Consolidated Financial Statements of

GOODFOOD MARKET CORP.

Years ended August 31, 2021 and 2020

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, 2021 and 2020;
- 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 financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2021 and 2020, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended August 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matters to be communicated in our auditors' report.

KPMG

Assessment of the existence and accuracy of inventories

Description of the matter

We draw attention to Note 3 and Note 10 to the financial statements.

The Entity's inventories balance is $14.3 million. The Entity's inventories mainly consist of food, packaging supplies and work in process. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

Why the matter is a key audit matter

We identified the assessment of the existence and accuracy of inventories as a key audit matter. This matter represented an area of higher assessed risk of material misstatement given the magnitude of the inventories balance. In addition, an increased extent of audit effort was needed to address the matter.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

- We observed the Entity's physical inventory counts for a selection of locations at or close to year-end and performed a sample of independent test counts which we compared to the Entity's records.
- We tested a sample of inventory items to purchase invoices and we recalculated the first-in, first-out basis of the sampled inventory items.

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 auditor's 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP*

Montréal, Canada

November 16, 2021

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

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**	**2021**	2020[1]
Net sales		**$ 379,234**	$ 285,372
Cost of goods sold		**263,140**	198,953
Gross profit		**116,094**	86,419
Selling, general and administrative expenses		**136,396**	84,987
Depreciation and amortization	12,13,14, 22	**8,820**	5,197
Operating loss		**(29,122)**	(3,765)
Net finance costs	6	**2,170**	2,380
Loss before income taxes		**(31,292)**	(6,145)
Deferred income tax expense (recovery)	7	**500**	(804)
Net loss, being comprehensive loss for the period		**$ (31,792)**	$ (5,341)
Basic and diluted loss per share		**$ (0.45)**	$ (0.09)
Basic and diluted weighted average number of common shares outstanding	20	**70,742, 923**	58,919,209

(1) Refer to Note 5 for retrospective change in accounting policy.

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

GOODFOOD MARKET CORP.

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

As at	Notes	August 31, 2021	August 31, 2020[1]
Assets			
Current assets:			
Cash and cash equivalents		**$ 125,535**	$ 104,402
Accounts and other receivables	9	**5,968**	4,464
Inventories	10	**14,318**	6,962
Other current assets	11	**709**	780
		146,530	116,608
Non-current assets:			
Restricted cash	17	–	2,500
Fixed assets	12	**33,367**	19,191
Right-of-use assets	13	**69,157**	21,130
Intangible assets	14	**2,082**	714
Other non-current assets	15	**4,126**	1,414
Total assets		**$ 255,262**	$ 161,557
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	16	**$ 52,207**	$ 40,878
Line of credit	17	–	9,063
Deferred revenues		**5,095**	5,390
Current portion of long-term debt	17	**651**	656
Current portion of lease obligations	19	**5,443**	2,990
		63,396	58,977
Non-current liabilities:			
Long-term debt	17	**20,700**	11,959
Convertible debentures	18	**5,623**	14,194
Lease obligations	19	**67,668**	20,358
Total liabilities		**157,387**	105,488
Shareholders' equity:			
Common shares	20	**170,094**	97,801
Contributed surplus		**5,901**	3,208
Convertible debentures	18	**843**	2,231
Deficit		**(78,963)**	(47,171)
Total shareholders' equity		**97,875**	56,069
Total liabilities and shareholders' equity		**$ 255,262**	$ 161,557

(1) Refer to Note 5 for retrospective change in accounting policy.

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 Changes in Equity
(In thousands of Canadian dollars)

For the years ended August 31,	**Notes**	**Common Shares**	**Contributed Surplus**	**Convertible Debentures**	**Deficit**	**Total**
Balance as at August 31, 2019 [(1)]		$ 56,598	$ 2,349	$ –	$ (41,830)	$ 17,117
Net loss for the period		–	–	–	(5,341)	(5,341)
Share-based payments expense	21	–	1,874	–	–	1,874
Stock options exercised	21	2,968	(1,015)	–	–	1,953
Employee share purchase plan	21	(96)	–	–	–	(96)
Net share issuance	20	27,093	–	–	–	27,093
Net convertible debentures issuance [(2)]	18	–	–	3,690	–	3,690
Net convertible debentures conversions [(3)]	18	11,238	–	(1,459)	–	9,779
Balance as at August 31, 2020 [(1)]		$ 97,801	$ 3,208	$ 2,231	$ (47,171)	**$ 56,069**
Net loss for the period		–	–	–	(31,792)	**(31,792)**
Share-based payments expense	21	–	4,230	–	–	**4,230**
Stock options exercised	21	4,623	(1,537)	–	–	**3,086**
Employee share purchase plan	21	(427)	–	–	–	**(427)**
Net share issuance	20	57,199	–	–	–	**57,199**
Net convertible debentures conversions [(3)]	18	10,898	–	(1,388)	–	**9,510**
Balance as at August 31, 2021		**$ 170,094**	**$ 5,901**	**$ 843**	**$ (78,963)**	**$ 97,875**

(1) Refer to Note 5 for retrospective change in accounting policy.
(2) The equity component of the convertible debentures presented above is net of income taxes of $1.3 million.
(3) The conversions of the convertible debentures presented above is net of income taxes of $0.5 million (2020 – $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**	**2021**	2020[1]
Operating:			
Net loss		**$ (31,792)**	$ (5,341)
Adjustments for:			
Depreciation and amortization	12,13,14, 22	**8,820**	5,197
Share-based payments expense	21	**4,230**	1,874
Net finance costs	6	**2,170**	2,380
Deferred income tax expense (recovery)	7	**500**	(804)
Change in non-cash operating working capital	22	**(14)**	4,400
Other non-current assets		**(272)**	(520)
Net cash (used in) provided by operating activities		**(16,358)**	7,186
Investing:			
Additions and deposits to fixed assets	12,15	**(16,651)**	(8,426)
Additions to intangible assets	14	**(2,102)**	(407)
Interest received		**741**	782
Net cash used in investing activities		**(18,012)**	(8,051)
Financing:			
Net (repayment) borrowing under line of credit	17	**(9,063)**	7,523
Proceeds from drawdown of revolving facility	17	**9,063**	–
Net proceeds from issuance of convertible debentures	18	–	27,976
Net proceeds from issuance of common shares	20	**57,364**	27,241
Proceeds from exercise of stock options	21	**3,086**	1,953
Shares purchased under employee share purchase plan	21	**(427)**	(96)
Net payments of lease obligations	19	**(3,553)**	(2,574)
Net proceeds from issuance of long-term debt	17	**12,193**	–
Net repayment of long-term debt	17	**(12,500)**	–
Interest paid		**(3,160)**	(1,905)
Change in restricted cash	17	**2,500**	–
Net cash provided by financing activities		**55,503**	60,118
Increase in cash and cash equivalents		**21,133**	59,253
Cash and cash equivalents, beginning of year		**104,402**	45,149
Cash and cash equivalents, end of year		**$ 125,535**	$ 104,402
Supplemental disclosure of cash flow information	22		

(1) Refer to Note 5 for retrospective change in accounting policy.

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

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.

These financial statements are prepared on a consolidated basis and include its wholly owned subsidiaries which do not currently conduct any activities.

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, with additional locations in Québec, Ontario, Alberta, and British Columbia.

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 3.

The consolidated financial statements of the Company for the years ended August 31, 2021 and 2020 were authorized by the Board of Directors ("Board") on November 16, 2021 for publication on November 17, 2021.

2.2 BASIS OF MEASUREMENT

The 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; 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.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and of its wholly owned subsidiaries.

<u>Subsidiaries</u>

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

3.2 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. Sales and referral credits are recognized as revenue upon redemption and when the Company fulfills its 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.

3.3 TAXES

Income tax expense comprises current and deferred income taxes. It is recognized in the consolidated statements of 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.

3.4 FINANCE INCOME AND FINANCE COSTS

Finance income comprises of interest income and foreign exchange gains. Finance costs comprise of 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.

3.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of 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.

3.6 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.

3.7 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 17).

3.8 FIXED ASSETS

3.8.1 RECOGNITION AND MEASUREMENT

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 components of a fixed asset have materially different useful lives, they are accounted for separately.

Gains and losses on disposal of a fixed asset are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the consolidated statements of loss.

3.8.2 SUBSEQUENT EXPENDITURE

The cost of replacing a fixed asset 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 the consolidated statements of loss as incurred.

3.8.3 DEPRECIATION

Depreciation is calculated over the cost of the asset less its residual value and is recognized in the consolidated statements of loss on a straight-line basis over the estimated useful lives of each part of a fixed asset, 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

3.9 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.

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 asset is 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 of 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 subsequently 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 the consolidated statements of loss if the carrying amount of the right-of-use asset has been reduced to zero.

3.10 INTANGIBLE ASSETS

3.10.1 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.

3.10.2 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 the consolidated statements of loss as incurred.

3.10.3 AMORTIZATION

Amortization is recognized in the consolidated statements of 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 amortized when they are available for their intended use.

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

Asset	**Period**
Software	3 to 5 years
Intellectual property	5 years

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

3.11 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 the consolidated statements of loss.

3.12 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 statements of financial position as a deduction from the carrying amount of the related asset. They are then recognized in the consolidated statements of 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 the consolidated statements of loss as a deduction from the related expenses.

3.13 FINANCIAL INSTRUMENTS

3.13.1 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 issuance.

3.13.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

<u>Financial assets</u>

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.

Amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- 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:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investment

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in Other Comprehensive Loss. This election is done on an investment by investment basis.

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.

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 the consolidated statements of loss. Any gain or loss on derecognition is recognized in the consolidated statements of loss.

Financial liabilities

Financial liabilities are classified and measured as amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses are recognized in the consolidated statements of loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Finance expense is recognized in the consolidated statements of loss.

3.13.3 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.

On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of the consideration received or receivable is recognized in the consolidated statements of loss.

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 the consolidated statements of loss.

3.13.4 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.

3.13.5 IMPAIRMENT

The Company recognizes 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. The expected credit losses identified were not significant.

3.13.6 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.

3.13.7 INTEREST RATE SWAP AGREEMENTS

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.

3.13.8 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. Transactions 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.

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 statements 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.

3.14 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 costs.

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.

3.15 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.

3.16 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. Employees, consultants, officers 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 the Company’s stock option plan is determined by the fair value at the date when the grant is made using the Black-Scholes option pricing model. The cost of the Company’s restricted share unit plan is determined based on the volume weighted average trading price of the common shares for the five days immediately preceding the grant date. The costs are recognized as a share-based payment expense, together with a corresponding increase in equity (contributed surplus), over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired. The expense or credit in the statements of loss for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

3.17 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 me 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.

3.18 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 costs in the consolidated statements of loss.

3.19 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 shares of the employee share purchase plan (“ESPP”), and convertible debentures.

3.20 SEGMENT REPORTING

The Company determined that it operated a single operating segment for the years ended August 31, 2021 and 2020.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales 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 Company’s main judgements, estimates, and assumptions are presented below:

4.1 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 locations 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 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, 2021.

4.2 CRITICAL JUDGEMENTS

<u>Impairments of long-lived assets</u>

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.

4.3 KEY SOURCES OF ESTIMATES AND ASSUMPTIONS

<u>Measurement of net sales</u>

Net sales 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.

<u>Deferred income taxes</u>

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.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

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.

Leases

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. The renewal options are only included in the lease term if management is reasonably certain to renew. This significant estimate could affect the Company's financial position if the lease term of the leases is reassessed differently.

Discount rate

In determining the carrying amount of the right-of-use assets and lease obligations, the Company generally uses its incremental borrowing rate ("IBR"), since the implicit rates are often 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.

5. CHANGES IN ACCOUNTING POLICIES

5.1 NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

Amendment to *Cloud Computing Arrangements*

In April 2021, the International Financial Reporting Interpretations Committee ("IFRIC") finalized an agenda decision which clarified the customer's accounting for configuration and customization in a cloud computing arrangement. As a result of this decision, the Company changed its accounting policy for costs incurred on cloud computing arrangements with retrospective application.

As a result of this change, the Company will now expense configuration and testing costs related to certain cloud computing arrangements. The impact of changing this accounting policy, on a retrospective basis, to the Company's consolidated statements of loss for the years ended August 31, is as follows:

		2021		2020
Decrease in depreciation and amortization	**$**	**243**	$	164
Increase in selling, general and administrative expense		**(1,606)**		(1,369)
Increase in net loss		**(1,363)**		(1,205)
Increase in basic and diluted loss per share		**(0.02)**		(0.02)

In addition, intangible assets of $1.5 million were derecognized as of August 31, 2020 for which $0.3 million related to prior period. Opening deficit for the year-ended August 31, 2020 was restated by an increase of $0.3 million and opening deficit for the year-ended August 31, 2021 was restated by an increase of $1.5 million.

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. The amendments were adopted on September 1, 2020. The adoption of these amendments had no material impact on the consolidated financial statements.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

5.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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 non-current. 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. For the Company, the amendments are effective for fiscal period beginning on September 1, 2023 and are to be applied retrospectively. Earlier application is permitted. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

6. NET FINANCE COSTS

	For the years ended August 31,			
		2021		2020
Interest expense on debt	**$**	**986**	$	733
Interest expense on lease obligations		**1,208**		927
Interest expense on the Debentures, including accretion interest		**1,092**		1,309
Interest income		**(870)**		(772)
Foreign exchange (gain) loss		**(126)**		83
Fair value (gain) loss on interest rate swaps		**(120)**		100
	$	**2,170**	$	2,380

7. INCOME TAXES

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

	For the years ended August 31,			
		2021		2020 (1)
Loss before income taxes	**$**	**(31,292)**	$	(6,145)
Canadian statutory rates		**25.9%**		26.5%
Income tax benefit at the combined Canadian statutory rate	**$**	**(8,105)**	$	(1,628)
Decrease resulting from:				
Change in unrecognized deferred income tax assets		**7,503**		297
Permanent differences		**1,236**		531
Change in tax rates		**244**		–
Other		**(378)**		(4)
Total income tax expense (recovery)	**$**	**500**	$	(804)

(1) Refer to Note 5 for retrospective change in accounting policy.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

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)	**$ –**
Recognized in net loss	12,188	(726)	226	(12,188)	(500)
Recognized in equity	–	–	500	–	500
As at August 31, 2021	**$ 17,125**	**$ 318**	**$ (318)**	**$ (17,125)**	**$ –**

The Company had unrecognized deferred income tax assets as follows:

As at	August 31, 2021	August 31, 2020 (1)
Net operating loss carry forwards	**$ 14,500**	$ 7,453
Fixed assets	**1,810**	1,250
Share and debt issuance costs	**1,433**	1,265
Intangible assets	**1,155**	723
Other	**117**	92
Unrecognized deferred income tax assets	**$ 19,015**	$ 10,783

(1) Refer to Note 5 for retrospective change in accounting policy.

The Company has operating tax losses carried forward of $53.8 million (2020 – $32.1 million) which are partially recognized for an amount of $1.2 million (2020 – $3.9 million), and unrecognized deductible temporary differences of $18.8 million (2020 – $8.6 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, 2021, 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	**18,089**
2040	**921**
2041	**21,991**
	$ 53,825

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

8. SUPPLEMENTAL STATEMENT OF LOSS AND COMPREHENSIVE LOSS INFORMATION

	For the years ended August 31,	
	2021	2020
Expense related to variable lease payments not included in the lease obligations	**$ 819**	$ 157
Salaries, fees and other short-term employee benefits	**121,350**	70,932

9. ACCOUNTS AND OTHER RECEIVABLES

As at	**August 31, 2021**	August 31, 2020
Sales taxes receivable	**$ 4,633**	$ 3,063
Rewards program receivable	**1,034**	863
Volume discounts receivable	**147**	421
Other receivables	**154**	117
	$ 5,968	$ 4,464

10. INVENTORIES

As at	**August 31, 2021**	August 31, 2020
Food	**$ 11,814**	$ 4,534
Packaging supplies	**1,742**	1,928
Work in process	**762**	500
	$ 14,318	$ 6,962

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2021 was $236.5 million (2020 – $172.8 million).

11. OTHER CURRENT ASSETS

As at	**August 31, 2021**	August 31, 2020
Prepaid expenses	**$ 426**	$ 524
Deposits and other	**283**	256
	$ 709	$ 780

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

12. FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware and other	Leasehold improvements	Assets under construction [1]	Total
Cost:						
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
Additions	2,571	1,485	2,169	1,511	10,371	18,107
As at August 31, 2021	**$ 4,077**	**$ 10,014**	**$ 3,579**	**$ 13,282**	**$ 10,422**	**$ 41,374**
Accumulated depreciation:						
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
Depreciation	510	1,207	759	1,455	–	3,931
As at August 31, 2021	**$ 845**	**$ 2,605**	**$ 1,267**	**$ 3,290**	**$ –**	**$ 8,007**
Net carrying amounts:						
As at August 31, 2020	$ 1,171	$ 7,131	$ 902	$ 9,936	$ 51	$ 19,191
As at August 31, 2021	**3,232**	**7,409**	**2,312**	**9,992**	**10,422**	**33,367**

(1) Additions of assets under construction include $0.9 million (2020 – $0.5 million) related to capitalized depreciation of right-of-use assets.

13. RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
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
Additions and lease modifications	52,609	150	757	53,516
Depreciation	(4,616)	(171)	(702)	(5,489)
As at August 31, 2021	**$ 68,171**	**$ 427**	**$ 559**	**$ 69,157**

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

14. INTANGIBLE ASSETS

	Software [1] [2]	Intellectual property	Total
Cost:			
As at August 31, 2019	$ 224	$ 74	$ 298
Additions	609	–	609
Disposals, write-offs and transfers	(63)	–	(63)
As at August 31, 2020	$ 770	$ 74	$ 844
Additions	1,657	–	1,657
As at August 31, 2021	**$ 2,427**	**$ 74**	**$ 2,501**
Accumulated amortization:			
As at August 31, 2019	$ 70	$ –	$ 70
Amortization	58	15	73
Disposals, write-offs and transfers	(13)	–	(13)
As at August 31, 2020	$ 115	15	$ 130
Amortization	274	15	289
As at August 31, 2021	**$ 389**	**$ 30**	**$ 419**
Net carrying amounts:			
As at August 31, 2020	$ 655	$ 59	$ 714
As at August 31, 2021	**2,038**	**44**	**2,082**

[1] For the year ended August 31, 2021, the net carrying amount of software under development amounted to $1.1 million (2020 – $0.4 million).

[2] Refer to Note 5 for retrospective change in accounting policy.

15. OTHER NON-CURRENT ASSETS

As at	**August 31, 2021**	August 31, 2020
Security deposits	**$ 1,054**	$ 882
Deposits on fixed assets	**3,072**	532
	$ 4,126	$ 1,414

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	**August 31, 2021**	August 31, 2020
Accounts payable	**$ 30,078**	$ 26,068
Accrued liabilities	**22,129**	14,810
	$ 52,207	$ 40,878

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

17. DEBT

As at		**August 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[1] 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[2] plus 2.50%		**–**		12,500
	$	**21,563**	$	21,563
Interest rate swap		**26**		146
Unamortized financing costs		**(238)**		(31)
	$	**21,351**	$	21,678
Line of Credit		**–**		(9,063)
Current portion of long-term debt		**(651)**		(656)
	$	**20,700**	$	11,959

(1) BA is defined as the Canadian Banker's Acceptance Rate.
(2) CDOR is defined as the Canadian Dollar Offered Rate.

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. This increase brought the total available financing to $70 million. 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.

As at August 31, 2021, Goodfood had outstanding letters of credit totalling $1.2 million (2020 – $0.9 million) which reduced the availability on the revolving facility.

As at August 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 $32.2 million was available as at August 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 first quarter ended November 30, 2020. As at August 31, 2021, the Company was in compliance with all covenants under the credit agreement governing the Credit Facility 2021.

As at August 31, 2021, the Company allocated $14.6 million (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

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

$15 million. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.

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 were also used 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 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 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.

INTEREST RATE SWAP

As at August 31, 2021, Goodfood has one swap agreement in place whereby the Company fixed the interest rate on a notional amount of $10.9 million until November 2021.

As at August 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 year ended August 31, 2021, a gain in fair value of $0.1 million (2020 – loss of $0.1 million) is presented in net finance costs (refer to Note 6). As at August 31, 2021, a liability of $26 thousand 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.

PRINCIPAL PAYMENTS

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

	Principal payments
2022	$ **625**
2023	**1,250**
2024	**19,688**

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

18. 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 year ended August 31, 2021, 11,284 Debentures (2020 – 11,864) were converted into common shares of the Company, resulting in the issuance of 2,400,819 (2020 – 2,524,242) common shares and the Company reclassified $9.0 million (2020 – $9.3 million) and $1.9 million (2020 – $2.0 million), respectively (Refer to Note 20) from the convertible debentures liability to common shares and from the equity component of the convertible debentures to common shares. A deferred income tax expense of $0.5 million (2020 – recovery $0.8 million) was recognized upon conversion of the Debentures for the period ended August 31, 2021. As at August 31, 2021, 6,852 Debentures were outstanding (2020 – 18,136 Debentures).

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

	August 31, 2021	August 31, 2020
Convertible debentures, liability component balance, beginning of year	**$ 14,194**	$ –
Net proceeds from issuance of the Debentures [1]	**–**	22,942
Accretion interest	**439**	505
Conversion of the Debentures	**(9,010)**	(9,253)
Convertible debentures, liability component balance, end of year	**$ 5,623**	$ 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.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

19. LEASE OBLIGATIONS

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

	August 31, 2021	August 31, 2020
Balance, beginning of year	$ 23,348	$ 12,724
Additions and lease modifications	53,905	13,271
Derecognition	–	(73)
Payment of lease obligations	(5,534)	(3,501)
Interest expense on lease obligations [(1)]	1,392	927
Balance, end of year	$ 73,111	$ 23,348

[(1)] Interest expense on lease obligations include $0.2 million (2020 – nil) capitalized in assets under construction.

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

As at	August 31, 2021	August 31, 2020
Less than one year	$ 8,566	$ 4,076
One to five years	37,943	13,822
More than 5 years [(1)]	40,864	10,526
Total undiscounted lease obligations	$ 87,373	$ 28,424
Lease obligations balance, end of year	$ 73,111	$ 23,348
Current portion	$ 5,443	$ 2,990
Non-current portion	$ 67,668	$ 20,358

[(1)] As at August 31, 2021, future lease payments of $10.9 million (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 (2020 – $6.4 million) of undiscounted cash outflows.

As at August 31, 2021, the Company entered into several lease commitments some of which the lease has not commenced. As at August 31, 2021, these leases were not reflected as right-of-use assets and lease obligations. Fix rent payments represent a total commitment of $50.0 million over the term of the leases.

Subsequent to August 31, 2021, the Company entered into a 7-year lease for a Montreal fulfillment facility. Fixed rent payments represent a total commitment of $3.0 million over the term of the lease.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

20. 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 years ended August 31:

		2021		2020
	Number of shares	**Carrying amount**	Number of shares	Carrying amount
Balance, beginning of year	**66,311,121**	**$ 97,801**	58,144,400	$ 56,598
Net share issuance through a bought deal offering	**4,800,000**	**57,199**	4,755,250	27,093
Debenture conversions (Note 18)	**2,400,819**	**10,898**	2,524,242	11,238
Exercise of stock options (Note 21)	**1,182,693**	**4,623**	910,641	2,968
Purchased and held in trust through employee share purchase plan (Note 21)	**(47,086)**	**(427)**	(23,412)	(96)
Balance, end of year	**74,647,547**	**$ 170,094**	66,311,121	$ 97,801

During the year ended August 31, 2021, the Company issued 4,800,000 (2020 – 4,755,250) common shares at a price of $12.50 (2020 – $6.05) per common share for gross proceeds of $60 million (2020 – $28.8 million), less share issuance costs of $2.8 million (2020 – $1.7 million), in connection with a public offering.

As at August 31, 2021, the number of common shares issued and fully paid was 74,718,045 (2020 – 66,334,533).

LOSS PER SHARE

As at	**August 31, 2021**	August 31, 2020
Basic and diluted weighted average number of common shares outstanding	**70,742, 923**	58,919,209

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.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

21. 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. 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, 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 years ended August 31:

		2021		2020
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**4,751,695**	**$ 3.51**	3,910,169	$ 2.57
Granted	**647,434**	**8.17**	2,299,307	4.41
Exercised	**(1,182,693)**	**2.61**	(910,641)	2.14
Forfeited	**(1,042,127)**	**4.53**	(547,140)	2.82
Outstanding, end of year	**3,174,309**	**4.47**	4,751,695	3.51
Exercisable, end of year	**1,112,432**	**$ 3.45**	896,335	$ 2.48

For the year ended August 31, 2021, the weighted average share market price of the Company's common shares upon the exercise date of stock options was $10.09 (2020 – $6.44).

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

		2021		2020
Exercise Price	**Number of options outstanding**	**Weighted average remaining life**	Number of options outstanding	Weighted average remaining life
Less than $1.00	**25,144**	**4.2**	86,658	5.6
$ 1.00 – 1.99	**47,976**	**4.0**	160,830	5.0
$ 2.00 – 2.49	**36,398**	**4.2**	101,106	5.2
$ 2.50 – 2.99	**734,301**	**5.3**	1,469,755	6.1
$ 3.00 – 3.49	**992,421**	**5.9**	1,751,790	7.0
$ 3.50 – 3.99	**226,425**	**6.6**	328,532	7.6
$ 6.00 – 6.49	**433,219**	**6.9**	653,024	7.9
$ 7.00 – 7.49	**200,000**	**7.0**	200,000	8.0
$ 7.50 – 7.99	**196,335**	**7.8**	–	–
$ 8.00 – 8.49	**282,090**	**7.2**	–	–
Outstanding, end of year	**3,174,309**	**6.2**	4,751,695	6.8
Exercisable, end of year	**1,112,432**	**5.8**	896,335	6.0

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

Stock options granted during the year ended August 31, 2021 had a weighted average fair value of $3.87 per option (2020 – $2.05), using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2021	2020
Expected volatility	**57%**	53%
Risk-free interest rate	**0.59%**	0.97%
Expected life of options	**4.8 years**	5.1 years
Common share value at grant date	**$ 8.17**	$ 4.41
Weighted average exercise price	**$ 8.17**	$ 4.41

During the year ended August 31, 2021, an expense of $2.8 million (2020 – $1.9 million), including fringe benefits related to stock options exercised of $0.6 million (2020 – nil), was recorded in the consolidated statements of 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 year ended August 31:

	2021
Outstanding, beginning of year	–
Granted	**707,823**
Forfeited	**(82,332)**
Outstanding, end of year	**625,491**

During the year ended August 31, 2021, an expense of $2.0 million was recorded in the consolidated statements of loss in relation to the RSU Plan.

As at August 31, 2021, 3,672,004 stock options and RSUs were available for issuance (2020 – 1,881,758).

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

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 continuity of the ESPP during the years ended August 31:

		2021		2020
	Number of shares	**Amount**	Number of shares	Amount
Unvested contributions, beginning of year	**23,412**	**$ 96**	–	$ –
Contributions	**47,086**	**427**	23,412	96
Vested	**–**	**–**	–	–
Unvested contributions, end of year	**70,498**	**$ 523**	23,412	$ 96

During the year ended August 31, 2021, an expense of $0.1 million (2020 – $15 thousand) was recorded in the consolidated statements of loss in relation to the employee share purchase plan.

22. SUPPLEMENTAL CASH FLOW INFORMATION

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

As at	**August 31, 2021**	August 31, 2020
Accounts and other receivables	**$ (1,375)**	$ (1,869)
Inventories	**(7,356)**	(2,227)
Other current assets	**(29)**	(534)
Accounts payable and accrued liabilities	**9,041**	9,563
Deferred revenues	**(295)**	(533)
	$ (14)	$ 4,400

The additional transactions that had no cash impact for the year ended August 31, 2021 were as follows:

- Assets under construction additions of $0.9 million (2020 – $0.5 million) relating to capitalized depreciation on right-of-use assets had no cash impact on investing activities.
- Unpaid additions to fixed assets of $3.8 million (2020 – $0.9 million) were excluded from the consolidated statements of cash flows.
- Share issuance costs of $20 thousand (2020 – $0.1 million) were unpaid and included in accounts payable and accrued liabilities which had no cash impact on financing activities.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

23. COMMITMENTS

As at August 31,2021, Goodfood had commitments under purchase and service contract obligations for both operating and capital expenditures.

The following summarizes the commitments that are not recognized as liabilities:

As at	August 31, 2021	August 31, 2020
Less than 1 year	**$ 24,233**	$ 1,870
Between 1 and 5 years	**75**	104
More than 5 years	**–**	–
	$ 24,308	$ 1,974

24. FINANCIAL INSTRUMENTS

Goodfood has determined that the fair value of cash and cash equivalents, accounts and other receivables, restricted cash, line of credit, and accounts payable and accrued liabilities approximate their respective carrying amounts at the consolidated statements 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, 2021 and 2020 was estimated using Level 2 inputs.

25. 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 and accounts and other receivables. 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 17. As interest rates on 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. 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.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

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.

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

					2021
	Total carrying amount	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 52,207	$ 52,207	$ 52,207	$ –	$ –
Long-term debt, including current portion (1)	21,351	22,958	1,279	21,679	–
Debentures, liability component	5,623	8,433	399	8,034	–
Lease obligations, including current portion	73,111	87,373	8,566	37,943	40,864
	$ 152,292	**$ 170,971**	**$ 62,451**	**$ 67,656**	**$ 40,864**

					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

(1) As at August 31, 2021, an interest rate of 2.92% (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 17 was used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

(Unless otherwise stated, all tabular amounts are in thousands of Canadian dollars)

26. 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,	
	2021	2020
Salaries, fees and other short-term employee benefits	**$ 2,661**	$ 2,884
Share-based payments expense	**1,594**	865

RELATED PARTY TRANSACTIONS

Related parties of the Company include Directors and key management personnel, their family members, and companies over which they have significant influence or control. For the year ended August 31, 2021, the Company has not transacted with related parties. For the year ended August 31, 2020, in connection with the issuance of Debentures described in Note 18, 75 Debentures were purchased by Board members and key management personnel at a price of $1,000 per Debenture.

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