM VICE PRESIDENT CHICK'N DIVISION

Sales Variance Analysis

One of my employees has prepared the following information for February 2023:

Item	Burgers	Nuggets	Sausages	Total
Actual sales volume in units	47,000	54,000	37,000	138,000
Actual net selling price	$68.50	$48.20	$42.60	
Budgeted sales volume in units	48,000	47,500	39,000	134,500
Budgeted net selling price	$68.20	$49.10	$45.10	
Budgeted CM per unit	$18.13	$11.20	$11.90	
Budgeted weighted average CM per unit				$13.88

Please calculate, for each product, the sales volume variance. Please then break down the variance between the sales quantity variance and the sales mix variance. I would then like you to provide a discussion of the causes for the variances, and the impact of the variances on profits.

(CONTINUED ON PAGE 15)

APPENDIX IV – COMMON
NOTES FROM MEETING WITH JULIETTE

Juliette is interested in the impact on the December 31, 2022, financial statements for the following three items.

Goodwill

Turk'y division sales were $25 million in 2021, and $21 million in 2022. In 2022, the division lost two large contracts, representing $5 million of its annual sales, to a new competitor who has been aggressively targeting Bold's customers and is able to produce the volumes required at a competitive price.

In addition to the $2.64 million of goodwill, the following are the assets and liabilities of the turk'y division:

Account	Carrying Value as at December 31, 2022
Accounts receivable	$1,950,000
Inventories	2,114,000
Property, plant, and equipment (net)	6,432,000
Accounts payable	3,020,000
Asset retirement obligation	560,000

All of the assets, except for goodwill, have already been tested for impairment. No impairment was required to be recorded.

Other estimated information related to this division is the following:

Total undiscounted future cash flows	$11,200,000
Fair value before disposal costs	$ 8,900,000
Disposal costs if sold	$ 450,000
Value in use	$ 9,200,000

Note Payable

Bold purchased new manufacturing equipment for $3.2 million, paying the supplier $1.2 million on delivery (September 1, 2022), and issuing a $2.0 million note payable, due on September 1, 2024. Bold has recorded a liability of $2.0 million. Annual interest of 2% (payable monthly) has been expensed as incurred. Bold selected the note payable rather than using its line of credit, due to the below-market interest rate.

(CONTINUED ON PAGE 16)

APPENDIX IV – COMMON (CONTINUED)
NOTES FROM MEETING WITH JULIETTE

Subsequent Events

Grant

In November 2022, Bold applied for a competitive grant to develop a new product. This was a new provincial government program designed to promote development of products using raw inputs grown in Manitoba. A maximum of 10 recipients would be selected for the grant out of the 100 applicants. Bold's eligible expenses totalled $350,000 for 2022, and are included in R&D expense. In early February 2023, Bold received confirmation that the government had approved a $175,000 grant and would make an electronic transfer to the company's account.

Employee termination

On December 4, 2022, Frieda Gore, a salesperson, was terminated due to work performance issues based on her manager's evaluations. Frieda had complained loudly and often about the low base salary and the company changing its sales commissions, effective for 2022, to be based on CM rather than on gross sales. She stated that she was voicing what all the salespeople felt about this policy change and was being singled out. On reviewing her work, Frieda's manager found she had overpaid customers for rebates and volume discounts over the past seven months. Frieda was paid $80,000 in severance, which complies with Bold's policy and industry practice. On receiving the cheque, Frieda indicated she was unhappy with the settlement and argued that she had not previously been told about any performance issues. However, the cheque was cashed on December 8, 2022.

On January 28, 2023, Bold received notice that Frieda had filed a lawsuit demanding more severance, saying that the company's human resources policies had not been properly followed, by not giving her notice of performance issues. Frieda's lawyer demanded damages and severance totalling an additional $230,000. Bold's lawyers have advised that this lawsuit will likely be settled for an amount between $50,000 and $100,000, in addition to the severance previously paid.

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ASSURANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 19)

APPENDIX V – ASSURANCE
ADDITIONAL INFORMATION

Meals 2 Go Inc. Transaction

On November 12, 2022, Bold acquired used manufacturing equipment from Meals 2 Go Inc. (M2G), a company that manufactures frozen, ready-to-eat meals, for $100,000. Treadstone owns 40% of M2G. On M2G's books, the equipment had an original cost of $350,000 and net carrying value of $140,000 on the day of the transaction. An independent appraiser valued the equipment at $150,000. Bold recorded the following journal entry on the transaction date:

Dr. PP&E – manufacturing equipment	$100,000	
Cr. Cash		$100,000

Notes on Changes at Bold

IT: In June 2022, the IT manager went on sick leave and was not replaced. As a result, there were sometimes delays in removing terminated employees from Bold's systems.

Sales: During 2022, Juliette had to spend more time visiting customers and renegotiating the larger sales contracts, and less time in the office. To save time, the salespeople negotiated customer contracts for sales of up to $20,000. All contracts above that limit require approval by Juliette. In addition, each customer, except for the very large customers, has been assigned to a specific salesperson responsible for negotiating prices and approving rebates, volume discounts, and credits. Salespeople were given targets for 2022 related to total units sold and number of new customers. If targets are met or exceeded, the salespeople will earn bonuses.

Financing: In February 2023, Juliette began discussions with a new lender about obtaining additional financing for Bold, to invest in automation. The lender requires Bold's audited December 31, 2022, financial statements, to determine the amount and terms of the loan.

(CONTINUED ON PAGE 20)

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Purchases and Payables Process

For expenditures not related to inventory purchases and payroll (such as capital assets, repairs and maintenance, professional services, administrative expenses, etc.), Juliette, Simon, the controller, or any department manager are authorized to make purchases. A purchase is initiated by one of the above mentioned individuals (the “purchaser”) calling the supplier. Once they agree on the price, quantity, and delivery date, the purchaser sends a confirmation email to the supplier after the conversation. The company has found this to be the most efficient process since the department managers have the best idea of what is needed and when.

Once the goods are delivered or the services are provided, the purchaser signs the supplier invoice to indicate that the goods/services have been received. The signed supplier invoice is then sent to accounts payable (AP). An AP clerk stamps the invoice and initials that the calculations, prices, and taxes have all been checked. If there is a contract in place for the goods/services, the prices and quantities are matched with the contract by the AP clerk. If there are any discrepancies between the contract and the invoice, the AP clerk informs the controller. The controller discusses them with the purchaser and makes any changes required. The controller notes the general ledger account codes on the invoice, and initials approval of the payment. The AP clerk then enters the supplier invoice into the system and sets a date for the payment within 30 days of the invoice date. Payment can either be done by cheque or electronic funds transfer (EFT). If there are discounts for early payment available, the AP clerk makes note of the discount payment date in their calendar. One day prior to the discount payment date, the AP clerk changes the payment date, and the payment is made by EFT on that day.

When the prenumbered cheque is printed, the AP clerk matches the supplier invoice (with all supporting documentation) to the cheque. Cheques require two signatures: one from Juliette or Simon, and a second one from the controller. Each cheque signer reviews the supporting documentation and initials the documents, indicating that they completed their review. The signed cheque is then sent to the supplier.

For EFTs, a list of upcoming payments is printed from the computer. To authorize these EFTs, this list must also have two signatures, the same ones as required for cheques issued. Each approver receives the list of payments and the related invoices and supporting documentation. The supporting documentation must be initialled as having been reviewed and approved (similar to the cheque process above). The AP clerk then authorizes the electronic payments in the system.

(CONTINUED ON PAGE 21)

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Equipment Subledger Report – Data Sample

Bold's policy is to capitalize equipment that exceeds the threshold of $3,000.

Report as at December 31, 2022:

Asset ID	Classification	Original Cost $	Accumulated Amortization $	Net Carrying Amount $	Months in Service	Estimated Residual Value $	Original Useful Life in Months	Month/ Year of Disposal	2022 Additions $	2022 Amortization $
MP2352	Manufact.	75,000	4,640	70,360	8	5,400	120		75,000	4,640
CM9001	Computers	15,000	12,500	2,500	40	0	48			3,756
CM8010	Computers	5,300	4,417	883	30	0	36			1,764
OF5681	Office	1,600	89	1,511	2	0	36		1,600	89
MP2225	Manufact.	9,800	919	8,881	9	0	96		9,800	919
MP2399	Manufact.	25,700	17,401	8,299	65	0	96			0
OF2034	Office	4,800	3,400	1,400	34	0	48			1,200
OF3229	Office	248,900	10,281	238,619	2	2,150	48		248,900	10,281
MP1990	Manufact.	89,500	65,188	12,325	105	15,000	120			7,452
MP8119	Manufact.	108,000	49,600	58,400	64	15,000	120			9,300
CM7003	Computers	84,700	13,783	70,917	8	2,000	48		84,700	13,783
CM6189	Computers	32,800	10,761	22,039	13	3,000	36			9,936
OF0092	Office	547,500	54,600	492,900	6	1,500	60		547,500	54,600
MP8111	Manufact.	289,400	82,425	206,975	28	6,800	96			35,328
MP0047	Manufact.	327,500	327,500	0	120	0	108			36,384
MP1615	Manufact.	758,000	510,928	247,072	82	10,300	120			74,772
MP3466	Manufact.	549,000	44,250	504,750	9	18,000	108		549,000	44,250

(CONTINUED ON PAGE 22)

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Equipment Subledger Report – Data Sample (continued)

Asset ID	Classification	Original Cost $	Accumulated Amortization $	Net Carrying Amount $	Months in Service	Estimated Residual Value $	Original Useful Life in Months	Month/ Year of Disposal	2022 Additions $	2022 Amortization $
OF2556	Office	57,800	12,225	45,575	15	8,900	60			9,780
CM3118	Computers	3,500	2,410	1,090	7	0	36		3,500	2,410
MP3209	Manufact.	74,500	0	74,500	10	0	72		74,500	0
MP6664	Manufact.	2,032,600	24,198	2,008,402	1	0	84			24,198
MP6900	Manufact.	15,700	2,944	12,756	18	0	96			1,968
OF2889	Office	18,400	8,178	10,222	16	0	36			6,132
OF1020	Office	19,300	3,756	15,544	8	2,400	36		19,300	3,756
MP3880	Manufact.	3,710	232	3,478	6	0	96		3,710	232
CM2999	Computers	7,490	4,992	2,498	30	1,500	36			1,992
OF1009	Office	6,840	2,113	4,727	16	500	48			1,584
MP6733	Manufact.	5,700	570	5,130	6	0	60	Jun. 2022		570
OF5741	Office	12,400	6,767	5,633	29	1,200	48			2,796
CM3499	Computers	9,150	5,053	4,097	33	1,800	48			1,836
MP5551	Manufact.	10,600	4,625	5,975	37	1,600	72			1,500
MP6545	Manufact.	130,760	66,742	64,018	49	0	96			16,344
MP8008	Manufact.	1,375,200	68,760	1,306,440	6	0	120		1,375,200	68,760
MP7027	Manufact.	41,800	5,594	36,206	19	6,470	120			3,528
OF2779	Office	16,230	14,607	1,623	54	0	60	Jan. 2022		3,246
CM5487	Computers	10,650	7,292	3,358	40	1,900	48			2,184
CM1773	Computers	8,710	12,339	(3,629)	51	0	36			2,904

(CONTINUED ON PAGE 23)

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Equipment Subledger Report – Data Sample (continued)

Asset ID	Classification	Original Cost $	Accumulated Amortization $	Net Carrying Amount $	Months in Service	Estimated Residual Value $	Original Useful Life in Months	Month/ Year of Disposal	2022 Additions $	2022 Amortization $
OF8115	Office	48,180	4,588	43,592	6	2,300	60			4,588
OF3200	Office	62,300	56,070	6,230	54	0	60			12,456
CM9211	Computers	6,840	5,700	1,140	40	0	48			1,716
OF2933	Office	3,950	988	2,962	12	0	48		3,950	988
MA3288	Manufact.	27,820	8,862	18,958	21	2,500	60			5,064
CM9003	Computers	14,820	9,263	5,557	30	0	48			3,708
CM9004	Computers	13,990	6,296	7,694	54	0	120			1,404
MP2225	Manufact.	14,700	2,573	12,127	21	0	120			1,476
OF3343	Office	6,510	326	6,184	3	0	60			326
OF3855	Office	21,600	15,833	5,767	40	2,600	48			4,752
MP4545	Manufact.	35,780	30,411	5,369	70	4,500	72			5,208
MP8033	Manufact.	12,700	12,095	605	80	0	84			1,812

(CONTINUED ON PAGE 24)

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Gretta Acquisition – Regulatory Requirements

The acquisition of Gretta is expected to occur in late April 2023. Gretta operates 10 food trucks throughout Manitoba that specialize in vegan foods. This acquisition provides Bold with another distribution channel and the opportunity to understand consumers' preferences and test new products.

To operate their food trucks, Gretta must comply with Manitoba's Mobile Food Handling Establishments Regulations. The following is an excerpt of the relevant regulations:

Reg 4.5.7 It is the responsibility of the operator of a Mobile Food Service Establishment (MFSE) to ensure that all employees are aware of the requirements and guidelines of the Mobile Food Handling Establishments Regulations, and acknowledge this at least annually.

Reg 4.6.2 MFSE employees are to be trained in the proper handling and preparation of food to ensure food safety. This training is to be completed every six months. There are standardized videos to be used by MFSEs to facilitate this training.

Reg 4.8.3 At all times, at least one staff member preparing food in the MFSE must hold a valid Food Handler Certificate.

Reg 5.1.3 Refrigerators must be maintained between -2°C and +2°C and freezers must be maintained at a temperature at or below -18°C. Temperatures are to be checked every 12 hours. Any deviations are to be immediately followed up and supporting documentation completed that indicates what was done.

Reg 7.2.1 If items are sold as "vegan," the ingredients must be sourced from approved vegan vendors.

(CONTINUED ON PAGE 25)

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

2023 Draft Internal Audit Plan

Prepared by: Junior Associate

The following factors were considered in developing the internal audit plan:
- Internal audit will assess expenses and related processes that have not been tested in the last five years.
- Internal audit will review divisions and departments where there has been no change in senior management and little staff turnover in 2022.
- Internal audit will only test expense accounts that are higher than 2022 materiality.
- Expenses and revenues for the turk'y division will not be tested, since that division was acquired within the past five years.

Areas to be tested in 2023:

Audit Area	Sample Size/Selection
Revenue	10 contracts with new customers in the chick'n division
Repairs and maintenance	Senior manager of each department to select 10 transactions
Software licence agreements and lease agreements	One software licence agreement that was renewed in 2023 *Note: Bold has 16 agreements for leases and licences, 2 of which are scheduled to renew in 2023.*

(CONTINUED ON PAGE 26)

FINANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 27)

APPENDIX V – FINANCE
ADDITIONAL INFORMATION

Additional Information on Bold

- Treadstone provided consulting services to Bold, for which it charged $100 per hour for 1,000 hours of work in 2022. The current market rate for these services is $250 per hour.
- Bold had some abnormal waste due to malfunctioning equipment, which increased cost of goods sold by 1% of total revenues.
- A software upgrade was needed due to a crash. The update and related training cost $446,500. Normal upgrades and related training would be $200,000 annually.
- Bold has patents related to internally-developed proprietary technologies that are not currently used in production. The fair value of these patents is $1.4 million, and selling costs would be 10% of the proceeds. The total cost to develop these patents was $35,000, and was incurred over several years prior to 2022.
- Annual sustainable capital investments, net of tax shield, is $2.6 million. The present value of the tax shield on Bold's existing assets is $1.376 million.
- Bold's weighted average cost of capital is 12% and the long-term growth rate of the industry is expected to be 2%. Bold's income tax rate is 27%.

(CONTINUED ON PAGE 28)

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Chick'n Burger Machine

The existing machine is five years old and has a fair value of $320,000. The new machine, that will automate the production process, will cost $1.4 million, inclusive of initial setup costs. Both assets would be class 8 assets and eligible for 1.5 times the normal CCA rate in the year of acquisition. The new machine requires different raw materials, which will result in an initial increase in net working capital of $120,000.

The existing machine produces 820,000 units annually. The cash inflow generated per unit produced is $2.10. The new machine is set up based on Bold's specifications, and Bold expects to produce the following annual volumes:

2023	960,000
2024	1,020,000
2025 and thereafter	1,080,000

The manufacturer estimates the new machine will result in annual labour savings of $190,000 due to the high level of automation. Bold does not have other roles to redeploy these employees to.

Bold's staff maintains and repairs the existing machine with spare parts on hand. The average annual maintenance and electricity costs for the existing machine is $380,000.

The manufacturer of the new machine requires that Bold commit to an annual maintenance contract and warranty that will cost $620,000 annually. This contract covers all service and repairs (including all required parts), unless the manufacturer considers that the damage is due to negligence or was inflicted deliberately. The manufacturer guarantees their staff will be on site to inspect the equipment within 72 hours of a service call, provided that inclement weather is not a concern.

For every 3 million units produced, the new machine will require recalibration (performed by the manufacturer), at a cost of $250,000. The recalibration will result in downtime of between two and seven days.

The new machine is expected to last for five years, at which time the manufacturer believes it will be worth $970,000. If Bold chooses to continue to use the existing machine, it will be able to sell the machine for $40,000 at the end of five years.

(CONTINUED ON PAGE 29)

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Quarterly Forecast (in thousands of dollars)

Sales/Expenses	Q2 2023	Q3 2023	Q4 2023
Sales	$ 27,400	$ 28,600	$ 30,400
Cost of goods sold	$ 19,100	$ 21,400	$ 23,600
Other expenses	$ 6,500	$ 7,000	$ 7,500
Capital expenditures	$ 2,400	$ 0	$ 0

Opening Balances	Q2 2023	Q3 2023	Q4 2023
Cash	$ 1,400		
Accounts receivable	$ 10,207		
Accounts payable	$ 12,200		

The company uses a 90-day assumption for each quarter.

During 2022, the company changed its credit terms so that, effective 2023, 40% of its customers have credit terms of 30 days and 60% have credit terms of 45 days.

Bold's production process takes an average of 50 days from receipt of raw materials to a packaged product, which is slower than the industry average of 45 days. Due to Bold's production capacity constraints, Bold does not typically keep finished products on hand for very long.

Bold's suppliers for its cost of goods sold have 60-day credit terms on average. Other expenses are paid as incurred.

Industry Ratios

Ratio	Industry Average
Days in receivables	30 days
Days in inventory	50 days
Days in payables (Note 1)	60 days

Note 1: Days in payables is based on cost of goods sold only.

(CONTINUED ON PAGE 30)

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Planet Earth Ethical Fund Financing Proposal

Planet Earth Ethical Fund is an investment fund that provides financing of up to $10 million in the form of a convertible bond to companies whose products and services help to improve the environment in some manner.

The loan proceeds must be used in sustainability projects, which includes the production of plant-based foods, since it has a reduced carbon footprint, land use, and water use compared to the production of real meat. Bold expects to invest the funds in projects that will generate an annual return of 10% on the invested capital. Bold has confirmed that its proposed use of the funds is eligible.

The five-year loan will bear interest at 5% and be convertible into common shares at the holder's option, at a price of $570 per share. Interest will be payable annually, on the anniversary date. Bold must submit annual audited financial statements. No dividends can be paid while the loan is outstanding. Periodically, fund representatives will visit Bold's manufacturing facilities to review their operations and report on their progress.

(CONTINUED ON PAGE 31)

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

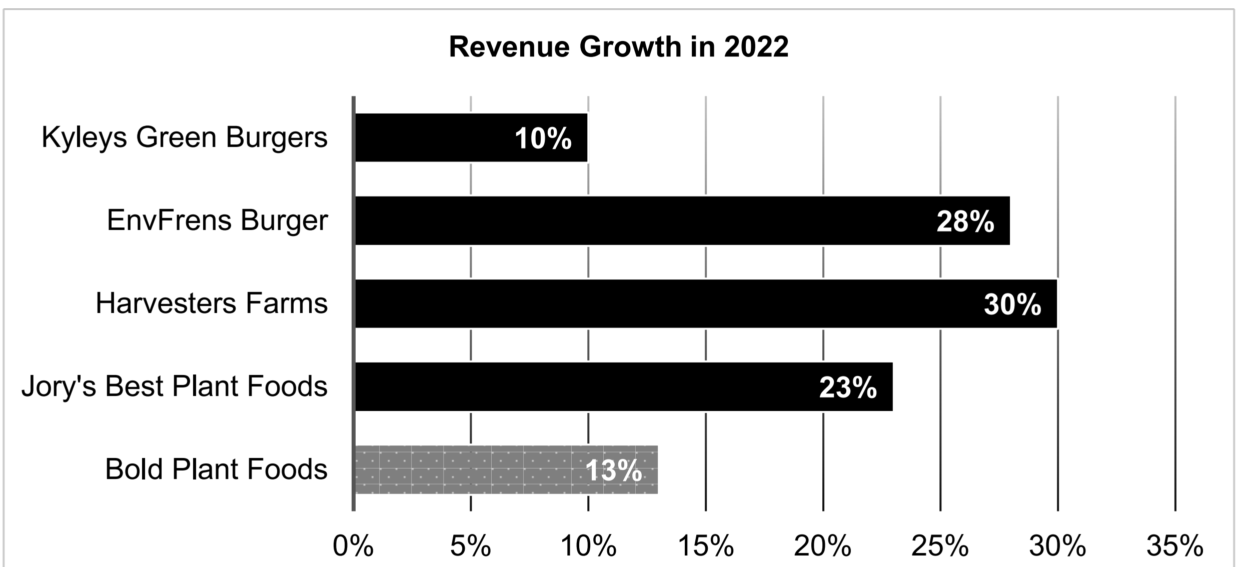
Industry Data

Treadstone has identified four companies they consider most comparable to Bold:

- **Kyleys Green Burgers** (Kyleys) is a Canadian company that specializes in chick'n burgers made using only organic ingredients. Kyleys distributes its products exclusively in Canada.
- **EnvFrens Burger** (EnvFrens) is a North American company that produces and sells chick'n, turk'y, and plant-based beef and salmon burgers in the United States and Canada. EnvFrens is highly acquisitive, having made three acquisitions in 2022 to expand their product lines.
- **Harvesters Farms** (Harvesters) is a North American company (headquartered in Oklahoma) that grows a variety of soy and grain crops, which it uses to produce chick'n products such as burgers, nuggets, and strips.
- **Jory's Best Plant Foods** (Jory's) is a Canadian company that produces and sells a variety of chick'n and plant-based beef products in Canada.

<u>Revenue growth</u>

The following graph was prepared using data collected by an independent market research company on Bold and its four competitors above. The data was gathered directly from surveys completed by competitors and various industry reports. U.S. dollar figures were translated to Canadian dollars prior to any calculations.



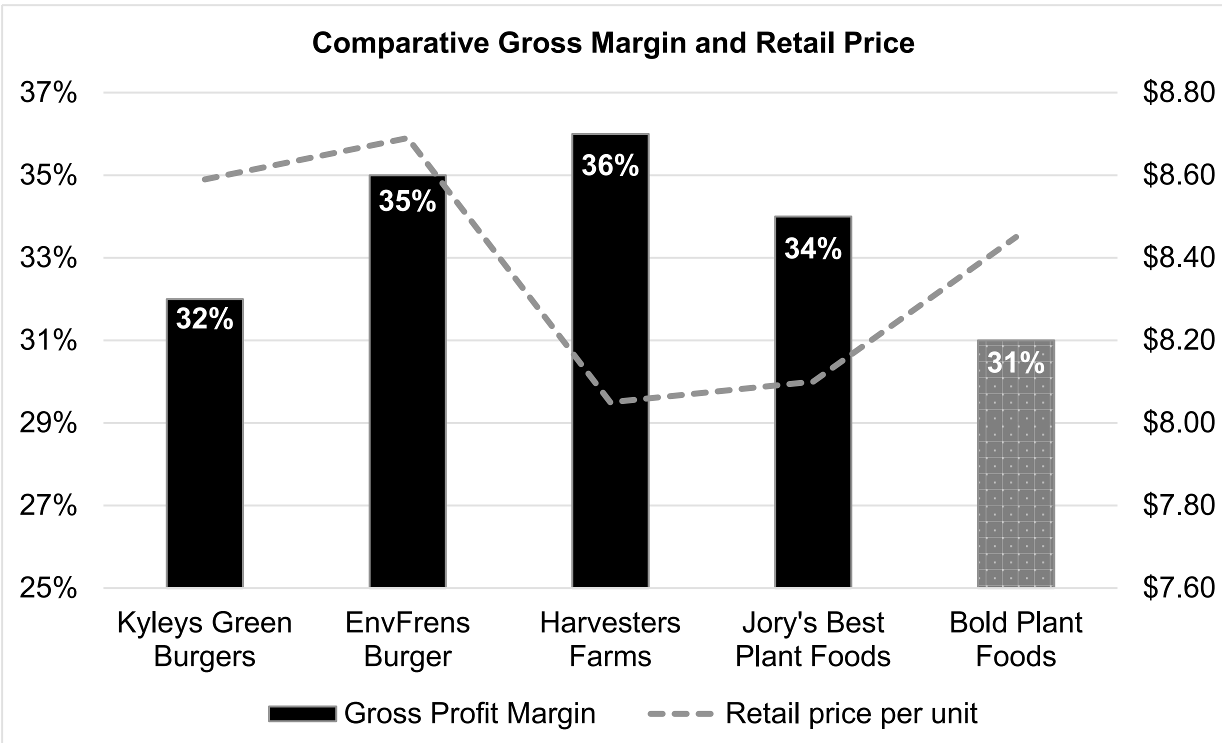
(CONTINUED ON PAGE 32)

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Industry Data (continued)

Comparative gross margin and retail price

The following information was gathered by the Association of Plant-Based Meat Product Processors of Canada and the United States Alternative Meat Product Alliance. The information was gathered from their members based on surveys completed by each company; each company provided their 2022 revenue and gross margin figures, as well as retail price per unit sold in 2022.



(CONTINUED ON PAGE 33)

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Extracts from Shareholders' Agreement

Agreement between Treadstone (the Preferred Shareholder) and Simon and Juliette (the Common Shareholders) (collectively, the Shareholders), effective March 15, 2019

Amount invested – The preferred shares have a 3% cumulative dividend. The shares are voting and fully participating with the common shares for dividends declared. Each preferred share and each common share has one vote. On dissolution, the Preferred Shareholder will be paid out $8 million prior to the Common Shareholders being paid and will be fully participating and receive a pro rata share of any further shareholder payments.

The preferred shares are protected against equity dilution if subsequent issuances of common shares occur at a price below fair value. In this case, Treadstone has the right to purchase enough shares at the same issue price to maintain its percentage of equity owned (currently at 60%).

Directors – Treadstone has the right to nominate two directors to Bold's four-member board of directors.

Restrictions on transfer or sale of preferred or common shares – Shareholders will not directly or indirectly sell, assign, transfer, give, or otherwise dispose of any shares, except in accordance with the provisions of this Agreement or with the prior written consent of all of the Shareholders.

Shot gun provision – If any of the Shareholders has a dispute that cannot be resolved, they may initiate a forced buy or sell (i.e., the Shot Gun Provision). If initiated, the remaining shareholders have 15 business days to respond.

Right of first refusal – Shareholders are prohibited from selling, transferring, or otherwise disposing of their shares to new investors unless the shares are first offered at no more than fair market value (as determined by an independent valuator) to the other Shareholders. If this offer is not accepted by the existing Shareholders within 90 days, the shares may be offered to any other person.

(CONTINUED ON PAGE 34)

PERFORMANCE MANAGEMENT ROLE ADDITIONAL INFORMATION

(CONTINUED ON PAGE 35)

APPENDIX V – PERFORMANCE MANAGEMENT
ADDITIONAL INFORMATION

Additional Industry and Company Information

As input and processing costs are high, operational efficiency due to technology adoption and improved processes is a key success factor in this industry. Successful competitors sell to the large grocery retailers and fast-food service companies to achieve market penetration and consumer acceptance. Selling product in large fast-food restaurants provides an opportunity for consumer testing of new products. The grocery retailers and national fast food service chains purchase primarily on price, provided the quality is similar. They encourage long-term relationships and want just-in-time delivery.

The established food manufacturers have successfully entered the plant-based product segment, using their existing distribution channels and access to capital. They have developed successful brands and products, to create a clear market position and name recognition. High advertising costs and brand loyalty represent strong barriers to entry. Companies must constantly introduce new products, which requires R&D spending to attract and retain experienced food scientists. Successful innovative products must be flavourful, be additive-free, and come from locally sourced crops. Bold has a highly experienced R&D team, and the department generates at least one new patent per year.

Consumers are driven to purchase meat-alternative products by their dietary choices and concerns about the environment. Consumers purchase products based on attributes related to taste, texture, look, and feel. To ensure final product consistency, ideally the manufacturer would source the protein mixture from a single supplier. Quality control testing is important, and Bold’s products must achieve a quality score of 95% prior to shipping. Other trends in the industry include the use of raw inputs that are as fresh as possible, traceability from source to sale, and consistency of temperature during shipment and storage.

(CONTINUED ON PAGE 36)

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED) ADDITIONAL INFORMATION

Pea Protein Suppliers

Bold uses 26,000 tonnes of pea protein annually.

AgroPea is locally owned by a group of farmers and has contractual arrangements with local Manitoba farmers to supply the pea crops. AgroPea's new facility is highly automated, allowing for tight control and oversight of the product as it moves through production and warehousing, with tracking of the product from source. The company also conducts its own lab testing on site, which we expect to result in minimal goods being rejected. AgroPea will store the processed pea protein in its climate-controlled warehouse and ship just-in-time to Bold, with a three-day maximum time lag on delivery. AgroPea is located two hours from Bold. A five-year contract is proposed whereby AgroPea will supply all of Bold's annual pea protein requirement at a price of $530 per tonne.

Bold currently uses two pea protein suppliers. ManiPea Limited (ManiPea) is located in Manitoba, about two hours away, and has been a supplier of Bold's since Bold started business. As per the contract, ManiPea ships pea protein monthly on a schedule that is planned and agreed to at the beginning of each year. Bold holds an average of 15 days of pea protein inventory purchased from this supplier. ManiPea's production is semi-automated but does not provide product tracking. The contract expires in two years, and a penalty of two months' worth of purchases will be charged to Bold if the contract is terminated early. The contractual price is $450 per tonne, but this price is revised if the market price of peas increases above 15%. About 70% of Bold's annual supply comes from this supplier.

The second supplier, Narvin Farms Corp. (NFC), operates in the United States. Two years ago, when the Canadian pea crop was poor due to drought conditions, Bold contracted with NFC. In 2022, about 30% of Bold's annual supply comes from NFC. The contract price is US$360 per tonne, and the current exchange rate is 1 USD = 1.25 CAD. NFC ships every two months upon receipt of a purchase order detailing the quantity required, and Bold holds an average of 30 days of pea protein inventory purchased from this supplier. It can take one to two weeks for the product to reach Bold's plant. The contract is for a minimum annual quantity, which can be exceeded as needed. A penalty of two months' worth of purchases will be charged to Bold if the contract is terminated early, and the contract expires in three years. NFC uses a fully-automated production system but provides no tracking.

Under all contracts, the contract price includes transportation to Bold's manufacturing plant.

Although ManiPea and NFC perform some preliminary grading, Bold does its own quality control on receipt of the pea proteins. On average, about 5% of the goods are rejected because they do not meet Bold's standards. The cost of this quality control, including the rejected goods, is $42 per tonne. Monthly inventory storage cost for this product is $60 per tonne.

(CONTINUED ON PAGE 37)

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Just-in-time Delivery

The proposed 12-month contract is with a national grocery retailer. The total sales revenue of $5.0 million is for 21,500 boxes of frozen product, which has a total production cost of $2.6 million. Bold has the capacity to produce this volume. The customer will notify Bold of the volume and delivery dates as needed, with three days' notice. Bold will be responsible for shipping to the exact retail location in the quantities requested, and on the dates required. Bold will ship 60% of the boxes to locations in Eastern Canada, and 40% to Western Canada. If a delivery is late, a penalty will be imposed for every full day the delivery is delayed.

Currently, Bold uses a national shipping company that has always been reliable in the past. They have estimated the price at $22 per box to ship to Eastern Canada, and $25 to Western Canada. A fuel surcharge will be added, which would currently total $60,000 per year, although this will depend on the diesel price at the time of actual shipment. Since Bold wants to ensure that the product will arrive on time, it will store inventories at local storage facilities close to the various retail locations for an average of one month. A storage company has estimated that storage costs for up to one month will be $12 per box, and packing and handling out of storage will be $8.80 per box, plus a flat rate of $300 per month. Finally, Bold's current inventory management system is not able to manage multiple inventory sites, so a one-time upgrade to the inventory system will be needed, at a cost of $960,000.

FFD is a logistics company that specializes in shipping and warehousing fresh and frozen foods. Its delivery trucks have all been converted to electric vehicles. For a set price of $60 per box for the first 15,000 boxes, and $50 per box thereafter, FFD will ship, store, pack, and handle the inventory items. The company also has full inventory tracking capabilities, as well as online access for customers to track their inventories. FFD is willing to provide a quote on all of Bold's shipping needs. If a long-term contract could be negotiated, the quoted cost per unit could be reduced by at least 10%.

(CONTINUED ON PAGE 38)

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Transfer Pricing

All Bold divisions are treated as profit centres. The same transfer price for the protein mixture is charged to the chick'n division and the turk'y division and is set at the beginning of the year, based on the full absorption cost plus 15%, and this has been the case for many years.

All the protein mixture produced is used internally, and production currently operates at 80% of capacity. The chick'n division and the turk'y division purchase their protein mixture exclusively from the protein mixture division. A comparable generic product exists on the market, but it cannot be used by Bold as is. The proprietary technology and recipe developed by Simon would require transformations to the pea protein mixture if it were bought on the market, to get to the same look and taste that is common to all Bold products. The current market price of the generic pea protein mixture is $5.90 per unit. An additional cost, estimated at $3.50 per unit, would need to be incurred to transform the generic pea protein mixture if it were purchased externally by the other two divisions, and it still would not achieve the same quality and taste as the mixture produced internally.

The manager of the turk'y division, Sandra, has voiced concerns that the transfer price she has to pay to the protein mixture division is too high. Her department's profit margins are significantly lower than the other divisions because the selling price of her product, currently $55.00, has been reduced to be more competitive, and because her department must further process the pea mixture.

All divisions are expected to generate a gross margin of 20%, and the divisional manager's compensation scheme includes incentives to reach this target.

Additional information (per unit):

Item	Protein Mixture Division	Turk'y Division
Direct materials	$ 2.50	$ 6.86 *
Direct labour	$ 1.30	$ 7.10
Variable overhead	$ 1.15	$ 8.54
Fixed overhead	$ 3.80	$13.00

* Excludes the cost of the protein mixture required

(CONTINUED ON PAGE 39)

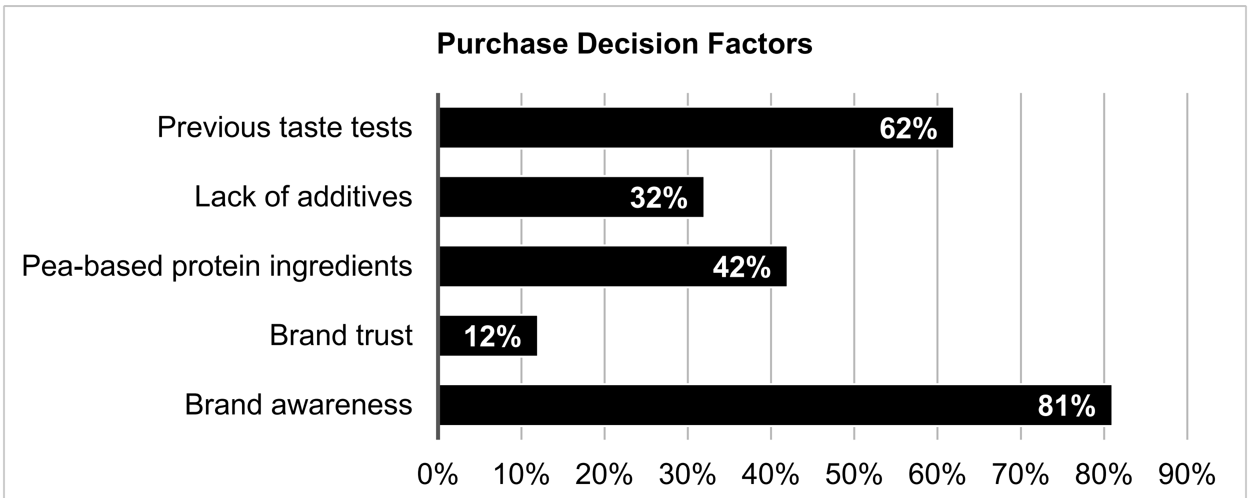
APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

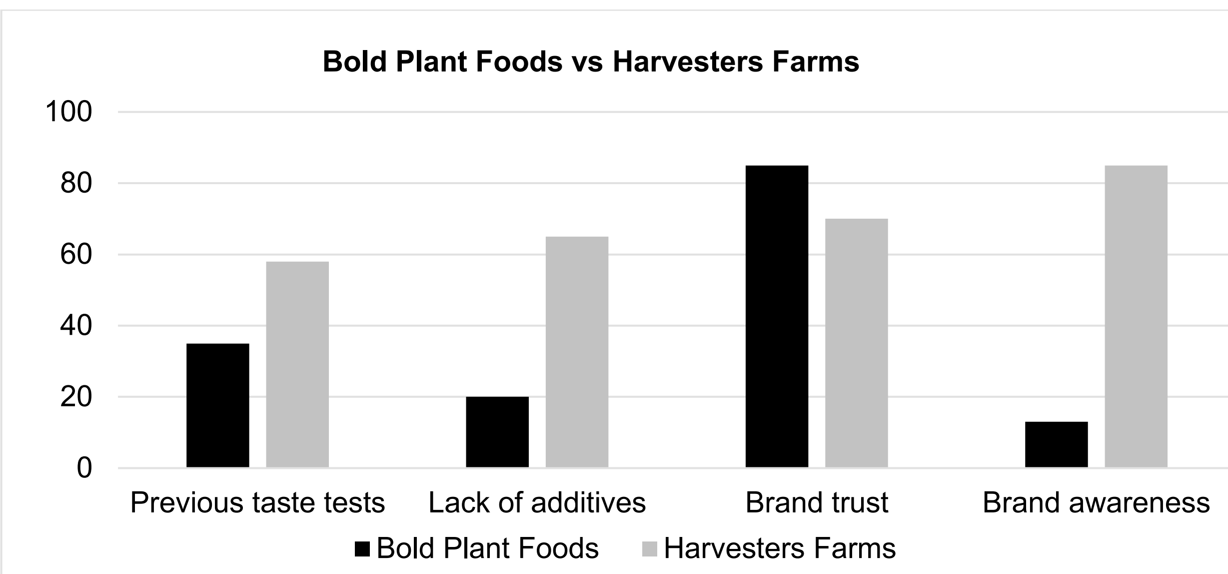
Survey Data

Bold's strategy is to sell a premium quality-tasting product to as many end consumers as possible. An independent association recently conducted a market survey of chick'n burger consumers. From the consumers' perspective, the six products tested have similar quality in taste and feel. Harvesters Farms is the leading competitor in the segment, with the highest market share and strongest brand awareness.

Purchase decision factors

Consumers were asked to identify factors in their purchase decision for in-home consumption. Here are the top five factors identified:





A higher score indicates that the brand better matches the consumers' wants.

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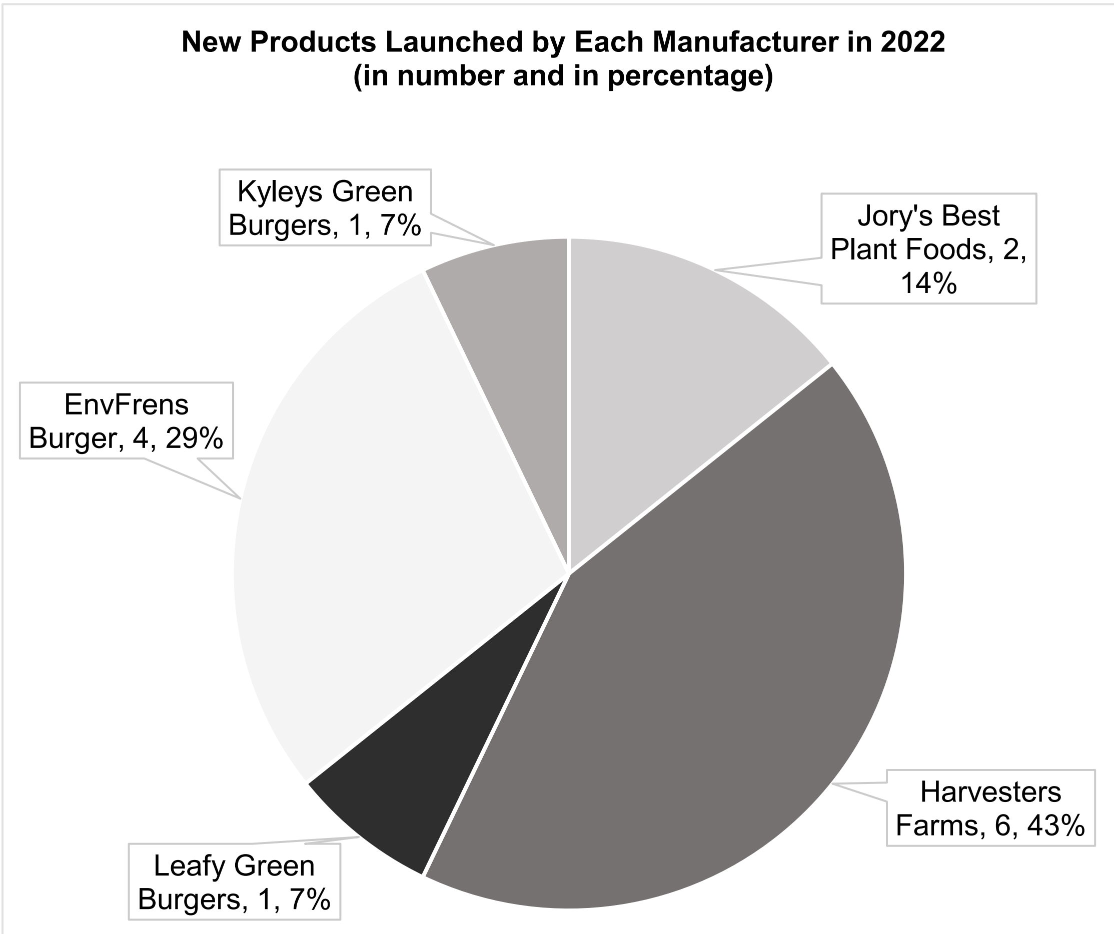
APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Survey Data (continued)

Number of new products



Note: Bold has launched no new products in 2022.

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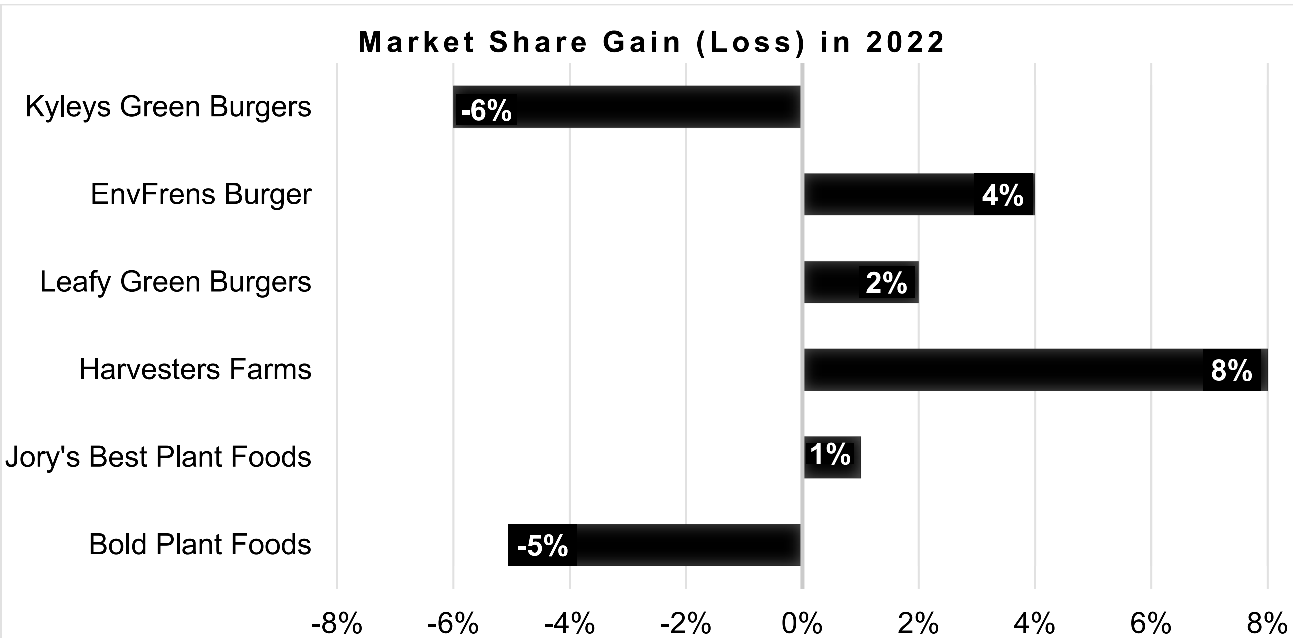
APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Survey Data (continued)

Market share gain/loss



(CONTINUED ON PAGE 42)

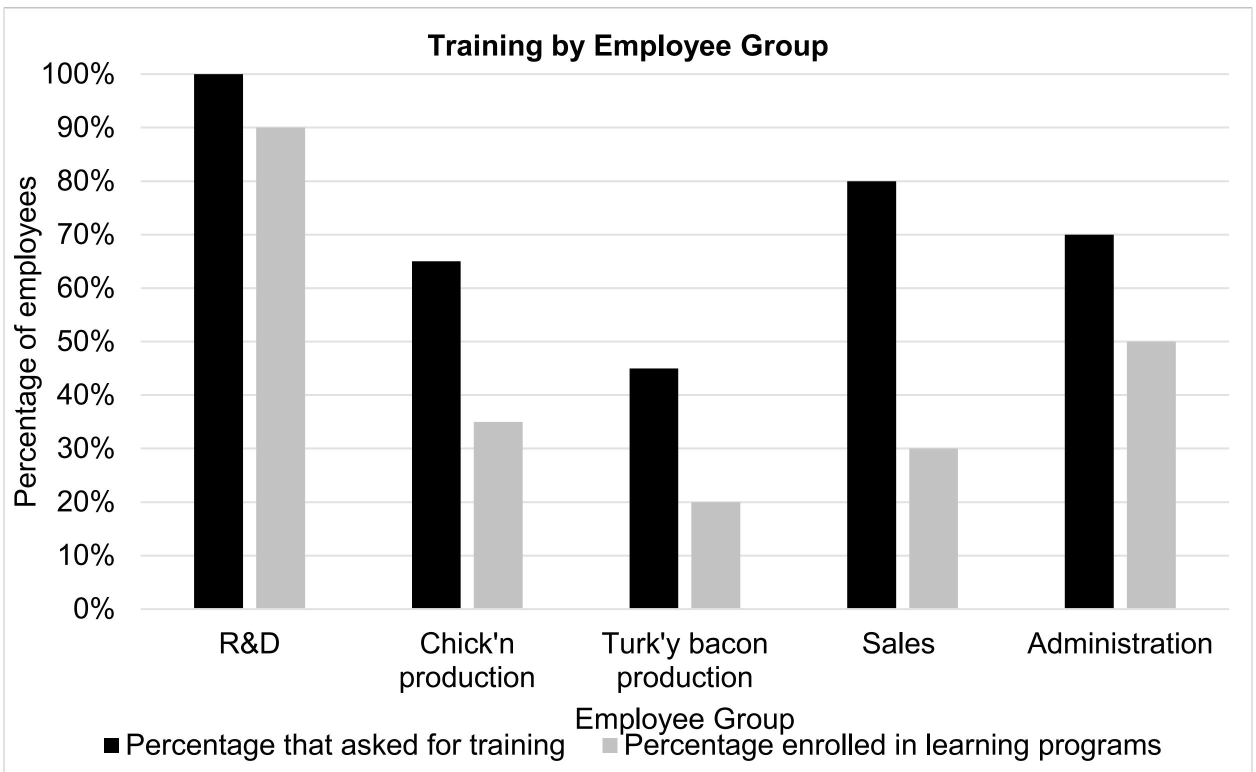
APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Salesperson Compensation

Each customer is assigned to a specific salesperson, whose responsibility is to manage the account and negotiate contracts. Currently, Bold has 1,000 customers, and the median annual sales is $120,000 per customer.

For 2022, Bold changed compensation for salespeople, and their compensation now has three components: 1) an annual base salary of $30,000; 2) a sales commission based on 20% of CM generated by the salesperson; and 3) a bonus based on meeting or exceeding certain targets. Salespeople were given 2022 targets related to volume of units sold and number of new customers. The salespeople have no input into these targets, and in 2022, only 20% of them achieved the targets. The salespeople have complained that their compensation is unfair and the changes made in 2022 have resulted in less take-home pay than in previous years. They also feel they have not received training comparable to other departments.

The following is additional information on employee training:



(CONTINUED ON PAGE 43)

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Treadstone Goals and Objectives

Treadstone manages a fund of private investments in companies that operate in environmentally-friendly industries, in that they sell products that reduce the carbon footprint and improve land and water use. In making its investments, Treadstone tries to choose products and services that may realize synergies across its holdings. Treadstone has investments in plant-based dairy food processors, a logistics company (FFD Inc.), a food truck company, and vegetable farms throughout North America. Treadstone's goal is to invest in companies with expected annual industry growth of at least 10%, and in which operational improvements can be made. When deciding whether to retain an investment or divest, Treadstone considers profitability by product, operating cash flows, and return on invested capital (currently 9% for this industry).

(CONTINUED ON PAGE 44)

TAXATION ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 45)

APPENDIX V – TAXATION
ADDITIONAL INFORMATION

Depreciable Property

Class	UCC Balance December 31, 2021	Assets Purchased 2022
Class 1	$ 4,012,000	$ 225,000
Class 8	$ 652,000	$ 1,180,000
Class 10	$ 77,000	$ 0
Class 14.1	$ 2,198,000	$ 0
Class 50	$ 50,000	$ 210,000
Class 53	$ 125,000	$ 4,460,000
Total	$ 7,114,000	$ 6,075,000

Included in the Class 53 purchases is equipment with a cost of $980,000, which was purchased in December 2022 but not installed and tested until January 15, 2023.

In addition to these purchases, the asset retirement obligation was increased by $296,000, which increased the book value of the building by the same amount. None of the asset retirement obligation was discharged during 2022.

Bold also purchased patents for $495,000 on August 1, 2022, which expire in 16 years and are not included in the table above.

During 2022, Class 53 manufacturing equipment was disposed of for gross proceeds of $500,000 and disposal costs of $50,000. The original cost was $640,000, accumulated amortization was $130,000, and a loss on disposal of $60,000 was recorded in the income statement.

All delivery vehicles were disposed of (representing all assets in Class 10). These vehicles had an original cost of $225,000 and accumulated amortization of $113,000 at the time of disposal. The proceeds were $150,000, with no disposition costs, resulting in a $38,000 gain on disposal recorded in the income statement.

(CONTINUED ON PAGE 46)

APPENDIX V – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Other Information from the Financial Statements for 2022 (all amounts in Canadian dollars)

Bold had some abnormal product waste due to malfunctioning equipment, which increased the cost of goods sold by $275,000.

Included in selling, general, and administration costs are the following items:

- Meals and entertainment costs of $900,000
- Costs of $960,000 for a software update, including $200,000 for training

U.S.-source net business income totalled $350,000, and U.S. income taxes paid on that income were $95,000 (included in income tax expense).

Accrued liabilities for 2022 include $1.4 million of bonuses accrued under a new bonus plan, which will be paid to the employees on July 31, 2023.

Revenues for the year include $20,000 of interest income earned on Bold's operating bank account.

Bold has paid $220,000 in income tax instalments for 2022. None of Bold's activities qualify for the Scientific Research & Experimental Development (SR&ED) program.

(CONTINUED ON PAGE 47)

APPENDIX V – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Treadstone's Investments

Treadstone is a Canadian-controlled private corporation, as are all its investees, including Bold. Below is a summary of Treadstone's investments in various private companies.

Company	Treadstone Ownership of Common Shares
Food Trucks Inc. (Food)	40%
Garden Farms Corp. (Garden)	35%
Planmilk Inc. (Planmilk)	100%

In addition, Food owns 50% of Garden. In all other cases, the remaining shares are owned by unrelated shareholders.

Sarah Derman, Richard's wife, owns 80% of Helo's Restaurants Inc., and Richard owns the remaining 20%.

Intercompany Transaction

Bold is considering a sale of one of its internally-developed patents to Planmilk in March 2023. Bold incurred $125,000 in development costs toward this patent from 2016 to 2020, when the patent was registered. These costs were expensed as incurred. Planmilk has offered to purchase the patent for $210,000, although the fair market value is $260,000. However, since Bold could use the cash and has received no other offers, it is considering accepting.

Automobile

Bold is considering either buying or leasing a new automobile for Juliette to use. An automobile can be leased for $840 per month, including GST. Alternatively, it could be purchased outright for $48,000 (including GST).

Juliette estimates she will drive 50,000 kilometres annually, of which 10,000 would be for personal use.

(CONTINUED ON PAGE 48)

APPENDIX V – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Personal Taxes – Juliette

Juliette is 55 years old and a widow. She earned a salary of $250,000 from Bold (CPP of $3,500, including $461 of enhanced contributions, was withheld). She received eligible dividends from other investments, for which the taxable amount is $15,900.

Juliette's daughter, Sophia, attends university full-time. In 2022, Sophia earned employment income of $18,000 (CPP of $855, including $75 of enhanced contributions, and EI of $284 were withheld). She also received scholarship income of $8,000. Juliette paid $12,000 in tuition fees for Sophia. Sophia has agreed to transfer the maximum amount of the tuition credit to Juliette.

Juliette paid private health services plan premiums totalling $3,260. Prescription medications not covered by that insurance totalled $1,480 during 2022. She also paid for Sophia's prescription glasses for $650. Juliette made $18,000 in charitable donations during 2022.

In 2019, Juliette claimed a capital gains deduction of $35,000 on qualified small business corporation shares.

In 2020, Juliette invested in shares of J&K Limited (JKL), a small business corporation, for $100,000. JKL declined significantly in value, and in 2022, Juliette sold these shares for only $20,000.

During 2022, Juliette also sold shares of Riverside Inc. (Riverside) and Fruitsen Inc. (Fruitsen), both publicly-traded companies. The following transactions relate to the shares:

	Riverside		Fruitsen	
Date	**Transaction**	**Price per Share**	**Transaction**	**Price per Share**
Mar 16, 2019	Purchased 5,000 shares	$10.20		
Feb 22, 2020	Purchased 3,000 shares	$12.45		
Aug 23, 2020	10% stock dividend; increased paid-up capital by $2.35 per share			
June 3, 2021			Purchased 2,500 shares	$6.00
Sept 25, 2021	Purchased 2,000 shares	$13.40		
Jan 4, 2022			2-for-1 stock split	
Dec 15, 2022	Sold 4,000 shares	$15.50	Sold 3,000 shares	$3.80

Commissions paid by Juliette on the December 15, 2022, sales were $1,550 for Riverside and $260 for Fruitsen.

(CONTINUED ON PAGE 49)

End of Examination

(CONTINUED ON PAGE 50)

CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, other than those eligible for immediate expensing.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:
C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

Selected Prescribed Automobile Amounts

Item	2022	2023
Maximum depreciable cost — Class 10.1	$34,000 + sales tax	$36,000 + sales tax
Maximum depreciable cost — Class 54	$59,000 + sales tax	$61,000 + sales tax
Maximum monthly deductible lease cost	$900 + sales tax	$950 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	29¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	61¢ per km	68¢ per km
— balance	55¢ per km	62¢ per km

Individual Federal Income Tax Rates

For 2022:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $50,197	$0	15%
$50,198 and $100,392	$7,530	20.5%
$100,393 and $155,625	$17,820	26%
$155,626 and $221,708	$32,180	29%
$221,709 and any amount	$51,344	33%

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $53,359	$0	15%
$53,360 and $106,717	$8,004	20.5%
$106,718 and $165,430	$18,942	26%
$165,431 and $235,675	$34,208	29%
$235,676 and any amount	$54,579	33%

(CONTINUED ON PAGE 51)

Selected indexed amounts for purposes of computing income tax

Personal tax credits are a maximum of 15% of the following amounts:

Item	2022	2023
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	$12,719	$13,521
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	14,398	15,000
Age amount if 65 or over in the year	7,898	8,396
Net income threshold for age amount	39,826	42,335
Canada employment amount	1,287	1,368
Disability amount	8,870	9,428
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,350	2,499
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,525	7,999
Net income threshold for Canada caregiver amount	17,670	18,783
Adoption expense credit limit	17,131	18,210

Other indexed amounts are as follows:

Item	2022	2023
Medical expense tax credit — 3% of net income ceiling	$2,479	$2,635
Old age security repayment threshold	81,761	86,912
Annual TFSA dollar limit	6,000	6,500
RRSP dollar limit	29,210	30,780
Lifetime capital gains exemption on qualified small business corporation shares	913,630	971,190

(CONCLUDED ON PAGE 52)

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2023	4	5	5	
2022	1	1	2	3
2021	1	1	1	1

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8	20%	
Class 10	30%	
Class 10.1	30%	
Class 12	100%	
Class 13	N/A	Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight line over length of life of property
Class 14.1	5%	For property acquired after December 31, 2016
Class 17	8%	
Class 29	50%	Straight-line
Class 43	30%	
Class 44	25%	
Class 45	45%	
Class 50	55%	
Class 53	50%	
Class 54	30%	

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