Management's Discussion and Analysis of

GOODFOOD MARKET CORP.

For the 13 weeks ended December 3, 2022

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BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding the business environment, trends and significant changes in the results of operations and financial condition of Goodfood Market Corp. and its subsidiaries (the "Company" or "Goodfood") for the 13 weeks ended December 3, 2022 and should be read in conjunction with our audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended September 3, 2022 and our interim condensed consolidated financial statements and notes for the 13 weeks ended December 3, 2022. Please also refer to Goodfood's press release announcing its results for the 13 weeks ended December 3, 2022 issued on January 17, 2023. Quarterly reports, the Annual Report, and the Annual Information Form can be found on SEDAR at www.sedar.com and under the "Investor Relations – Financial Information" section of our website: https://www.makegoodfood.ca/en/investors. Press releases are available on SEDAR and under the "Investor Relations – Press Releases" section of our corporate website.

The Company's unaudited interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and the financial information herein was derived from those statements.

The consolidated financial statements for the 13 weeks ended December 3, 2022 have been prepared on the basis that the Company will continue as a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. During the fourth quarter of Fiscal 2022, the Company entered into a tolerance letter with its lenders as a result of a failure to meet certain financial covenants. The lenders agreed to tolerate such covenant breaches under certain conditions which include restricting Goodfood from using the revolver portion of the facility, under which no amount is currently outstanding other than letters of credit. On December 19, 2022, the Company reached an agreement to amend the syndicated credit agreement with its existing lenders providing bank financing of $9.5 million. Please refer to the subsection "Capital Management" of the "Liquidity and Capital Resources" section of this MD&A for discussion on amended credit agreement. In addition, the Company launched its Blue Ocean initiative, a review of its operations and overall business to drive efficiencies, return the Company to positive Adjusted EBITDA[1] by the first half of 2023 and to form the basis for the path to positive cash flow and long-term profitable growth. The Company's ability to continue as a going concern is dependent on initiatives, including Project Blue Ocean, being realized and/or its ability to secure additional financing to meet anticipated cash needs for working capital and capital expenditures as required. As a result and in the context of the Blue Ocean initiatives and current status of the Company's credit facility and financing needs, there exists a material uncertainty about the Company's ability to continue as a going concern.

All amounts herein are expressed in Canadian dollars unless otherwise indicated.

In this MD&A, references to "we", "our", "Goodfood" or the "Company" refer to Goodfood Market Corp. and its wholly owned subsidiaries.

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

The information in this MD&A is current to January 17, 2023, unless otherwise noted.

[1] Please refer to the "Metrics and Non-IFRS Financial Measures" section of this MD&A for corresponding definitions.

KEY FINANCIAL HIGHLIGHTS

This section provides a summary of our financial performance for the first quarter of Fiscal 2023 compared to the same period in 2022. We present metrics and measures to help investors better understand our performance, including certain metrics and measures which are not recognized by IFRS. Definitions of these non-IFRS financial measures are provided in the "Metrics and Non-IFRS Financial Measures" section of this MD&A and are important metrics to be considered when analyzing our performance. For a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures, as applicable, see the "Metrics and Non-IFRS Financial Measures – Reconciliation" section of this MD&A.

HIGHLIGHTS OF THE FIRST QUARTER OF 2023 COMPARED TO THE FIRST QUARTER OF 2022

- Net sales were $47.1 million, a decrease of $30.7 million, or 39% compared to the same quarter last year.
- Gross margin totalled 35.6%, an increase of 11.6 percentage points and gross profit of $16.8 million decreased by $1.9 million or 10% compared to the same quarter last year. Gross margin and gross profit include $0.6 million of inventories write-downs due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted gross margin[1] which excludes the $0.6 million charge of inventories write-downs due to the discontinuance of products totalled 36.9%, an increase of 12.9 percentage points and adjusted gross profit[1] of $17.4 million decreased by $1.2 million or 6.7% compared to the same quarter last year.
- Net loss was $11.7 million, a decrease of $9.9 million or 46%. As a result of Blue Ocean initiatives, net loss includes a $1.1 million of reorganization and other related costs as well as a charge of $0.6 million related to the inventories write-downs due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted EBITDA margin[1] was negative 4.9%, an improvement of 13.8 percentage points compared to the same quarter last year.
- Cash flows used in operating activities totalled $6.1 million, an improvement of $12.8 million compared to the same quarter last year.
- Active customers[1] of 148,000 compared to 254,000 for the same quarter in 2022.

FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Such forward-looking information includes, but is not limited to, information with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, assumptions, estimates and intentions, including, without limitation, statements in the "Financial Outlook" section of the MD&A. This forward-looking information is identified by the use of terms and phrases such as "may", "would", "should", "could", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe", and "continue", as well as the negative of these terms and similar terminology, including references to assumptions, although not all forward-looking information contains these terms and phrases. Forward-looking information is provided for the purposes of assisting the reader in understanding the Company and its business, operations, prospects and risks at a point in time in the context of historical trends, current condition and possible future developments and therefore the reader is cautioned that such information may not be appropriate for other purposes.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in, or implied by, such forward-looking information. These risks and uncertainties include, but are not limited to, the following risk factors which are discussed in greater detail under "Risk Factors" in the Company's Annual Information Form for the 52 weeks ended September 3, 2022 available on SEDAR at www.sedar.com: limited operating history, negative operating cash flow and

[1] Please refer to the "Metrics and Non-IFRS Financial Measures" section of this MD&A for corresponding definitions.

net losses, going concern risk, food industry including current industry inflation levels, COVID-19 pandemic impacts and the appearance of COVID variants, quality control and health concerns, regulatory compliance, regulation of the industry, public safety issues, product recalls, damage to Goodfood's reputation, transportation disruptions, storage and delivery of perishable foods, product liability, unionization activities, consolidation trends, ownership and protection of intellectual property, evolving industry, reliance on management, failure to attract or retain key employees which may impact the Company's ability to effectively operate and meet its financial goals, factors which may prevent realization of growth targets, inability to effectively react to changing consumer trends, competition, availability and quality of raw materials, environmental and employee health and safety regulations, the inability of the Company's IT infrastructure to support the requirements of the Company's business, online security breaches, disruptions and denial of service attacks, reliance on data centers, open source license compliance, future capital requirements, operating risk and insurance coverage, management of growth, limited number of products, conflicts of interest, litigation, catastrophic events, risks associated with payments from customers and third parties, being accused of infringing intellectual property rights of others and, climate change and environmental risks. This is not an exhaustive list of risks that may affect the Company's forward-looking statements. Other risks not presently known to the Company or that the Company believes are not significant could also cause actual results to differ materially from those expressed in its forward-looking statements. Although the forward-looking information contained herein is based upon what we believe are reasonable assumptions, readers are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions were made in preparing the forward-looking information concerning the availability of capital resources, business performance, market conditions, and customer demand.

In addition, net sales and operating results could be impacted by changes in the overall economic condition in Canada and by the continuing inflationary pressures and by the impact these conditions could have on consumer discretionary spending. Fears of a looming recession, increases in interest rates, uncertainty surrounding the COVID-19 pandemic, continuing supply chain disruptions, increased input costs are expected to have a continuing significant impact on our economic condition that could materially affect our financial condition, results of operations and cash flows.

Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking information contained herein is provided as of the date hereof, and we do not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

METRICS AND NON-IFRS FINANCIAL MEASURES

The table below defines metrics and non-IFRS financial measures used by the Company throughout this MD&A. Non-IFRS financial measures do not have standardized definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. They are provided as additional information to complement IFRS measures and to provide a further understanding of the Company's results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS and should be read in conjunction with the consolidated financial statements for the periods indicated.

Metrics	Definitions
Active customers	An active customer is a customer that has placed an order within the last three months. For greater certainty, an active customer is only accounted for once, although different products and multiple orders might have been purchased within a quarter. While the active customers metric is not an IFRS or non-IFRS financial measure, and, therefore, does not appear in, and cannot be reconciled to a specific line item in the Company's consolidated financial statements, we believe that the active customers metric is a

	useful metric for investors because it is indicative of potential future net sales. The Company reports the number of active customers at the beginning and end of the period, rounded to the nearest thousand.
Adjusted gross profit **&** **Adjusted gross margin**	Adjusted gross profit is defined as gross profit excluding the impact of the discontinuance of products related to Goodfood On-Demand offering pursuant to the Company's Blue Ocean initiative. Adjusted gross margin is defined as the percentage of adjusted gross profit to net sales. The Company uses adjusted gross profit and adjusted gross margin to measure its performance from one period to the next excluding the variation caused by the items described above. Adjusted gross profit and adjusted gross margin are non-IFRS financial measures. We believe that these metrics are useful measures of financial performance to assess how efficiently the Company uses its resources to service its customers as well as to assess underlying trends in our ongoing operations without the variations caused by the impacts of strategic initiatives such as the items described above and facilitates the comparison across reporting periods. Please refer to the "Metrics and non-IFRS financial measures – reconciliation" section of the MD&A for a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures.
EBITDA, **Adjusted EBITDA** **&** **Adjusted EBITDA margin**	EBITDA is defined as net income or loss before net finance costs, depreciation and amortization and income taxes. Adjusted EBITDA is defined as EBITDA excluding share-based payments expense, the impact of the inventories write-downs due to the discontinuance of products related to Goodfood On-Demand offering, impairment of non-financial assets and reorganization and other related costs pursuant to the Company's Blue Ocean initiative. Adjusted EBITDA margin is defined as the percentage of adjusted EBITDA to net sales. EBITDA, adjusted EBITDA, and adjusted EBITDA margin are non-IFRS financial measures. We believe that EBITDA, adjusted EBITDA, and adjusted EBITDA margin are useful measures of financial performance to assess the Company's ability to seize growth opportunities in a cost-effective manner, to finance its ongoing operations and to service its long-term debt. They also allow comparisons between companies with different capital structures. We also believe that these metrics are useful measures of financial performance to assess underlying trends in our ongoing operations without the variations caused by the impacts of the items described above and facilitates the comparison across reporting periods. Please refer to the "Metrics and non-IFRS financial measures – reconciliation" section of the MD&A for a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures.
Total net (debt) cash **Total net (debt) cash to total capitalization**	Total net (debt) cash is a non-IFRS measure that measures how much total cash the Company has after taking into account its total debt. Total cash include cash and cash equivalents. Total debt includes the current and long-term portions of the debt as well as the liability component of the convertible debentures. We believe that the total net (debt) cash measure is a useful measure to assess the Company's overall financial position and its ability to service its debt. Total net (debt) cash to total capitalization is a non-IFRS measure that is calculated as total net (debt) cash over total capitalization. Total capitalization is measured as total debt plus shareholder's equity. We believe this non-IFRS financial ratio to be a useful measure to assess the Company's financial leverage. Please refer to the "Liquidity and capital resources" section of the MD&A for a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measure.

COMPANY OVERVIEW

WHO WE ARE AND OUR VISION

Goodfood (TSX: FOOD) is a leading digitally native meal solutions brand in Canada, delivering fresh meals and add-ons that make it easy for customers from across Canada to enjoy delicious meals at home every day. The Goodfood team is building Canada's most loved millennial food brand, with the mission to create experiences that spark joy and help our community live longer on a healthier planet. Goodfood customers have access to uniquely fresh and delicious products, as well as exclusive pricing, made possible by its world-class culinary team and direct-to-consumer infrastructures and technology. Goodfood is passionate about connecting its partner farms and suppliers to its customers' kitchens while eliminating food waste and costly retail overhead.

OUR OPERATIONS

The Company's main production facility and administrative offices are based in Montreal, Québec with additional locations in the provinces of Ontario and Alberta.

As part of our Blue Ocean initiative, we simplified our Western operations by consolidating our British Columbia production facility into our Calgary facility. Together, our Montreal and Calgary facilities serve the whole of Canada. In addition, we concluded a strategic review of our Goodfood On-Demand delivery model including the MFCs and announced the closing of all our MFCs and the shutdown of our wider 30-minute on-demand offering. Our go-forward strategy is centered on building the Goodfood brand through our weekly meal plans and add-ons nationally, providing approximately 500 Goodfood branded products, as well as increasing flexibility and access to our products over time.

The following table provides a summary of our operating locations, as at January 17, 2023:

	Total number of locations	Administrative offices	Distribution and manufacturing centres	Fulfillment facilities
Greater Montreal Area (Quebec)	1	X	X	X
Greater Toronto Area (Ontario)	1	X		
Calgary (Alberta)	1		X	X

FINANCIAL OUTLOOK

Goodfood's core purpose is to create experiences that spark joy and help our community live longer on a healthier planet. As a food brand with a strong following from Canadians coast to coast, we are focused on growing the Goodfood brand through our meal solutions including meal kits and prepared meals, with a range of exciting Goodfood branded add-ons to be explored and complete a unique food experience for customers.

Meal kits are estimated to have reached over $1 billion dollar in size in Canada as part of the $144 billion Canadian Grocery industry, with roughly 8.4% of households subscribed to a meal kit service (see Annual Information Form for additional details). We believe that consumers' willingness to simplify their weekly meal planning combined with their desire for joyful, exciting, and nourishing food experiences at home while reducing food waste provides for significant room to increase online food delivery penetration. With a future household penetration of 20%, the market for weekly meal plans including meal kits, prepared meals and add-ons in Canada could reach approximately $3 billion in the coming years and Goodfood is ideally positioned to capture a significant share of that market.

Investing in efficient and highly targeted marketing strategies to capture new customers, increase order frequency and grow basket sizes through effective cross selling remains at the forefront of Goodfood's near-and-long-term goals. The Company's current focus however remains centered around growing Adjusted EBITDA[1] and cash flows in the coming quarters while continuing to invest in a customer value proposition that will provide years of profitable growth. Last year, we established Project Blue Ocean to drive profitability and have fully implemented the majority of the identified initiatives:

- Ingredients simplification with ingredients sourced declining from over 400 to below 200
- Alignment of workforce with scale leading to significant headcount reductions
- Footprint rationalization leading to consolidation of production in two facilities in Montreal and Calgary
- Reduction of capital investments (capex)
- Meal kit and add on products price increases

These initiatives and the discontinuation of on-demand have had and are expected to continue to have a positive impact on the financial performance of the business. Our meal kit demand driven by our weekly subscriptions has stabilized and our gross margins have continued to improve, reaching a record 36.9% when adjusting for inventory write-downs, increasing from 24.0% for the same quarter last year, a 1,290 basis points increase.

Moreover, towards the end of the first quarter of fiscal 2023, we initiated further selling general and administrative expenses reduction through headcount streamlining and contract re-negotiations to align our cost structure to our go-forward operating model. Combined with stable net sales and strong gross margin, we are reconfirming our expected path to return to positive quarterly Adjusted EBITDA[1] in the second quarter of Fiscal 2023.

Despite recent challenges (see the discussions in the "Basis of Presentation" and "Capital Management" sections of the MD&A including material uncertainty regarding our ability to continue as a going concern), our focus on profitability and cash flows continues to bear fruit underpinned by consistent improvement in Adjusted EBITDA[1] and, when coupled with our unrelenting focus on nurturing our customer relationships, it remains our top priority. The Goodfood team is fully focused on building and growing Canada's most loved millennial food brand.

FISCAL 2023 AT A GLANCE

New Credit Facility

In December 2022, the Company announced it reached an agreement for an amended and restated credit agreement with its existing syndicate providing bank financing totalling $9.5 million. The facilities include a $5 million term loan, a $2.5 million revolving credit facility, and $2 million in additional short-term financing and come to maturity in November 2023. The facilities feature updated financial conditions, including cash and financing related covenants. As such, Goodfood is no longer in breach of covenants.

[1] Please refer to the "Metrics and Non-IFRS Financial Measures" section of this MD&A for corresponding definitions.

METRICS AND NON-IFRS FINANCIAL MEASURES – RECONCILIATION

We present certain metrics to assist investors in better understanding our performance, including metrics which are not measures recognized by IFRS. Definitions of these non-IFRS financial measures are provided in the "Metrics and Non-IFRS Financial Measures" section at the beginning of this MD&A and are important metrics to be considered when analyzing our performance.

ACTIVE CUSTOMERS

	For the 13 weeks ended	
	December 3, 2022	December 4, 2021
Active customers, beginning of period	**157,000**	249,000
Net change in active customers	**(9,000)**	5,000
Active customers, end of period	**148,000**	254,000

ADJUSTED GROSS PROFIT AND ADJUSTED GROSS MARGIN

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

(In thousands of Canadian dollars, except percentage information)

	For the 13 weeks ended	
	December 3, 2022	December 4, 2021
Gross profit	**$ 16,759**	$ 18,648
Discontinuance of products related to on-demand offering	**643**	–
Adjusted gross profit	**$ 17,402**	$ 18,648
Net sales	**$ 47,148**	$ 77,821
Gross margin	**35.6%**	24.0%
Adjusted gross margin (%)	**36.9%**	24.0%

For the first quarter of 2023, the decrease in adjusted gross profit of $1.2 million primarily resulted from a decrease in net sales partially offset by lower costs of goods sold. The increase in adjusted gross margin of 12.9% was driven by lower food costs and production costs as a percentage of net sales costs driven by improved efficiencies as well as lower credit and incentives as a percentage of sales.

EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

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

(In thousands of Canadian dollars, except percentage information)

	For the 13 weeks ended	
	December 3, 2022	December 4, 2021
Net loss	**$ (11,708)**	$ (21,610)
Net finance costs	**1,570**	904
Depreciation and amortization	**3,769**	2,940
Deferred income tax expense	**11**	27
EBITDA	**$ (6,358)**	$ (17,739)
Share-based payments expense	**2,293**	1,353
Discontinuance of products related to on-demand offering	**643**	–
Reorganization and other related costs	**1,119**	1,812
Adjusted EBITDA	**$ (2,303)**	$ (14,574)
Net sales	**$ 47,148**	$ 77,821
Adjusted EBITDA margin (%)	**(4.9)%**	(18.7)%

For the first quarter of 2023, adjusted EBITDA margin improved by 13.8 percentage points compared to the corresponding period in 2022 mainly driven by stronger adjusted gross margin and lower selling, general and administrative expenses due to lower marketing expense, a lower salary base resulting from lower net sales, and Project Blue Ocean initiatives. The improved adjusted EBITDA margin was partly offset by a lower net sales base.

RESULTS OF OPERATIONS – FIRST QUARTER OF FISCAL 2023 AND 2022

The following table sets forth the components of the Company's consolidated statement of loss and comprehensive loss:

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

For the 13 weeks periods ended	**December 3, 2022**	December 4, 2021	($)	(%)
Net sales	**$ 47,148**	$ 77,821	$ (30,673)	(39)%
Cost of goods sold	**30,389**	59,173	(28,784)	(49)%
Gross profit	**$ 16,759**	$ 18,648	$ (1,889)	(10)%
Gross margin	**35.6%**	24.0%	N/A	11.6 p.p.
Selling, general and administrative expenses	**21,998**	34,575	(12,577)	(36)%
Depreciation and amortization	**3,769**	2,940	829	28%
Reorganization and other related costs	**1,119**	1,812	(693)	(38)%
Net finance costs	**1,570**	904	666	74%
Loss before income taxes	**$ (11,697)**	$ (21,583)	$ 9,886	46%
Deferred income tax expense	**11**	27	(16)	(59)%
Net loss, being comprehensive loss	**$ (11,708)**	$ (21,610)	$ 9,902	46%
Basic and diluted loss per share	**$ (0.16)**	$ (0.29)	$ 0.13	45%

VARIANCE ANALYSIS FOR THE FIRST QUARTER OF 2023 COMPARED TO FIRST QUARTER OF 2022

- Net sales decreased compared to the same period last year driven by the Company's focus on attracting and retaining customers that provide higher gross margins and by changing customer behaviours partially offset by an increase in average order values.

- The decrease in gross profit primarily resulted from a decrease in net sales partially offset by lower food costs and production costs as a percentage of net sales costs driven by improved efficiencies as well as lower credit and incentives as a percentage of sales.
- The decrease in selling, general and administrative expenses is primarily due to lower wages and salaries and marketing spend driven primarily by lower net sales and the Company's Blue Ocean initiatives. Selling, general and administrative expenses as a percentage of net sales increased from 44.4% to 46.7%.
- Reorganization and other related costs incurred in the first quarter of Fiscal 2023 mainly consist of the loss on disposal of non-financial assets, headcount reduction costs partially offset by gains on termination of leases.
- The increase in depreciation and amortization expense is mainly due to the capitalization of the depreciation on right-of-use assets during the construction phase of the new leases in the first quarter of fiscal 2022.
- The increase in net finance costs is mainly due to the Company's $30 million convertible debenture issued in February 2022.
- The decrease in net loss in the first quarter of 2023 compared to the same quarter last year is mainly due to lower wages and salaries in cost of good sold and in selling, general and administrative expenses as well as lower marketing spend in selling in general and administrative expenses partially offset by lower gross profit mainly driven by lower sales.

FINANCIAL POSITION

The following table provides the main variances in the Company's consolidated statement of financial position:

(In thousands of Canadian dollars)

As at	**December 3, 2022**	September 3, 2022	Variance	Main components
Cash and cash equivalents	**$ 28,553**	$ 36,885	$ (8,332)	Due to the net loss partially offset by proceeds on disposal of non-financial assets
Inventories	**4,769**	6,884	(2,115)	Due to lower net sales, disposal of on-demand inventory and improvement in inventory management process
Assets held for sale	**1,500**	3,654	(2,154)	Mainly due to disposal of assets held for sale related to Project Blue Ocean
Fixed assets	**14,968**	18,408	(3,440)	Mainly due to disposal of fixed assets related to Project Blue Ocean and depreciation
Right-of-use assets	**41,984**	55,419	(13,435)	Mainly due to derecognition of right-of-use assets for terminated leases related to Project Blue Ocean
Accounts payable and accrued liabilities	**22,044**	27,104	(5,060)	Mainly due to lower sales base and lower salaries and benefits accrual
Lease obligations, including current portion	**53,034**	69,209	(16,175)	Mainly due to derecognition of lease obligations for terminated leases related to Project Blue Ocean

LIQUIDITY AND CAPITAL RESOURCES

This section examines the Company's capital structure, sources of liquidity and various financial instruments, including its debt instruments.

CAPITAL STRUCTURE

(In thousands of Canadian dollars, except percentage information)

As at		December 3, 2022		September 3, 2022
Long-term debt, including current portion		**11,457**		11,743
Convertible debentures, liability component		**27,685**		27,469
Total debt	**$**	**39,142**	$	39,212
Shareholders' deficiency		**(20,435)**		(11,178)
Total capitalization	**$**	**18,707**	$	28,034
Cash and cash equivalents	**$**	**28,553**	$	36,885
Total net debt (1)	**$**	**(10,589)**	$	(2,327)
Total net debt to total capitalization (1)		**(56.6)%**		(8.3)%

(1) For the definition of these Non-IFRS financial measures, please refer to the "Metrics and Non-IFRS Financial Measures" section of this MD&A.

Goodfood's total net debt increased by $8.3 million in the first quarter of Fiscal 2023 mainly due to the quarterly net loss and lower cash and cash equivalents.

CAPITAL MANAGEMENT

The Company's objective in managing its capital structure is to ensure sufficient liquidity to finance its operations and growth and to deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements of equity securities and convertible debentures, as well as short-term or long-term debt.

In the fourth quarter of Fiscal 2022, the Company entered into a tolerance letter with its lenders as a result of a failure to meet certain financial covenants. The lenders agreed to tolerate such covenant breaches under certain conditions which include restricting Goodfood from using the revolver portion of the facility, under which no amount is currently outstanding or available other than letters of credit. On December 19, 2022, the Company reached an agreement to amend the syndicated credit agreement with its existing lenders providing bank financing of $9.5 million. The facilities include a $5.0 million term loan, a $2.5 million revolving credit facility, and $2.0 million in additional short-term financing and come to maturity in November 2023. The facilities feature updated financial conditions, including minimum cash balance and financing related covenants.

The Company's ability to continue as a going concern is dependent upon management's initiatives, including Project Blue Ocean, being realized and/or its ability to secure financing to meet anticipated cash needs for working capital and capital expenditures as required. However, there can be no assurance that the Company will be able to achieve its stated goals or that it will generate the necessary cash flows or obtain additional financing or what the terms of such financing might be or for what period of time a tolerance letter will remain in place with the Company's lenders. As a result, material uncertainty currently exists with respect to our ability to continue as a going concern.

The following details initiatives completed or ongoing to reduce our liquidity risk:

- We continue to work through Blue Ocean initiatives to drive efficiencies and return the Company to positive Adjusted EBITDA by the first half of 2023 and to form the basis for the path to positive cash flow and long-term profitable growth;
- We continue to evaluate and examine other financing options.

CASH FLOWS

A summary of net cash flows by activity for the 13 weeks ended December 3, 2022 and December 4, 2021 is presented below:

(In thousands of Canadian dollars)

For the 13 weeks ended		**December 3, 2022**		December 4, 2021		Variance
Cash flows used in operations, excluding change in non-cash operating working capital	**$**	**(5,017)**	$	(16,458)	$	11,441
Change in non-cash operating working capital		**(1,058)**		(2,464)	$	1,406
Net cash flows used in operating activities	**$**	**(6,075)**	$	(18,922)	$	12,847
Net cash flows provided by (used in) investing activities		**1,857**		(11,612)		13,469
Net cash flows (used in) provided by financing activities		**(4,114)**		9,767		(13,881)
Net change in cash and cash equivalents	**$**	**(8,332)**	$	(20,767)	$	12,435
Cash and cash equivalents, beginning of period		**36,885**		125,535		(88,650)
Cash and cash equivalents, end of period	**$**	**28,553**	$	104,768	$	(76,215)

Net cash flows used in operating activities improved by $12.8 million for the first quarter 2023 compared to the same period last year primarily due to a lower net loss before non-cash expenses. Net cash flows used in operating activities in the first quarter of 2023 include cash impact on reorganization and other related costs of $2.1 million compared to $1.8 million in same period last year.

Net cash flows provided by investing activities were $1.9 million for the first quarter 2023 compared to net cash flows used in investing activities of $11.6 million in the compared period of 2022. This is a quarter-over-quarter positive variance of $13.5 million which is primarily due to lower fixed assets additions in 2023 as facility roll-outs were concluded in Fiscal 2022 as well as proceeds on disposal of non-financial assets received in the first quarter of 2023. Net cash flows generated by investing activities in the first quarter of 2023 include $0.8 million of cash flows used for additions to fixed asset and intangible assets compared to $11.8 million in the same period last year.

Net cash flows used in financing activities were $4.1 million for the first quarter 2023 compared to net cash flows provided by financing activities of $9.8 million in the compared period of 2022. This is a quarter-over-quarter negative variance of $13.9 million which is primarily due to proceeds from the drawdown of the revolving facility in the first quarter of Fiscal 2022.

DEBT

During the first quarter of Fiscal 2021, 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 of Fiscal 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 the Canadian Banker's Acceptance 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. For more detail with respect to the breach in covenants and the existence of a tolerance letter with the Company's lenders, please refer to the subsection "Capital Management" of the "Liquidity and Capital Resources" section of this MD&A.

On December 19, 2022, the Company reached an agreement to amend the syndicated credit agreement with its existing lenders providing bank financing of $9.5 million. For more detail with respect to the amended agreement, please refer to the subsection "Capital Management" of the "Liquidity and Capital Resources" section of this MD&A.

CONVERTIBLE DEBENTURES

On February 11, 2022, the Company issued 30,000 convertible unsecured subordinated debentures (the "2022 Debentures") at a price of $1,000 per Debenture for gross proceeds of $30 million. The Debentures mature on March 31, 2027 and bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2022. Factoring in the 2022 Debentures issuance costs, the effective interest rate on the 2022 Debentures is 12.6%. 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 conversion price of $4.60 per common share.

On or after March 31, 2025, and prior to March 31, 2026, 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 2022 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, 2026, and prior to the Maturity Date, the 2022 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 Fiscal 2020, the Company issued 30,000 convertible unsecured subordinated debentures (the "2020 Debentures") at a price of $1,000 per Debenture for gross proceeds of $30 million. The 2020 Debentures mature on March 31, 2025 and bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2020. Factoring in the 2020 Debentures issuance costs, the effective interest rate on the 2020 Debentures is 11.76%. The 2020 Debentures are convertible into common shares of the Company at any time at the option of the holder at a conversion price of $4.70. Starting on March 31, 2023, under certain conditions, the debentures may be redeemed in whole or in part at the option of the Company at a price equal to the principal amount thereof plus accrued and unpaid interest.

During the 13 weeks ended December 3, 2022, 210 Debentures (December 4, 2021 – 620) were converted into common shares of the Company, resulting in the issuance of 45,652 (December 4, 2021 – 131,910) common shares and the Company reclassified $0.2 million (December 4, 2021 – $0.5 million) and $20 thousand (December 4, 2021 – $0.1 million), respectively (refer to Note 11) from the convertible debentures liability to common shares and from the equity component of the convertible debentures to common shares. As at December 3, 2022, 29,046 of 2022 Debentures and 6,232 of 2020 Debentures (September 3, 2022 – 29,256 of 2022 Debentures and 6,232 of 2020 Debentures) were outstanding at a price of $1,000 per Debenture.

COMMON SHARES

Transactions that took place during the 13 weeks ended December 3, 2022 were as follows:

- Nil stock options were exercised;
- 24,456 restricted share units vested and the same number of common shares were issued;
- 4,557 employee share purchases vested and the same number of common shares were issued; and
- 210 Debentures were converted into 45,652 common shares.

SELECTED QUARTERLY FINANCIAL INFORMATION

The table below presents selected quarterly financial information for the last eight fiscal quarters:

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

	Fiscal 2023				Fiscal 2022			Fiscal 2021
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Active customers [1]	**148,000**	157,000	211,000	246,000	254,000	249,000	296,000	306,000
Net sales	**$ 47,148**	$ 50,357	$ 67,031	$ 73,377	$ 77,821	$ 79,358	$ 107,795	$ 100,654
Gross profit	**16,759**	14,256	17,556	17,595	18,648	18,153	37,732	30,636
Gross margin	**35.6%**	28.3%	26.2%	24.0%	24.0%	22.9%	35.0%	30.4%
Discontinuance of products related to on-demand offering	**643**	1,194	–	–	–	–	–	–
Adjusted Gross profit [1]	**17,402**	15,450	17,556	17,595	18,648	18,153	37,732	30,636
Adjusted Gross margin [1]	**36.9%**	30.7%	26.2%	24.0%	24.0%	22.9%	35.0%	30.4%
Net loss	**$ (11,708)**	$ (58,408)	$ (21,103)	$ (20,640)	$ (21,610)	$ (22,123)	$ (2,333)	$ (4,252)
Net finance costs	**1,570**	1,677	1,596	1,056	904	524	431	540
Depreciation and amortization	**3,769**	4,853	5,220	4,282	2,940	2,176	2,318	2,292
Deferred income tax expense (recovery)	**11**	39	(2)	(1,559)	27	97	61	129
EBITDA [1]	**$ (6,358)**	$ (51,839)	$ (14,289)	$ (16,861)	$ (17,739)	$ (19,326)	$ 477	$ (1,291)
Share-based payments	**2,293**	1,472	1,177	1,984	1,353	1,587	869	1,404
Discontinuance of products related to on-demand offering	**643**	1,194	–	–	–	–	–	–
Impairment of non-financial assets	–	46,085	–	–	–			
Reorganization and other related costs	**1,119**	1,160	2,477	1,293	1,812	–	–	139
Adjusted EBITDA [1]	**$ (2,303)**	$ (1,928)	$ (10,635)	$ (13,584)	$ (14,574)	$ (17,739)	$ 1,346	$ 252
Adjusted EBITDA margin [1]	**(4.9)%**	(3.8)%	(15.9)%	(18.5)%	(18.7)%	(22.4)%	1.2%	0.3%
Basic and diluted loss per share [2]	**(0.16)**	(0.78)	(0.28)	(0.28)	(0.29)	(0.31)	(0.03)	(0.06)

(1) For the definition of these Non-IFRS financial measures, please refer to the "Metrics and Non-IFRS Financial Measures" section of this MD&A.

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

Quarter-over-quarter variations in net sales were caused by the various factors including the following:

- introduction of on-demand grocery offering in late Fiscal 2021 and the shutdown of this offering in late Fiscal 2022;
- seasonality which is the strongest in the second quarter due to the holidays and the fourth quarter due to summer months, when the number of active customers trends lower;
- impacts of COVID-19 and economic conditions which led to a shift in customer ordering behaviors during the pandemic and after COVID-19 restrictions were eased;
- marketing campaigns and customer incentives;
- fluctuations in inflation.

Quarter-over-quarter variations in net loss were caused by the various factors including the following:

- introduction of on-demand grocery offering in late Fiscal 2021 and the shutdown of this offering in late Fiscal 2022 which led to fluctuating net losses as high cost of product, fulfillment and delivery eroded gross margin;
- seasonality which is the strongest in the fourth quarter due to summer months and the second quarter due to the holidays, when the number of active customers trends lower and can result in lower operating margins;
- impacts of COVID-19 and post-pandemic economic conditions which led to inflationary pressures partially offset by increase in basket prices;
- marketing campaigns and customer incentives;
- costs saving measures adopted from the Company's Project Blue Ocean initiatives which led to a reduction in headcount and operating efficiencies in its gross profit and selling, general and administrative expenditures as well as additional reorganization and impairment charges throughout the Fiscal 2022 quarters and the first quarter of Fiscal 2023.

TRENDS AND SEASONALITY

The Company's net sales and expenses are impacted by seasonality. During the holiday season and the summer season, the Company anticipates net sales to be lower as a higher proportion of customers elect to skip their delivery. The Company generally anticipates the number of active customers to be lower during these periods. During periods with warmer weather, the Company anticipates packaging costs to be higher due to the additional packaging required to maintain food freshness and quality. The Company also anticipates food costs to be positively affected due to improved availability during periods with warmer weather.

FINANCIAL RISK MANAGEMENT

CREDIT RISK

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligation. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk is primarily attributable to its cash and cash equivalents 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 did not enter into an interest rate swap. Refer to the "Liquidity and Capital Resources" section of this MD&A. As interest rates on Debentures are fixed, the Company is not exposed to interest rate risk on those instruments.

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.

The Company monitors its risk of shortage of funds by monitoring forecasted and actual cash flows and maturity dates of existing financial liabilities and commitments and is actively managing its capital to ensure a sufficient liquidity position to finance its general and administrative, working capital and overall capital expenditures. However, the Company concluded that material uncertainty exists with respect to the Company's ability to continue as a going-concern for at least the next twelve months to realize its assets and satisfy its liabilities in the normal course of operations as they come due.

In order to address these uncertainties, the Company will rely on Blue Ocean initiatives, a review of its operations and overall business to drive efficiencies, return the Company to positive Adjusted EBITDA by the first half of 2023 and to form the basis for the path to positive cash flow and long-term profitable growth as well as negotiating the terms of a revised credit facility arrangement with its lenders. There can be no assurance that the Company will be successful in achieving positive results. Please refer to the "Basis of Presentation" section of the MD&A.

BUSINESS RISK

For a detailed discussion of business risk factors, please refer to the Company's Annual Information Form for the 52 weeks ended September 3, 2022 available on SEDAR at www.sedar.com.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Goodfood has commitments under purchase and service contract obligations with various expiration dates. There have been no material changes to these obligations since September 3, 2022.

FINANCIAL INSTRUMENTS

The Company's financial instruments primarily consist of cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities, long-term debt and Debentures.

INVESTMENT POLICY

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

FINANCIAL COVENANTS

As discussed in the "Liquidity and Capital Resources" section of the MD&A, the Company secured a credit facility that includes financial covenants which may restrict the Company's ability to pursue future transactions or opportunities. As at the end of the first quarter of Fiscal 2023, the Company was in not in compliance with these financial covenants. Refer to the "Liquidity and Capital Resources" section of the MD&A for further discussion on the covenant breaches and the renegotiated debt financing.

SHARE-BASED PAYMENTS

A stock option plan (the "Stock Option Plan") was established by the Company to attract and retain employees, consultants, directors and officers. The plan provides for the granting of stock 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 plan, stock options generally vest over a period of three or four years and expire eight years from the grant date.

A restricted share unit plan (the "RSU Plan") was established by the Company to attract and retain employees, officers and directors. 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. Under the plan, RSUs generally vest over a period of three years.

OUTSTANDING SHARE DATA

As at	January 16, 2023	December 3, 2022	September 3, 2022
Common shares outstanding [1]	**76,520,658**	**75,246,670**	75,233,027
Debentures outstanding [2]	**7,505,957**	**7,505,957**	7,550,638
Stock options outstanding	**4,102,844**	**3,058,789**	3,262,799
Stock options exercisable	**2,029,567**	**1,973,515**	1,865,747
Restricted share units outstanding	**2,236,091**	**1,642,681**	2,000,716

(1) As at January 16, 2023 and December 3, 2022, 245,795 and 227,765 common shares held in trust through the employee share purchase plan (September 3, 2022 – 171,829 common shares) were included in the common shares outstanding.

(2) As at January 16, 2023 and December 3, 2022, 35,278 Debentures (September 3, 2022 – 35,488 Debentures) were outstanding which are convertible into 7,505,957 common shares of the Company, respectively, at a conversion price of $4.70. Please refer to the "Debt" subsection of the "Liquidity and Capital Resources" section of this MD&A.

USE OF PROCEEDS FROM PUBLIC OFFERINGS

FEBRUARY 2022 CONVERTIBLE DEBENTURES PUBLIC OFFERING

On February 11, 2022, the Company completed a public offering and issued $30 million of convertible debentures for net proceeds of $28 million.

The following table compares the estimated use of proceeds presented in the Company's final short-form prospectus dated February 4, 2022 with the actual use of proceeds as at December 3, 2022. Pursuant to the shutdown of its Goodfood On-Demand offering and the closing of all its MFCs as part of its Blue Ocean initiatives, the Company will no longer be investing in capital expenditures for its MFCs. Going forward, the Company will use the proceeds of this public offering to fund general corporate purposes including leases and Blue Ocean initiatives.

(In thousands of Canadian dollars)

	Actual use of proceeds	Estimated use of proceeds	Variance
Micro-Fulfillment Related Capital Expenditures	$ 1,735	$ 9,500	$ (7,765)
Micro-Fulfillment Centres Start-Up Costs Including Leases [1]	2,830	9,500	(6,670)
General corporate purposes	15,225	9,223	6,002
Remaining as at December 3, 2022	8,272	N/A	8,272
Total net proceeds	28,062	28,223	(161)
Debentures issuance costs	1,938	1,777	161
Gross proceeds	$ 30,000	$ 30,000	$ –

(1) Start-up costs includes costs incurred before the launch of a micro-fulfillment centre as well as expenses related to opening and ramping up the micro-fulfillment centre. Pursuant to the shutdown of Goodfood On-demand offering in the fourth quarter of Fiscal 2022, all lease payments as of the first quarter of Fiscal 2023 are included in general corporate purposes regardless of type of facility.

SEGMENT REPORTING

The Company has one reportable segment as our principal business activity is focused on developing and servicing the online meal-kit and grocery add-on market.

DIVIDEND POLICY

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The Company’s significant judgements, estimates and assumptions are the same as those that were applied to the Company’s consolidated financial statements for the year ended September 3, 2022.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 C*ertification of Disclosure in Issuers’ Annual and Interim Filings*, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer ("Certifying Officers") that, among other things, report on the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting (“ICFR").

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made during the first quarter of Fiscal 2023 to the Company’s ICFR that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.