Management's Discussion and Analysis of

GOODFOOD MARKET CORP.

For the three-month and six-month periods ended February 29, 2020

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BASIS OF PRESENTATION

The following has been prepared for the purposes of providing Management's Discussion and Analysis ("MD&A") of the financial condition of Goodfood Market Corp. and its subsidiary (also referred to in this MD&A as "we", "our", "Goodfood" or "the Company") as at February 29, 2020, and the operating results of the Company for the three-month and six-month periods then ended. This MD&A is dated April 8, 2020 and reflects information available as at this date. All references in this MD&A to Fiscal 2020 are to the fiscal year ending August 31, 2020 and to Fiscal 2019 are to the fiscal year ended August 31, 2019. This document should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements and notes thereto for the year ended August 31, 2019 and the Company's Unaudited Condensed Interim Consolidated Financial Statements and notes thereto (the "condensed interim consolidated financial statements") for the three-month and six-month periods ended February 29, 2020. All amounts herein are expressed in Canadian dollars unless otherwise indicated.

The Company's condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the financial information herein was derived from those statements.

Management determines whether information is material based on whether they believe a reasonable investor's decision to buy, sell or hold securities of the Company would likely be influenced or changed should the information be omitted or misstated, and discloses material information accordingly.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Such forward-looking information includes, but is not limited to, information with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. This forward-looking information is identified by the use of terms and phrases such as "may", "would", "should", "could", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe", and "continue", as well as the negative of these terms and similar terminology, including references to assumptions, although not all forward-looking information contains these terms and phrases. Forward-looking information is provided for the purposes of assisting the reader in understanding the Company and its business, operations, prospects and risks at a point in time in the context of historical and possible future developments and therefore the reader is cautioned that such information may not be appropriate for other purposes. Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in, or implied by, such forward-looking information. These risks and uncertainties include, but are not limited to, the following risk factors which are discussed in greater detail under "Risk Factors" in the Company's Annual Information Form for the year ended August 31, 2019 available on SEDAR at www.sedar.com: limited operating history, negative operating cash flow, food industry, quality control and health concerns, regulatory compliance, regulation of the industry, public safety issues, product recalls, damage to Goodfood's reputation, transportation disruptions, product liability, ownership and protection of intellectual property, evolving industry, unionization activities, reliance on management, factors which may prevent realization of growth targets, competition, availability and quality of raw materials, environmental and employee health and safety regulations, online security breaches and disruption, reliance on data centers, open source license compliance, future capital requirements, operating risk and insurance coverage, management of growth, limited number of products, conflicts of interest, litigation, catastrophic events, risks associated with payments from customers and third parties, being accused of infringing intellectual property rights of others and, climate change and environmental risks. Although the forward-looking information contained herein is based upon what we believe are reasonable assumptions, readers are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions were made in preparing the forward-looking information concerning the availability of capital resources, business performance, market conditions, and customer demand. In addition, information and expectations set forth herein are subject to and could change materially in relation to developments regarding the COVID-19 pandemic and its impact on product demand, labour mobility, supply chain continuity and other elements beyond our control. Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking information contained herein is provided as of the date hereof, and we do not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

NON-IFRS MEASURES

Certain financial measures used in this MD&A do not have any standardized meaning under IFRS, including “Gross merchandise sales”, “Adjusted gross profit”, “Adjusted gross margin”, “EBITDA”, “Adjusted EBITDA” and “Adjusted EBITDA margin”. For a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures, as applicable, see the “Metrics and Non-IFRS Financial Measures” section of this MD&A.

COMPANY OVERVIEW

Goodfood (TSX:FOOD) is a leading online grocery company in Canada, delivering fresh meal solutions and grocery items that make it easy for members from coast to coast to enjoy delicious meals at home every week. Goodfood’s mission is to make the impossible come true, from farm to kitchen, by enabling members to do their weekly meal planning and grocery shopping in less than 1 minute. Goodfood members get access to a unique selection of products online as well as exclusive pricing made possible by its world class direct to consumer fulfilment ecosystem that cuts out food waste and expensive retail overhead. The Company has its main production facility and administrative offices based in Montreal, Quebec, two production facilities out West, in Calgary, Alberta and Vancouver, British Columbia, and a breakfast facility in Montreal, Quebec. Goodfood had 246,000 active subscribers as at February 29, 2020.

FINANCIAL OUTLOOK

The online grocery industry is among the fastest growing industries in the world. As a result, Goodfood believes that there are significant opportunities and advantages to rapidly grow its subscriber base by continuing to invest in highly targeted marketing campaigns, capacity expansion through additional facilities and investments in automation, increasing its product offering and in continuing to expand its national platform.

Goodfood's strategy involves in part delaying short-term profitability in order to invest in generating long-term shareholder value creation, and also continue improving its cost structure to achieve long-term margin goals. Growing Goodfood's subscriber base, market share, scale and product offering will allow the Company to deliver greater value to its customers while attaining high returns on invested capital. As the Company grows its subscriber base, we are confident that Goodfood will achieve economies of scale and additional efficiencies which will lead to improvements in profitability while maintaining an unrivalled experience for subscribers.

Goodfood has started to experience the impact of the outbreak of COVID-19 on its overall business and operations. As an essential service in Canada, Goodfood continues to operate during the current pandemic and has so far experienced a growth in demand on a daily basis. While we have been able to fulfill orders, we have experienced challenges to our operations and supply chain, putting pressure on food and labour costs. We will continue to monitor developments of the pandemic and continuously assess its potential further impact on our production activities, supply chain, and facilities capacity to respond to the increasing demand and prevent any disruptions to fulfillment. Pressure on our supply chain, inventory levels and increased operational cost or disruptions and labour shortages could heighten depending on the longevity and severity of the pandemic as well as any changes to our regulatory framework. It should also be noted that Goodfood raised the pay of all its hourly and salaried operations and production employees by a minimum of $2 per hour, effective March 26, 2020, and this will continue throughout the duration of the COVID-19 crisis. These objectives are based upon assumptions and are subject to risks and uncertainties, many of which are beyond our control. These risks and uncertainties could cause actual results to differ materially from these objectives. See the ''Forward-Looking Statements'' and ''Business Risk" sections of this MD&A.

SECOND QUARTER FISCAL 2020 HIGHLIGHTS

HIGHLIGHTS OF THE THREE-MONTH PERIOD ENDED FEBRUARY 29, 2020 COMPARED TO THE THREE- MONTH PERIOD ENDED FEBRUARY 28, 2019

- Revenue reached $58.8 million, an increase of $22.2 million, or 61%.
- Gross margin reached 30.3%, an improvement of 9.4 percentage points and gross profit reached $17.8 million, an increase of $10.2 million, or 133%.
- Net loss was $3.4 million, an improvement of $3.2 million, resulting in net loss per share of $0.06.
- The Company ended the quarter with a solid cash, cash equivalents and restricted cash position of $69.5 million.
- Gross merchandise sales reached $68.9 million, an increase of $22.4 million, or 48%.
- Adjusted gross margin reached 40.6%, an increase of 2.8 percentage points, and adjusted gross profit reached $28.0 million, an increase of $10.4 million, or 59%.
- Adjusted EBITDA margin reached -5.0%, an improvement of 10.0 percentage points.
- Active subscribers reached 246,000 as at February 29, 2020, an increase of 87,000 or 55% compared to February 28, 2019, and an increase of 16,000 or 7% compared to November 30, 2019.

HIGHLIGHTS OF THE SIX-MONTH PERIOD ENDED FEBRUARY 29, 2020 COMPARED TO THE SIX-MONTH PERIOD ENDED FEBRUARY 28, 2019

- Revenue reached $115.1 million, an increase of $48.9 million, or 74%.
- Gross margin reached 29.6%, an improvement of 8.2 percentage points and gross profit reached $34.0 million, an increase of $19.9 million, or 141%.
- Net loss was $8.5 million, an improvement of $2.9 million, resulting in net loss per share of $0.15.
- Gross merchandise sales reached $137.0 million, an increase of $53.3 million, or 64%.
- Adjusted gross margin reached 40.8%, an increase of 3.1 percentage points, and adjusted gross profit reached $55.9 million, an increase of $24.4 million, or 77%.
- Adjusted EBITDA margin reached -5.7%, an improvement of 8.5 percentage points.

RECENT EVENTS AND KEY HIGHLIGHTS OF THE THREE-MONTH AND SIX-MONTH PERIODS ENDED FEBRUARY 29, 2020 AND SUBSEQUENT EVENTS

Launch of Reusable Delivery Box

In October 2019, the Company announced the official launch of its new reusable delivery box, positioning Goodfood as a leader in the industry with respect to environmental sustainability initiatives. The new reusable box is made of a plastic compound, was custom-built specifically for Goodfood, and is part of our green initiatives to eliminate 12 million pieces of single-serve packaging. Although this program has temporarily been suspended to ensure there is no cross-contamination in our facilities due to the current COVID-19 pandemic, it remains a top priority for the Company.

Chief Technology Officer Appointment

In November 2019, the Company announced the addition of Raghu Mocharla to its management team as Chief Technology Officer. Mr. Mocharla was most recently Vice President, E-Commerce at Indigo and cumulates over 20 years of experience in technology which will strengthen the Company's competitive advantage in building a world-class user experience and automation ecosystem.

Meal Solutions

Throughout the first and second quarters of Fiscal 2020, the Company further expanded its ready-to-eat and breakfast meal solutions across Canada. The Company's product mix aims to expand its offerings to existing and prospective customers in order to provide full home meal solutions across the different meals of the day.

In January 2020, the Company began construction of its ready-to-eat meal solutions kitchen in the Montreal, Quebec facility to enable operations to expand its product offering and produce them in-house.

Private Label Grocery Products

Throughout the first and second quarters of Fiscal 2020, the Company further expanded its private label grocery products across Canada. The Company offers everyday grocery essentials with exclusive prices, including extra virgin olive oil, sea salt, a variety of premium proteins, peanut butter, tea, appetizers and more. Our current member favourites include: Three-Cheese Tortellini with Fresh Ricotta, Romano & Parmesan, It Might Just Be the World's Best Extra Old Cheddar Cheese and Extra Thick Butcher Cut Bacon!

Convertible Debentures Financing

In February 2020, the Company announced and completed a $30 million financing through the issuance of convertible debentures. The debentures bear a fixed interest rate of 5.75% per annum, payable semi-annually, and will mature on March 31, 2025. The debentures will be convertible at the holder's option into Goodfood common shares at a conversion price of $4.70 per Common Share. The Company intends to use the net proceeds from the offering to fund the buildout of a new Toronto production and distribution facility, to further investments in capital projects (including automation related capital projects) at its existing production facilities in Montreal, Calgary and Vancouver as well as Toronto, and for general corporate purposes.

Active Subscribers

As at February 29, 2020, we reached 246,000 active subscribers. This new milestone resulted from the addition of 16,000 new subscribers in the second quarter of Fiscal 2020 primarily driven by the seasonally stronger months of January and February and the ramp-up of our marketing campaigns during those months, offset by the seasonally weak month of December.

Launch of Vancouver Fulfillment Center

In March 2020, the Company announced the official launch of a fulfillment center in Vancouver, British Columbia. The 84,000 square feet facility will further expand the Company's footprint and will be ramped up over the coming months.

COVID-19 Impact and Measures

In March 2020, the Company announced several measures taken to ensure the heightened safety of its production and delivery of its products to existing and new members in the context of the COVID-19 pandemic. The Company also announced a plan to hire over 500 new employees across Canada to support increased demand resulting from the COVID-19 pandemic, and launched its Essential Canadian Pay Program, raising the pay of all its hourly and salaried operations and production employees by a minimum of $2 per hour throughout the duration of the crisis.

The current COVID-19 pandemic has had no impact on the financial results of the quarter ending February 29, 2020 but will impact our third quarter results; we expect the pandemic to have a positive impact on revenues, with increased subscriber growth, order rates and average order values, but also expect our operations to be impacted by staffing and supply challenges also caused by the pandemic.

METRICS AND NON-IFRS FINANCIAL MEASURES

This section describes metrics and non-IFRS financial measures used by the Company throughout this MD&A. It also provides a reconciliation between non-IFRS financial measures and the most comparable IFRS financial measures, where applicable. Non-IFRS financial measures do not have standard definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Non-IFRS financial measures are provided as additional information to complement IFRS measures and to provide a further understanding of the Company's results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS and should be read in conjunction with the financial statements for the periods indicated.

Metrics	Definitions
Active subscribers	An account that is scheduled to receive a delivery or has elected to skip delivery in the subsequent weekly delivery cycle. Active subscribers exclude cancelled accounts. For greater certainty, an Active subscriber is only accounted for once, although different products might have been ordered in a given weekly delivery cycle. While active subscribers is not an IFRS or Non-IFRS Financial Measure, and therefore, does not appear in, and cannot be reconciled to a specific line item in our consolidated financial statements, we believe that active subscribers is a useful metric for investors because it is indicative of potential future revenues. The Company reports the number of active subscribers at the beginning and end of the period, rounded to the nearest thousand.

Non-IFRS financial measures	Definitions
Gross merchandise sales ("GMS")	Gross merchandise sales measures the total retail value of goods sold by the Company and is calculated before taking into account all incentives and credits included in revenue. Incentives and credits, presented at retail value, are principally comprised of sign-up inducements, which typically provide new active subscribers with a discount on their first delivery. GMS is a non-IFRS financial measure. We believe that GMS is a useful revenue measure because the exclusion of incentives and credits provides a picture that is more indicative of future revenue.
Adjusted gross profit & Adjusted gross margin	Adjusted gross profit and adjusted gross margin measure gross profit and gross margin on a retail value basis. Adjusted gross profit is calculated by subtracting the cost of goods sold from GMS. Adjusted gross margin is expressed in percentage terms and calculated as adjusted gross profit divided by GMS. Adjusted gross profit and adjusted gross margin are non-IFRS financial measures. We believe that adjusted gross profit and adjusted gross margin are useful measures of financial performance because GMS is indicative of future revenues and therefore, of future gross profit and gross margin.
EBITDA, Adjusted EBITDA & Adjusted EBITDA margin	EBITDA is defined as net income or loss before net finance expenses (income), depreciation and amortization expense and income tax expense. Adjusted EBITDA is defined as EBITDA excluding share-based payments as they are an equity compensation item. Adjusted EBITDA margin is defined as adjusted EBITDA divided by revenue. EBITDA, adjusted EBITDA, and adjusted EBITDA margin are non-IFRS financial measures. We believe that EBITDA, adjusted EBITDA, and adjusted EBITDA margin are useful measures of financial performance because these measures are useful to assess the Company's ability to seize growth opportunities in a cost-effective manner, to finance its ongoing operations and to service its long-term debt. They also allow comparisons between companies with different capital structures.

ACTIVE SUBSCRIBERS

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Active subscribers, beginning of period	230,000	126,000	200,000	89,000
Net change in active subscribers	16,000	33,000	46,000	70,000
Active subscribers, end of period	246,000	159,000	246,000	159,000

GROSS MERCHANDISE SALES

The reconciliation of revenue to GMS is as follows:

	Three-month periods ended		Six-month periods ended	
(In thousands of Canadian dollars)	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Revenue	$ 58,790	$ 36,593	$ 115,081	$ 66,210
Credits removed from cancelled accounts	(1,197)	(638)	(1,197)	(638)
Incentives and credits	11,346	10,580	23,091	18,068
Gross merchandise sales	$ 68,939	$ 46,535	$ 136,975	$ 83,640

For the three-month and six-month periods ended February 29, 2020, GMS increased by $22.4 million and $53.3 million, respectively. The increase in GMS was primarily driven by the continued growth in the number of active subscribers supporting increased penetration across Canada as planned strategic marketing initiatives helped capture new members, an increase in average order value as member basket sizes keep growing and the expansion of the Company's product offering to include additional ready-to-eat meals and private label grocery items.

ADJUSTED GROSS PROFIT AND ADJUSTED GROSS MARGIN

The reconciliation of adjusted gross profit and adjusted gross margin is as follows:

	Three-month periods ended		Six-month periods ended	
(In thousands of Canadian dollars)	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Gross merchandise sales	$ 68,939	$ 46,535	$ 136,975	$ 83,640
Cost of goods sold	40,974	28,943	81,046	52,066
Adjusted gross profit	$ 27,965	$ 17,592	$ 55,929	$ 31,574
Adjusted gross margin	40.6%	37.8%	40.8%	37.7%

For the three-month and six-month periods ended February 29, 2020, the adjusted gross margin improved by 2.8 percentage points and 3.1 percentage points, respectively. The increase in the adjusted gross margin resulted primarily from lower production labour costs as a percentage of GMS driven by continued investments in automation, lower food, packaging and shipping unit costs due to additional operational efficiencies and economies of scale, increased density among the delivery zones, and purchasing power with key suppliers, slightly offset by the launch and expansion of new products.

EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

The reconciliation of net loss to EBITDA, Adjusted EBITDA and then to Adjusted EBITDA margin is as follows:

(In thousands of Canadian dollars)	Three-month periods ended February 29, 2020	Three-month periods ended February 28, 2019	Six-month periods ended February 29, 2020	Six-month periods ended February 28, 2019
Net loss	$ (3,360)	$ (6,560)	$ (8,512)	$ (11,411)
Net finance expenses	218	89	315	176
Depreciation and amortization expense	1,066	555	2,059	1,042
Deferred income tax recovery	(1,330)	–	(1,330)	–
EBITDA	$ (3,406)	$ (5,916)	$ (7,468)	$ (10,193)
Share-based payments	485	429	896	804
Adjusted EBITDA	$ (2,921)	$ (5,487)	$ (6,572)	$ (9,389)
Revenue	$ 58,790	$ 36,593	$ 115,081	$ 66,210
Adjusted EBITDA margin (%)	(5.0%)	(15.0%)	(5.7%)	(14.2%)

For the three-month and six-month periods ended February 29, 2020, adjusted EBITDA margin improved by 10.0 percentage points and 8.5 percentage points, respectively. The increase in adjusted EBITDA margin resulted primarily from higher revenues, gross margin and increase in credits removed from cancelled accounts, as well as the operating leverage effect as selling, general and administrative expenses as a percentage of revenue decreased, offset by additional expenses coming from the launch of new product offering.

RESULTS OF OPERATIONS – THREE-MONTH PERIODS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

The following table sets forth the components of the Company's statement of loss and comprehensive loss for the three-month periods ended February 29, 2020 and February 28, 2019:

(In thousands of Canadian dollars, except share information)	Three-month periods ended February 29, 2020	Three-month periods ended February 28, 2019	Variance ($) [1]	Variance (%) [2]
Revenue	$ 58,790	$ 36,593	$ 22,197	61%
Cost of goods sold	40,974	28,943	(12,031)	42%
Gross profit	$ 17,816	$ 7,650	$ 10,166	133%
Gross margin [3]	*30.3%*	*20.9%*	*N/A*	*N/A*
Selling, general and administrative expenses	$ 21,222	$ 13,566	$ (7,656)	56%
Depreciation and amortization expenses	1,066	555	(511)	92%
Net finance expenses	218	89	(129)	145%
Net loss before income taxes	(4,690)	(6,560)	1,870	29%
Deferred income tax recovery	(1,330)	–	1,330	*N/A*
Net loss, being comprehensive loss	$ (3,360)	$ (6,560)	$ 3,200	49%
Basic and diluted net loss per share	$ (0.06)	$ (0.13)	$ 0.07	54%

(1) A positive variance represents a decrease in net loss and a negative variance represents an increase in net loss.
(2) Percentage change is presented in absolute values.
(3) Gross margin is calculated as gross profit divided by revenue and is expressed in percentage terms.

EXPLANATION OF VARIANCES FOR THE THREE-MONTH PERIOD ENDED FEBRUARY 29, 2020 COMPARED TO THE THREE-MONTH PERIOD ENDED FEBRUARY 28, 2019

- The increase in revenue was primarily driven by the continued growth in the number of active subscribers, an increase of average order value and the expansion of our product offering as member basket sizes increased and the expansion of the Company's product offering to include ready-to-eat meals and private label grocery items.
- The increase in gross profit was primarily driven by the increase in revenue and a higher gross margin.
- The increase in gross margin primarily resulted from lower production costs as a percentage of revenue and lower unit costs for food, packaging and shipping due to increased operational efficiencies, additional automation investments, increased density among the delivery zones and purchasing power with key suppliers, but also to lower incentive and credits as a percentage of revenue and the increase in the credits removed from cancelled accounts. This was partially offset by the increase in our product offering. The Company expects that fixed costs as a percentage of revenues will continue to decrease with Goodfood's continued growth which should further increase gross margin in the future.
- The increase in selling, general and administrative expenses is mostly due to higher wage costs resulting from the addition of administrative personnel to support the Company's growth and increase in product offering and to planned strategic increases in marketing costs based on successful client acquisition strategies. It's important to note that selling, general and administrative expenses as a percentage of revenue decreased.

- The increase in depreciation and amortization expenses resulted from the acquisition of fixed assets across all asset classes, mainly for the expansion of production facilities and investments in automation, as well as the recognition of new leases.
- The deferred income tax recovery was a result of the recognition of previous unrecognized tax benefit to offset a deferred tax liability created by the equity component of the Company's issuance of the convertible debentures.
- The decrease in net loss was a result of the factors described above.

RESULTS OF OPERATIONS – SIX-MONTH PERIODS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

The following table sets forth the components of the Company's statement of loss and comprehensive loss for the six-month periods ended February 29, 2020 and February 28, 2019:

(In thousands of Canadian dollars, except share information)	Six-month periods ended		Variance	
	February 29, 2020	February 28, 2019	($) (1)	(%) (2)
Revenue	$ 115,081	$ 66,210	$ 48,871	74%
Cost of goods sold	81,046	52,066	(28,980)	56%
Gross profit	$ 34,035	$ 14,144	$ 19,891	141%
Gross margin (3)	*29.6%*	*21.4%*	*N/A*	*N/A*
Selling, general and administrative expenses	$ 41,503	$ 24,337	$ (17,166)	71%
Depreciation and amortization expenses	2,059	1,042	(1,017)	98%
Net finance expenses	315	176	(139)	79%
Net loss before income taxes	(9,842)	(11,411)	1,569	14%
Deferred income tax recovery	(1,330)	–	1,330	*N/A*
Net loss, being comprehensive loss	$ (8,512)	$ (11,411)	$ 2,899	25%
Basic and diluted net loss per share	$ (0.15)	$ (0.22)	$ 0.07	32%

(1) A positive variance represents a decrease in net loss and a negative variance represents an increase in net loss.
(2) Percentage change is presented in absolute values.
(3) Gross margin is calculated as gross profit divided by revenue and is expressed in percentage terms.

EXPLANATION OF VARIANCES FOR THE SIX-MONTH PERIOD ENDED FEBRUARY 29, 2020 COMPARED TO THE SIX-MONTH PERIOD ENDED FEBRUARY 28, 2019

- The increase in revenue was primarily driven by the continued growth in the number of active subscribers, an increase of average order value and the expansion of our product offering as member basket sizes increased and the expansion of the Company's product offering to include ready-to-eat meals and private label grocery items.
- The increase in gross profit was primarily driven by the increase in revenue and a higher gross margin.

- The increase in gross margin primarily resulted from lower production costs as a percentage of revenue and lower unit costs for food, packaging and shipping due to increased operational efficiencies, additional automation investments, increased density among the delivery zones and purchasing power with key suppliers, but also to lower incentive and credits as a percentage of revenue and the increase in the credits removed from cancelled accounts. This was partially offset by the increase in our product offering. The Company expects that fixed costs as a percentage of revenues will continue to decrease with Goodfood's continued growth which should further increase gross margin in the future.
- The increase in selling, general and administrative expenses is mostly due to higher wage costs resulting from the addition of administrative personnel to support the Company's growth and increase in product offering and to planned strategic increases in marketing costs based on successful client acquisition strategies. It's important to note that selling, general and administrative expenses as a percentage of revenue decreased.
- The increase in depreciation and amortization expenses resulted from the acquisition of fixed assets across all asset classes, mainly for the expansion of production facilities and investments in automation, as well as the recognition of new leases.
- The deferred income tax recovery was a result of the recognition of previous unrecognized tax benefit to offset a deferred tax liability created by the equity component of the Company's issuance of the convertible debentures.
- The decrease in net loss was a result of the factors described above.

FINANCIAL POSITION

The following table provides an analysis of the Company's statement of financial position as at February 29, 2020 compared to August 31, 2019:

(In thousands of Canadian dollars)	February 29, 2020	August 31, 2019	Variance
Total Assets	**$ 118,098**	**$ 80,783**	**$ 37,315**
Variance mainly due to:			
Cash and cash equivalents	67,040	45,149	21,891
Inventories	5,146	4,735	411
Fixed assets	16,143	13,545	2,598
Right-of-use-assets	21,809	11,089	10,720
Intangible assets	1,516	512	1,004
Other non-current assets	1,145	402	743
Total Liabilities	**$ 104,458**	**$ 63,382**	**$ 41,076**
Variance mainly due to:			
Line of credit	3,240	1,540	1,700
Accounts payable and accrued liabilities	35,111	30,704	4,407
Deferred revenue	6,738	5,923	815
Convertible debentures	22,971	–	22,971
Lease obligations, including current portion	23,860	12,724	11,136
Total Shareholders' Equity	**$ 13,640**	**$ 17,401**	**$ (3,761)**
Variance mainly due to:			
Convertible debentures	3,690	–	3,690
Deficit	(50,058)	(41,546)	(8,512)

EXPLANATION OF VARIANCES FROM AUGUST 31, 2019 TO FEBRUARY 29, 2020

- The increase in cash and cash equivalents is primarily due to the issuance of convertible debentures in February 2020, slightly offset by an unfavorable variance in non-cash operating working capital.
- The increase in inventories is due to the Company's growth, where the increase in food and packaging inventory follows weekly and monthly revenue cycle respectively, and also due to the product offering expansion.
- The increase in fixed assets is primarily due to investments in the capacity expansions and automation of the Company's production facilities in order to increase production capacity and efficiency.
- The increase in right-of-use assets and lease obligations resulted from the recognition of new lease agreements, mainly the Vancouver, British Columbia facility lease.
- The increase in intangible assets resulted from investments in the development of an enterprise resource planning system to optimize the Company's operations as it continues to scale.
- The increase in other non-current assets resulted from deposits on fixed assets for capacity expansion and automation.

- The increase in line of credit resulted from additional drawing to fund planned fixed capital expenditure additions.
- The increase in accounts payable and accrued liabilities is primarily due to higher purchases resulting from the Company's growth and product offering expansion.
- The increase in deferred revenue is due to Company's growth and to the timing of period-end within the Company's weekly delivery cycle.
- The increase in convertible debentures both on the liabilities and shareholders' equity sides resulted from the $30 million financing completed in February 2020. The debentures bear a fixed interest rate of 5.75% per annum and will mature on March 31, 2025.
- The increase in deficit is due to the net loss incurred for the six-month period ended February 29, 2020.

LIQUIDITY AND CAPITAL RESOURCES

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 deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements, convertible notes and convertible debentures, cash provided by operating activities and short-term or long-term senior debt, which are included in the Company's definition of capital. The Company manages its excess cash such that it has sufficient reserve to fund its operations and capital expenditures.

CASH FLOWS

A summary of net cash flows by activity for the three-month periods ended February 29, 2020 and February 28, 2019 is presented below:

	Three-month periods ended		
(In thousands of Canadian dollars)	February 29, 2020	February 28, 2019	Variance
Net cash used in operating activities	$ (3,881)	$ (499)	$ (3,382)
Net cash provided by financing activities	29,015	24,164	4,851
Net cash used in investing activities	(2,643)	(2,718)	75
Net change in cash and cash equivalents	$ 22,491	$ 20,947	$ 1,544
Cash and cash equivalents, beginning of period	44,549	25,324	19,225
Cash and cash equivalents, end of period	$ 67,040	$ 46,271	$ 20,769

The negative variance in net cash used in operating activities is primarily due to an unfavorable variance in non-cash operating working capital, slightly offset by a lower net loss. The positive variance in net cash provided by financing activities is primarily due to the issuance of convertible debentures in February 2020 for gross proceeds of $30 million. The net cash used in investing activities was driven primarily by the build-out of the Vancouver, BC fulfillment facility, the construction related to the partial in-housing of ready-to-eat production at our Montreal, QC facility, and the continued investment in automation equipment. The positive variance in net cash used in investing activities is primarily due to lower fixed assets additions

A summary of net cash flows by activity for the six-month periods ended February 29, 2020 and February 28, 2019 is presented below:

(In thousands of Canadian dollars)	Six-month periods ended February 29, 2020	Six-month periods ended February 28, 2019	Variance
Net cash (used in) provided by operating activities	$ (2,420)	$ 1,251	$ (3,671)
Net cash provided by financing activities	28,611	23,766	4,845
Net cash used in investing activities	(4,300)	(3,199)	(1,101)
Net change in cash and cash equivalents	$ 21,891	$ 21,818	$ 73
Cash and cash equivalents, beginning of period	45,149	24,453	20,696
Cash and cash equivalents, end of period	$ 67,040	$ 46,271	$ 20,769

The negative variance in net cash provided by operating activities is primarily due to an unfavorable variance in non-cash operating working capital, slightly offset by a lower net loss. The positive variance in net cash provided by financing activities is primarily due to the issuance of convertible debentures in February 2020 for gross proceeds of $30 million. The negative variance in net cash used in investing activities is due to planned fixed assets additions driven primarily by the build-out of the Vancouver, BC fulfillment facility, the construction related to the partial in-housing of ready-to-eat production at our Montreal, QC facility, and the continued investment in automation equipment.

The following are amounts of cash, cash equivalents and restricted cash as at February 29, 2020 compared to August 31, 2019:

(In thousands of Canadian dollars)	February 29, 2020	August 31, 2019
Cash and cash equivalents	$ 67,040	$ 45,149
Restricted cash (1)	2,500	2,500
	$ 69,540	$ 47,649

(1) Restricted cash consists of cash held as collateral, which is subject to the terms of the financing agreement (Refer to the "Debt" section of this MD&A).

DEBT

Significant financing transactions that took place in the six-month period ended February 29, 2020 were as follows:

- On February 26, 2020, the Company issued 30,000 convertible unsecured subordinated debentures (the "Debentures") at a price of $1,000 per debenture for gross proceeds of $30 million. The Debentures mature on March 31, 2025 and bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2020. Factoring in the Debentures issuance costs, the effective interest rate on the Debentures is 11.61%. The Debentures are convertible into common shares of the Company at any time at the option of the holder at a conversion price of $4.70. Starting March 31, 2023, under certain conditions, the debentures may be redeemed in whole or in part at the option of the Company at a price equal to the principal amount thereof plus accrued and unpaid interest.

- As at February 29, 2020, the Company has four signed swap agreements with a Canadian financial institution whereby the Company fixed the annual interest rates on notional amounts totalling $7 million until November 2021.
- As at February 29, 2020, $10 million and $2.5 million of the Company's term loans with the same Canadian financial institution were disbursed, as well as $3.2 million of the available $10 million revolving line of credit, bearing variable interest at CDOR plus 2.50% (4.48% as at February 29, 2020). In March 2020, the revolving line of credit was fully disbursed. The proceeds are being used to fund the expansion of capital expenditures, invest in automation, and were used to refinance the Company's long-term debt. The term loans are repayable in quarterly installments of $125 thousand and $31 thousand, beginning on November 30, 2020 and August 31, 2020, respectively, with a bullet repayment of the balance at the end of the term in November 2021.
- The Company's credit facility includes a collateral requirement of $2.5 million placed in a restricted cash account and financial covenants with which the Company was in compliance as at February 29, 2020.

CONTRACTUAL OBLIGATIONS

The following are amounts due on contractual maturities of financial liabilities, including estimated interest payments, as well as commitments with respect to leases as at February 29, 2020:

(In thousands of Canadian dollars)	Total	Less than 1 year	1 to 5 years	More than 5 years
Line of credit	$ 3,240	$ 3,240	$ –	$ –
Accounts payable and accrued liabilities	35,111	35,111	–	–
Long-term debt, including current portion	13,476	910	12,566	–
Convertible debentures, liability component	38,626	863	6,900	30,863
Leases, including current portion (1) (2)	29,495	3,512	12,207	13,776
	$ 119,948	$ 43,636	$ 31,673	$ 44,639

(1) As at February 29, 2020, future lease payments of $5.6 million for which the Company is reasonably certain to exercise the renewal options have been recognized in lease obligations included in the Condensed Interim Consolidated Statement of Financial Position as at February 29, 2020, representing an amount of $6.4 million of undiscounted cash flows.

(2) 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.

SELECTED QUARTERLY INFORMATION AND RECONCILIATION OF QUARTERLY NON-IFRS MEASURES

The table below presents gross merchandise sales, revenue, net loss and basic and diluted net loss per share for the last eight fiscal quarters:

	Three-month periods ended							
	Feb 29, 2020 (1)	Nov. 30, 2019 (1)	Aug. 31, 2019 (1)	May 31, 2019 (1)	Feb. 28, 2019 (1)	Nov. 30, 2018 (1)	Aug. 31, 2018	May 31, 2018
Active subscribers	246,000	230,000	200,000	189,000	159,000	126,000	89,000	76,000
(in thousands of Canadian dollars)								
Gross merchandise sales	$ 68,939	$ 68,036	$ 55,977	$ 61,212	$ 46,535	$ 37,105	$ 25,812	$ 26,166
Credits removed from cancelled accounts	1,197	-	-	-	638	-	-	-
Incentives and credits	(11,346)	(11,745)	(10,718)	(11,348)	(10,580)	(7,488)	(4,441)	(3,943)
Revenue	58,790	56,291	45,259	49,864	36,593	29,617	21,371	22,223
Net loss	(3,360)	(5,152)	(5,887)	(3,639)	(6,560)	(4,851)	(2,956)	(1,564)
Basic and diluted net loss per share (2)	(0.06)	(0.09)	(0.10)	(0.06)	(0.13)	(0.09)	(0.06)	(0.03)

(1) The transition to IFRS 16 on September 1, 2018, had an impact for all quarters thereafter on net loss and basic and diluted net loss per share. Refer to applicable sections of the Company's MD&A for the year ended August 31, 2019 for the impact of the transition to IFRS 16.

(2) The sum of Basic and diluted net loss per share on a quarterly basis may not equal basic and diluted net loss per share on a year-to-date basis due to rounding.

TRENDS AND SEASONALITY

The Company's revenues and expenses are affected by seasonality. During holiday and popular vacation periods, the Company anticipates revenues to be lower as a higher proportion of active subscribers elect to skip their delivery. The Company anticipates the growth rate of active subscribers to be lower during these periods. During periods with warmer weather, the Company anticipates packaging costs to be higher due to the additional packaging required to maintain food freshness and quality. The Company also anticipates food cost to be positively affected due to improved availability during periods with warmer weather.

FINANCIAL RISK MANAGEMENT

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, 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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to change in market interest rates. 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 cash flow 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 the "Liquidity and Capital Resources" section of this MD&A.

The Company does not account for any fixed-rate financial assets or financial liabilities, at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or 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.

For the fiscal year ending August 31, 2020, anticipated operating losses, as the Company continues to grow its active subscriber base, and additional capital expenditures are expected to reduce the Company's cash balance and liquidity position compared to February 29, 2020, absent additional financing. We believe that the Company's cash on hand, the recently completed financing transaction and financing capacity will provide adequate sources of funds to meet short-term requirements, finance planned capital expenditures and fund any operating losses.

BUSINESS RISK

For a detailed discussion of the Company's risk factors, please refer to the Company's Annual Information Form for the year-ended August 31, 2019 available on SEDAR at www.sedar.com.

ADDITIONAL FINANCING REQUIREMENTS

As a result of realized and anticipated growth in the number of active subscribers, planned investment in operations, logistics, automation and technology, new product development, as well as the potential for continued operating losses, the Company may require additional financing in the future to realize the goals outlined in the "Financial Outlook" section of this MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenue or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material. The Company's off-balance sheet arrangements consist only of obligations under operating leases with terms of twelve months or less or of low dollar value which are not material.

FINANCIAL INSTRUMENTS

INVESTMENT POLICY

The Company invests its excess cash with varying terms to maturity selected with regards to the expected timing of investments or expenditures for continuing operations.

DERIVATIVES

As at February 29, 2020, the Company has four interest rate swap agreements, as described in the "Liquidity and Capital Resources" section of the MD&A.

FINANCIAL COVENANTS

As discussed in the "Liquidity and Capital Resources" section of the MD&A, the Company secured a credit facility that includes financial covenants which may restrict the Company's ability to pursue future transactions or opportunities. As at February 29, 2020, the Company was in compliance with these financial covenants.

OUTSTANDING SHARE DATA

As at February 29, 2020, the Company had 58,268,790 common shares issued and outstanding and 4,534,053 stock options outstanding. The basic weighted average number of common shares for the three-month and the six-month periods ended February 29, 2020 was 58,227,791 and 58,185,903, respectively.

As at April 8, 2020, the Company had 58,310,466 common shares issued and outstanding and 4,440,112 stock options outstanding.

For additional information with respect to stock options, refer to Note 13 to the Company's Condensed Interim Consolidated Financial Statements for the three-month and six-month periods ended February 29, 2020.

USE OF PROCEEDS FROM PUBLIC OFFERINGS

FEBRUARY 2020 CONVERTIBLE DEBENTURES PUBLIC OFFERING

On February 26, 2020, the Company completed a public offering and issued $30 million of convertible debentures for net proceeds of $28 million. As at February 29, 2020, none of the proceeds received from the public offering completed on February 26, 2020 had been used.

The following table compares the estimated use of proceeds presented in the Company's final short-form prospectus dated February 19, 2020 with the actual use of proceeds as at February 29, 2020:

(In thousands of Canadian dollars)	Actual use of proceeds	Estimated use of proceeds	Variance
Buildout of a new Toronto production and distribution facility	$ -	$ 10,000	$ (10,000)
Capital projects (including process automation)	-	10,000	(10,000)
General corporate purposes	-	8,063	(8,063)
Remaining as at February 29, 2020	27,962	N/A	27,962
Total net proceeds	27,962	28,063	(101)
Debentures issuance costs	2,038	1,937	101
Gross proceeds	$ 30,000	$ 30,000	$ -

FEBRUARY 2019 PUBLIC OFFERING

On February 22, 2019, the Company completed a public offering and issued 6,019,212 common shares for net proceeds of $19.6 million (including proceeds from over-allotment option).

The following table compares the estimated use of proceeds presented in the Company's final short form prospectus dated February 18, 2019 with the actual use of proceeds as at February 29, 2020:

(In thousands of Canadian dollars)	Actual use of proceeds	Estimated use of proceeds [1]	Variance
Capital expenditures and process automation	$ 8,224	$ 10,000	$ (1,776)
Expansion of product offering and development of new meal solutions	5,731	5,000	731
Implementation of reusable packaging initiatives	106	500	(394)
Working capital and general corporate purposes	4,065	4,065	-
Remaining as at February 29, 2020	1,444	N/A	1,444
Total net proceeds	19,570	19,565	5
Share issuance costs	1,497	1,502	(5)
Gross proceeds	$ 21,067	$ 21,067	$ -

(1) Included in the estimated use of proceeds for working capital and general corporate purposes is the additional net proceeds from the exercise of the Treasury Over-Allotment Option.

SEGMENT REPORTING

The Company has one reportable segment as our principal business activity is focused on developing and servicing the Canadian home meal solutions market.

DIVIDEND POLICY

Since its incorporation, the Company has not paid any dividend on its common shares. The Company's current policy is to retain future earnings to finance its growth. Any future determination to pay dividends is at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors of the Company may deem relevant.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The Company's significant accounting estimates and assumptions for the three-month and six-month periods ended February 29, 2020 are the same as those that applied to the Company's Annual Audited Consolidated Financial Statements for the year ended August 31, 2019.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Please refer to Note 26 of the Company's Annual Audited Consolidated for the year ended August 31, 2019 as there have been no change.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer ("Certifying Officers") that report on the design and effectiveness of disclosure controls and procedures, and the design and effectiveness of internal control over financial reporting.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three-month and six-month periods ended February 29, 2020, no changes were made to the Company's internal controls over financial reporting that have materially affected, or are reasonable likely to materially affect, the Company's internal controls over financial reporting.