

Consolidated Financial Statements of

GOODFOOD MARKET CORP.

Years ended August 31, 2020 and 2019

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, 2020 and 2019
- 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, 2020 and 2019, 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 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 information, other than the financial statements and the auditors' report thereon, included in 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, 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 10, 2020

GOODFOOD MARKET CORP.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

As at	Notes	August 31, 2020	August 31, 2019
Assets			
Current assets:			
Cash and cash equivalents		\$ 104,402	\$ 45,149
Amounts receivable	4	4,464	2,605
Inventories	5	6,962	4,735
Other current assets	6	780	246
		116,608	52,735
Non-current assets:			
Restricted cash	12	2,500	2,500
Fixed assets	7	19,191	13,545
Right-of-use assets	8	21,130	11,089
Intangible assets	9	2,203	512
Non-current deposits	10	1,414	402
Total assets		\$ 163,046	\$ 80,783
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	11	\$ 40,878	\$ 30,704
Line of credit	12	9,063	1,540
Deferred revenues		5,390	5,923
Current portion of long-term debt	12	656	31
Current portion of lease obligations	14	2,990	1,273
		58,977	39,471
Non-current liabilities:			
Long-term debt	12	11,959	12,460
Convertible debentures	13	14,194	–
Lease obligations	14	20,358	11,451
Total liabilities		105,488	63,382
Shareholders' equity:			
Common shares	18	97,801	56,598
Contributed surplus		3,208	2,349
Convertible debentures	13	2,231	–
Deficit		(45,682)	(41,546)
Total shareholders' equity		57,558	17,401
Total liabilities and shareholders' equity		\$ 163,046	\$ 80,783

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

Approved on behalf of Goodfood Market Corp. by:

(signed) _____
Jonathan Ferrari, Director and
Chair of the Board

(signed) _____
Francois Vimard, Director and
Chair of the Audit Committee

GOODFOOD MARKET CORP.

Consolidated Statements of Loss and Comprehensive Loss

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

For the years ended August 31,	Notes	2020	2019
Revenues		\$ 285,372	\$ 161,333
Cost of goods sold		198,953	121,023
Gross profit		86,419	40,310
Selling, general and administrative expenses		83,618	58,284
Depreciation and amortization	7, 8, 9, 20	5,361	2,617
Operating profit		(2,560)	(20,591)
Net finance costs	15	2,380	346
Loss before income taxes		(4,940)	(20,937)
Deferred income tax recovery	16	(804)	–
Net loss, being comprehensive loss for the period		\$ (4,136)	\$ (20,937)
Basic loss per share		\$ (0.07)	\$ (0.38)
Basic weighted average number of common shares outstanding	18	58,919,209	55,069,384
Diluted loss per share		\$ (0.07)	\$ (0.38)
Diluted weighted average number of common shares outstanding	18	58,919,209	55,069,384

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

GOODFOOD MARKET CORP.

Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars)

For the years ended August 31,

		2020				
	Notes	Common Shares	Contributed Surplus	Convertible Debentures	Deficit	Total
Balance as at						
August 31, 2019		\$ 56,598	\$ 2,349	\$ –	\$ (41,546)	\$ 17,401
Net loss for the period		–	–	–	(4,136)	(4,136)
Share-based payments	19	–	1,874	–	–	1,874
Stock options exercised	19	2,968	(1,015)	–	–	1,953
Employee share purchase plan	19	(96)	–	–	–	(96)
Share issuance, net of issuance costs	18	27,093	–	–	–	27,093
Convertible debentures issuance, net of issuance costs and tax ⁽¹⁾	13	–	–	3,690	–	3,690
Convertible debentures conversions, net of tax ⁽²⁾	13	11,238	–	(1,459)	–	9,779
Balance as at August 31, 2020		\$ 97,801	\$ 3,208	\$ 2,231	\$ (45,682)	\$ 57,558
						2019
Balance as at						
August 31, 2018		\$ 36,283	\$ 782	\$ –	\$ (20,609)	\$ 16,456
Net loss for the period		–	–	–	(20,937)	(20,937)
Share-based payments	19	–	1,810	–	–	1,810
Stock options exercised	19	5	(2)	–	–	3
Stock options settled in cash	19	–	(99)	–	–	(99)
Share issuance, net of issuance costs	18	19,570	–	–	–	19,570
Agent compensation options exercised	18	740	(142)	–	–	598
Balance as at						
August 31, 2019		\$ 56,598	\$ 2,349	\$ –	\$ (41,546)	\$ 17,401

⁽¹⁾ The equity component of the convertible debentures presented above is net of income taxes of \$1.3 million.

⁽²⁾ The conversions of the convertible debentures presented above is net of income taxes of \$0.5 million.

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

GOODFOOD MARKET CORP.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

For the years ended August 31,	Notes	2020	2019
Operating:			
Net loss		\$ (4,136)	\$ (20,937)
Adjustments for:			
Depreciation and amortization		5,361	2,617
Share-based payment		1,874	1,810
Net finance costs		2,380	346
Deferred income tax recovery		(804)	–
Change in non-cash operating working capital	20	4,400	17,234
Non-current deposits and other		(520)	(190)
		8,555	880
Financing:			
Net borrowing under line of credit		7,523	1,040
Proceeds from issuance of convertible debentures, net of issuance costs	13	27,976	–
Proceeds from issuance of common shares, net of issuance costs	18	27,241	19,570
Proceeds from exercise of stock options	19	1,953	3
Shares purchased under employee share purchase plan		(96)	–
Interest paid		(1,905)	(911)
Payments of lease obligations		(2,574)	(1,198)
Proceeds from issuance of long-term debt, net of issuance costs	12	–	12,436
Repayment of long-term debt	12	–	(1,983)
Proceeds from exercise of agent compensation options		–	598
		60,118	29,555
Investing:			
Interest received		782	647
Additions and deposits on fixed assets	7, 10	(8,426)	(7,640)
Additions to intangible assets	9	(1,776)	(246)
Restricted cash	12	–	(2,500)
		(9,420)	(9,739)
Increase in cash and cash equivalents		59,253	20,696
Cash and cash equivalents, beginning of year		45,149	24,453
Cash and cash equivalents, end of year		\$ 104,402	\$ 45,149
Supplemental disclosure of cash flow information	20		

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

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 1 REPORTING ENTITY

Goodfood Market Corp. is an online grocery company in Canada, delivering fresh meal solutions and grocery items to members across Canada.

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. References to Goodfood Market Corp. (or "Goodfood", the "Company") represent the financial position, financial performance, cash flows and disclosures of Goodfood Market Corp. and its subsidiary.

Goodfood Market Corp. is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange ("TSX") under the symbol "FOOD". The Company has its main production facility and administrative offices based in Montreal, Québec, and additional production facilities in Québec, Ontario, Alberta, and British Columbia.

NOTE 2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

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.

The consolidated financial statements of the Company for the years ended August 31, 2020 and 2019 were authorized by the Board of Directors ("Board") on November 10, 2020 for publication on November 11, 2020.

2.2 BASIS OF MEASUREMENT

The consolidated financials statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss;
- equity share-based payment arrangements which are measured at fair value at grant date pursuant to IFRS 2, *Share-based payment*; and
- lease obligations, which are measured at the present value of minimum lease payments at lease inception.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are stated in Canadian dollars, which is the functional and presentation currency of Goodfood Market Corp.

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Goodfood Market Corp.'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.

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

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

3.1 ECONOMIC CONDITIONS AND UNCERTAINTIES

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations. As an essential service in Canada, Goodfood continued to operate throughout the pandemic and experienced an acceleration of growth in demand. While subscriber orders have been fulfilled and consumer behaviour during the pandemic has contributed to an increase in subscriber base, orders by subscribers and overall business, operations and supply chains were significantly challenged with temporary supplier closures and substitution of unavailable ingredients combined with workforce shortages and additional sanitary measures, putting pressure on food and labour costs. Pressure on supply chains, inventory levels and increased operational costs or disruptions and labour shortages could increase depending on the duration and severity of the pandemic as well as any changes to Goodfood's industry regulatory framework. The magnitude, duration, and severity of the COVID-19 pandemic are difficult to predict and could affect the significant estimates and judgements used in the preparation of the Company's consolidated financial statements. Further details on the impact of the pandemic and measures implemented are provided in Management's Discussion and Analysis for the year ended August 31, 2020.

3.2 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.

3.3 LONG-LIVED 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, right-of-use 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.

3.4 ESTIMATE OF THE LEASE TERM

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will exercise renewal options at the end of the lease term. With the exception of one lease, the Company determined that the term of its leases is the original lease term as it is not reasonably certain that the renewal options will be exercised. This significant estimate could affect the Company's financial position if the exercise of renewal options of the leases are reassessed differently.

3.5 DISCOUNT RATE FOR LEASES

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate ("IBR"). The Company generally used its IBR when recording leases initially, since the implicit rates were not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The IBR for each lease was determined on the commencement date of the lease.

3.6 DEFERRED INCOME TAXES

Deferred tax assets are recognized for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which tax attributes can be realized. 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 is not yet probable that deferred tax assets on the tax losses carried forward and other temporary differences will be realized and has recognized deferred tax assets to the extent of recognized deferred tax liabilities (refer to Note 16).

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 4 AMOUNTS RECEIVABLE

As at	August 31, 2020	August 31, 2019
Sales taxes receivable	\$ 3,063	\$ 2,011
Rewards program receivable	863	288
Volume discounts receivable	421	176
Other receivables	117	130
	\$ 4,464	\$ 2,605

NOTE 5 INVENTORIES

As at	August 31, 2020	August 31, 2019
Food	\$ 4,534	\$ 2,835
Packaging supplies	1,928	1,523
Work in process	500	377
	\$ 6,962	\$ 4,735

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2020 was \$172.8 million (2019 – \$99.2 million).

NOTE 6 OTHER CURRENT ASSETS

As at	August 31, 2020	August 31, 2019
Prepaid expenses	\$ 524	\$ 180
Deposits and other	256	66
	\$ 780	\$ 246

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 7 FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware and other	Leasehold improvements	Assets under construction ⁽¹⁾	Total
Cost:						
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)
As at August 31, 2019	\$ 716	\$ 6,480	\$ 674	\$ 7,079	\$ 232	\$ 15,181
Additions	790	2,049	736	1,436	3,075	8,086
Transfers	–	–	–	3,256	(3,256)	–
As at August 31, 2020	\$ 1,506	\$ 8,529	\$ 1,410	\$ 11,771	\$ 51	\$ 23,267
Accumulated depreciation:						
As at August 31, 2018	\$ 33	\$ 139	\$ 68	\$ 231	\$ –	\$ 471
Depreciation	97	390	148	552	–	1,187
Disposals	–	(22)	–	–	–	(22)
As at August 31, 2019	\$ 130	\$ 507	\$ 216	\$ 783	\$ –	\$ 1,636
Depreciation	205	891	292	1,052	–	2,440
As at August 31, 2020	\$ 335	\$ 1,398	\$ 508	\$ 1,835	\$ –	\$ 4,076
Net carrying amounts:						
As at August 31, 2019	\$ 586	\$ 5,973	\$ 458	\$ 6,296	\$ 232	\$ 13,545
As at August 31, 2020	1,171	7,131	902	9,936	51	19,191

⁽¹⁾ Additions of assets under construction include \$0.5 million (2019 – \$38 thousand) related to capitalized depreciation of right-of-use assets.

GOVERNMENT GRANTS

During the year ended August 31, 2020, the Company recognized \$0.2 million in government grants as a reduction to the cost of machinery and equipment.

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 8 RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
As at August 31, 2018	\$ 5,835	\$ 100	\$ 238	\$ 6,173
Additions	5,614	421	357	6,392
Derecognition	–	–	(39)	(39)
Depreciation	(1,101)	(231)	(105)	(1,437)
As at August 31, 2019	\$ 10,348	\$ 290	\$ 451	\$ 11,089
Additions	12,411	536	324	13,271
Derecognition	–	–	(73)	(73)
Depreciation	(2,581)	(378)	(198)	(3,157)
As at August 31, 2020	\$ 20,178	\$ 448	\$ 504	\$ 21,130

NOTE 9 INTANGIBLE ASSETS

	Software ⁽¹⁾	Intellectual property	Total
Cost:			
As at August 31, 2018	\$ 94	\$ –	\$ 94
Additions	414	74	488
As at August 31, 2019	\$ 508	\$ 74	\$ 582
Additions	1,978	–	1,978
Disposals, write-offs and transfers	(63)	–	(63)
As at August 31, 2020	\$ 2,423	\$ 74	\$ 2,497
Accumulated amortization:			
As at August 31, 2018	\$ 39	\$ –	\$ 39
Amortization	31	–	31
As at August 31, 2019	\$ 70	\$ –	\$ 70
Amortization	222	15	237
Disposals, write-offs and transfers	(13)	–	(13)
As at August 31, 2020	\$ 279	\$ 15	\$ 294
Net carrying amounts:			
As at August 31, 2019	\$ 438	\$ 74	\$ 512
As at August 31, 2020	2,144	59	2,203

⁽¹⁾ For the year ended August 31, 2020, software under development amounted to \$0.6 million (2019 – \$0.3 million).

NOTE 10 NON-CURRENT DEPOSITS

As at	August 31, 2020	August 31, 2019
Security deposits	\$ 882	\$ 287
Deposits on fixed assets	532	115
	\$ 1,414	\$ 402

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	August 31, 2020	August 31, 2019
Accounts payable	\$ 26,068	\$ 23,961
Accrued liabilities	14,810	6,743
	\$ 40,878	\$ 30,704

NOTE 12 DEBT

As at	August 31, 2020	August 31, 2019
Interest-bearing financing:		
Secured term loan, variable interest at CDOR ⁽¹⁾ plus 2.50%, maturing in November 2021	\$ 12,500	\$ 12,500
	\$ 12,500	\$ 12,500
Interest rate swap	146	46
Unamortized financing costs	(31)	(55)
	\$ 12,615	\$ 12,491
Current portion of long-term debt	(656)	(31)
	\$ 11,959	\$ 12,460

⁽¹⁾ CDOR is defined as the Canadian Dollar Offered Rate.

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 August 31, 2020 and 2019, \$12.5 million of the term loans were disbursed, bearing variable interest at CDOR plus 2.50%. The term loans are repayable in quarterly installments of \$31 thousand and \$125 thousand, beginning on August 31, 2020 and November 30, 2020, respectively, with a bullet repayment of the balance at the end of the term in November 2021.

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

As at August 31, 2020, Goodfood had letters of credit outstanding totalling \$0.9 million (2019 – \$86 thousand) that reduced the availability on the line of credit.

As at August 31, 2020, the Company has corporate credit cards used for business purposes with authorized limits totalling \$7.3 million (2019 – \$7.9 million), including \$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. As at August 31, 2020 and 2019, the Company was in compliance with all covenants under the credit facility.

INTEREST RATE SWAPS

During the year ended August 31, 2019, the Company had entered into two swap agreements with the same Canadian financial institution whereby the Company fixed the interest rate on a notional amount totalling \$3.8 million until November 2021.

GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements – August 31, 2020
(All tabular amounts are in thousands of Canadian dollars, except share information)

In the first quarter of the year ended August 31, 2020, the Company entered into two additional swap agreements with the same Canadian financial institution whereby the Company fixed the interest rate on a notional amount of \$3.2 million until November 2021.

During the third quarter of the year ended August 31, 2020, the Company consolidated its four swap agreements totaling a notional amount of \$7 million into one new swap agreement, increasing the notional amount covered to \$11.3 million. The new swap agreement fixed the interest rate until November 2021.

As at August 31, 2020, the Company's interest rate swap is classified as a derivative financial liability not designated as a hedging instrument. For the year ended August 31, 2020, a loss in fair value of \$0.1 million is presented in net finance costs (refer to Note 15). As at August 31, 2020, a liability of \$0.1 million (2019 – \$46 thousand) is presented in long-term debt.

PRINCIPAL PAYMENTS

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

	Principal payments
2021	\$ 656
2022	11,844

NOTE 13 CONVERTIBLE DEBENTURES

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%.

During the year ended August 31, 2020, 11,864 Debentures were converted into common shares of the Company, resulting in the issuance of 2,524,242 common shares and the Company recorded a reclassification to common shares of \$9.3 million and \$2.0 million from the convertible debentures liability and equity components, respectively (refer to Note 18).

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The following table summarizes the continuity of the Company's Debentures for the year ended:

	August 31, 2020
Proceeds from issuance of the Debentures	\$ 30,000
Debentures issuance costs	(2,038)
Net proceeds	\$ 27,962
Amount classified as equity (net of issuance costs of \$366) ⁽¹⁾	(5,020)
Accretion interest	505
Conversion of the Debentures	(9,253)
Convertible debentures, liability component balance, end of year	\$ 14,194

⁽¹⁾ 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 a deferred income tax recovery of \$1.3 million.

NOTE 14 LEASE OBLIGATIONS

The following table summarizes the continuity of the Company's lease obligations for the years ended:

	August 31, 2020	August 31, 2019
Balance, beginning of year	\$ 12,724	\$ 7,556
Additions	13,271	6,392
Derecognition	(73)	(26)
Payment of lease obligations	(3,501)	(1,840)
Interest expense on lease obligations	927	642
Balance, end of year	\$ 23,348	\$ 12,724

The following table summarizes the contractual undiscounted cash flows from lease obligations:

As at	August 31, 2020	August 31, 2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	\$ 4,076	\$ 1,874
One to five years	13,822	7,050
More than 5 years ⁽¹⁾	10,526	6,944
Total undiscounted lease obligations	\$ 28,424	\$ 15,868
Lease obligations balance, end of year	\$ 23,348	\$ 12,724
Current portion	\$ 2,990	\$ 1,273
Non-current portion	\$ 20,358	\$ 11,451

⁽¹⁾ As at August 31, 2020, future lease payments of \$5.6 million (2019 – \$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 (2019 – \$6.4 million) of undiscounted cash outflows.

During the year ended August 31, 2020, the Company signed a ten-year lease for a 200,000 square-foot fulfillment centre located in the Greater Toronto Area, Ontario, Canada with two renewal options of five years. As at August 31, 2020, the Company did not have access to the asset, and therefore, the facility was not reflected as a right-of-use-asset and no corresponding lease obligation 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.

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During the year ended August 31, 2020, the Company signed a thirty-month lease for a 44,967 square-foot fulfillment center located in Montreal, Québec, Canada with two renewal options of 90 days. As at August 31, 2020, the Company did not have access to the asset and therefore, the facility was not reflected as a right-of-use asset and no corresponding lease obligation was recorded. The lease commencement date was October 1, 2020. Fixed rent payments represent a total commitment of \$1.5 million over the term of the lease.

NOTE 15 NET FINANCE COSTS

	For the years ended August 31,	
	2020	2019
Interest expense on debt	\$ 733	\$ 292
Interest expense on lease obligations	927	642
Interest expense on the Debentures, including accretion interest	1,309	–
Interest income	(772)	(687)
Foreign exchange loss	83	53
Fair value loss on interest rate swaps	100	46
	\$ 2,380	\$ 346

NOTE 16 INCOME TAXES

A reconciliation of the Company's income taxes at Canadian statutory rates is as follows:

	For the years ended August 31,	
	2020	2019
Loss before income taxes	\$ (4,940)	\$ (20,937)
Canadian statutory rates	26.5%	26.6%
Income tax benefit at the combined Canadian statutory rate	\$ (1,312)	\$ (5,569)
Decrease resulting from:		
Change in unrecognized deferred income tax assets	(19)	5,045
Permanent differences	531	520
Other	(4)	4
Total income tax recovery	\$ (804)	\$ –

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Deferred income tax assets (liabilities) are attributable to the following items:

	Lease obligations	Net operating losses	Debentures	Fixed assets	Deferred income tax assets (liabilities)
As at August 31, 2019	\$ 2,736	\$ -	\$ -	\$ (2,736)	\$ -
Recognized in net loss	2,201	1,044	(240)	(2,201)	804
Recognized in equity	-	-	(804)	-	(804)
As at August 31, 2020	\$ 4,937	\$ 1,044	\$ (1,044)	\$ (4,937)	\$ -

	Lease obligations	Fixed assets	Deferred income tax assets (liabilities)
As at August 31, 2018	\$ 1,748	\$ (1,748)	\$ -
Recognized in net loss	988	(988)	-
As at August 31, 2019	\$ 2,736	\$ (2,736)	\$ -

The Company had unrecognized deferred income tax assets as follows:

As at	August 31, 2020	August 31, 2019
Deferred income tax assets:		
Net operating loss carry forwards	\$ 7,453	\$ 8,241
Fixed assets	1,250	636
Share and debt issuance costs	1,265	689
Intangible assets	329	254
Other	92	47
Unrecognized deferred income tax assets	\$ 10,389	\$ 9,867

The Company has operating tax losses carried forward of \$32.1 million (2019 – \$31.1 million) which are partially recognized for an amount of \$3.9 million, and unrecognized deductible temporary differences of \$7.1 million (2019 – \$6.1 million) 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 realize the benefits therefrom. As at August 31, 2020, 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
2040	967
	\$ 32,064

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NOTE 17 SUPPLEMENTAL STATEMENT OF LOSS AND COMPREHENSIVE LOSS INFORMATION

	For the years ended August 31,	
	2020	2019
Expense related to variable lease payments not included in the lease obligations	\$ 157	\$ 138
Salaries, fees and other short-term employee benefits	70,932	39,419

NOTE 18 SHAREHOLDER'S CAPITAL

COMMON SHARES

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

The movements in common shares were as follows for the years ended August 31:

	2020		2019	
	Number of shares	Carrying amount	Number of shares	Carrying amount
Balance, beginning of year	58,144,400	\$ 56,598	51,825,245	\$ 36,283
Share issuance through a bought deal offering	4,755,250	28,769	6,019,212	21,067
Debentures conversions (Note 13)	2,524,242	11,238	–	–
Exercise of stock options (Note 19)	910,641	2,968	879	5
Purchased and held in trust through employee share purchase plan (Note 19)	(23,412)	(96)	–	–
Share issuance costs	–	(1,676)	–	(1,497)
Agent compensation options exercised	–	–	299,064	740
Balance, end of year	66,311,121	\$ 97,801	58,144,400	\$ 56,598

During the year ended August 31, 2020, the Company issued 4,755,250 common shares at a price of \$6.05 per common share for gross proceeds of \$28.8 million, less share issuance costs of \$1.7 million, in connection with a public offering completed.

During the year ended August 31, 2019, the Company issued 6,019,212 common shares at a price of \$3.50 per common share for gross proceeds of \$21.1 million, less share issuance costs of \$1.5 million, in connection with the public offering completed.

In connection with the Company's private placement completed during the year ended August 31, 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 year ended August 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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LOSS PER SHARE

As at	August 31, 2020	August 31, 2019
Basic and diluted weighted average number of common shares outstanding	58,919,209	55,069,384

Issued shares from the exercise of stock options, Debenture conversions and share issuance are weighted from the transaction date. The purchase of common shares to fund the employee share purchase plan is weighted from the transaction date.

For the year ended August 31, 2020, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the stock options, unvested shares in connection with the employee share purchase plan and the Debentures conversion option as they are not dilutive.

For the year ended August 31, 2019, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the stock options as they are not dilutive.

NOTE 19 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

A 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 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 August 31, 2020, 1,881,758 stock options were available for issuance (2019 – 450,661).

The following table summarizes the continuity of the stock options during the years ended August 31:

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,910,169	\$ 2.57	1,425,471	\$ 1.96
Granted	2,299,307	4.41	2,661,531	2.89
Exercised	(910,641)	2.14	(879)	2.62
Stock options settled in cash	–	–	(74,740)	1.62
Forfeited	(547,140)	2.82	(101,214)	2.85
Outstanding, end of year	4,751,695	3.51	3,910,169	2.57
Exercisable, end of year	896,335	\$ 2.48	639,039	\$ 1.60

For the year ended August 31, 2020, the weighted average share price of the Company's common shares upon the exercise date of stock options was \$6.44 (2019 – \$2.94).

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The following table provides additional information about the Company's stock options as at August 31:

Exercise Price	2020		2019	
	Number of options outstanding	Weighted average remaining life	Number of options outstanding	Weighted average remaining life
Less than \$1.00	86,658	5.6	178,834	6.8
\$ 1.00 – 1.99	160,830	5.0	283,718	6.0
\$ 2.00 – 2.49	101,106	5.2	203,325	6.9
\$ 2.50 – 2.99	1,469,755	6.1	2,313,573	7.1
\$ 3.00 – 3.49	1,751,790	7.0	930,719	7.7
\$ 3.50 – 3.99	328,532	7.6	–	–
\$ 6.00 – 6.49	653,024	7.9	–	–
\$ 7.00 – 7.49	200,000	8.0	–	–
Outstanding, end of year	4,751,695	6.8	3,910,169	7.1
Exercisable, end of year	896,335	6.0	639,039	6.7

Stock options granted were valued using the Black-Scholes option pricing model with the following weighted-average assumptions for the years ended August 31:

	2020	2019
Volatility	53%	53%
Risk-free interest rate	0.97%	1.84%
Expected life of options	5.1 years	5.1 years
Common share value at grant date	\$ 4.41	\$ 2.89
Weighted average exercise price	\$ 4.41	\$ 2.89

During the year ended August 31, 2020, an expense of \$1.9 million (2019 – \$1.8 million) was recorded in the consolidated statements of loss and comprehensive loss in relation to the Stock Option Plan.

EMPLOYEE SHARE PURCHASE PLAN

On September 1, 2019, the Company implemented an employee share purchase plan ("ESPP") to attract and retain employees and directors. Under this plan, employees or directors are permitted to contribute between 1% and 5% of their eligible earnings, up to \$10,000 annually, to purchase Company's equity shares. The Company, in turn, provides a matching contribution equal to 50% of the participant's personal contribution. Shares purchased with the Company's contributions become vested two years from the contribution date. All contributions are used by the plan's trustee to purchase equity shares on the open market, on behalf of employees.

The following table summarizes the changes in the ESPP's position for the year ended:

	August 31, 2020	
	Number of shares	Amount
Unvested contributions, beginning of year	–	\$ –
Contributions	23,412	96
Vested	–	–
Unvested contributions, end of year	23,412	\$ 96

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NOTE 20 SUPPLEMENTAL CASH FLOW INFORMATION

The following summarizes the net changes in non-cash items related to operating working capital:

As at	August 31, 2020	August 31, 2019
Amounts receivable	\$ (1,869)	\$ (812)
Inventories	(2,227)	(3,150)
Other current assets	(534)	(86)
Accounts payable and accrued liabilities	9,563	17,881
Deferred revenues	(533)	3,401
	\$ 4,400	\$ 17,234

The additional transactions that had no cash impact on investing activities for the year ended August 31, 2020 were as follows:

- Fixed asset additions of \$0.9 million (2019 – \$1.3 million) and intangible asset additions of \$0.4 million (2019 – \$0.2 million) were unpaid and included in accounts payable and accrued liabilities; and
- Assets under construction additions of \$0.5 million (2019 – \$38 thousand) relate to capitalized depreciation on right-of-use assets.

The additional transaction that had no cash impact on financing activities for the year ended August 31, 2020 was as follows:

- Share issuance costs of \$0.1 million (2019 – nil) were unpaid and included in accounts payable and accrued liabilities.

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

As at	August 31, 2020	August 31, 2019
Cash and cash equivalents	\$ 104,402	\$ 45,149
Restricted cash ⁽¹⁾	2,500	2,500
	\$ 106,902	\$ 47,649

⁽¹⁾ Restricted cash consists of cash held as collateral, which is subject to the terms of the financing agreement (refer to Note 12).

NOTE 21 COMMITMENTS

As at August 31, 2020, Goodfood had commitments under purchase and service contract obligations for both operating and capital expenditures that do not meet the definition of a lease under IFRS 16, *Leases*.

The following summarizes the commitments of Goodfood as at August 31, 2020 that are due in each of the next five years and thereafter:

	Total commitments
2021	\$ 1,870
2022	39
2023	35
2024	23
2025	7
2026 and thereafter	–
	\$ 1,974

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NOTE 22 FINANCIAL INSTRUMENTS

Goodfood has determined that the fair value of cash and cash equivalents, amounts receivable, restricted cash, 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.

Goodfood determined that the fair value of its long-term debt and Debentures approximates their carrying amount as they bear interest at market interest rates for financial instruments with similar terms and risks.

The Company determined the valuation of its Debentures at issuance using Level 3 inputs.

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

NOTE 23 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, and restricted cash. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited given 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 12.

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss and 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 significantly impact the fair value of the interest rate swaps and consequently, the Company's net 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 structure 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 of equity securities, convertible debentures, cash flows provided by operating activities and short-term or long-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 as at August 31:

	2020					
	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years	
Accounts payable and accrued liabilities	\$ 40,878	\$ 40,878	\$ 40,878	\$ -	\$ -	
Line of credit	9,063	9,063	9,063	-	-	
Long-term debt, including current portion ⁽¹⁾	12,615	13,104	1,142	11,962	-	
Debentures, liability component	14,194	23,447	1,140	22,307	-	
Lease obligations, including current portion	23,348	28,424	4,076	13,822	10,526	
	\$ 100,098	\$ 114,916	\$ 56,299	\$ 48,091	\$ 10,526	

	2019					
	Total carrying amount	Contractual cash flows	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 ⁽¹⁾	12,491	13,755	597	13,158	-	
Lease obligations, including current portion	12,724	15,868	1,874	7,050	6,944	
	\$ 57,459	\$ 61,867	\$ 34,715	\$ 20,208	\$ 6,944	

⁽¹⁾ As at August 31, 2020, an interest rate of 3.00% (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 12 was used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

NOTE 24 RELATED PARTIES

KEY MANAGEMENT PERSONNEL

The Company's key management personnel have authority and responsibility for planning, directing and controlling the Company's activities and consist of the Company's executive team and the Board of Directors. The chief executive officer ("CEO") and the president and chief operating officer ("President and COO") are members of the Board of the Company. The CEO is also Chairman of the Board.

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

	For the years ended August 31,	
	2020	2019
Salaries, fees and other short-term employee benefits	\$ 2,884	\$ 1,963
Share-based payments	865	1,062

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RELATED PARTY TRANSACTIONS

For the year ended August 31, 2020, in connection with the issuance of Debentures described in Note 13, 75 Debentures were purchased by Board members and key management personnel at a price of \$1,000 per Debenture.

For the year ended August 31, 2019, in connection with the public offering described in Note 18, 26,500 common shares were purchased by Board members and key management personnel at a price of \$3.50 per common share.

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

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.

Subsidiary

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 GOVERNMENT GRANTS

Government grants are recognized only when the Company has reasonable assurance that it meets the conditions and will receive the grants. Government grants related to assets, including investment tax credits, are recognized in the consolidated statement of financial position as a deduction from the carrying amount of the related asset. They are then recognized in profit or loss over the estimated useful life of the depreciable asset that the grants were used to acquire, as a deduction from the depreciation expense.

Other government grants are recognized in profit or loss as a deduction from the related expenses.

25.4 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.

25.5 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 (refer to Note 12).

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25.6 FIXED ASSETS

25.6.1 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, as well as directly attributable payroll and consulting costs.

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.

25.6.2 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.

25.6.3 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.

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 and other	3 to 5 years
Leasehold improvements	Shorter of lease term and useful life

25.7 LEASES

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. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

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Right-of-use asset

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation 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 obligation.

Lease obligation

The lease obligation 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 obligation 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 obligation 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 obligation 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.

25.8 INTANGIBLE ASSETS

25.8.1 RECOGNITION AND MEASUREMENT

Intangible assets that have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets include the cost of software tools and licenses as well as directly attributable payroll and consulting costs.

25.8.2 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.

25.8.3 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.

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

Asset	Period
Software	3 to 5 years
Intellectual property	5 years

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

25.9 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, fixed assets and right-of-use 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.

25.10 FINANCIAL INSTRUMENTS

25.10.1 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.

25.10.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

On initial recognition, a financial asset is classified as measured at amortized 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.

Amortized cost

A financial asset is measured at amortized 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 amortized 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.

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

25.10.3 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, 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 recognized 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 recognized in net loss.

25.10.4 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.

25.10.5 IMPAIRMENT

With respect to impairment of financial assets, IFRS 9, *Financial Instruments*, requires applying the expected credit losses model. 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.

25.10.6 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.

25.10.7 INTEREST RATE SWAP AGREEMENTS

In accordance with IFRS 9, 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 consolidated statements of loss and comprehensive loss.

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25.10.8 CONVERTIBLE DEBENTURES

Convertible debentures are measured at amortized cost, using the effective interest rate method. They are initially measured at fair value, which is the consideration received, net of transaction costs incurred, net of the equity component. Transaction costs related to those instruments are included in the value of the instruments and amortized using the effective interest rate method. The effective interest expense is included in net finance costs in the consolidated statements of loss and comprehensive loss.

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issuance, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, without being subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the portion recognized in equity will be transferred to common shares. Issuance costs are divided between the liability and equity components in proportion to their respective values.

On the early redemption or repurchase of convertible debentures, the Company allocates the consideration paid on extinguishment to the liability based on its fair value at the date of the transaction and the residual is allocated to the conversion option. Any resulting gain or loss relating to the liability element is credited or charged to the consolidated statement of loss and the difference between the carrying amount and the amount considered to be settled relating to the holder option is treated as a common share transaction.

25.11 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 whose 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.

25.12 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.

25.13 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

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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.

25.14 EMPLOYEE SHARE PURCHASE PLAN

The Company's contributions, used to purchase shares on the open market on behalf of employees, are recognized when incurred as an employee benefit expense, with a corresponding increase in contributed surplus. The amount expensed is adjusted to reflect the number of awards for which it is expected that the vesting conditions will be met, so that the amount ultimately expensed will depend on the number of awards that meet the vesting conditions at the vesting date.

Unvested shares held in trust on behalf of employees are treasury shares and, therefore, deducted from equity until they become vested.

25.15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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.

25.16 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.

Current income tax

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.

Deferred income tax

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.

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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.

25.17 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.

25.18 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, unvested ESPP shares, and convertible debentures.

25.19 FINANCE INCOME AND FINANCE EXPENSES

Finance income comprises interest income and foreign exchange gains. Finance expenses comprise interest expense on debt, lease obligations, convertible debentures, foreign exchange losses and changes in fair value of interest rate swaps. The Company classifies interests paid as financing activities and interests received as investing activities in the Company's consolidated statements of cash flows.

25.20 SEGMENT REPORTING

The Company determined that it operated a single operating segment for the years ended August 31, 2020 and 2019.

NOTE 26 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The below standards, amendments to standards and interpretations have been issued and are applicable to the Company for its annual periods beginning on and after September 1, 2020, with an earlier application permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The Company is currently assessing the impact of adopting these amended standards and interpretations on the Company's consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Estimates and Errors*

In October 2018, the IASB issued an amendment to IAS 1 and IAS 8 to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to clarify how to classify debt and other liabilities as current or noncurrent. The amendments help to determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity.