

Interim Condensed Consolidated Financial Statements of

GOODFOOD MARKET CORP.

For the three and nine-month periods ended May 31, 2021 and 2020
(Unaudited)

GOODFOOD MARKET CORP.

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GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of Financial Position

(In thousands of Canadian dollars - Unaudited)

| As at | Note | May 31, 2021 | August 31, 2020 |
|---|------|-------------------|-------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 157,112 | \$ 104,402 |
| Amounts receivable | | 5,024 | 4,464 |
| Inventories | | 14,187 | 6,962 |
| Other current assets | | 1,107 | 780 |
| | | 177,430 | 116,608 |
| Non-current assets: | | | |
| Restricted cash | 7 | – | 2,500 |
| Fixed assets | 5 | 21,894 | 19,191 |
| Right-of-use assets | 6 | 33,046 | 21,130 |
| Intangible assets | | 4,415 | 2,203 |
| Other non-current assets | | 5,674 | 1,414 |
| Total assets | | \$ 242,459 | \$ 163,046 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | \$ 51,947 | \$ 40,878 |
| Line of credit | 7 | – | 9,063 |
| Deferred revenues | | 7,990 | 5,390 |
| Current portion of long-term debt | 7 | 528 | 656 |
| Current portion of lease obligations | 9 | 4,200 | 2,990 |
| | | 64,665 | 58,977 |
| Non-current liabilities: | | | |
| Long-term debt | 7 | 20,830 | 11,959 |
| Convertible debentures | 8 | 7,338 | 14,194 |
| Lease obligations | 9 | 31,724 | 20,358 |
| Total liabilities | | 124,557 | 105,488 |
| Shareholders' equity: | | | |
| Common shares | 11 | 165,989 | 97,801 |
| Contributed surplus | | 5,151 | 3,208 |
| Convertible debentures | 8 | 1,113 | 2,231 |
| Deficit | | (54,351) | (45,682) |
| Total shareholders' equity | | 117,902 | 57,558 |
| Total liabilities and shareholders' equity | | \$ 242,459 | \$ 163,046 |

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

Approved on behalf of Goodfood Market Corp. by:

(Signed)

Jonathan Ferrari, Director and
Chair of the Board

(Signed)

François Vimard, Director and
Chair of the Audit Committee

GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income (In thousands of Canadian dollars, except share and per share information - Unaudited)

| For the periods ended | Note | Three-Month | | Nine-Month | |
|--|------|-------------------|-----------------|-------------------|-------------------|
| | | May 31, 2021 | May 31, 2020 | May 31, 2021 | May 31, 2020 |
| Revenues | | \$ 107,795 | \$ 86,600 | \$ 299,876 | \$ 201,681 |
| Cost of goods sold | | 70,063 | 61,690 | 201,935 | 142,736 |
| Gross profit | | 37,732 | 24,910 | 97,941 | 58,945 |
| Selling, general and administrative expenses | | 36,875 | 19,486 | 97,735 | 60,989 |
| Depreciation and amortization | | 2,379 | 1,484 | 6,826 | 3,543 |
| Operating (loss) income | | (1,522) | 3,940 | (6,620) | (5,587) |
| Net finance costs | 10 | 431 | 1,154 | 1,646 | 1,469 |
| (Loss) income before income taxes | | (1,953) | 2,786 | (8,266) | (7,056) |
| Deferred income tax expense (recovery) | 8 | 61 | – | 403 | (1,330) |
| Net (loss) income, being comprehensive (loss) income for the period | | \$ (2,014) | \$ 2,786 | \$ (8,669) | \$ (5,726) |
| Basic (loss) earnings per share | | \$ (0.03) | \$ 0.05 | \$ (0.12) | \$ (0.10) |
| Basic weighted average number of common shares outstanding | 11 | 73,539,377 | 58,302,162 | 69,535,198 | 58,224,960 |
| Diluted (loss) earnings per share | | \$ (0.03) | 0.05 | (0.12) | \$ (0.10) |
| Diluted weighted average number of common shares outstanding | 11 | 73,539,377 | 59,000,866 | 69,535,198 | 58,224,960 |

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

(In thousands of Canadian dollars - Unaudited)

For the nine-month periods ended

| | | May 31, 2021 | | | | |
|--|--------|-------------------|------------------------|---------------------------|--------------------|-------------------|
| | Note | Common Shares | Contributed Surplus | Convertible Debentures | Deficit | Total |
| Balance as at | | | | | | |
| August 31, 2020 | | \$ 97,801 | \$ 3,208 | \$ 2,231 | \$ (45,682) | \$ 57,558 |
| Net loss for the period | | - | - | - | (8,669) | (8,669) |
| Share-based payments | 12 | - | 2,796 | - | - | 2,796 |
| Share issuance, net of issuance costs | 11 | 57,199 | - | - | - | 57,199 |
| Convertible debentures conversions, net of tax ⁽¹⁾ | 8, 11 | 8,737 | - | (1,118) | - | 7,619 |
| Stock options exercised | 11, 12 | 2,558 | (853) | - | - | 1,705 |
| Employee share purchase plan | 11 | (306) | - | - | - | (306) |
| Balance as at May 31, 2021 | | \$ 165,989 | \$ 5,151 | \$ 1,113 | \$ (54,351) | \$ 117,902 |

| | | May 31, 2020 | | | | |
|---|--------|------------------|-----------------|-----------------|--------------------|------------------|
| Balance as at | | | | | | |
| August 31, 2019 | | \$ 56,598 | \$ 2,349 | \$ - | \$ (41,546) | \$ 17,401 |
| Net loss for the period | | - | - | - | (5,726) | (5,726) |
| Share-based payments | 12 | - | 1,456 | - | - | 1,456 |
| Stock options exercised | 11, 12 | 502 | (180) | - | - | 322 |
| Employee share purchase plan | 11 | (53) | - | - | - | (53) |
| Convertible debentures conversion, net of tax ⁽¹⁾ | 8, 11 | 4 | - | - | - | 4 |
| Convertible debentures issuance, net of issuance costs and tax ⁽²⁾ | 8, 11 | - | - | 3,690 | - | 3,690 |
| Balance as at May 31, 2020 | | \$ 57,051 | \$ 3,625 | \$ 3,690 | \$ (47,272) | \$ 17,094 |

⁽¹⁾ The conversions of the convertible debentures presented above are net of income taxes of \$0.4 million for the nine-month period ended May 31, 2021 (2020 – \$nil).

⁽²⁾ The equity component of the convertible debentures presented above is net of income taxes of \$1.3 million.

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

GOODFOOD MARKET CORP.

Interim Condensed Consolidated Statements of Cash Flows

(In thousands of Canadian dollars - Unaudited)

| For the periods ended | Note | Three-Month | | Nine-Month | |
|---|------|-------------------|------------------|-------------------|------------------|
| | | May 31, 2021 | May 31, 2020 | May 31, 2021 | May 31, 2020 |
| Operating: | | | | | |
| Net (loss) income | | \$ (2,014) | \$ 2,786 | \$ (8,669) | \$ (5,726) |
| Adjustments for: | | | | | |
| Depreciation and amortization | | 2,379 | 1,484 | 6,826 | 3,543 |
| Share-based payments | 12 | 800 | 560 | 2,796 | 1,456 |
| Net finance costs | 10 | 431 | 1,154 | 1,646 | 1,469 |
| Deferred income tax expense (recovery) | 8 | 61 | – | 403 | (1,330) |
| Change in non-cash operating working capital | 13 | (228) | 3,233 | 6,098 | 7,283 |
| Non-current deposits and other | | (427) | (665) | (550) | (563) |
| | | 1,002 | 8,552 | 8,550 | 6,132 |
| Financing: | | | | | |
| Proceeds from issuance of common shares, net of issuance costs | 11 | (128) | – | 57,364 | – |
| Proceeds from issuance of long- term debt | 7 | – | – | 12,500 | – |
| Repayment of long-term debt, net of debt amortization costs | 7 | – | 7 | (12,500) | 18 |
| Proceeds from drawdown of revolving facility | 7 | – | – | 9,063 | – |
| Net borrowing under line of credit | 7 | – | 5,823 | (9,063) | 7,523 |
| Interest paid | | (847) | (491) | (2,455) | (1,140) |
| Payments of lease obligations | | (1,204) | (721) | (3,433) | (1,690) |
| Shares purchased under employee share purchase plan | 11 | (130) | (26) | (306) | (53) |
| Debt issuance costs | 7 | (63) | (4) | (321) | – |
| Proceeds from exercises of stock options | | 226 | 130 | 1,705 | 322 |
| Proceeds from issuance of convertible debentures, net of issuance costs | 8 | – | – | – | 28,349 |
| | | (2,146) | 4,718 | 52,554 | 33,329 |
| Investing: | | | | | |
| Additions and deposits on fixed assets | | (5,055) | (1,936) | (9,687) | (5,849) |
| Additions to intangible assets | | (571) | (581) | (2,463) | (1,414) |
| Leasehold incentives received | | 591 | – | 591 | – |
| Restricted cash | 7 | – | – | 2,500 | – |
| Interest received | | 273 | 194 | 665 | 640 |
| | | (4,762) | (2,323) | (8,394) | (6,623) |
| (Decrease) increase in cash and cash equivalents | | (5,906) | 10,947 | 52,710 | 32,838 |
| Cash and cash equivalents, beginning of period | | 163,018 | 67,040 | 104,402 | 45,149 |
| Cash and cash equivalents, end of period | | \$ 157,112 | \$ 77,987 | \$ 157,112 | \$ 77,987 |
| Supplemental cash flow information | 13 | | | | |

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

GOODFOOD MARKET CORP.

Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

1. REPORTING ENTITY

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

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 Montréal, Québec, and additional production and fulfillment facilities in Québec, Ontario, Alberta, and British Columbia.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

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, 2020 and 2019.

The interim condensed consolidated financial statements of the Company for the three-month and nine-month periods ended on May 31, 2021 and 2020 were approved by the Board of Directors ("Board") on July 6, 2021 for publication on July 7, 2021.

2.2 BASIS OF MEASUREMENT

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's interim condensed 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, 2020 and 2019.

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Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

3.1 ECONOMIC CONDITIONS AND UNCERTAINTIES

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations and has resulted in different levels of restrictions by government authorities. As an essential service in Canada, Goodfood has been operating throughout the pandemic and implemented increased safety protocols at its facilities to ensure the safety of its employees. The Company experienced an acceleration of growth in demand. 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 interim condensed consolidated financial statements. Further details on the impact of the pandemic and measures implemented are provided in Management's Discussion and Analysis for the three-month and nine-month periods ended May 31, 2021.

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, 2020 and 2019.

5. FIXED ASSETS

| | Furniture and fixtures | Machinery and equipment | Computer hardware and other | Leasehold improvements | Assets under construction | Total |
|----------------------------------|---------------------------|-------------------------------|-----------------------------------|---------------------------|------------------------------|------------------|
| Cost: | | | | | | |
| As at August 31, 2020 | \$ 1,506 | \$ 8,529 | \$ 1,410 | \$ 11,771 | \$ 51 | \$ 23,267 |
| Additions | 1,457 | 509 | 1,612 | 1,098 | 814 | 5,490 |
| As at May 31, 2021 | \$ 2,963 | \$ 9,038 | \$ 3,022 | \$ 12,869 | \$ 865 | \$ 28,757 |
| Accumulated depreciation: | | | | | | |
| As at August 31, 2020 | \$ 335 | \$ 1,398 | \$ 508 | \$ 1,835 | \$ – | \$ 4,076 |
| Depreciation | 322 | 879 | 519 | 1,067 | – | 2,787 |
| As at May 31, 2021 | \$ 657 | \$ 2,277 | \$ 1,027 | \$ 2,902 | \$ – | \$ 6,863 |
| Net carrying amounts: | | | | | | |
| As at August 31, 2020 | \$ 1,171 | \$ 7,131 | \$ 902 | \$ 9,936 | \$ 51 | \$ 19,191 |
| As at May 31, 2021 | \$ 2,306 | \$ 6,761 | \$ 1,995 | \$ 9,967 | \$ 865 | \$ 21,894 |

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Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

6. RIGHT-OF-USE ASSETS

| | Facilities | Automotive equipment | Other equipment | Total |
|-----------------------------------|------------------|----------------------|-----------------|------------------|
| As at August 31, 2020 | \$ 20,178 | \$ 448 | \$ 504 | \$ 21,130 |
| Additions and lease modifications | 14,779 | 531 | 324 | 15,634 |
| Depreciation | (3,046) | (506) | (166) | (3,718) |
| As at May 31, 2021 | \$ 31,911 | \$ 473 | \$ 662 | \$ 33,046 |

7. DEBT

| As at | May 31, 2021 | August 31, 2020 |
|--|--------------|-----------------|
| Interest-bearing financing: | | |
| Secured revolving facility, variable interest at BA ⁽¹⁾ plus 2.50%, maturing in November 2023 | \$ 9,063 | \$ – |
| Secured term loan, variable interest at BA plus 2.50%, maturing in November 2023 | 12,500 | – |
| Matured borrowings: | | |
| Secured line of credit, variable interest at CDOR ⁽²⁾ plus 2.50% | – | 9,063 |
| Secured term loan, variable interest at CDOR plus 2.50% | – | 12,500 |
| | \$ 21,563 | \$ 21,563 |
| Interest rate swap | 59 | 146 |
| Unamortized financing costs | (264) | (31) |
| | \$ 21,358 | \$ 21,678 |
| Line of credit | – | (9,063) |
| Current portion of long-term debt ⁽³⁾ | (528) | (656) |
| | \$ 20,830 | \$ 11,959 |

⁽¹⁾ BA is defined as the Canadian Bankers' Acceptance Rate.

⁽²⁾ CDOR is defined as the Canadian Dollar Offered Rate.

⁽³⁾ As at May 31, 2021, the current portion of long-term debt is comprised of \$469 thousand in principal repayment and \$59 thousand interest rate swap liability.

CREDIT FACILITY 2019

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 ("Credit Facility 2019"). The Credit Facility 2019 was secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The proceeds were used to fund expansion, capital expenditures, invest in automation, and to refinance the Company's long-term debt.

As at August 31, 2020, \$12.5 million of the term loans were disbursed, bearing variable interest at CDOR plus 2.50%. The term loans were repayable in quarterly instalments 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.

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Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

As at August 31, 2020, \$9.1 million of the revolving line of credit was drawn. The revolving line of credit was repayable on demand and was presented as a current liability.

The Credit Facility 2019 included a collateral requirement of \$2.5 million placed in a restricted cash account. As at August 31, 2020, the Company was in compliance with all covenants under the Credit Facility 2019.

The Credit Facility 2019 was repaid in full as at November 30, 2020.

CREDIT FACILITY 2021

During the first quarter ended November 30, 2020, the Company entered into a syndicated credit agreement totaling \$46 million, including a term loan of \$12.5 million, a revolving facility of \$27.5 million and \$6 million in other short-term financing ("Credit Facility 2021"). During the second quarter ended February 28, 2021, the Company increased the revolving facility by \$15 million for a total of \$42.5 million, and the other short-term financing by an amount not to exceed \$15 million, and an additional lender was added to the syndicate. The Credit Facility 2021 is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The facilities bear variable interest rates of BA plus 2.50% and mature in November 2023. The term loan is repayable in four quarterly installments of \$156 thousand beginning on November 30, 2021 and increasing to four quarterly installments of \$313 thousand on November 30, 2022 with a bullet repayment of the balance of \$10.6 million at the end of the term in November 2023. The revolving facility matures in November 2023.

The proceeds will be used to fund the continued growth of the Company through capital expenditures focusing on automation as well as the expansion of the business and general corporate purposes. Furthermore, the proceeds were also used to repay in full the outstanding amounts owed under the Credit Facility 2019.

As at May 31, 2021, Goodfood had outstanding letters of credit totalling \$0.7 million (August 31, 2020 – \$0.9 million) which reduced the availability on the revolving facility.

As at May 31, 2021, \$9.1 million of the revolving facility was drawn. It matures in November 2023 and is presented as a non-current liability. A balance of \$33.4 million was undrawn and \$32.7 million was available as at May 31, 2021.

The Credit Facility 2021 does not include a collateral requirement and the restricted cash required under the Credit Facility 2019 was released and reclassified to cash and cash equivalents during the quarter ended November 30, 2020. As at May 31, 2021, the Company was in compliance with all covenants under the credit agreement governing the Credit Facility 2021.

As at May 31, 2021, the Company allocated \$14.5 million (August 31, 2020 – \$7.3 million) to corporate credit cards to be used for business purposes of the other short-term financing amount for an aggregate amount of \$15 million. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.

INTEREST RATE SWAP

As at May 31, 2021, Goodfood has one swap agreement in place whereby the Company fixed the interest rate on a notional amount of \$11 million until November 2021.

As at May 31, 2021, the Company's interest rate swap is classified as a derivative financial liability and is not designated as a hedging instrument. For the three and nine-month periods ended May 31, 2021, gains in fair value of \$31 thousand and \$87 thousand, respectively, are presented in net finance costs (refer to Note 10). As at May 31, 2021, a liability of \$0.1 million is presented in the current portion of long-term debt. As at August 31, 2020, a liability of \$0.1 million was presented in long-term debt.

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Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

8. 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, which commenced 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 a 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 three and nine-month periods ended May 31, 2021, 1,360 and 9,085 Debentures, respectively, were converted into common shares of the Company, resulting in the issuance of 289,356 and 1,932,954 common shares, respectively. During the three and nine-month periods ended May 31, 2021, the Company reclassified \$1.1 million and \$7.2 million, respectively (refer to Note 11) from the convertible debentures liability to common shares and reclassified from the equity component of the convertible debentures to common shares \$0.2 million and \$1.5 million for the three and nine-month periods ended May 31, 2021, respectively. A deferred income tax expense of \$0.1 million and \$0.4 million was recognized upon conversion of the Debentures for the three and nine-month periods ended May 31, 2021, respectively. As at May 31, 2021, 9,051 Debentures were outstanding (August 31, 2020 – 18,136 Debentures).

The following table summarizes the continuity of the Company's Debentures for the nine-month period ended:

| | May 31, 2021 | May 31, 2020 |
|--|-----------------|------------------|
| Convertible debentures, liability component balance, beginning of period | \$ 14,194 | \$ – |
| Proceeds from issuance of the Debentures, net of issuance costs and equity component | – | 22,942 |
| Accretion interest | 360 | 264 |
| Conversion of the Debentures | (7,216) | (4) |
| Convertible debentures, liability component balance, end of period | \$ 7,338 | \$ 23,202 |

GOODFOOD MARKET CORP.

Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

9. LEASE OBLIGATIONS

The following table summarizes the continuity of the Company's lease obligations as at:

| | May 31, 2021 | August 31, 2020 |
|---------------------------------------|------------------|------------------|
| Balance, beginning of period | \$ 23,348 | \$ 12,724 |
| Additions and lease modifications | 16,009 | 13,271 |
| Derecognition | – | (73) |
| Payment of lease obligations | (4,325) | (3,501) |
| Interest expense on lease obligations | 892 | 927 |
| Balance, end of period | \$ 35,924 | \$ 23,348 |

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

| As at | May 31, 2021 | August 31, 2020 |
|---|------------------|------------------|
| Maturity analysis – contractual undiscounted cash flows | | |
| Less than one year | \$ 5,607 | \$ 4,076 |
| One to five years | 19,722 | 13,822 |
| More than 5 years ⁽¹⁾ | 17,268 | 10,526 |
| Total undiscounted lease obligations | \$ 42,597 | \$ 28,424 |
| Lease obligations balance, end of period | \$ 35,924 | \$ 23,348 |
| Current portion | \$ 4,200 | \$ 2,990 |
| Non-current portion | \$ 31,724 | \$ 20,358 |

⁽¹⁾ As at May 31, 2021, future lease payments of \$10.9 million (August 31, 2020 - \$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 \$12.1 million (August 31, 2020 - \$6.4 million) of undiscounted cash outflows.

During the quarter ended May 31, 2021, the Company signed a ten-year lease for a 138,000 square-foot distribution center located in Montreal, Quebec, Canada with four renewal options of five years. As at May 31, 2021, 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. Fixed rent payments represent a total commitment of \$22 million over the term of the lease.

During the year ended August 31, 2020, the Company signed a ten-year lease for a 200,000 square-foot fulfillment center located in the Greater Toronto Area, Ontario, Canada with two renewal options of five years. As at May 31, 2021, 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. Fixed rent payments represent a total commitment of \$34 million over the term of the lease.

Subsequent to the quarter ended May 31, 2021, the Company entered into two lease agreements for manufacturing and fulfillment centers located in Ontario and Quebec. The lease terms range from ten years to fifteen years and the renewal options range from ten years to twenty years. Fixed rent payments represent a total commitment of \$25 million over the term of the leases.

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Notes to the Interim Condensed Consolidated Financial Statements – May 31, 2021
(All tabular amounts are in thousands of Canadian dollars, except share information – Unaudited)

10. NET FINANCE COSTS

| For the periods ended | Three-Month | | Nine-Month | |
|--|--------------|--------------|--------------|--------------|
| | May 31, 2021 | May 31, 2020 | May 31, 2021 | May 31, 2020 |
| Interest expense on debt | \$ 295 | \$ 200 | \$ 734 | \$ 529 |
| Interest expense on lease obligations | 310 | 297 | 877 | 628 |
| Interest expense on the Debentures, including accretion interest | 218 | 688 | 896 | 717 |
| Interest income | (311) | (177) | (707) | (616) |
| Foreign exchange (gain) loss | (50) | 54 | (67) | 83 |
| Fair value (gain) loss on interest rate swaps | (31) | 92 | (87) | 128 |
| | \$ 431 | \$ 1,154 | \$ 1,646 | \$ 1,469 |

11. SHAREHOLDERS' EQUITY

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 nine-month periods ended:

| | May 31, 2021 | | May 31, 2020 | |
|--|-------------------|-------------------|-------------------|------------------|
| | Number of shares | Carrying amount | Number of shares | Carrying amount |
| Balance, beginning of period | 66,311,121 | \$ 97,801 | 58,144,400 | \$ 56,598 |
| Share issuance through a bought deal offering, net of share issuance costs | 4,800,000 | 57,199 | – | – |
| Debenture conversions (Note 8) | 1,932,954 | 8,737 | 1,063 | 4 |
| Exercise of stock options (Note 12) | 674,002 | 2,558 | 173,555 | 502 |
| Purchased and held in trust through employee share purchase plan | (31,294) | (306) | (15,644) | (53) |
| Balance, end of period | 73,686,783 | \$ 165,989 | 58,303,374 | \$ 57,051 |

During the second quarter ended February 28, 2021, the Company issued 4,800,000 common shares at a price of \$12.50 per common share for gross proceeds of \$60 million, less share issuance costs of \$2.8 million, in connection with a public offering.

LOSS (EARNINGS) PER SHARE

| For the periods ended | Three-Month | | Nine-Month | |
|--|--------------|--------------|--------------|--------------|
| | May 31, 2021 | May 31, 2020 | May 31, 2021 | May 31, 2020 |
| Basic weighted average number of common shares outstanding | 73,539,377 | 58,302,162 | 69,535,198 | 58,224,960 |
| Dilutive effect of stock options | – | 698,704 | – | – |
| Diluted weighted average number of common shares outstanding | 73,539,377 | 59,000,866 | 69,535,198 | 58,224,960 |

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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 three and nine-month periods ended May 31, 2021, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the stock options, restricted share units, unvested shares in connection with the employee share purchase plan and the Debentures conversion option as they are not dilutive.

For the three-month period ended May 31, 2020, the diluted earnings per share calculation took into consideration the potential dilutive effect of stock options and unvested shares in connection with the employee share purchase plan. The diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Debentures conversion option as it is not dilutive.

For the nine-month period ended May 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.

12. SHARE-BASED PAYMENTS

The Company's share-based payment plans consist of a stock option plan, a restricted share unit plan and an employee share purchase plan.

STOCK OPTION PLAN

A stock option plan (the "Stock Option Plan") was established by the Company to attract and retain employees, consultants, officers and directors of the Company. The Stock Option 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, less any shares reserved for issuance under the restricted share unit plan. Under the Stock Option Plan, stock options generally vest over a period of three or four years and expire eight years from the grant date.

The following table summarizes the continuity of the stock options during the nine-month periods ended:

| | May 31, 2021 | | May 31, 2020 | |
|-----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 4,751,695 | \$ 3.51 | 3,910,169 | \$ 2.57 |
| Granted | 451,099 | 8.27 | 1,442,795 | 3.27 |
| Exercised | (674,002) | 2.55 | (173,555) | 1.85 |
| Forfeited | (963,167) | 4.42 | (488,183) | 2.79 |
| Outstanding, end of period | 3,565,625 | 4.06 | 4,691,226 | 2.79 |
| Exercisable, end of period | 1,186,812 | \$ 2.78 | 1,334,751 | \$ 2.27 |

For the nine-month period ended May 31, 2021, the weighted average share price of the Company's common shares upon the exercise date of stock options was \$11.35 (2020 – \$3.22).

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Stock options granted during the nine-month period ended May 31, 2021 had a weighted average fair value of \$3.90 per option (2020 – \$1.47), using the Black-Scholes option pricing model with the following weighted-average assumptions for the nine-month periods ended:

| | May 31, 2021 | May 31, 2020 |
|----------------------------------|-----------------|-----------------|
| Volatility | 56% | 51% |
| Risk-free interest rate | 0.47% | 1.33% |
| Expected life of options | 4.8 years | 5.1 years |
| Common share value at grant date | \$ 8.27 | \$ 3.27 |
| Weighted average exercise price | \$ 8.27 | \$ 3.27 |

During the three and nine-month periods ended May 31, 2021, an expense, including fringe benefits related to stock options exercised, of \$0.3 million (2020 – \$0.6 million) and \$1.9 million (2020 – \$1.5 million), respectively, was recorded in the interim condensed consolidated statements of loss and comprehensive loss in relation to the Stock Option Plan.

RESTRICTED SHARE UNIT PLAN

In September 2020, the Company adopted a restricted share unit plan (the "RSU Plan") to reward certain employees, officers and directors of the Company (the "Participants"). The RSU Plan was approved in January 2021. Following the implementation of the RSU Plan, the Company granted to Participants a number of restricted share units ("RSUs") based on the volume weighted average trading price of the common shares for the five days immediately preceding the grant date. The expense in relation to the RSU Plan is measured at the fair value of the underlying RSU at the grant date and is expensed over the award's vesting period. The RSU Plan provides for a maximum number of common shares available and reserved for issuance to 10% of the Company's issued and outstanding common shares, less any shares reserved for issuance under the Stock Option Plan. The RSUs are time-based awards and one third of the amount of RSUs granted will vest upon the continuous employment of the Participants on each of the anniversaries of the RSU grant, over a period of three years starting from the date of the grant or such other period not exceeding three years as determined by the Board.

Pursuant to the terms of the RSU Plan, Participants will receive, upon vesting of the RSUs, common shares of the Company issued from treasury.

The following table summarizes the continuity of the RSUs during the nine-month period ended:

| | May 31, 2021 |
|-----------------------------------|-----------------|
| Outstanding, beginning of period | - |
| Granted | 493,344 |
| Forfeited | (56,478) |
| Outstanding, end of period | 436,866 |

During the three and nine-month periods ended May 31, 2021, an expense of \$0.5 million and \$1.3 million, respectively, was recorded in the interim condensed consolidated statements of loss and comprehensive loss in relation to the RSU Plan. As at May 31, 2021, there are nil vested RSUs.

As at May 31, 2021, 3,371,657 stock options and RSUs were available for issuance (August 31, 2020 – 1,881,758).

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13. SUPPLEMENTAL CASH FLOW INFORMATION

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

| For the periods ended | Three-Month | | Nine-Month | |
|--|-----------------|-----------------|-----------------|-----------------|
| | May 31, 2021 | May 31, 2020 | May 31, 2021 | May 31, 2020 |
| Amounts receivable | \$ (467) | \$(2,420) | \$ (16) | \$ (2,206) |
| Inventories | 257 | (1,710) | (7,225) | (2,121) |
| Other current assets | (195) | (221) | (427) | (390) |
| Accounts payable and accrued liabilities | 1,997 | 6,315 | 11,668 | 9,916 |
| Deferred revenue | (1,820) | 1,269 | 2,098 | 2,084 |
| | \$ (228) | \$ 3,233 | \$ 6,098 | \$ 7,283 |

The following transaction had no cash impact on investing activities as at May 31, 2021:

- Fixed asset additions of \$0.4 million (May 31, 2020 – \$1.9 million) and intangible asset additions of \$0.6 million (May 31, 2020 – \$32 thousand) were unpaid and included in accounts payable and accrued liabilities.

The following transactions had no cash impact on financing activities as at May 31, 2021:

- Issuance costs of \$0.2 million (May 31, 2020 – \$0.4 million) were unpaid and included in accounts payable and accrued liabilities; and
- Debt issuance costs of \$5 thousand were unpaid and included in accounts payable and accrued liabilities.

Included in additions and deposits on fixed assets in the interim condensed consolidated statements of cash flows are deposits on fixed assets of \$3.8 million (May 31, 2020 – \$1.0 million) which are presented in non-current deposits in the interim condensed consolidated statements of financial position.

The following transaction had no cash impact on investing activities as at May 31, 2020:

- Assets under construction additions of \$0.5 million related to capitalized depreciation and interest expense on lease obligations.

14. 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 amounts 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 was estimated using Level 2 inputs.

15. 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

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to its cash and cash equivalents and amounts receivable. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited given that 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 changes in market interest rates. The Company's long-term debt and revolving facility 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. As interest rates on the Debentures are fixed, the Company is not exposed to interest rate risk on those instruments.

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.

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.

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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.

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

| | Total carrying amount | Contractual cash flows | May 31, 2021 | | |
|---|-----------------------|------------------------|------------------|------------------|-------------------|
| | | | Less than 1 year | 1 to 5 years | More than 5 years |
| Accounts payable and accrued liabilities | \$ 51,947 | \$ 51,947 | \$ 51,947 | \$ - | \$ - |
| Long-term debt, including current portion ⁽¹⁾ (Note 7) | 21,358 | 23,145 | 1,157 | 21,988 | - |
| Debentures, liability component (Note 8) | 7,338 | 11,134 | 522 | 10,612 | - |
| Lease obligations, including current portion (Note 9) | 35,924 | 42,597 | 5,607 | 19,722 | 17,268 |
| | \$ 116,567 | \$ 128,823 | \$ 59,233 | \$ 52,322 | \$ 17,268 |

| | Total carrying amount | Contractual cash flows | August 31, 2020 | | |
|---|-----------------------|------------------------|------------------|------------------|-------------------|
| | | | 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 (Note 7) | 9,063 | 9,063 | 9,063 | - | - |
| Long-term debt, including current portion ⁽¹⁾ (Note 7) | 12,615 | 13,104 | 1,142 | 11,962 | - |
| Debentures, liability component (Note 8) | 14,194 | 23,447 | 1,140 | 22,307 | - |
| Lease obligations, including current portion (Note 9) | 23,348 | 28,424 | 4,076 | 13,822 | 10,526 |
| | \$ 100,098 | \$ 114,916 | \$ 56,299 | \$ 48,091 | \$ 10,526 |

⁽¹⁾ As at May 31, 2021, an interest rate of 2.91% (August 31, 2020 – 3.00%) 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.