

Interim Condensed Consolidated Financial Statements of

**GOODFOOD MARKET CORP.**

For the three and nine-month periods ended May 31, 2020 and 2019  
(Unaudited)

# GOODFOOD MARKET CORP.

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(Unaudited)

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# GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of Financial Position

May 31, 2020 and August 31, 2019

(In thousands of Canadian dollars – Unaudited)

	Notes	May 31, 2020	August 31, 2019
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		\$ 77,987	\$ 45,149
Amounts receivable		4,787	2,605
Inventories		6,856	4,735
Other current assets		636	246
		<b>90,266</b>	<b>52,735</b>
<b>Non-current assets:</b>			
Restricted cash	7	2,500	2,500
Fixed assets	5	17,970	13,545
Right-of-use assets	6	21,921	11,089
Intangible assets		1,514	512
Non-current deposits		1,858	402
		<b>\$ 136,029</b>	<b>\$ 80,783</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities		\$ 41,971	\$ 30,704
Line of credit	7	9,063	1,540
Deferred revenues		8,007	5,923
Current portion of long-term debt	7	500	31
Current portion of lease obligations	9	3,061	1,273
		<b>62,602</b>	<b>39,471</b>
<b>Non-current liabilities:</b>			
Long-term debt	7	12,137	12,460
Convertible debentures	8	23,202	–
Lease obligations	9	20,994	11,451
		<b>118,935</b>	<b>63,382</b>
<b>Shareholders' equity:</b>			
Common shares		57,051	56,598
Contributed surplus		3,625	2,349
Convertible debentures	8	3,690	–
Deficit		(47,272)	(41,546)
		<b>17,094</b>	<b>17,401</b>
		<b>\$ 136,029</b>	<b>\$ 80,783</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

# GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)  
Three and nine-month periods ended May 31, 2020 and 2019

(In thousands of Canadian dollars, except share and per share information – Unaudited)

	Notes	Three-month periods ended May 31,		Nine-month periods ended May 31,	
		2020	2019	2020	2019
Revenues		\$ 86,600	\$ 49,864	\$ 201,681	\$ 116,074
Cost of goods sold		61,690	35,775	142,736	87,841
Gross profit		24,910	14,089	58,945	28,233
Expenses:					
Selling, general and administrative		19,486	16,938	60,989	41,275
Depreciation and amortization		1,484	701	3,543	1,743
		20,970	17,639	64,532	43,018
Net finance costs	10	1,154	89	1,469	265
Income (loss) before income taxes		2,786	(3,639)	(7,056)	(15,050)
Deferred income tax recovery	8	–	–	(1,330)	–
Net income (loss), being comprehensive income (loss) for the period		\$ 2,786	\$ (3,639)	\$ (5,726)	\$ (15,050)
Basic earnings (loss) per share		\$ 0.05	\$ (0.06)	\$ (0.10)	\$ (0.28)
Basic weighted average number of common shares outstanding	11	58,302,162	57,950,718	58,224,960	54,007,353
Diluted earnings (loss) per share		\$ 0.05	\$ (0.06)	\$ (0.10)	\$ (0.28)
Diluted weighted average number of common shares outstanding	11	59,000,866	57,950,718	58,224,960	54,007,353

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

# GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of Changes in Equity  
 Nine-month periods ended May 31, 2020 and 2019

(In thousands of Canadian dollars, except share information – Unaudited)

		Common Shares		Contributed	Convertible		
	Notes	Number	Amount	Surplus	Debentures	Deficit	Total
Balance as at							
August 31, 2019		58,144,400	\$ 56,598	\$ 2,349	\$ –	\$ (41,546)	\$ 17,401
Net loss for the period		–	–	–	–	(5,726)	(5,726)
Share-based payments	13	–	–	1,456	–	–	1,456
Stock options exercised	13	173,555	502	(180)	–	–	322
Employee share purchase plan		(15,644)	(53)	–	–	–	(53)
Convertible debentures conversion	8	1,063	4	–	–	–	4
Convertible debentures issuance	8	–	–	–	5,386	–	5,386
Convertible debentures issuance costs	8	–	–	–	(366)	–	(366)
Convertible debentures income tax impact	8	–	–	–	(1,330)	–	(1,330)
Balance as at							
May 31, 2020		58,303,374	\$ 57,051	\$ 3,625	\$ 3,690	\$ (47,272)	\$ 17,094
Balance as at							
August 31, 2018		51,825,245	\$ 36,283	\$ 782	\$ –	\$ (20,609)	\$ 16,456
Net loss for the period		–	–	–	–	(15,050)	(15,050)
Share-based payments	13	–	–	1,269	–	–	1,269
Stock options settled in cash	13	–	–	(99)	–	–	(99)
Share issuance	12	6,019,212	21,067	–	–	–	21,067
Share issuance costs	12	–	(1,497)	–	–	–	(1,497)
Exercise of agent compensation options	12	299,064	740	(142)	–	–	598
Balance as at							
May 31, 2019		58,143,521	\$ 56,593	\$ 1,810	\$ –	\$ (35,659)	\$ 22,744

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

# GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of Cash Flows  
 Three and nine-month periods ended May 31, 2020 and 2019  
 (In thousands of Canadian dollars – Unaudited)

	Notes	Three-month periods ended May 31,		Nine-month periods ended May 31,	
		2020	2019	2020	2019
Cash provided by (used in):					
Operating:					
Net income (loss)		\$ 2,786	\$ (3,639)	\$ (5,726)	\$ (15,050)
Adjustments for:					
Depreciation and amortization		1,484	701	3,543	1,743
Share-based payments		560	465	1,456	1,269
Stock options settled in cash	13	–	–	–	(99)
Net finance costs	10	1,154	89	1,469	265
Deferred income tax recovery	8	–	–	(1,330)	–
Other		(665)	–	(563)	(83)
Change in non-cash operating working capital	16	3,233	4,723	7,283	15,545
		<b>8,552</b>	2,339	<b>6,132</b>	3,590
Financing:					
Net borrowing under line of credit		5,823	–	7,523	(500)
Proceeds from issuance of long-term debt	7	–	2,470	–	10,004
Proceeds from issuance of convertible debentures	8	–	–	30,000	–
Convertible debenture issuance costs	8	(4)	–	(1,651)	(15)
Repayment of long-term debt	7	7	–	18	(2,002)
Proceeds from exercise of stock options	13	130	–	322	–
Proceeds from exercise of agent compensation options		–	598	–	598
Shares purchased under employee share purchase plan		(26)	–	(53)	–
Proceeds from issuance of common shares	12	–	–	–	21,067
Share issuance costs	12	–	–	–	(1,497)
Interest paid		(491)	(555)	(1,140)	(616)
Payments of lease obligations		(721)	(31)	(1,690)	(791)
		<b>4,718</b>	2,482	<b>33,329</b>	26,248
Investing:					
Interest received		194	193	640	410
Acquisition and deposits on fixed assets	5	(1,936)	(1,504)	(5,849)	(4,858)
Acquisition of intangible assets		(581)	(68)	(1,414)	(130)
		<b>(2,323)</b>	(1,379)	<b>(6,623)</b>	(4,578)
Increase in cash and cash equivalents		10,947	3,442	32,838	25,260
Cash and cash equivalents, beginning of period		67,040	46,271	45,149	24,453
Cash and cash equivalents, end of period		<b>\$ 77,987</b>	\$ 49,713	<b>\$ 77,987</b>	\$ 49,713

Additional cash flow information is presented in Note 16.

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

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## NOTE 1 REPORTING ENTITY

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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 four additional production facilities located in Quebec, Ontario, Alberta, and British Columbia.

The Company 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. 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 ecosystem 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

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These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual audited consolidated financial statements of the Company for the years ended August 31, 2019 and 2018.

The interim condensed consolidated financial statements of the Company for the three and nine-month periods ended on May 31, 2020 and 2019 were authorized by the Board of Directors ("Board") for publication on July 8, 2020.

The outbreak of COVID-19 has had an impact on Goodfood's overall business and operations. As an essential service in Canada, Goodfood has continued to operate throughout the pandemic and has experienced growth in demand. While orders have been fulfilled, operations and supply chain experienced challenges, putting pressure on food and labour costs. The Company continues to monitor developments of the pandemic and continuously assesses its potential impact on further production activities, supply chain, and facilities capacity to respond to the increasing demand and prevent any disruptions to fulfillment. Pressure on supply chain, inventory levels and increased operational cost or disruptions and labour shortages could increase depending on the duration and severity of the pandemic as well as any changes to Goodfood's regulatory framework. Further details on the impact of the pandemic and measures implemented are provided in Management's Discussion and Analysis for the three and nine-month periods ended May 31, 2020.

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

## NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and 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 regularly reviewed. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are the same as those applied to the Company's annual audited consolidated financial statements for the years ended August 31, 2019 and 2018.

## NOTE 4 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in these interim condensed consolidated financial statements are the same as those applied to the Company's annual audited consolidated financial statements for the years ended August 31, 2019 and 2018.

## NOTE 5 FIXED ASSETS

	<b>Furniture and fixtures</b>	<b>Machinery and equipment</b>	<b>Computer hardware and other</b>	<b>Leasehold improve- ments</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost :</b>						
Balance as at August 31, 2019	\$ 716	\$ 6,480	\$ 674	\$ 7,079	\$ 232	\$ 15,181
Additions	346	843	566	1,562	2,784	6,101
Transfers	–	–	–	3,016	(3,016)	–
<b>Balance as at May 31, 2020</b>	<b>\$ 1,062</b>	<b>\$ 7,323</b>	<b>\$ 1,240</b>	<b>\$ 11,657</b>	<b>\$ –</b>	<b>\$ 21,282</b>
<b>Accumulated depreciation:</b>						
Balance as at August 31, 2019	\$ 130	\$ 507	\$ 216	\$ 783	\$ –	\$ 1,636
Depreciation	135	622	201	718	–	1,676
<b>Balance as at May 31, 2020</b>	<b>\$ 265</b>	<b>\$ 1,129</b>	<b>\$ 417</b>	<b>\$ 1,501</b>	<b>\$ –</b>	<b>\$ 3,312</b>
<b>Net carrying amounts:</b>						
Balance as at August 31, 2019	\$ 586	\$ 5,973	\$ 458	\$ 6,296	\$ 232	\$ 13,545
<b>Balance as at May 31, 2020</b>	<b>\$ 797</b>	<b>\$ 6,194</b>	<b>\$ 823</b>	<b>\$ 10,156</b>	<b>\$ –</b>	<b>\$ 17,970</b>



# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

## NOTE 6 RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
Balance as at August 31, 2019	\$ 10,348	\$ 290	\$ 451	\$ 11,089
Additions	12,386	437	271	13,094
Derecognition	–	–	(73)	(73)
Depreciation	(1,794)	(258)	(137)	(2,189)
<b>Balance as at May 31, 2020</b>	<b>\$ 20,940</b>	<b>\$ 469</b>	<b>\$ 512</b>	<b>\$ 21,921</b>

## NOTE 7 DEBT

### Credit facility

During the year ended August 31, 2019, the Company obtained from a Canadian financial institution two secured three-year term loans totalling \$12.5 million, a \$10 million revolving line of credit and \$5 million in other short-term financing. The credit facility is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The proceeds are being used to fund expansion, capital expenditures, invest in automation, and were also used to refinance the Company's long-term debt.

As at May 31, 2020, \$12.5 million (August 31, 2019 – \$10 million) of the term loans were disbursed, bearing variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50% (3.10% as at May 31, 2020). 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.

As at May 31, 2020, \$9.1 million (August 31, 2019 – \$1.5 million) of the revolving line of credit was drawn, bearing variable interest at CDOR plus 2.50% (3.10% as at May 31, 2020).

As at May 31, 2020, three irrevocable financial standby letters of credit totalling \$0.9 million were issued by the aforementioned Canadian financial institution. The letters of credit represent security with regards to lease or other short-term financing agreements of the Company and reduce the borrowing capacity on the Company's revolving line of credit.

As at May 31, 2020, the Company has corporate credit cards used for business purposes with authorized limits totaling \$7.25 million (August 31, 2019 – \$7.875 million), including the \$5 million 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 \$2.5 million placed in a restricted cash account and financial covenants with which the Company was in compliance as at May 31, 2020.

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

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## Interest rate swaps

As at May 31, 2020, the Company has one signed swap agreement with the same Canadian financial institution whereby the Company fixed the interest rate on a notional amount totalling \$11.25 million until November 2021.

As at May 31, 2020, the Company's interest rate swap is classified as a derivative financial liability not designated as a hedging instrument. In accordance with IFRS 9, *Financial Instruments*, the Company's swap agreement is measured at fair value with gains and losses in fair value presented in net finance costs in the Company's condensed interim consolidated statements of income (loss) and comprehensive income (loss). For the three and nine-month periods ended May 31, 2020, losses in change of fair value of \$92 thousand and \$128 thousand, respectively, are presented in net finance costs (refer to Note 10). As at May 31, 2020, a liability of \$174 thousand is presented in long-term debt.

## **NOTE 8 CONVERTIBLE DEBENTURES**

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On February 26, 2020, the Company issued 30,000 convertible unsecured subordinated debentures (the "Debentures") at a price of \$1 thousand per debenture for gross proceeds of \$30 million. The debentures mature on March 31, 2025 (the "Maturity Date") 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.

The Debentures are convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the Maturity Date and the last business day immediately preceding the date specified for redemption by the Company at a price of \$4.70 (the "Conversion Price") per common share.

On or after March 31, 2023, and prior to March 31, 2024, provided that the volume weighted average trading price of the Company's common shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price, the Debentures may be redeemed in whole or in part at the option of the Company at price equal to the principal amount thereof plus accrued and unpaid interest. On or after March 31, 2024, and prior to the Maturity Date, the Debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

In the event of a change in control, the Company will be required to make a payment to the holders of the Debentures in accordance with the make-whole premium provisions set forth by the indenture of the Debentures.

The conversion option, net of related issuance costs and deferred income taxes, has been recorded in shareholders' equity for an amount of \$3.7 million. Factoring in the Debentures issuance costs, the effective interest rate on the Debentures is 11.76%.

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

During the three months ended May 31, 2020, five Debentures were converted into common shares of the Company resulting in the issuance of 1,063 common shares. Following the conversion, a reclassification of \$4 thousand from Convertible debentures to Common shares was recorded.

Proceeds from issuance of the Debentures	<b>\$ 30,000</b>
Debentures issuance costs	<b>(2,038)</b>
Net proceeds	<b>\$ 27,962</b>
Amount classified as equity (net of issuance costs of \$366) <sup>(1)</sup>	<b>(5,020)</b>
Accretion interest	<b>264</b>
Conversion of the Debentures	<b>(4)</b>
Convertible debentures, liability component as at May 31, 2020	<b>\$ 23,202</b>

<sup>(1)</sup> In connection with the issuance of the Debentures, a net amount of \$3.7 million was recorded in equity, representing gross proceeds of \$5.4 million, less allocated issuance costs of \$0.4 million and deferred income tax recovery of \$1.3 million.

## NOTE 9 LEASE OBLIGATIONS

The following table presents an analysis of the lease obligations of the Company:

	<b>May 31, 2020</b>	August 31, 2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	<b>\$ 4,175</b>	\$ 1,874
One to five years	<b>13,967</b>	7,050
More than 5 years <sup>(1)</sup>	<b>11,293</b>	6,944
Total undiscounted lease obligations	<b>\$ 29,435</b>	\$ 15,868
Lease obligations as at May 31, 2020	<b>\$ 24,055</b>	\$ 12,724
Current portion	<b>3,061</b>	1,273
Non-current portion	<b>20,994</b>	11,451

<sup>(1)</sup> As at May 31, 2020 and August 31, 2019, 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, representing an amount of \$6.4 million of undiscounted cash outflows.

During the three-month period ended May 31, 2020, the Company signed a thirteen-month lease for a 42,000 square-foot fulfilment centre located in the Greater Toronto Area, Ontario, Canada, with two renewal options of five years. Operations began in May 2020. A lease liability of \$0.7 million was recognized as at May 31, 2020.

Also during the three-month period ended May 31, 2020, the Company signed a ten-year lease for a 200,000 square-foot fulfilment centre located in the Greater Toronto Area with two renewal options of five years. Considering that as at May 31, 2020, the Company did not have access to the asset, the facility was not reflected as a right-of-use asset and no corresponding lease liability was recorded. The expected delivery date and the expected rent payment commencement date is by the end of summer 2021, at which point management intends to commence operations. Fixed rent payments represent a total commitment of \$34 million over the term of the lease.

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

## NOTE 10 NET FINANCE COSTS

	Three-month periods ended May 31,		Nine-month periods ended May 31,	
	2020	2019	2020	2019
Interest expense on debt	\$ 200	\$ 90	\$ 529	\$ 169
Interest expense on lease obligations	297	167	628	467
Interest expense on the Debentures, including accretion interest	688	–	717	–
Interest income	(177)	(232)	(616)	(452)
Foreign exchange loss	54	24	83	41
Change in fair value on interest rate swaps	92	40	128	40
	<b>\$ 1,154</b>	<b>\$ 89</b>	<b>\$ 1,469</b>	<b>\$ 265</b>

## NOTE 11 EARNINGS (LOSS) PER SHARE

	Three-month periods ended May 31,		Nine-month periods ended May 31,	
	2020	2019	2020	2019
Basic weighted average number of common shares outstanding	<b>58,302,162</b>	57,950,718	<b>58,224,960</b>	54,007,353
Dilutive effect of stock options	<b>698,704</b>	–	–	–
Diluted weighted average number of common shares outstanding	<b>59,000,866</b>	57,950,718	<b>58,224,960</b>	54,007,353

Issued shares from the exercise of stock options and share issuance are weighted from the transaction date.

For the three-month period ended May 31, 2020, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the convertible debentures conversion option as it is not dilutive.

For the nine-month period ended May 31, 2020, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the stock options and the convertible debentures conversion option as they are not dilutive.

For the three period and nine-month period ended May 31, 2019 the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the stock options as they are not dilutive.

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

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## NOTE 12 SHARE CAPITAL

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### Share Issuance

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 \$21.1 million, less share issuance costs of \$1.5 million.

### 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 nine-month period ended May 31, 2019, 299,064 options were exercised for gross proceeds of \$0.6 million. The remaining balance of agent compensation options that were not exercised expired on June 1, 2019.

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## NOTE 13 STOCK OPTION PLAN

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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 10% 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 May 31, 2020, 1,140,676 stock options were available for issuance (August 31, 2019 – 450,661).

For the three and nine-month periods ended May 31, 2020, share-based payments recognized under the stock option plan amounted to \$0.6 million and \$1.5 million, respectively (2019 – \$0.5 million and \$1.3 million).

During the nine-month period ended May 31, 2020, 1,442,795 options (2019 – 2,033,603 options) were granted at a weighted average exercise price of \$3.27 (2019 – \$2.88) per option, of which 421,062 options (2019 – 1,106,766 options) were granted to key management personnel and members of the Board.

The weighted average fair value of stock options granted during the nine-month period ended May 31, 2020, was \$1.47 (2019 – \$1.39) 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:

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	May 31, 2020	May 31, 2019
Volatility	51%	54%
Risk-free interest rate	1.33%	1.99%
Expected life of options	5.1 years	5.1 years
Common share value at grant date	\$3.27	\$2.88
Exercise price	\$3.27	\$2.88

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# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine-month periods ended May 31, 2020 and 2019

(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

The following table summarizes the continuity of the stock options during the nine-months ended May 31:

	May 31, 2020		May 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of the period	3,910,169	\$ 2.57	1,425,471	\$ 1.96
Granted	1,442,795	3.27	2,033,603	2.88
Exercised	(173,555)	1.85	(74,740)	1.62
Forfeited	(488,183)	2.79	(91,673)	2.84
<b>Outstanding, end of the period</b>	<b>4,691,226</b>	<b>2.79</b>	<b>3,292,661</b>	<b>2.51</b>
<b>Exercisable</b>	<b>1,334,751</b>	<b>\$ 2.27</b>	<b>503,179</b>	<b>\$ 1.39</b>

On December 4, 2018, the Company exceptionally agreed to settle in cash a specific number of vested stock options with two members of the Board. The net cash settled amount was \$0.1 million and represented 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 nine-month period ended May 31, 2020, the weighted average share price of the Company's common shares upon the exercise date of stock options was \$3.22 (2019 – \$3.09).

Summary of options outstanding is as follows:

Exercise price	Number of options outstanding	Weighted average contractual life outstanding	Exercisable options
<b>Balance as at May 31, 2020:</b>			
Less than \$1.00	129,158	5.91	129,158
\$ 1.00 – 1.99	283,718	5.23	175,024
\$ 2.00 – 2.49	191,876	6.19	155,308
\$ 2.50 – 2.99	1,952,360	6.36	703,811
\$ 3.00 – 3.49	1,805,582	7.23	171,450
\$ 3.50 – 3.49	328,532	7.86	–
	<b>4,691,226</b>	<b>6.71</b>	<b>1,334,751</b>
<b>Balance as at August 31, 2019:</b>			
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	–
	<b>3,910,169</b>	<b>7.12</b>	<b>639,039</b>

# GOODFOOD MARKET CORP.

Notes to Interim Condensed Consolidated Financial Statements

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(All tabular amounts are in thousands of Canadian dollars, except share and stock option information – Unaudited)

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## NOTE 14 FINANCIAL INSTRUMENTS

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

The Company determined the valuation of its convertible debentures using Level 2 inputs.

The fair value of the interest rate swap as at May 31, 2020 was estimated using Level 2 inputs.

## NOTE 15 FINANCIAL RISKS

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### 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 a variable-to-fixed interest rate swap as described in Note 7.

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.

### *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 debentures, 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.

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

	May 31, 2020				
	Total carrying amount	Contractual cash flows <sup>(2)</sup>	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 41,971	\$ 41,971	\$ 41,971	\$ -	\$ -
Line of credit	9,063	9,063	9,063	-	-
Long-term debt, including current portion <sup>(1)</sup>	12,637	13,230	992	12,238	-
Convertible debentures, liability component	23,202	38,784	1,890	36,894	-
	<b>\$ 86,873</b>	<b>\$ 103,048</b>	<b>\$ 53,916</b>	<b>\$ 49,132</b>	<b>\$ -</b>

	August 31, 2019				
	Total carrying amount	Contractual cash flows <sup>(2)</sup>	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 30,704	\$ 30,704	\$ 30,704	\$ -	\$ -
Line of credit	1,540	1,540	1,540	-	-
Long-term debt, including current portion <sup>(1)</sup>	12,491	13,755	597	13,158	-
	<b>\$ 44,735</b>	<b>\$ 45,999</b>	<b>\$ 32,841</b>	<b>\$ 13,158</b>	<b>\$ -</b>

(1) As at May 31, 2020, an interest rate of 3.10% (August 31, 2019 – 4.46%) was used to determine the estimated interest payments on the variable-rate portion of the Company's long-term debt, and the fixed interest rate pursuant to the swap agreement mentioned in Note 7 was used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

(2) Refer to Note 9 for contractual payments due on lease obligations.

## NOTE 16 ADDITIONAL CASH FLOW INFORMATION

The following details the change in non-cash operating working capital:

	Three-month periods ended May 31,		Nine-month periods ended May 31,	
	2020	2019	2020	2019
Amounts receivable	\$ (2,420)	\$ (333)	\$ (2,206)	\$ (660)
Inventories	(1,710)	(543)	(2,121)	(2,522)
Other current assets	(221)	(104)	(390)	(401)
Accounts payable and accrued liabilities	6,315	4,865	9,916	16,307
Deferred revenues	1,269	838	2,084	2,821
	<b>\$ 3,233</b>	<b>\$ 4,723</b>	<b>\$ 7,283</b>	<b>\$ 15,545</b>



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The additional transactions that had no cash impact on investing activities as at May 31, 2020, were as follows:

- Fixed asset additions of \$1.9 million (August 31, 2019 – \$1.3 million) and intangible asset additions of \$32 thousand (August 31, 2019 – \$0.2 million) were unpaid and included in accounts payable and accrued liabilities; and
- Assets under construction additions of \$0.5 million (August 31, 2019 – \$38 thousand) relate to capitalized depreciation on lease obligations.

The additional transactions that had no cash impact on financing activities as at May 31, 2020, were as follows:

- Convertible debenture issuance costs of \$0.4 million (August 31, 2019 – nil) were unpaid and included in accounts payable and accrued liabilities.

Deposits on fixed assets of \$1.0 million (August 31, 2019 – \$0.1 million) are included in non-current deposits.

The following are the amounts of cash, cash equivalents and restricted cash:

	<b>May 31, 2020</b>	August 31, 2019
Cash and cash equivalents	<b>\$ 77,987</b>	\$ 45,149
Restricted cash <sup>(1)</sup>	<b>2,500</b>	2,500
	<b>\$ 80,487</b>	\$ 47,649

<sup>(1)</sup> Restricted cash consists of cash held as collateral, which is subject to the terms of the financing agreement (refer to Note 7).