Consolidated Financial Statements of

GOODFOOD MARKET CORP.

Years ended August 31, 2019 and 2018

GOODFOOD MARKET CORP.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Goodfood Market Corp.

Opinion

We have audited the consolidated financial statements of Goodfood Market Corp. (the "Entity"), which comprise:

- the consolidated statements of financial position as at August 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions;
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP*

The engagement partner on the audit resulting in this auditors' report is Alain Bessette.

Montréal, Canada

November 13, 2019

*CPA auditor, CA, public accountancy permit No. A115894

GOODFOOD MARKET CORP.

Consolidated Statements of Financial Position
August 31, 2019 and 2018
(In thousands of Canadian dollars)

	Notes	2019	2018
Assets			
Current assets:			
Cash and cash equivalents		**$ 45,149**	$ 24,453
Sales tax receivable		**2,012**	1,657
Inventories	**6**	**4,735**	1,585
Other current assets	**7**	**839**	204
		52,735	27,899
Non-current assets:			
Restricted cash	**13**	**2,500**	–
Fixed assets	**8**	**13,545**	6,006
Right-of-use assets	**9**	**11,089**	–
Intangible assets	**10**	**512**	55
Other non-current assets	**11**	**402**	349
		$ 80,783	$ 34,309
Liabilities and Shareholders' Equity			
Current liabilities:			
Line of credit	**13**	**$ 1,540**	$ 500
Accounts payable and accrued liabilities	**12**	**30,704**	11,343
Deferred revenue		**5,923**	2,522
Current portion of long-term debt	**13**	**31**	528
Current portion of lease obligations	**14**	**1,273**	–
		39,471	14,893
Non-current liabilities:			
Long-term debt	**13**	**12,460**	1,564
Lease obligations	**14**	**11,451**	–
Other non-current liabilities	**5**	**–**	1,396
		63,382	17,853
Shareholders' equity:			
Common shares	**15**	**56,598**	36,283
Contributed surplus		**2,349**	782
Deficit		**(41,546)**	(20,609)
		17,401	16,456
		$ 80,783	$ 34,309

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

______________________ Director

______________________ Director

GOODFOOD MARKET CORP.

Consolidated Statements of Loss and Comprehensive Loss
Years ended August 31, 2019 and 2018
(In thousands of Canadian dollars, except share information)

	Notes	2019	2018
Revenue		**$ 161,333**	$ 70,502
Cost of goods sold		**121,023**	55,842
Gross profit		**40,310**	14,660
Expenses:			
Selling, general and administrative		**58,284**	23,618
Depreciation and amortization		**2,617**	461
Loss on disposal of fixed assets		**–**	113
		60,901	24,192
Net finance expenses (income)	**16**	**346**	(98)
Net loss, being comprehensive loss for the period		**$ (20,937)**	$ (9,434)
Basic and diluted loss per share	**17**	**$ (0.38)**	$ (0.19)

See accompanying notes to the consolidated financial statements.

GOODFOOD MARKET CORP.

Consolidated Statements of Changes in Equity
Years ended August 31, 2019 and 2018
(In thousands of Canadian dollars, except share information)

		Common Shares		Contributed		
	Notes	Number	Amount	Surplus	Deficit	Total
Balance as at August 31, 2017		47,753,832	$ 27,144	$ 382	$ (11,175)	$ 16,351
Net loss		–	–	–	(9,434)	(9,434)
Share issuance	**15**	4,000,000	10,000	–	–	10,000
Share issuance costs	**15**	–	(926)	–	–	(926)
Share-based payments	**19**	–	–	458	–	458
Stock options exercised	**19**	71,413	65	(58)	–	7
Balance as at August 31, 2018		51,825,245	$ 36,283	$ 782	$ (20,609)	$ 16,456
Net loss		**–**	**$ –**	**$ –**	**$ (20,937)**	**$ (20,937)**
Share issuance	**15**	**6,019,212**	**21,067**	**–**	**–**	**21,067**
Share issuance costs	**15**	**–**	**(1,497)**	**–**	**–**	**(1,497)**
Share-based payments	**19**	**–**	**–**	**1,810**	**–**	**1,810**
Stock options exercised	**19**	**879**	**5**	**(2)**	**–**	**3**
Stock options settled in cash	**19**	**–**	**–**	**(99)**	**–**	**(99)**
Exercise of agent compensation options	**15**	**299,064**	**740**	**(142)**	**–**	**598**
Balance as at August 31, 2019		**58,144,400**	**$ 56,598**	**$ 2,349**	**$ (41,546)**	**$ 17,401**

See accompanying notes to the consolidated financial statements.

GOODFOOD MARKET CORP.

Consolidated Statements of Cash Flows
Years ended August 31, 2019 and 2018
(In thousands of Canadian dollars)

	Notes	2019	2018
Cash provided by (used in):			
Operating:			
Net loss		$ (20,937)	$ (9,434)
Adjustments for:			
Depreciation and amortization		2,617	461
Share-based payments	19	1,810	458
Stock options settled in cash	19	(99)	–
Loss on disposal of fixed assets		–	113
Net finance expenses (income)	16	346	(98)
Other non-current assets		(91)	(165)
Other non-current liabilities		–	1,173
Change in non-cash operating working capital:			
Sales tax receivable		(355)	(883)
Inventories		(3,150)	(1,203)
Other current assets		(543)	(34)
Accounts payable and accrued liabilities		17,881	8,107
Deferred revenue		3,401	1,681
		880	176
Financing:			
Net borrowing under line of credit		1,040	500
Proceeds from issuance of long-term debt	13	12,500	2,500
Debt issue costs	13	(64)	(13)
Repayment of long-term debt	13	(1,983)	(1,007)
Proceeds from exercise of stock options		3	7
Proceeds from exercise of agent compensation options	15	598	–
Proceeds from issuance of common shares	15	21,067	10,000
Share issuance costs	15	(1,497)	(926)
Interest paid	5	(911)	(160)
Payments of lease obligations		(1,198)	–
		29,555	10,901
Investing:			
Interest received	5	647	263
Acquisition and deposits on fixed assets	8	(7,640)	(4,431)
Acquisition of intangible assets	10	(246)	(3)
		(7,239)	(4,171)
Increase in cash and cash equivalents		23,196	6,906
Cash and cash equivalents, beginning of year		24,453	17,547
Cash and cash equivalents and restricted cash, end of year		$ 47,649	$ 24,453

See accompanying notes to the consolidated financial statements.

NOTE 1 REPORTING ENTITY

Goodfood Market Corp. (the "Company") is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange. The Company has its main production facility and administrative offices based in Montreal, Quebec, and two secondary production facilities in Alberta and Quebec with an additional production facility scheduled to open in the beginning of calendar year 2020 in British Columbia.

The Company is a leading online grocery company in Canada, delivering fresh meal solutions that make it easy for members from coast to coast to enjoy delicious meals at home every week. The Company's members get access to a unique selection of products online as well as exclusive pricing made possible by its direct to consumer fulfilment eco-system that cuts out food waste and expensive retail overhead.

In March 2019, the Company created a wholly-owned subsidiary, Yumm Meal Solutions Corp. (the "Subsidiary"). These financial statements are prepared on a consolidated basis since the creation of the Subsidiary.

NOTE 2 BASIS OF ACCOUNTING

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Details of the Company's accounting policies are included in Note 25.

As at September 1, 2018, the Company has applied IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9, *Financial Instruments* ("IFRS 9"), effective for annual reporting periods beginning on or after January 1, 2018, and has early adopted IFRS 16, *Leases* ("IFRS 16"). Changes to significant accounting policies are described in Note 5.

The consolidated financial statements of the Company for the years ended August 31, 2019 and 2018 were authorized for issue by the Board of Directors ("Board") on November 13, 2019.

NOTE 3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. These assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

The Company's main judgements, estimates, and assumptions are presented below:

4.1 MEASUREMENT OF REVENUES

Revenues are presented net of refunds, sales incentives and credits, including referral credits. Credit amounts are estimated based on the Company's history and experience of the redemption percentage of those credits. The corresponding estimated liability for credits is included in deferred revenue.

4.2 FIXED ASSETS

Judgement is necessary in determining the date at which fixed assets are available for their intended use. Also, at each reporting date, management determines whether fixed assets and intangible assets present indicators of impairment. For the purposes of its analysis, management uses its judgement considering factors such as the economic environment and the market in which the Company operates, budget forecasts and physical obsolescence.

4.3 DEFERRED INCOME TAX

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Company has determined that it cannot recognize deferred tax assets on the tax losses carried forward (further details are given in Note 20).

NOTE 5 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

5.1 IFRS 16, *LEASES*

Effective September 1, 2018, the Company early adopted IFRS 16 using the modified retrospective approach. Accordingly, comparative figures as at and for the year ended August 31, 2018 have not been restated and continue to be reported under IAS 17, *Leases* ("IAS 17") and IFRIC 4, *Determining whether an arrangement contains a lease* ("IFRIC 4"). Refer to Note 25.6 for further information on accounting policy effective before and after September 1, 2018.

On initial application, for leases previously classified as operating leases under IAS 17, the Company has elected to record right-of-use assets based on the corresponding lease liability of $7,456, adjusted for any deferred lease inducements and any lease payments made at or before the commencement date that were recorded in other non-current liabilities and other current assets and other assets, on the statement of financial position as at August 31, 2018. For leases previously classified as finance leases under IAS 17, the Company measured the right-of-use asset and lease liability at the previous carrying amount of the finance lease asset of $100 and finance lease liability of $100, respectively.

As such, as at September 1, 2018, the Company recorded lease obligations of $7,556 and right-of-use assets of $6,173, which are net of the deferred lease inducements and lease payments made at or before the commencement of the lease of $1,396 and $13, respectively, with no net impact on deficit.

When measuring lease liabilities for those leases previously classified as operating leases under IAS 17, the Company discounted future lease payments using its incremental borrowing rate as at September 1, 2018. The weighted-average rate applied is 5.53%.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after September 1, 2018. The Company has also elected to apply the practical expedient on facility leases, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. Additionally, the Company applied the practical expedient to rely on its assessment if leases were onerous under IAS 37, *Provisions, contingent liabilities and contingent assets* and therefore adjusted the right-of-use asset at the date of initial application by the onerous lease provision rather than conduct an impairment test. No loss was recognized at the date of transition.

(Amounts are in thousands of Canadian dollars, except share and stock options information)

The following table reconciles the Company's operating lease commitments as at August 31, 2018, as previously disclosed in the Company's annual audited financial statements, to the lease obligations recognized on initial application of IFRS 16 on September 1, 2018.

Operating lease commitments as at August 31, 2018	$	**6,946**
Discounted using the incremental borrowing rate as at September 1, 2018		**5,361**
Variable lease payments excluded under IFRS 16		**(742)**
Renewal options reasonably certain to be exercised		**2,837**
Minimum lease payments on finance lease liabilities as at August 31, 2018		**100**
Lease obligations recognized as at September 1, 2018	$	**7,556**

5.2 IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

Effective September 1, 2018, the Company adopted IFRS 15, using the cumulative effect method, with the effect of adopting this standard recognized on September 1, 2018, the date of initial application. Accordingly, comparative figures as at August 31, 2018 have not been restated. Refer to Note 25.13 for additional information on the accounting policy applied by the Company.

IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue* ("IAS 18"), IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. Under IFRS 15, revenue is recognized when a customer obtains control of the goods and services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment.

The Company generates revenue from the sale of meal solutions. IFRS 15 did not have an impact on the Company's accounting policies for revenue recognition, as under both IFRS 15 and IAS 18, the Company recognizes revenue at a point in time, which is upon delivery of meal solutions, as it meets the criteria to satisfy the performance obligation. The Company records deferred revenue until the delivery, as subscribers pay in advance. These deferred revenue are recognized within a short period of time as the meal solutions are paid by customer shortly before delivery.

Having completed the five-step analysis, the Company identified contracts with customers and performance obligations therein, determined transaction price and its allocation to performance obligation and confirmed the appropriateness of its revenue recognition policy being at a point in time as it is the moment the Company transfers control over the product to the customers.

5.3 IFRS 9, *FINANCIAL INSTRUMENTS*

Effective September 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39, *Financial Instruments: Recognition and Measurement*

(Amounts are in thousands of Canadian dollars, except share and stock options information)

("IAS 39"). This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Cash and cash equivalents, security deposits and amounts receivable that were classified as loans and receivables under IAS 39 are classified as financial assets subsequently measured at amortized cost. There is no change to the initial measurement of the Company's financial assets.

Accounts payable and accrued liabilities, and long-term debt that were classified as other financial liabilities under IAS 39 are classified as financial liabilities subsequently measured at amortized cost. There is no change in the initial measurement of the Company's financial liabilities.

There was no impact of transition to IFRS 9 on the Company's statement of financial position as at September 1, 2018.

5.4 CHANGE IN ACCOUNTING POLICY FOR INTEREST CLASSIFICATION

The Company has decided to change its accounting policy in relation to the classification of interest paid and received in its consolidated statement of cash flows. Interests paid are classified in financing activities and interests received are classified in investing activities whereas both were classified in operating activities before. To reflect this change in accounting policy, the Company has recast the 2018 figures. The Company believes the new policy is preferable as it more closely aligns the interest payment with the use of proceeds from financing. Also, interest payments increased as a result of the increase in debt and the adoption of IFRS 16 which are not related to operating activities.

NOTE 6 INVENTORIES

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2019 was $99,234 (2018 – $45,274).

	2019	2018
Food	**$ 2,835**	$ 889
Packaging supplies	**1,523**	570
Work in process	**377**	126
	$ 4,735	$ 1,585

NOTE 7 OTHER CURRENT ASSETS

	2019	2018
Amounts receivable	**$ 606**	$ 121
Prepaid expenses	**180**	71
Other	**53**	12
	$ 839	$ 204

(Amounts are in thousands of Canadian dollars, except share and stock options information)

NOTE 8 FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware	Leasehold improvements	Assets under construction	Total
Cost:						
Balance as at August 31, 2017	$ 56	$ 222	$ 108	$ 7	$ 1,951	$ 2,344
Additions	144	667	126	121	3,203	4,261
Transfers	23	1,014	–	4,117	(5,154)	–
Disposal	–	(128)	–	–	–	(128)
Balance as at August 31, 2018	**$ 223**	**$ 1,775**	**$ 234**	**$ 4,245**	**$ –**	**$ 6,477**
Additions	**493**	**4,827**	**440**	**55**	**3,011**	**8,826**
Transfers	**–**	**–**	**–**	**2,779**	**(2,779)**	**–**
Reclassification to right-of-use assets	**–**	**(122)**	**–**	**–**	**–**	**(122)**
Balance as at August 31, 2019	**$ 716**	**$ 6,480**	**$ 674**	**$ 7,079**	**$ 232**	**$ 15,181**
Accumulated depreciation:						
Balance as at August 31, 2017	$ 6	$ 26	$ 12	$ –	$ –	$ 44
Depreciation	27	128	56	231	–	442
Disposals	–	(15)	–	–	–	(15)
Balance as at August 31, 2018	**$ 33**	**$ 139**	**$ 68**	**$ 231**	**$ –**	**$ 471**
Depreciation	**97**	**390**	**148**	**552**	**–**	**1,187**
Reclassification to right-of-use assets	**–**	**(22)**	**–**	**–**	**–**	**(22)**
Balance as at August 31, 2019	**$ 130**	**$ 507**	**$ 216**	**$ 783**	**$ –**	**$ 1,636**
Net carrying amounts:						
Balance as at August 31, 2018	$ 190	$ 1,636	$ 166	$ 4,014	$ –	$ 6,006
Balance as at August 31, 2019	**586**	**5,973**	**458**	**6,296**	**232**	**13,545**

(Amounts are in thousands of Canadian dollars, except share and stock options information)

As at August 31, 2019, $1,273 (August 31, 2018 – $111) of fixed asset additions are included in accounts payable and accrued liabilities and $38 (August 31, 2018 – $147) of leasehold improvement transfers relates to capitalized depreciation expense.

As at August 31, 2019, $115 (August 31, 2018 – $101) of deposits on fixed assets are included in other non-current assets. During 2019, $101 of deposits on fixed assets included in other non-current assets as at August 31, 2018 were transferred to fixed assets.

As at August 31, 2018, $100 of machinery and equipment additions related to finance leases.

NOTE 9 RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
Balance as at September 1, 2018	**$ 5,835**	**$ 100**	**$ 238**	**$ 6,173**
Additions	**5,614**	**421**	**357**	**6,392**
Disposals	**–**	**–**	**(39)**	**(39)**
Depreciation	**(1,101)**	**(231)**	**(105)**	**(1,437)**
Balance as at August 31, 2019	**$ 10,348**	**$ 290**	**$ 451**	**$ 11,089**

NOTE 10 INTANGIBLE ASSETS

	Software	Intellectual property	Intangible in development	Total
Cost:				
Balance as at August 31, 2017	$ 91	$ –	$ –	$ 91
Additions	3	–	–	3
Balance as at August 31, 2018	**$ 94**	**$ –**	**$ –**	**$ 94**
Additions	**130**	**74**	**284**	**488**
Balance as at August 31, 2019	**$ 224**	**$ 74**	**$ 284**	**$ 582**
Accumulated amortization:				
Balance as at August 31, 2017	$ 20	$ –	$ –	$ 20
Amortization	19	–	–	19
Balance as at August 31, 2018	**$ 39**	**$ –**	**–**	**$ 39**
Amortization	**31**	**–**	**–**	**31**
Balance as at August 31, 2019	**$ 70**	**$ –**	**$ –**	**$ 70**
Net carrying amounts:				
Balance as at August 31, 2018	$ 55	$ –	$ –	$ 55
Balance as at August 31, 2019	**$ 154**	**$ 74**	**$ 284**	**$ 512**

As at August 31, 2019, $242 (August 31, 2018 – nil) of intangible asset additions are included in accounts payable and accrued liabilities.

(Amounts are in thousands of Canadian dollars, except share and stock options information)

NOTE 11 OTHER NON-CURRENT ASSETS

	2019	2018
Security deposits	$ 287	$ 229
Deposits on fixed assets	115	101
Other	–	19
	$ 402	$ 349

NOTE 12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Accounts payable	$ 23,961	$ 9,366
Accrued liabilities	6,743	1,977
	$ 30,704	$ 11,343

NOTE 13 DEBT

	Notes	2019	2018
Interest-bearing financing:			
Secured term loan, variable interest at bank prime plus 2.5%, maturing in November 2021	13.1	$ 10,000	$ –
Secured term loan, variable interest at bank prime plus 2.5%, maturing in November 2021	13.1	2,500	–
Finance leases:			
Finance leases at implicit rates, nil (2018 – 6.28% to 6.79%), maturing from January 2020 to March 2023	5.1	–	100
Matured borrowings:			
Unsecured term loan, variable rate (2018 – 6.80%)		–	2
Secured term loan, variable interest at bank prime plus 3.25%		–	2,000
		$ 12,500	$ 2,102
Interest rate swaps	13.2	46	–
Unamortized financing costs		(55)	(10)
		$ 12,491	$ 2,092
Current portion of long-term debt		(31)	(528)
		$ 12,460	$ 1,564

13.1 CREDIT FACILITY

In September 2017, the Company obtained a commitment from a Canadian chartered bank for a secured credit facility which includes a five-year variable-rate term loan of $2,500, a $500 revolving line of credit and $500 in credit card availability. The credit facility was secured by inventory and a first-ranking movable hypothec on the Company's assets.

On October 12, 2017, the term loan of $2,500 was disbursed, bearing variable interest at bank prime plus 3.25% (6.95% as at August 31, 2018). The term loan was repayable in equal quarterly instalments of $125 beginning on November 30, 2017 and ending August 31, 2022. The proceeds of the term loan were used to refinance the Company's long-term debt, finance capital expenditures, and for general corporate purposes. As at August 31, 2018, the term loan had a balance of $2,000 and the operating line of credit was fully drawn. As at August 31, 2019, the secured credit facility obtained from the Canadian chartered bank was completely replaced by the credit facility obtained from the Canadian financial institution described below.

In November 2018, the Company obtained from a Canadian financial institution a secured three-year term loan of $10,000, a $2,500 revolving line of credit and $1,000 in other short-term financing. This credit facility is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The proceeds were used to fund expansion capital expenditures, invest in automation, and refinance the Company's long-term debt. In April 2019, the Canadian financial institution increased the amount in other short-term financing from $1,000 to $3,000. In August 2019, the Company obtained from the same Canadian financial institution an additional secured term loan of $2,500, bearing the same terms as the term loan obtained in November 2018. The Canadian financial institution also increased the amount of the revolving line of credit from $2,500 to $10,000 and the amount of other short-term financing from $3,000 to $5,000.

As at August 31, 2019, $12,500 of the term loans were disbursed, bearing variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50% (4.46% as at August 31, 2019). The term loans are repayable in quarterly installments of $125 and $31, beginning on December 4, 2020 and August 31, 2020, respectively, with a bullet repayment of the balance at the end of the term ending in November 2021. As at August 31, 2019, $1,540 of the revolving line of credit was disbursed, bearing variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50% (4.46% as at August 31, 2019). Debt issuance costs of $64 were incurred and recorded against the debt at the inception date of the debt. For the year ending August 31, 2019, debt issuance costs of $9 (2018 – $2) were amortized and recorded in net finance expenses.

As at August 31, 2019, the Company has corporate credit cards used for business purposes with authorised limits totaling $7,875 (August 31, 2018 – $1,365), including the $5,000 in other short-term financing secured from a Canadian financial institution. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.

The credit facility includes a collateral requirement of $2,500 placed in a restricted cash account and financial covenants with which the Company was in compliance as at August 31, 2019.

(Amounts are in thousands of Canadian dollars, except share and stock options information)

13.2 INTEREST RATE SWAPS

Effective March 1, 2019, the Company signed a swap agreement with the same Canadian financial institution whereby the Company fixed the annual interest rate at 2.22% plus 2.50% on a notional amount of $2,500 until November 2021. With this agreement, the Company effectively fixed the interest rate at 4.72% for this portion of the Company's long-term debt.

Effective March 14, 2019, the Company signed a second swap agreement with the same Canadian financial institution whereby the Company fixed the annual interest rate at 2.07% plus 2.50% on a notional amount of $1,263 until November 2021. With this agreement, the Company effectively fixed the interest rate at 4.57% for this portion of the Company's long-term debt.

As at August 31, 2019, the Company's interest rate swaps are classified as derivative financial liabilities not designated as hedging instruments. In accordance with IFRS 9, the Company's swap agreements are measured at fair value with gains and losses in fair value presented in net finance expenses in the Company's consolidated statements of loss and comprehensive loss. For the period ended August 31, 2019, a loss in fair value of $46 is presented in net finance expenses (Note 16) with a corresponding liability presented in long-term debt.

13.3 PRINCIPAL PAYMENTS

Principal payments due on the long-term debt in each of the following years are as follows:

	Principal payments
2020	$ **31**
2021	**500**
2022	**11,969**

NOTE 14 LEASE OBLIGATIONS

The following table presents the lease obligations of the Company:

	August 31, 2019
Balance as at September 1, 2018	$ **7,556**
Additions	**6,392**
Disposals	**(26)**
Payment of lease obligations	**(1,840)**
Interest expense on lease obligations	**642**
Lease obligations as at August 31, 2019	$ **12,724**

(Amounts are in thousands of Canadian dollars, except share and stock options information)

The following table presents an analysis of the contractual undiscounted cash flows from lease obligations:

	August 31, 2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	$ 1,874
One to five years	7,050
More than five years (1)	6,944
Total undiscounted lease obligations as at August 31, 2019	$ 15,868
Lease obligations as at August 31, 2019	$ 12,724
Current portion	1,273
Non-current portion	11,451

(1) As at August 31, 2019, future lease payments of $5,591 for which the Company is reasonably certain to exercise the renewal options have been recognized in lease obligations, representing an amount of $6,443 of undiscounted cash flows.

With the exception of future cash flows associated with the British Columbia facility described below, there are no future cash outflows related to lease agreements to which the Company is potentially exposed that are not reflected in the measurement of lease obligations.

British Columbia facility

On July 3, 2019, the Company signed a ten-year lease with a renewal option of five years for an 84,000 square-feet production facility located in Vancouver, British Columbia, Canada. The expected delivery date of the facility is October 1, 2019 and payment commencement date is January 15, 2020. Management intends to begin operations in the new facility in the beginning of calendar year 2020. Fixed rent payments represent a total commitment of $14,630. Considering that as at August 31, 2019, the Company did not have a right-of-use asset, the facility was not reflected as a right-of-use asset and no corresponding lease liability was recorded.

NOTE 15 SHARE CAPITAL

15.1 SHARE ISSUANCES

The Company is authorized to issue an unlimited number of no par value common shares.

In connection with the public offering completed on May 7, 2018, the Company issued 4,000,000 common shares (of which 60,000 common shares were purchased by Board members and key management personnel) at a price of $2.50 per share for gross proceeds of $10,000, less share issuance costs of $926.

In connection with the public offering completed on February 22, 2019, the Company issued 6,019,212 common shares (of which 26,500 common shares were purchased by Board members and key management personnel) at a price of $3.50 per share for gross proceeds of $21,067, less share issuance costs of $1,497.

During the period ended August 31, 2019, 879 common shares (2018 – 71,413 common shares) of the Company were issued following the exercise of stock options (refer to Note 19).

(Amounts are in thousands of Canadian dollars, except share and stock options information)

15.2 EXERCISE OF AGENT COMPENSATION OPTIONS

In connection with the Company's private placement completed on June 1, 2017, the Company granted 405,002 two-year compensation options to the agents to purchase common shares of the Company at a price of $2.00 per common share. During the period that ended August 31, 2019, 299,064 options were exercised for gross proceeds of $598. The remaining balance of agent compensation options that were not exercised expired on June 1, 2019.

NOTE 16 NET FINANCE EXPENSES (INCOME)

		2019		2018
Interest expense on long-term debt	**$**	**292**	$	162
Interest expense on lease obligations		**642**		–
Interest income		**(687)**		(280)
Foreign exchange loss		**53**		20
Fair value loss on interest rate swaps (Note 13.2)		**46**		–
	$	**346**	$	(98)

NOTE 17 LOSS PER SHARE

		2019		2018
Net loss	**$**	**(20,937)**	$	(9,434)
Basic weighted average number of common shares		**55,069,384**		49,068,678
Loss per share – basic and diluted	**$**	**(0.38)**	$	(0.19)

The exercise of stock options and share issuance is weighted from the transaction date.

Stock options were excluded from the diluted weighted average number of common shares calculation because such inclusion would have been antidilutive due to the net loss reported by the Company.

NOTE 18 ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

		2019		2018
Short-term employee benefit expense	**$**	**39,419**	$	18,753
Operating lease expense		**–**		816

(Amounts are in thousands of Canadian dollars, except share and stock options information)

NOTE 19 STOCK OPTION PLAN

The stock option plan was established by the Company to attract and retain employees, consultants, directors and officers. The plan provides for the granting of options to purchase common shares where at any given time the number of stock options reserved for issuance is equal to 7.5% of the Company's issued and outstanding common shares. Under the plan, options generally vest over a period of four years and expire eight years from the grant date. As at August 31, 2019, 450,661 stock options were available for issuance (2018 – 1,165,791).

Total share-based payments recognized under the stock option plan amounted to $1,810 for the year ended August 31, 2019 (2018 – $458).

During the period that ended August 31, 2019, 2,661,531 options (2018 – 787,666 options) were granted at a weighted average exercise price of $2.89 (2018 – $2.55) per option, of which 1,156,766 options (2018 – 300,000) were granted to key management personnel and members of the Board.

The weighted average fair value of stock options granted during the year ended August 31, 2019 was $1.36 (2018 – $1.42) and was estimated at the date on which the options were granted using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2019	2018
Volatility	**53%**	65%
Risk-free interest rate	**1.84%**	2.07%
Expected life of options	**5.1 years**	5.1 years
Common share value at grant date	**$ 2.89**	$ 2.55
Exercise price	**$ 2.89**	$ 2.55

Information concerning the movement in stock options is as follows:

		2019		2018
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**1,425,471**	**$ 1.96**	751,581	$ 1.07
Granted	**2,661,531**	**2.89**	787,666	2.55
Exercised	**(879)**	**2.62**	(71,413)	0.10
Stock options settled in cash[(1)]	**(74,740)**	**1.62**	–	–
Forfeited	**(101,214)**	**2.85**	(42,363)	0.30
Outstanding, end of year	**3,910,169**	**2.57**	1,425,471	1.96
Exercisable, end of year	**639,039**	**$ 1.60**	322,483	$ 1.02

(1) On December 4, 2018, the Company exceptionally agreed to settle in cash a specific number of vested stock options with two members of management. The net cash settled amount was $99 and represents the difference between the fair value of the stock on the date of settlement and the exercise stock price. There are no other stock options that can be or are intended to be net settled in cash in the future.

For the year ended August 31, 2019, the weighted average share price of the Company's common shares upon the exercise date of stock options was $2.94 (2018 – $2.94).

(Amounts are in thousands of Canadian dollars, except share and stock options information)

Summary of options outstanding as at August 31, 2019 and 2018 is as follows:

Exercise price	Number of options outstanding	Weighted average contractual life outstanding	Exercisable options
Balance as at August 31, 2019:			
Less than $1.00	**178,834**	**6.81**	**178,834**
$ 1.00 – 1.99	**283,718**	**5.98**	**109,808**
$ 2.00 – 2.49	**203,325**	**6.87**	**143,050**
$ 2.50 – 2.99	**2,313,573**	**7.08**	**207,347**
$ 3.00 – 3.49	**930,719**	**7.67**	**–**
	3,910,169	**7.12**	**639,039**
Balance as at August 31, 2018:			
Less than $1.00	178,834	6.75	146,236
$ 1.00 – 1.99	347,820	6.98	86,955
$ 2.00 – 2.49	215,082	6.98	89,292
$ 2.50 – 2.99	683,735	7.71	–
	1,425,471	7.30	322,483

NOTE 20 INCOME TAXES

The following table reconciles income taxes computed at the Company's statutory rate of 26.6% (2018 – 26.7%) and the total tax expense for the years ended August 31:

	2019	2018
Loss before income taxes	**$ (20,937)**	$ (9,434)
Income tax benefit at the combined Canadian statutory rate	**(5,569)**	(2,519)
Decrease resulting from:		
Change in unrecognized deferred income tax assets	**5,045**	2,387
Permanent differences	**520**	132
Other	**4**	–
Total income expense	**$ –**	$ –

(Amounts are in thousands of Canadian dollars, except share and stock options information)

Movement in temporary differences during the year ended August 31, 2019 is detailed as follows:

	Balance as at August 31, 2018	Recognized in Profit or loss	Balance as at August 31, 2019
Deferred income tax assets:			
Lease obligation	$ 1,748	$ 988	**$ 2,736**
Deferred income tax liabilities:			
Fixed assets	(1,748)	(988)	**(2,736)**
	$ –	$ –	**$ –**

As at August 31, 2019 and 2018, the Company had unrecognized deferred income tax assets as follows:

	2019	2018
Deferred income tax assets:		
Net operating loss carry forwards	**$ 8,241**	$ 3,398
Fixed assets	**636**	–
Share issuance costs	**689**	506
Intangible assets	**254**	246
Other non-current liabilities	**–**	258
Other	**47**	20
Unrecognized deferred income tax assets	**$ 9,867**	$ 4,428

The Company has operating tax losses carried forward of $31,097 (2018 – $12,824) and unrecognized deductible temporary differences of $6,133 (2018 – $3,885) that are available to reduce taxable income. Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. As at August 31, 2019, the amounts and expiry dates of the tax losses carried forward were as follows:

2035	**$ 49**
2036	**712**
2037	**3,547**
2038	**8,516**
2039	**18,273**
	$ 31,097

NOTE 21 FINANCIAL INSTRUMENTS

The Company has determined that the fair values of cash and cash equivalents, amounts receivable included in other current assets, restricted cash, security deposits included in other assets, line of credit, and accounts payable and accrued liabilities approximate their respective carrying amounts at the consolidated statement of financial position date, due to the short-term maturity of those instruments.

The Company determined that the fair value of its long-term debt approximates its carrying amount as it bears interest at market interest rates for financial instruments with similar terms and risks.

The fair value of interest rate swaps as at August 31, 2019 was estimated using Level 2 inputs.

NOTE 22 FINANCIAL RISKS

Credit risk:

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligation. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk is primarily attributable to its cash and cash equivalents, amounts receivable included in other current assets, restricted cash, and security deposits included in other assets. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited because the Company deals with major North American financial institutions and an internationally established payment processor.

Interest rate risk:

The Company's long-term debt and revolving line of credit bear interest at variable rates which are determined by a base rate set by the lender plus a margin. As a result, the Company is exposed to interest rate risk due to fluctuations in lenders' base rates. The Company manages its interest rate risk by using variable-to-fixed interest rate swaps as described in Note 13.

Sensitivity analysis for interest rate risk

An increase or decrease of 100 basis points in the interest rate would not have a significant impact on the Company's net loss.

Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budgets and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Capital management

The Company's objective in managing its capital is to ensure a sufficient liquidity position to finance its operations, to maximize the preservation of capital and to deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements, convertible notes, and long-term and short-term debt, which are included in the Company's definition of capital. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

(Amounts are in thousands of Canadian dollars, except share and stock options information)

The following are amounts due on contractual maturities of financial liabilities, including estimated interest payments as at August 31:

										2019
		Total carrying amount		**Contractual cash flows** [(3)]		**Less than 1 year**		**1 to 5 years**		**More than 5 years**
Line of credit	**$**	**1,540**	**$**	**1,540**	**$**	**1,540**	**$**	**–**	**$**	**–**
Accounts payable and accrued liabilities		**30,704**		**30,704**		**30,704**		**–**		**–**
Long-term debt, including current portion [(1), (2)]		**12,491**		**13,755**		**597**		**13,158**		**–**
	$	**44,735**	**$**	**45,999**	**$**	**32,841**	**$**	**13,158**	**$**	–

										2018
		Total carrying amount		Contractual cash flows		Less than 1 year		1 to 5 years		More than 5 years
Line of credit	$	500	$	500	$	500	$	–	$	–
Accounts payable and accrued liabilities		11,343		11,343		11,343		–		–
Long-term debt, including current portion [(1), (2)]		2,092		2,415		658		1,757		–
	$	13,935	$	14,258	$	12,501	$	1,757	$	–

(1) In November 2018, the Company signed a new debt agreement with proceeds partially used to refinance the long-term debt as at August 31, 2018 (see further details in Note 13).

(2) As at August 31, 2019, an interest rate of 4.46% (2018 – 6.95%) was used to determine the estimated interest payments on the Company's variable-rate portion of the Company's long-term debt, and interest rates of 4.72% and 4.57% were used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

(3) See Note 14 for contractual payments due on lease obligations.

(Amounts are in thousands of Canadian dollars, except share and stock options information)

NOTE 23 RELATED PARTIES

The chief executive officer ("CEO") and the president and chief operating officer ("President and COO") are controlling shareholders of the Company and are members of the Board of the Company. The CEO is also Chairman of the Board.

23.1 RELATED PARTIES

The Company's related party transactions are as follows:

- On February 22, 2019, in connection with the public offering described in Note 15, 26,500 common shares were purchased by Board members and key management personnel at a price of $3.50 per share;
- On May 7, 2018, in connection with the public offering described in Note 15, 60,000 common shares were purchased by Board members and key management personnel at a price of $2.50 per share.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

23.2 KEY MANAGEMENT PERSONNEL

Key management personnel includes the members of the Board as well as the CEO, President and COO, and chief financial officer.

The following table presents the compensation of the key management personnel recognized in net loss:

	2019	2018
Short-term employee benefits (includes directors' fees)	**$ 1,963**	$ 867
Share-based payments	**1,062**	356

NOTE 24 BASIS OF MEASUREMENT

The consolidated financials statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss.

NOTE 25 SIGNIFICANT ACCOUNTING POLICIES

25.1 BASIS OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and of the Subsidiary.

<u>Subsidiary</u>

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of these returns. The Company reassesses whether it controls an entity if facts and circumstances indicate that one or more of the aforementioned points have changed. A subsidiary is consolidated from the date the Company obtains control and continues to be consolidated until the date that such control ceases.

25.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held in financial institutions, outstanding deposits and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

25.3 INVENTORIES

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined using the first-in, first-out method. Cost includes acquisition costs net of discounts, and other costs incurred to bring inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

25.4 RESTRICTED CASH

Restricted cash is cash where specific restrictions exist on the Company's ability to use this cash. Restricted cash consists primarily of cash held as collateral, which is subject to the terms of the financing agreement (see Note 13).

25.5 FIXED ASSETS

25.5.1 RECOGNITION AND MEASUREMENT

Items of fixed assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use.

When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of fixed assets are determined by comparing the proceeds from disposal with the carrying amount and are recognized in net loss.

25.5.2 SUBSEQUENT EXPENDITURE

The cost of replacing a part of an item of fixed assets is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in net loss as incurred.

25.5.3 DEPRECIATION

Depreciation is calculated over the cost of the asset less its residual value and is recognized in net loss on a straight-line basis over the estimated useful lives of each part of an item of fixed assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated and reflect the cost of fixed assets, which are not yet available for their intended use. Assets under construction will start to be depreciated when they are available for their intended use. Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

(Amounts are in thousands of Canadian dollars, except share and stock options information)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset	Period
Furniture and fixtures	3 to 5 years
Machinery and equipment	3 to 20 years
Computer hardware	3 to 5 years
Leasehold improvements	Shorter of lease term and useful life

25.6 LEASES

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

<u>Policy applicable from September 1, 2018</u>

Effective September 1, 2018, the Company early adopted IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after September 1, 2018.

Right-of-use asset

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are subsequently depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. Lease terms, including options to renew for which the Company is reasonably certain to exercise, range from 0 to 11 years for facilities, automotive equipment and other equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

Lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments), the exercise price under a purchase option that the Company is reasonably certain to exercise, and lease payments in an optional renewal period if the Company is reasonably certain to exercise a renewal option.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Policy applicable before September 1, 2018

Under IAS 17, the Company's accounting policy was as follows:

The determination of whether an arrangement was (or contained) a lease was based on the substance of the arrangement at the inception of the lease. The arrangement was, or contained, a lease if fulfilment of the arrangement was dependent on the use of a specific asset and the arrangement conveyed a right to use the asset, even if that asset was not explicitly specified in an arrangement.

A lease was classified at the inception date as a finance lease or an operating lease. A lease that transferred substantially all the risks and rewards incidental to ownership to the Company was classified as a finance lease.

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognized in net finance expenses (income) in net loss.

A leased asset was depreciated over the useful life of the asset. However, if there was no reasonable certainty that the Company would obtain ownership by the end of the lease term, the asset was depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease was a lease other than a finance lease. Operating lease payments were recognized in net loss on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

25.7 INTANGIBLE ASSETS

25.7.1 RECOGNITION AND MEASUREMENT

Intangible assets that have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

25.7.2 SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in net loss as incurred.

25.7.3 AMORTIZATION

Amortization is recognized in net loss on a straight-line basis over the estimated useful lives of the finite life of intangible assets. Intangible assets in development are not amortized and reflect the cost of developing the intangible asset, which are not yet available for their intended use. Intangible assets in development will start to be depreciated when they are available for their intended use.

The estimated useful lives for the current year and comparative periods are as follows:

Asset	Period
Software	5 years
Intellectual property	5 years

Amortization methods, useful lives and residual values are reviewed at each reporting and adjusted prospectively, if appropriate.

25.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company reviews the carrying amount of its non-financial assets, which include intangible assets with a finite useful life and fixed assets on each reporting date, in order to determine if specific events or changes in circumstances indicate that their carrying amounts may not be recoverable.

For impairment testing purposes, assets that cannot be tested individually are aggregated into a cash generating unit ("CGU"). An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in net loss.

25.9 FINANCIAL INSTRUMENTS

Effective September 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

25.9.1 RECOGNITION AND INITIAL MEASUREMENT

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

25.9.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial assets – Policy applicable from September 1, 2018

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") – debt investment, FVOCI – equity investment, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL: (1) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investment

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL: (1) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. The Company has not designated any financial assets at fair value through profit or loss and does not have any financial assets at FVOCI.

Financial assets at amortised costs are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in net loss. Any gain or loss on derecognition is recognised in net loss.

Financial assets – Policy applicable before September 1, 2018

Financial assets were classified in four categories:

Financial assets at fair value through profit or loss

A financial asset was classified at FVTPL if it was classified as held for trading or was designated as such on initial recognition. Directly attributable transaction costs were recognized in net loss as incurred. Financial assets at FVTPL were measured at fair value and changes therein, including any interest or dividend income, were recognized in net loss. The Company did not designate any financial assets at fair value through profit or loss.

Loans and receivables

These assets were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method. The Company classified its cash and cash equivalents, security deposits and amounts receivable as loans and receivables.

Held-to-maturity investments

These assets were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method. The Company had no financial assets as held-to-maturity.

Available-for-sale financial assets

These assets were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, were recognized in other comprehensive loss and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity is reclassified to net loss. The Company did not have financial assets as available for sale.

Financial liabilities

Financial liabilities are classified as measured at cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including interest expenses, are recognized in net loss. Any gain or loss on derecognition is also recognized in net loss.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. Swaps are measured at FVTPL with the gains and losses recognized in the consolidated statements of loss and comprehensive loss.

25.9.3 DERECOGNITION

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in net loss.

25.9.4 OFFSETTING

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

25.9.5 IMPAIRMENT

With respect to impairment of financial assets, IFRS 9 requires applying the expected credit losses model instead of the incurred credit losses model set out in IAS 39. Under the expected credit losses model, the Company must recognize expected credit losses and changes in such losses at each reporting date to reflect changes in credit risk since the initial recognition of the financial assets. Although cash and cash equivalents and restricted cash are subject to the IFRS 9 impairment requirements, the expected credit losses identified were not significant.

25.9.6 FAIR VALUE MEASUREMENT

In establishing the fair value, the Company uses a fair value hierarchy based on levels as defined below:

Level 1: defined as observable inputs such as quoted prices in active markets.

Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

25.10 PROVISIONS

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as net finance expenses.

Contingent liability

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the Company, or a present obligation that arises from past events (and therefore exists), but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

25.11 SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

25.12 SHARE-BASED PAYMENTS

Employees and directors of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 19. That cost is recognized as a compensation expense, together with a corresponding increase in equity (contributed surplus), over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired. The expense or credit in the statements of loss and comprehensive loss for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

25.13 REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective September 1, 2018, the Company adopted IFRS 15, using the cumulative effect method, with the effect of adopting this standard recognized on September 1, 2018, the date of initial application. Accordingly, comparative figures as at August 31, 2018 have not been restated. The effect of initially applying IFRS 15 is described in Note 5.2.

Revenue from the sale of goods is measured at the fair value of consideration received, net of refunds, sales incentives and credits. Revenue is recognized at a point in time, which is upon delivery of meal solutions, as it meets the criteria to satisfy the performance obligation. Deferred revenue is recognized for consideration received in advance of the related revenue. Sales and referral credits are also included in deferred revenue and are measured based on the fair value of the sales and referral credits granted, taking into consideration the estimated redemption percentage. Sales and referral credits are recognized as revenue upon redemption and when the Company fulfills its obligation.

25.14 TAXES

Income tax expense comprises current and deferred income taxes. It is recognized in net loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

<u>Current income tax</u>

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the years and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

<u>Deferred income tax</u>

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred income tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax assets and liabilities are offset only if certain criteria are met.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

25.15 FOREIGN CURRENCY

Transactions in foreign currencies are comprised of purchases from foreign suppliers. These transactions are translated using the functional currency of the Company at exchange rates at the dates of the transactions. The related payables denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. The resulting foreign currency gains or losses are recognized on a net basis within net finance expenses in net loss.

25.16 EARNINGS PER SHARE

Basic earnings per share are computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted earnings per share are computed using the weighted average number of common shares outstanding during the year adjusted to include the dilutive impact of stock options and convertible notes.

The dilutive effect of outstanding options is excluded as additional share dilution in the computation of diluted earnings per share as such inclusion would have been antidilutive due to the net loss reported by the Company (further details are given in Note 17).

25.17 FINANCE INCOME AND FINANCE EXPENSES

Finance income comprises interest income and foreign exchange gains. Finance expenses comprise interest expense on long-term debt and changes in fair value of convertible notes. Prior to the year ended August 31, 2019, the Company recognized finance income and finance expenses as operating activities in the Company's consolidated statements of cash flows. As described in Note 5.4, the Company decided to change its accounting policy in relation to the classification of interest paid and received in its consolidation statements of cash flows. Refer to Note 5.4 for more information.

25.18 SEGMENT REPORTING

The Company determined that it operated a single operating segment for the years ended August 31, 2019 and 2018.

NOTE 26 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company’s consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8).