goodfood

ANNUAL REPORT 2023

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.

The Company's administrative offices are based in Montreal, Québec, with production facilities located in the provinces of Quebec and Alberta.

2023
AT A GLANCE

2
PRODUCTION FACILITIES

780
EMPLOYEES

116K
QUATERLY ACTIVE CUSTOMERS[1]

$169 M
REVENUES

The following table provides a summary of our locations currently operating:

	Total number of locations	Administrative offices	Manufacturing centers	Fulfillment facilities
Greater Montreal Area (Quebec)	1	X	X	X
Greater Toronto Area (Ontario)	2	X		X
Calgary (Alberta)	1		X	X

1.This is a metric or non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Please refer to the Metrics and Non-IFRS financial measures section in the Management's Discussion and Analysis.

3-YEAR
FINANCIAL HIGHLIGHTS

For the years ended	September 2, 2023	%Δ	September 3, 2022	%Δ	August 31, 2021
Operating Results					
Revenues	168,558	(37%)	268,586	(29%)	379,234
Gross Profit	65,380	(4%)	68,055	(41%)	116,094
Adjusted EBITDA[1]	4,695		(40,721)		(15,306)
Net loss being comprehensive loss	(16,463)		(121,761)		(31,792)
Basic and diluted loss per share	(0.22)		(1.62)		(0.45)
Operating Metrics					
Gross Margin	38.8%	13.5 pp	25.3%	(5.3) pp	30.6%
Adjusted EBITDA Margin[1]	2.8%	18.0 pp	(15.2%)	(11.2) pp	(4.0%)
Financial Position					
Cash[2]	24,925		36,885		125,535
Fixed assets	11,026		18,408		33,367
Total assets	57,808		129,848		255,262
Total debt[3]	4,036		11,743		21,351
Total convertible debentures[4]	47,119		32,643		6,466
Shareholders' equity (deficit)	(23,442)		(11,178)		97,875
Cash flows provided by (used in)					
Operating activities	(9,350)		(58,981)		(16,358)
Investing activities	1,960		(37,671)		(18,012)
Financing activities	(4,570)		8,002		55,503

1. This is a metric or non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Please refer to the Non-IFRS financial measures section in the Management's Discussion and Analysis.
2. Includes cash and cash equivalents.
3. Includes the current portion of long-term debt.
4. Includes the liability and equity components of the convertible debentures.

MESSAGE TO SHAREHOLDERS

Dear fellow Shareholders,

Fiscal 2023 marked a successful transition year for Goodfood and our teams. In this challenging environment; we swiftly anchored the business back to deeper, more resilient roots. We completed our cost saving initiatives, aligned our workforce and consolidated our facilities to meet our current offering needs. These changes were executed at an incredibly fast pace and drove record Adjusted EBITDA[1] profitability for the year and positive free cash flows[1] in the third quarter. With this strong foundation, we remain committed to build Canada's best and most profitable food-at-home platform and we continue to be driven by our unwavering will to spark joy in our customers' kitchens and to be masters of our destiny.

Setting the Stage to Consistent Profitability

After a challenging year as consumers behaviors shifted away from e-commerce, Fiscal 2023 was marked by record profitability levels with gross margin at its all-time high of 38.8%, positive adjusted EBITDA[1] of $5 million, a record, and significantly better free cash flows[1] which improved by $87 million compared to Fiscal 2022. Operational improvements and price revisions have been instrumental in driving our record results and we are pleased to report that our diligent efforts have yielded strong outcomes. The key highlights are:

- We simplified our footprint leading to exiting 12 leases and consolidating our production to two facilities in Montreal and Calgary;
- We aligned our workforce with scale leading to significant headcount reductions;
- We completed Blue Ocean initiatives to drive efficiencies to continue to improve and grow our gross margin and adjusted EBITDA[1] and to form the basis for the path to consistent positive cash flow and long-term profitable growth;
- We continuously review and adjust our sales prices to match current economic conditions;
- We are continuously improving our working capital management including managing our inventories level with just-in-time inventory on our meal kits;

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MESSAGE TO SHAREHOLDERS

- We had record gross margin with an improvement of 13.5 percentage points compared to Fiscal 2022 as a result of the initiatives described above and strong execution;
- Our selling, general and administrative expenses decreased by $50 million;
- We achieved record positive adjusted EBITDA[1] for Fiscal 2023 and significantly improved our free cash flow[1].

Obsess About the Customer

During this year, we shared key customer insights that inform our long-term roadmap to consistently grow our customer value proposition, thereby creating an increasingly sticky customer base as well as carefully growing our total addressable market to serve the needs of new customer segments.

First, busy professionals and families are increasingly craving delicious and nutritious meals that can be prepared in minutes. With this in mind, we have broadened our assortment of carb-wise, calorie smart, keto, paleo, and high-protein recipes by 50 percent, many of which can be prepared within 20 minutes. We partnered with key brand ambassadors to amplify the initiative, including Montreal Canadiens captain Nick Suzuki, and paired some of the new meals with the introduction of better-for-you proteins including organic beef, grass fed bison and steelhead trout.

Second, we are seeing strong demand from customers who are looking for experiences that spark joy while providing an alternative to pricey restaurant options. To provide that, we have curated select partnerships for our customers including exclusive meals co-created with Michelin-starred St. Lawrence restaurant in Vancouver to bring dishes like Lemony Chicken Piccata with Fresh Fettuccine & Garlic-Roasted Broccolini to our customers' homes. Another exciting product innovation we introduced to our customers this fail is our new line of air fryer recipes in partnership with Ninja, a leading air fryer brand in Canada.

Going forward, we are convinced that by remaining focused on consistently growing our customer value proposition, we can grow our cash flows.

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MESSAGE TO SHAREHOLDERS

Continued Focus on Sustainable Profitable Growth

As we move forward, we continue to recognize that cash remains King and we are as motivate as ever to continue growing our cash flows. Top line growth plays a significant role in achieving this profitability growth and we intend to grow our top line using the following key growth drivers:

- Customer growth: building customer acquisition cost efficiencies to enable adding more customers to the Goodfood platform and continue to invest in our digital product to elevate the customer experience by reducing friction and enhancing ease of use;
- Order frequency increase by offering increased product variety and customization, recipe and ingredient diversity, partnerships with first-rate restaurants and enticing our most loyal (and profitable) members through our VIP program;
- Basket size enhancement: building a differentiated set of meal kits, ready-to-eat meals and add-ons as well as the launch of upsells and upcoming launch of customization.
- Sustainability: prioritizing planet friendly options - perfectly portioned ingredients that save from food waste, a supply chain removing middlemen from farm to kitchen table, offsetting carbon emissions on deliveries, and introducing packaging innovations that have helped us to remove the equivalent of 2.4 million plastic bags annually from our deliveries.

With the steps we have taken and continue to take, our strategic execution to drive profitability and cash flows continues to bear fruit, underpinned by consistent improvement in adjusted EBITDA[1] and cash flows. Coupled with our unrelenting focus on nurturing our customer relationships, profitable growth remains our top priority. The Goodfood team is fully focused on building and growing Canada's most loved millennial food brand.

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MESSAGE TO SHAREHOLDERS

MOST IMPORTANTLY

Our record results this year are the fruit of the dedication and hard work of our incredible team. Our continued path to profitability would not be possible without our team's incredible contributions both in good and challenging times. To all Goodfoodies, we want to say thank you for your hard work, resilience and dedication over the last year. Our ability to successfully transition to profitability this year and set the stage to thrive in the coming years has also been driven by the confidence of our major shareholders, customers, board members, suppliers, and other stakeholders. We want to express our deep appreciation for your trust and support.

Over the years, we have stayed true to the purpose that powers our brand and products. Our core purpose is to spark joy by making cooking and eating a fun, exciting and enjoyable experience, to help Canadians live longer by achieving a balanced and healthy diet, and to live on a healthier planet by offering planet-conscious products that are sourced, packaged and delivered sustainably. As we continue to build towards that ambitious purpose, we share with you our Fiscal year 2023 financial results.

Thank you,

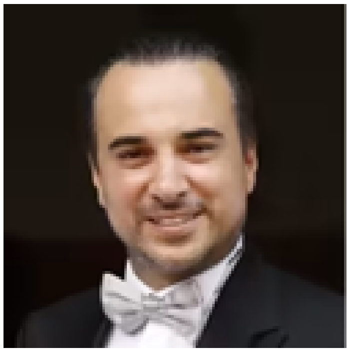
Jonathan Ferrari
Co-Founder, Chairman of the Board and CEO

Neil Cuggy
Co-Founder, Director, President and COO

BOARD OF DIRECTORS

JONATHAN FERRARI
Co-Founder, Chairman of the Board and CEO

NEIL CUGGY
Co-Founder, Director, President and COO



JOHN KHABBAZ
Director

DONALD OLDS
Director

TERRY YANOFSKY
Director

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 2, 2023

Management's Discussion and Analysis of

GOODFOOD MARKET CORP.

For the 13 weeks and 52 weeks ended September 2, 2023

TABLE OF CONTENTS

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 subsidiary (the "Company" or "Goodfood") for the 13 and 52 weeks ended September 2, 2023 and should be read in conjunction with our audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended September 2, 2023. Please also refer to Goodfood's press release announcing its results for the 52 weeks ended September 2, 2023 issued on November 22, 2023. Quarterly reports, the Annual Report, and the Annual Information Form can be found on SEDAR+ at www.sedarplus.ca 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 annual audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the financial information herein was derived from those statements.

During Fiscal 2023, the Company completed its cost reduction initiatives as part of Project Blue Ocean. The cost saving initiatives consisted of a review of its operations and overall business to drive efficiencies, return the Company to positive adjusted EBITDA[1] and to form the basis for the path to consistent positive cash flow and long-term profitable growth.

All amounts herein are expressed in Canadian dollars unless otherwise indicated and all references to 2023 refer to Fiscal 2023 and 2022 refer to Fiscal 2022 unless otherwise indicated.

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

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 November 22, 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 fourth quarter and 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 FOURTH QUARTER OF 2023 COMPARED TO THE FOURTH QUARTER OF 2022

- Net sales were $37.2 million, a 26% decrease from $50.4 million compared to the same quarter last year.
- Gross margin reached 38.2%, an increase of 9.9 percentage points, with gross profit at $14.2 million, flat compared to the same quarter last year despite net sales declining by 26%.
- Net loss was $3.7 million, an improvement of $54.7 million compared to the same quarter last year. As a result of Blue Ocean initiatives, net loss includes $0.8 million of reorganization and other related costs.
- Adjusted EBITDA margin[1] was 1.9%, an improvement of 5.7 percentage points compared to the same quarter last year.
- Net cash flows used in operating activities totalled $2.0 million, an improvement of $11.2 million compared to the same quarter last year.
- Adjusted free cash flow[1] was negative $1.1 million, an improvement of $10.5 million compared to the same quarter last year.
- Active customers[1] of 116,000 compared to 157,000 for the same quarter last year.

HIGHLIGHTS OF FISCAL 2023 COMPARED TO FISCAL 2022

- Net sales were $168.6 million, a 37% decrease from $268.6 million compared to the same period last year.
- Gross margin reached 38.8%, an increase of 13.5 percentage points and gross profit of $65.4 million decreased by $2.7 million or 4.0% compared to the same period last year. Gross margin and gross profit include $1.3 million of inventories write-downs due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted gross margin[1] which excludes the $1.3 million charge for inventories write-downs due to the discontinuance of products related to Goodfood On-Demand grocery totalled 39.5%, an increase of 13.7 percentage points and adjusted gross profit[1] of $66.7 million decreased by $1.4 million or 2.1% compared to the same period last year.
- Net loss was $16.5 million compared to $121.8 million in the same period last year. As a result of Blue Ocean initiatives, net loss includes $0.5 million of reorganization and other related gains as well as a charge of $1.3 million related to inventories write-downs due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted EBITDA margin[1] was 2.8%, an improvement of 18.0 percentage points compared to the same period last year.
- Net cash flows used in operating activities was $9.4 million, an improvement of $49.6 million compared to the same period last year.
- Adjusted free cash flow[1] was negative $4.5 million, an improvement of $86.6 million compared to the same period last year.

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

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 2, 2023 available on SEDAR+ at www.sedarplus.ca: limited operating history, negative operating cash flow, going concern risk, food industry including current industry inflation levels, indebtedness and impact upon financial condition, future capital requirements, 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, fulfillment centers and logistics channels, factors which may prevent realization of growth targets, competition, availability and quality of raw materials, environmental and employee health and safety regulations, online security breaches and disruptions, reliance on data centers, open source license compliance, operating risk and insurance coverage, management of growth, limited number and scope of products, conflicts of interest, litigation, food costs and availabilities, 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, as well as an inability to maintain high social responsibility standards could lead to reputational damage and adversely affect our business. 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, as well as 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, continuing supply chain disruptions and 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.

In the second quarter of Fiscal 2023, the Company added the free cash flow metric to assess financial strength and liquidity as well as how much cash is available to invest in growth opportunities, to finance its ongoing operations and to service its debt. Adjusted free cash flow was also added as a metric to measure financial and liquidity performance without the variations that could potentially distort the trends in our liquidity performance primarily related to reorganization activities.

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 (gains) 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 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.
Free cash flow & Adjusted free cash flow	Free cash flow is defined as net cash used in or provided by operating activities less additions to fixed assets and additions to intangible assets. This measure allows the Company to assess its financial strength and liquidity as well as to assess how much cash is generated and available to invest in growth opportunities, to finance its ongoing operations and to service its debt. It also allows comparisons between companies with different capital structures. Adjusted free cash flow is defined as free cash flow excluding cash payments made to costs related to reorganization activities. We believe that adjusted free cash flow is a useful measure when comparing between companies with different capital structures by removing variations caused by the impacts of the items described above. We also believe that this metric is a useful measure of financial and liquidity 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 deficiency. 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.

Together, our Montreal and Calgary facilities serve the whole of Canada, aligned with our go-forward strategy centered around building the Goodfood brand through our weekly meal plans and add-ons nationally, providing Goodfood branded grocery and ready-to-eat 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 November 21, 2023:

	Total number of locations	Administrative offices	Manufacturing centres	Fulfillment facilities
Greater Montreal Area (Quebec)	1	X	X	X
Greater Toronto Area (Ontario)	2	X		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.

The online meal solutions market continues to grow rapidly and meal kits are now estimated to have reached approximately US$1.4 billion dollar in size in Canada as part of the C$123 billion Canadian Grocery industry, with a penetration of only 4.8% of households (see Annual Information Form for details). We believe there is substantial runway for additional penetration of meal kits into Canadian households, as evidenced by industry research estimating the Canadian meal kit market to grow at a 16% CAGR between 2023 and 2027, to reach a market size of US$2.5 billion. 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.

Before scaling our efforts to capture an outsized share of the meal solutions market, our focus has been and continues to be on further improving and growing cash flows. We are pleased to have now reported three consecutive quarters and a first full year of positive adjusted EBITDA[1] and have driven an adjusted free cash flow[1] improvement of $87 million this year in addition to turning in positive adjusted free cash flows[1] in the third quarter to the tune of $4 million. Having improved adjusted EBITDA[1] and adjusted free cash flows[1] on the back of lower net sales highlights the cost discipline we have shown in improving our operational efficiency and selling, general and administrative expense reductions. This improvement positions Goodfood ideally to turn its focus to growth and to fund this growth with internally generated cash flows.

During Fiscal 2024, Goodfood will focus on key growth pillars to drive growth in top line and, most importantly, in profitability and cash flows: 1) customer growth, 2) order frequency increase, 3) basket size enhancement, and 4) continue to enhance our sustainability practices.

To grow our customer base, the first step is building customer acquisition cost efficiencies to enable adding more customers to the Goodfood platform every week with the same investment. In recent months, we have completed a thorough review of and made significant adjustments to our acquisition channels. We have also made and continue to make investments in our digital product to elevate the customer experience by reducing friction and enhancing ease of use. Combined with reactivations of previous Goodfood members, these initiatives have reduced our customer acquisition costs substantially in the fourth quarter and improved the profitability and unit economics of customers as evidenced by the consistently increasing sales generating ability and profitability of our customers.

A key driver that can enhance order frequency is product variety. In addition to launching our VIP program, which rewards high frequency customers, we have increased the diversity of our recipe and ingredient offering to provide additional choices to enhance order rate. With a focus on *Better-for-You* products like organic chicken breasts, organic lean ground beef, bison, sustainably raised steelhead trout and paleo and keto meals, combined with exciting partnerships with first-rate restaurants, we plan on offering a growing and mouth-watering selection to customers to drive consistently increasing order frequency.

The dollar-value of the baskets our customers are building is also increasing and we are building a differentiated set of meal kits, ready-to-eat meals and grocery add-ons to provide Canadians with an exciting online meal solutions option and increasingly capture a larger share of their food wallet. In addition, we have provided and continue to provide more choice of proteins to our customers, with the launch of upsells and upcoming launch of customization within our meal-kit recipes allowing customers to swap or double the proteins included in their chosen recipes. With these initiatives, we aim to provide customers with an array of options to easily make their meals better and their baskets bigger.

We are also continuously looking to enhance our sustainability initiatives by prioritizing planet-friendly options. Not only do we offer perfectly portioned ingredients that save from food waste, we also constantly look to simplify our supply chain by removing middlemen from farm to kitchen table. This year, we are also offsetting carbon emissions on deliveries and introducing packaging innovations that have helped us to remove the equivalent of 2.4 million plastic bags annually from our deliveries. Our goal is clear, build a business that helps our customers live healthier lives on a healthier planet.

In addition to focusing on these key pillars of top-line growth, we are currently testing the potential for multi-channel partnerships that can broaden Goodfood's customer reach and resilience.

With the steps we have taken, our strategic execution to drive profitability and cash flows continues to bear fruit, underpinned by consistent improvement in adjusted EBITDA[1] and cash flows. Coupled with our

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

unrelenting focus on nurturing our customer relationships, profitable growth 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

$12.675 million private placement

In February 2023, the Company announced it closed an offering of $12.675 million aggregate principal amount of 12.5% convertible unsecured subordinated debentures due February 6, 2028, at a price of $1,000 per Debenture, by way of non-brokered private placement. The total investment consists of $10 million from Investissement Québec and $2.675 million from management, Board members and existing shareholders. Please refer to the "Convertible debentures" sub-section of the "Liquidity and capital resources" section of the MD&A.

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 on November 30, 2023. The facilities feature updated financial conditions, including cash and financing related covenants. Please refer to the "Debt" sub-section of the "Liquidity and capital resources" section of the MD&A.

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		For the 52 weeks ended	
	September 2, 2023	September 3, 2022	September 2, 2023	September 3, 2022
Active customers, beginning of period	**119,000**	211,000	**157,000**	249,000
Net change in active customers	**(3,000)**	(54,000)	**(41,000)**	(92,000)
Active customers, end of period	**116,000**	157,000	**116,000**	157,000

Active customers decreased by 3,000 and 41,000 for the 13 and 52 weeks ended September 2, 2023, respectively. The decrease for the 13 weeks ended September 2, 2023 can be explained mainly by the summer months seasonality as customers spend less time in their kitchen. The decrease for the 52 weeks ended September 2, 2023 is mainly associated with our focus on attracting and retaining active customers with enhanced ordering and profitability patterns. This focus has led to current active customers displaying improved order frequency and average order value compared to same periods last year. Please refer to the "Financial Outlook" section of this MD&A for a discussion on growth.

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		For the 52 weeks ended	
	September 2, 2023	September 3, 2022	September 2, 2023	September 3, 2022
Gross profit	**$ 14,221**	$ 14,256	**$ 65,380**	$ 68,055
Discontinuance of products related to on-demand offering	**–**	1,194	**1,273**	1,194
Adjusted gross profit	**$ 14,221**	$ 15,450	**$ 66,653**	$ 69,249
Net sales	**$ 37,228**	$ 50,357	**$ 168,558**	$ 268,586
Gross margin	**38.2%**	28.3%	**38.8%**	25.3%
Adjusted gross margin (%)	**38.2%**	30.7%	**39.5%**	25.8%

For the 13 weeks ended September 2, 2023, the adjusted gross profit decreased by $1.2 million compared to the same quarter last year despite net sales decreasing by $13.1 million. This result is primarily due to operational efficiencies driving lower food and production costs as well as sales price adjustments completed throughout the year. The increase in adjusted gross margin of 7.5 percentage points can be explained mainly by improved food, production and shipping costs as a percentage of net sales driven by efficiencies gained as part of the Company's cost reduction initiatives. The improved adjusted gross margin was partly offset by a lower net sales base.

For the 52 weeks ended September 2, 2023, the adjusted gross profit decreased by $2.6 million compared to last year despite net sales decreasing by $100.0 million. This decrease is primarily due to lower net sales partially offset by lower costs of goods sold mainly in food, production and shipping costs. The increase in adjusted gross margin of 13.7 percentage points can be explained by lower food, production and shipping costs as a percentage of net sales costs driven by efficiencies gained as part of the Company's cost reduction initiatives as well as sales price adjustments completed throughout the year.

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		For the 52 weeks ended	
	September 2, 2023	September 3, 2022	September 2, 2023	September 3, 2022
Net loss	**$ (3,689)**	$ (58,407)	**$ (16,463)**	$ (121,761)
Net finance costs	**1,299**	1,677	**5,668**	5,233
Depreciation and amortization	**2,006**	4,853	**10,837**	17,295
Deferred income tax expense (recovery)	**–**	39	**(61)**	(1,495)
EBITDA	**$ (384)**	$ (51,838)	**$ (19)**	$ (100,728)
Share-based payments expense	**278**	1,472	**3,909**	5,986
Discontinuance of products related to on-demand offering	**–**	1,194	**1,273**	1,194
Impairment of non-financial assets	**–**	46,085	**–**	46,085
Reorganization and other related costs (gains)	**812**	1,160	**(468)**	6,742
Adjusted EBITDA	**$ 706**	$ (1,927)	**$ 4,695**	$ (40,721)
Net sales	**$ 37,228**	$ 50,357	**$ 168,558**	$ 268,586
Adjusted EBITDA margin (%)	**1.9%**	(3.8)%	**2.8%**	(15.2)%

For the 13 weeks ended September 2, 2023, adjusted EBITDA margin improved by 5.7 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 a lower salary base and other cost reduction initiatives. The improved adjusted EBITDA margin was partly offset by a lower net sales base.

For the 52 weeks ended September 2, 2023, adjusted EBITDA margin improved by 18.0 percentage points compared to the corresponding period in 2022 mainly driven by stronger adjusted gross margin and lower selling, general and administrative expenses mainly due to a lower salary base and other cost reduction initiatives. The improved adjusted EBITDA margin was partly offset by a lower net sales base.

FREE CASH FLOW AND ADJUSTED FREE CASH FLOW

The reconciliation of net cash flows from operating activities to free cash flow and adjusted free cash flow is as follows:

(In thousands of Canadian dollars)

	For the 13 weeks ended		For the 52 weeks ended	
	September 2, 2023	September 3, 2022	September 2, 2023	September 3, 2022
Net cash used in operating activities	**$ (1,958)**	$ (13,114)	**$ (9,350)**	$ (58,981)
Additions to fixed assets	**(18)**	(4,807)	**(716)**	(35,880)
Additions to intangible assets	**(197)**	(41)	**(1,019)**	(2,561)
Free cash flow	**$ (2,173)**	$ (17,962)	**$ (11,085)**	$ (97,422)
Payments related to discontinuance of products related to on-demand offering	**7**	–	**319**	–
Payments made to reorganization and other related costs	**1,047**	6,319	**6,275**	6,319
Adjusted free cash flow	**$ (1,119)**	(11,643)	**(4,491)**	(91,103)

For the 13 weeks ended September 2, 2023, adjusted free cash flow improved by $10.5 million compared to the corresponding period in 2022 mainly driven by lower net loss resulting primarily from lower salary base and other cost reduction initiatives as well as lower investments in capital expenditures as new facility roll-outs were concluded in Fiscal 2022 and Fiscal 2023 was focused on maintenance and technology projects.

For the 52 weeks ended September 2, 2023, adjusted free cash flow improved by $86.6 million compared to the corresponding period in 2022 mainly driven by lower net loss resulting primarily from lower salary base and other cost reduction initiatives, lower investments in capital expenditures as new facility roll-outs were concluded in Fiscal 2022 and Fiscal 2023 was focused on maintenance and technology projects.

RESULTS OF OPERATIONS – FOURTH 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	September 2, 2023	September 3, 2022	($)	(%)
Net sales	**$ 37,228**	$ 50,357	$ (13,129)	(26)%
Cost of goods sold	**23,007**	36,099	(13,092)	(36)%
Gross profit	**$ 14,221**	$ 14,258	$ (37)	(0)%
Gross margin	**38.2%**	28.3%	N/A	9.9p.p.
Selling, general and administrative expenses	**13,793**	18,851	(5,058)	(27)%
Depreciation and amortization	**2,006**	4,853	(2,847)	(59)%
Impairment of non-financial assets	**–**	46,085	(46,085)	N/A
Reorganization and other related costs	**812**	1,160	(348)	(30)%
Net finance costs	**1,299**	1,677	(378)	(23)%
Loss before income taxes	**$ (3,689)**	$ (58,368)	$ 54,679	94%
Deferred income tax expense	**–**	39	(39)	N/A
Net loss, being comprehensive loss	**$ (3,689)**	$ (58,407)	$ 54,718	94%
Basic and diluted loss per share	**$ (0.05)**	$ (0.78)	$ 0.73	94%

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

- The decrease in net sales is mainly driven by a decrease in the number of active customers partially offset by an increase in average order value as a result of larger basket sizes and sales price adjustments. The decrease in active customers is mainly driven by the Company's focus on attracting and retaining customers that provide higher gross margins and by changing customer behaviours.
- Gross profit remained flat compared to the same quarter last year primarily due to improved food, production and shipping costs as a percentage of net sales driven by improved efficiencies as well as sales price adjustments offset by a reduction in net sales.
- The decrease in selling, general and administrative expenses is primarily due to lower wages and salaries and marketing spend driven primarily as a result of the Company's Blue Ocean initiatives. Selling, general and administrative expenses as a percentage of net sales decreased from 37.4% to 37.1%.
- The decrease in depreciation and amortization expense is mainly due to the reduction in fixed assets and right-of-use assets in relation to Blue Ocean initiatives.
- The decrease in reorganization and other related costs mainly consist of lower external advisor fees and lower headcount reduction costs as the Company completed its Blue Ocean initiatives in the fourth quarter of Fiscal 2023.
- The decrease in net finance costs is mainly due to lower interest expense on debt and lease obligations due to a lower debt balance and lower lease obligations in relation to Blue Ocean initiatives partially offset by higher interest expense on the Debentures as the Company issued convertible debenture in February 2023.
- Despite the decrease in net sales compared to same quarter last year, net loss has decreased significantly mainly due to the Fiscal 2022 impairment of non-financial assets, lower food, production and shipping costs as well as lower wages and salaries and marketing spend in selling, general and administrative expenses.

RESULTS OF OPERATIONS – 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 52 weeks periods ended		September 2, 2023		September 3, 2022		($)	(%)
Net sales	**$**	**168,558**	$	268,586	$	(100,028)	(37)%
Cost of goods sold		**103,178**		200,531		(97,353)	(49)%
Gross profit	**$**	**65,380**	$	68,055	$	(2,675)	(4)%
Gross margin		**38.8%**		25.3%		N/A	13.5p.p.
Selling, general and administrative expenses		**65,867**		115,956		(50,089)	(43)%
Depreciation and amortization		**10,837**		17,295		(6,458)	(37)%
Impairment of non-financial assets		**–**		46,085		(46,085)	N/A
Reorganization and other related (gains) costs		**(468)**		6,742		(7,210)	(107)%
Net finance costs		**5,668**		5,233		435	8%
Loss before income taxes	**$**	**(16,524)**	$	(123,256)	$	106,732	(87)%
Deferred income tax recovery		**(61)**		(1,495)		1,434	(96)%
Net loss, being comprehensive loss	**$**	**(16,463)**	$	(121,761)	$	105,298	(86)%
Basic and diluted loss per share	**$**	**(0.22)**	$	(1.62)	$	1.40	(86)%

VARIANCE ANALYSIS FOR FISCAL 2023 COMPARED TO FISCAL 2022

- The decrease in net sales is primarily driven by a decrease in the number of active customers, the Company's decision to discontinue its on-demand offering partially offset by an increase in average order value due to sales price adjustments and focus on meal kit offerings. The decrease in active customers is mainly driven by the Company's focus on attracting and retaining customers that provide higher gross margins also by changing customer behaviours.
- The decrease in gross profit primarily resulted from a decrease in net sales partially offset by lower production costs and food costs as a percentage of net sales costs driven by improved efficiencies.
- The decrease in selling, general and administrative expenses is primarily due to lower wages and salaries and marketing spend driven primarily by the Company's Blue Ocean initiatives. Selling, general and administrative expenses as a percentage of net sales decreased from 43.2% to 39.1%.
- The decrease in depreciation and amortization expense is mainly due to the reduction in fixed assets and right-of-use assets in relation to Blue Ocean initiatives.
- Reorganization and other related (gains) costs in Fiscal 2023 mainly consist of gains on termination of leases partially offset by loss on disposal of non-financial assets and headcount reduction costs while Fiscal 2022 costs mainly consist of external advisors relating to the Company's reorganization plan.
- The increase in net finance costs is mainly due to the Company's $30 million convertible debentures issued in February 2023 partially offset by lower interest expense on lease obligations in relation to Blue Ocean initiatives.
- Although net sales have decreased compared to same period last year, net loss has decreased significantly mainly due to the reduction in selling, general and administrative expenses driven by cost reduction initiatives as well as improved gross margin driven by improved operational efficiencies. In addition, net loss has decreased due to the significant reduction in impairment of non-financial assets.

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	September 2, 2023	September 3, 2022	Variance	Main components
Cash and cash equivalents	**$ 24,925**	$ 36,885	$ (11,960)	Mainly due to net loss and repayment of long-term debt partially offset by proceeds from issuance of convertible debentures and proceeds from disposal of non-financial assets
Inventories	**3,281**	6,884	(3,603)	Due to lower net sales, discontinuance of products related to on-demand inventory and improvement in inventory management process
Assets held for sale	**–**	3,654	(3,654)	Mainly due to disposal of assets held for sale related to Project Blue Ocean
Fixed assets	**11,026**	18,408	(7,382)	Mainly due to disposal and write-offs of fixed assets related to Project Blue Ocean and depreciation
Right-of-use assets	**10,986**	55,419	(44,433)	Mainly due to derecognition of right-of-use assets for terminated leases related to Project Blue Ocean and depreciation
Accounts payable and accrued liabilities	**17,993**	27,104	(9,111)	Mainly due to lower sales base and lower salaries and benefits accrual
Debt (1)	**4,036**	11,743	(7,707)	Due to repayment of debt upon reaching an agreement to amend the credit agreement
Lease obligations, including current portion (2)	**13,364**	69,209	(55,845)	Mainly due to derecognition of lease obligations for terminated leases related to Project Blue Ocean
Convertible debentures, liability component (3)	**41,752**	27,469	14,283	Mainly due to private placement convertible debenture issuance

(1) Please refer to "Capital Management" sub-section of the "Liquidity and Capital Resources" section of the MD&A for repayment details.

(2) The following are the contractual undiscounted cash flows from lease obligations: $3.5 million repayable in less than one year (September 3, 2022 - $11.0 million), $10.2 million repayable within one to five years (September 3, 2022 - $40.8 million) and $1.4 million repayable more than 5 years (September 3, 2022 - $27.9 million).

(3) Please refer to "Convertible Debentures" sub-section of the "Liquidity and Capital Resources" section of the MD&A for repayment details.

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	September 2, 2023	September 3, 2022
Debt	**4,036**	11,743
Convertible debentures, liability component	**41,752**	27,469
Total debt	**$ 45,788**	$ 39,212
Shareholders' deficiency	**(23,442)**	(11,178)
Total capitalization	**$ 22,346**	$ 28,034
Cash and cash equivalents	**$ 24,925**	$ 36,885
Total net debt (1)	**$ 20,863**	$ 2,327
Total net debt to total capitalization (1)	**93.4%**	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 $18.5 million and total net debt to total capitalization increased by 85.1 percentage points mainly due to the 2028 Debenture issuance as well as Fiscal 2023 net loss and lower cash and cash equivalents.

CAPITAL MANAGEMENT

The Company's objective in managing its capital structure is to ensure a sufficient liquidity position 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, convertible debentures, as well as short-term or long-term debt. The Company has also generated positive cash flows from operations and free cash flows during the third quarter of Fiscal 2023, providing a base for capital structure flexibility.

In the second quarter of Fiscal 2023, 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 at the end of November 2023. The facilities feature updated financial conditions, including minimum cash balance and financing related covenants with which the Company is in compliance.

The following details some initiatives completed or ongoing to improve our liquidity:

- We raised $12.7 million from the issuance of convertible debentures in the second quarter of Fiscal 2023;
- We simplified our footprint leading to terminating leases and to consolidation of production in two facilities in Montreal and Calgary;
- We aligned our workforce with scale leading to significant headcount reductions;
- In Fiscal 2023, we achieved strong gross margin reaching up to 41% in the second and third quarters;
- We achieved positive net income in the second quarter of Fiscal 2023 and achieved positive adjusted EBITDA[1] in the last three quarters of Fiscal 2023;
- We achieved positive free cash flow[1] in the third quarter of Fiscal 2023;
- We completed Blue Ocean initiatives to drive efficiencies to continue to achieve and grow our gross margin and adjusted EBITDA and to form the basis for the path to consistent positive cash flow and long-term profitable growth.

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

CASH FLOWS

A summary of net cash flows by activity for the 13 weeks ended September 2, 2023 and September 3, 2022 is presented below:

(In thousands of Canadian dollars)

For the 13 weeks ended	September 2, 2023	September 3, 2022	Variance
Cash flows provided by (used in) operations, excluding change in non-cash operating working capital	**$ 121**	$ (3,661)	$ 3,782
Change in non-cash operating working capital	**(2,079)**	(9,453)	7,374
Net cash flows used in operating activities	**$ (1,958)**	$ (13,114)	$ 11,156
Net cash flows provided by (used in) investing activities	**53**	(4,449)	4,502
Net cash flows used in financing activities	**(1,538)**	(44,401)	42,863
Net change in cash and cash equivalents	**$ (3,443)**	$ (61,964)	$ 58,521
Cash and cash equivalents, beginning of period	**28,368**	98,849	(70,481)
Cash and cash equivalents, end of period	**$ 24,925**	$ 36,885	$ (11,960)

Net cash flows used in operating activities improved by $11.2 million in the fourth quarter 2023 compared to the same quarter last year. This quarter-over-quarter improvement is primarily due to a lower net loss before non-cash expenses as well as a favorable change in non-cash operating working capital due to a positive change in accounts payable and accrued liabilities resulting from lower supplier payments and improved inventory management during the fourth quarter 2023.

Net cash flows provided by investing activities were $0.1 million for the fourth quarter 2023 compared to net cash flows used in investing activities of $4.5 million in the comparable period of 2022. This is a quarter-over-quarter positive variance of $4.5 million primarily due to lower fixed assets additions in 2023 as facility roll-outs were concluded in Fiscal 2022. Net cash flows provided by investing activities during the fourth quarter of 2023 included $0.2 million of cash flows used for additions to fixed asset and intangible assets compared to $4.8 million in the same quarter last year.

Net cash flows used in financing activities improved by $42.9 million in the fourth quarter 2023 compared to same quarter last year primarily due to the repayment of the revolving facility in the fourth quarter of Fiscal 2022.

A summary of net cash flows by activity for the 52 weeks ended September 2, 2023 and September 3, 2022 is presented below:

(In thousands of Canadian dollars)

For the 52 weeks ended	September 2, 2023	September 3, 2022	Variance
Cash flows used in operations, excluding change in non-cash operating working capital	**$ (3,212)**	$ (47,873)	$ 44,661
Change in non-cash operating working capital	**(6,138)**	(11,108)	$ 4,970
Net cash flows used in operating activities	**$ (9,350)**	$ (58,981)	$ 49,631
Net cash flows provided by (used in) investing activities	**1,960**	(37,671)	39,631
Net cash flows (used in) provided by financing activities	**(4,570)**	8,002	(12,572)
Net change in cash and cash equivalents	**$ (11,960)**	$ (88,650)	$ 76,690
Cash and cash equivalents, beginning of period	**36,885**	125,535	(88,650)
Cash and cash equivalents, end of period	**$ 24,925**	$ 36,885	$ (11,960)

Net cash flows used in operating activities improved by $49.6 million during the 52 weeks of 2023 compared to the same period last year primarily due to a lower net loss before non-cash expenses and a favorable change in non-cash operating working capital. The favorable change in non-cash operating working capital is due to a favorable change in accounts payable and accrued liabilities resulting from lower net sales volume and lower inventories mainly resulting from lower net sales and discontinuance of products related to on-demand inventory.

Net cash flows provided by investing activities were $2.0 million during the 52 weeks of 2023 compared to net cash flows used in investing activities of $37.7 million in the comparable period of 2022. This is a year-over-year positive variance of $39.6 million which is primarily due to lower fixed assets additions in 2023 as new facility roll-outs were concluded in Fiscal 2022 as well as proceeds from disposal of non-financial assets received mainly in the first quarter of 2023. Net cash flows provided by investing activities during the 52 weeks of 2023 included $1.7 million of cash flows used for additions to fixed asset and intangible assets compared to $38.4 million in the same period last year.

Net cash flows used in financing activities were $4.6 million during the 52 weeks of 2023 compared to net cash flows provided by financing activities of $8.0 million in the comparable period of 2022. This is a year-over-year negative variance of $12.6 million which is primarily due to lower proceeds from issuance of convertible debenture in 2023, lower proceeds from the drawdown of the revolving facility in 2023 compared to 2022 as well as lower payment of lease obligation due to Blue Ocean initiatives.

DEBT

During the second quarter of Fiscal 2023, the Company reached an agreement to amend the syndicated credit agreement (Credit Facility 2021) 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. The facilities bear variable interest rates of BA plus 4.50% and mature at the end of November 2023. The facilities feature updated financial conditions, including minimum cash balance and financing related covenants. The term loan is repayable in quarterly installments of $313 thousand with a bullet repayment of the balance of $4.1 million at the end of the term on November 30, 2023. The Company will aim to extend the maturity of the term loan before it comes to maturity. As at September 2, 2023, no amount was drawn from the revolving facility. The total drawn credit facility is presented as a current liability.

CONVERTIBLE DEBENTURES

2028 Debentures

On February 6, 2023, the Company issued 12,675 convertible unsecured subordinated debentures (the "2028 Debentures") at a price of $1,000 per Debenture for gross proceeds of $12.7 million. The 2028 Debentures mature on February 6, 2028 (the "Maturity Date") and bear a fixed interest rate of 12.5% per annum. The interest portion for the period commencing on the issuance date and ending in February 2025 will be capitalized semi-annually and convertible at a price equal to the volume weighted average trading price of the Common Shares on the TSX for the five (5) consecutive trading days ending on the date on which such interest portion becomes due, plus a premium of 50%. As of February 6, 2025 and until the Maturity Date, the interest portion will be payable semi-annually in cash. Factoring in the 2028 Debentures issuance costs, the effective interest rate on the Debentures is 13.5%.

The 2028 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 $0.75 (the "Conversion Price") per common share.

As of February 6, 2026, Goodfood may repurchase the non-converted portion of a 2028 Debenture at an amount of the principal and accrued interest plus an amount providing the holder with an internal rate of return (IRR) equal to 18% for the period during which such Debenture will have been outstanding. The holders may require a repurchase on the same terms upon a change of control of the Company.

The 2028 Debentures are direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the Company's credit facility, and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms. The Company used the net proceeds from the Offering to complete Project Blue Ocean initiatives and for general corporate purposes.

In connection with the issuance of the 2028 Debentures, 2,425 Debentures were purchased by the 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.

As at September 2, 2023, 12,675 of 2028 Debentures were outstanding at a price of $1,000 per Debenture.

2027 Debentures

In Fiscal 2022, the Company issued 30,000 convertible unsecured subordinated debentures (the "2027 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 September 30, 2022. Factoring in the 2027 Debentures issuance costs, the effective interest rate on the 2027 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 2027 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 2027 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.

As at September 2, 2023, 29,046 of 2027 Debentures (September 3, 2022 – 29,256) were outstanding at a price of $1,000 per Debenture.

2025 Debentures

In Fiscal 2020, the Company issued 30,000 convertible unsecured subordinated debentures (the "2025 Debentures") at a price of $1,000 per Debenture for gross proceeds of $30 million. The 2025 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 2025 Debentures issuance costs, the effective interest rate on the 2025 Debentures is 11.76%. The 2025 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.

As at September 2, 2023, 6,232 of 2025 Debentures (September 3, 2022 – 6,232) were outstanding at a price of $1,000 per Debenture.

COMMON SHARES

Transactions that took place during the 13 and 52 weeks ended September 2, 2023 were as follows:

- Nil stock options were exercised;
- 76,428 and 1,421,765 restricted share units vested, respectively, and the same number of common shares were issued;
- 2,807 and 11,283 employee share purchases vested, respectively, and the same number of common shares were issued; and
- Nil and 210 Debentures were converted into 45,652 common shares, respectively.

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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Active customers [1]	**116,000**	119,000	124,000	148,000	157,000	211,000	246,000	254,000
Net sales	**$ 37,228**	$ 42,139	$ 42,043	$ 47,148	$ 50,357	$ 67,031	$ 73,377	$ 77,821
Gross profit	**14,221**	17,286	17,114	16,759	14,256	17,556	17,595	18,648
Gross margin	**38.2%**	41.0%	40.7%	35.6%	28.3%	26.2%	24.0%	24.0%
Discontinuance of products related to on-demand offering	–	(1)	631	643	1,194	–	–	–
Adjusted Gross profit [1]	**14,221**	17,285	17,745	17,402	15,450	17,556	17,595	18,648
Adjusted Gross margin [1]	**38.2%**	41.0%	42.2%	36.9%	30.7%	26.2%	24.0%	24.0%
Net (loss) income	**$ (3,689)**	$ (1,164)	$ 98	$ (11,708)	$ (58,407)	$ (21,104)	$(20,640)	$ (21,610)
Net finance costs	**1,299**	1,329	1,470	1,570	1,677	1,596	1,056	904
Depreciation and amortization	**2,006**	2,206	2,856	3,769	4,853	5,220	4,282	2,940
Deferred income tax (recovery) expense	**-**	-	(72)	11	39	(2)	(1,559)	27
EBITDA [1]	**$ (384)**	$ 2,371	$ 4,352	$ (6,358)	$ (51,838)	$ (14,290)	$(16,861)	$ (17,739)
Share-based payments	**278**	544	794	2,293	1,472	1,177	1,984	1,353
Discontinuance of products related to on-demand offering	–	(1)	631	643	1,194	–	–	–
Impairment of non-financial assets	–	–	–	–	46,085	–	–	–
Reorganization and other related costs (gains)	**812**	370	(2,769)	1,119	1,160	2,477	1,293	1,812
Adjusted EBITDA [1]	**$ 706**	$ 3,284	$ 3,008	$ (2,303)	$ (1,927)	$ (10,636)	$(13,584)	$(14,574)
Adjusted EBITDA margin [1]	**1.9%**	7.8%	7.2%	(4.9)%	(3.8)%	(15.9)%	(18.5)%	(18.7)%
Basic and diluted (loss) income per share [2]	**$ (0.05)**	$ (0.02)	$ -	$ (0.16)	$ (0.78)	$ (0.28)	$ (0.28)	$ (0.29)

(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) income per share on a quarterly basis may not equal basic and diluted (loss) income 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 winter holidays and the fourth quarter due to summer months, when the number of active customers and order rate trend 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) income 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 winter holidays, when the number of active customers and order rate trend 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 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 Fiscal 2022 quarters and Fiscal 2023.

TRENDS AND SEASONALITY

The Company's net sales and expenses are impacted by seasonality. During the winter 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 majority of the Company's net sales are paid prior to delivery and therefore the main credit exposure to net sales is with respect to the payment processor. 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 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.

In order to manage its liquidity risk, the Company constantly reviews its operations and overall business to drive efficiencies to form the basis for positive cash flow and long-term profitable growth. The Company expects to have sufficient liquidities in order to repay its credit facility when it becomes due in November 2023.

This assessment could be affected by economic, financial and future competitive factors, and other future events that are beyond the control of the Company. Management's liquidity assessment could be impacted if the actual operational performance is lower than the one used in the forecasted cash flows.

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 2, 2023 available on SEDAR+ at www.sedarplus.ca.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following are amounts due on contractual maturities of financial liabilities, including estimated interest payments as at September 2, 2023:

	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 17,993	$ 17,993	$ 17,993	$ –	$ –
Debt	4,036	4,142	4,142	–	–
Debentures, liability component	41,752	64,959	2,033	62,926	–
Lease obligations, including current portion	13,364	15,054	3,457	10,247	1,350
Purchase and service contract obligations	–	7,786	6,539	1,247	–
	$ 77,145	**$ 109,934**	**$ 34,164**	**$ 74,420**	**$ 1,350**

As at September 2, 2023, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in net sales or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material.

FINANCIAL INSTRUMENTS

The Company's financial instruments primarily consist of cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities, 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 fourth quarter of Fiscal 2023, the Company was in compliance with these financial covenants.

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:

(In thousands of Canadian dollars)

	For the 52 weeks ended	
	September 2, 2023	September 3,2022
Salaries, fees and other short-term employee benefits	**$ 2,290**	$ 1,983
Share-based payments expense	**2,189**	2,931

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.

In connection with the issuance of the 2028 Debentures 2,425 Debentures were purchased by the Board members and key management personnel at a price of $1,000 per Debenture. In connection with the issuance of the 2027 Debentures, 415 Debentures were purchased by Board members 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.

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	November 21, 2023	September 2, 2023	September 3, 2022
Common shares outstanding (1)	76,505,578	76,525,507	75,233,027
Debentures outstanding (2) (3) (4)	24,540,305	24,540,305	7,550,638
Stock options outstanding	3,033,247	4,029,723	3,262,799
Stock options exercisable	2,140,516	2,252,171	1,865,747
Restricted share units outstanding	1,792,540	1,878,328	2,000,716

(1) As at November 21, 2023 and September 2, 2023, 382,180 and 344,678 common shares held in trust through the employee share purchase plan (September 3, 2022 – 171,829 common shares) were excluded in the common shares outstanding.

(2) As at November 21, 2023 and September 2, 2023, 6,232 2025 Debentures (September 3, 2022 – 6,232 Debentures) were outstanding which are convertible into 1,325,957 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.

(3) As at November 21, 2023 and September 2, 2023, 29,046 2027 Debentures (September 3, 2022 – 29,256 Debentures) were outstanding which are convertible into 6,314,348 common shares of the Company, respectively, at a conversion price of $4.60. Please refer to the "Debt" subsection of the "Liquidity and Capital Resources" section of this MD&A.

(4) As at November 21, 2023 and September 2, 2023, 12,675 2028 Debentures (September 3, 2022 – nil) were outstanding which are convertible into 16,900,000 common shares of the Company, respectively, at a conversion price of $0.75. Please refer to the "Debt" subsection of the "Liquidity and Capital Resources" section of this MD&A.

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 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 CRITICAL JUDGEMENTS

Impairment of non-current assets

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.

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 judgement could affect the Company's financial position if the lease term of the leases is reassessed differently.

4.2 KEY SOURCES OF ESTIMATES AND ASSUMPTIONS

Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or CGU. Management estimated the recoverable amount of the CGUs based on the higher of VIU and FVLCD. The VIU is based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future economic benefits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future economic benefits and the application of an appropriate discount rate. When measuring FVLCD, management makes key assumptions on expected fair values and costs of disposal. Actual results could vary from these estimates which may cause significant adjustments to the Company's long-lived assets in subsequent reporting periods.

Measurement of net sales

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.

Leases

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.

CHANGES IN ACCOUNTING POLICIES

No changes in accounting policies were adopted during the 52 weeks ended September 2, 2023.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements to clarify the classification of liabilities as current or non-current (the "2020 amendments"). For the purposes of non-current classification, the amendment removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period.

The amendments apply for annual reporting periods beginning on or after January 1, 2024. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

Other standards

The following new and amended standards are not expected to have a significant impact on the Company's consolidated financial statements.

- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*

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 and effectiveness of disclosure controls and procedures ("DC&P") and the design and effectiveness of internal control over financial reporting ("ICFR").

DISCLOSURE CONTROLS AND PROCEDURES

The Company has designed DC&P to provide reasonable assurance that material information relating to the Company is made known to the Certifying Officers, and that information required to be disclosed to satisfy the Company's continuous disclosure obligations is recorded, processed, summarized and reported within the time periods specified by applicable Canadian securities legislation.

Management, under the supervision of the Certifying Officers, has evaluated the effectiveness of the DC&P and based on that evaluation, the Certifying Officers have concluded that the DC&P were effective as at September 2, 2023.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Certifying Officers have designed ICFR or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing and evaluating internal controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements.

The control framework used to design the Company's ICFR is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 framework).

Management, under the supervision of the Certifying Officers, has evaluated the effectiveness of ICFR and based on that evaluation, the Certifying Officers have concluded that the Company's ICFR was effective as at September 2, 2023.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made during the 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.

goodfood

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 2, 2023 AND SEPTEMBER 3, 2022

Consolidated Financial Statements of

GOODFOOD MARKET CORP.

52 weeks ended September 2, 2023 and September 3, 2022

GOODFOOD MARKET CORP.

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INDEPENDENT AUDITOR'S 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 September 2, 2023 and September 3, 2022
- the consolidated statements of loss and comprehensive loss for the 52 weeks then ended
- the consolidated statements of changes in equity for the 52 weeks then ended
- the consolidated statements of cash flows for the 52 weeks 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 September 2, 2023 and September 3, 2022, and its consolidated financial performance and its consolidated cash flows for the 52 weeks then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 52 weeks ended September 2, 2023. These matters were addressed in the context of our audit of the consolidated 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 matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of existence and accuracy of net sales

Description of the matter

We draw attention to Note 3.2 and Note 4.2 to the financial statements. The Entity's net sales amount to $169 million. Net sales are primarily generated from the deliveries of fresh meal solutions and add-ons ("meal solutions").

The Entity recognizes revenue at a point in time, which is upon delivery of meal solutions, as it meets the criteria to satisfy the performance obligation. Deferred revenue is recognized for consideration received in advance of the related revenue. Revenue from the sale of goods is measured at the fair value of consideration received, net of refunds, sales incentives and credits.

Why the matter is a key audit matter

We identified existence and accuracy of net sales as a key audit matter. This matter represented an area of higher risk of material misstatement given the magnitude of net sales, the high volume of transactions, and the complexity involved in processing and recording the Entity's sales transactions. As a result, significant auditor attention was required in performing the audit procedures.

How the matter was addressed in the audit

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

- We matched all of the Entity's meal solutions net sales transactions for the year with the corresponding cash receipts per bank statement.
- For a selection of meal solutions sales transactions over a defined period close to year-end, we evaluated whether the performance obligation had been satisfied by examining the proof of delivery.
- We agreed the total amount of customer payments received as of year-end for meal solutions deliveries occurring after that date to the Entity's deferred revenue account.

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 auditor's 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 auditor's 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 auditor's 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 as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report is Philippe Grubert.

KPMG LLP*

Montréal, Canada

November 21, 2023

*CPA auditor, public accountancy permit No. A120220

GOODFOOD MARKET CORP.

Consolidated Statements of Loss and Comprehensive Loss
(In thousands of Canadian dollars, except share and per share information)

For the 52 weeks ended	Notes	September 2, 2023	September 3, 2022
Net sales		**$ 168,558**	$ 268,586
Cost of goods sold		**103,178**	200,531
Gross profit		**65,380**	68,055
Selling, general and administrative expenses		**65,867**	115,956
Impairment of non-financial assets	6,12,13,14	**–**	46,085
Reorganization and other related (gains) costs	6	**(468)**	6,742
Depreciation and amortization	12,13,14,20	**10,837**	17,295
Operating loss		**(10,856)**	(118,023)
Net finance costs	7	**5,668**	5,233
Loss before income taxes		**(16,524)**	(123,256)
Deferred income tax recovery	8	**(61)**	(1,495)
Net loss, being comprehensive loss		**$ (16,463)**	$ (121,761)
Basic and diluted loss per share		**$ (0.22)**	$ (1.62)
Basic and diluted weighted average number of common shares outstanding	18	**76,103,206**	74,982,435

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	September 2, 2023	September 3, 2022
Assets			
Current assets:			
Cash and cash equivalents		**$ 24,925**	$ 36,885
Accounts and other receivables	10	**4,136**	3,596
Inventories	11	**3,281**	6,884
Assets held for sale	6	**–**	3,654
Other current assets		**366**	1,178
		32,708	52,197
Non-current assets:			
Fixed assets	6,12	**11,026**	18,408
Right-of-use assets	6,13	**10,986**	55,419
Intangible assets	6,14	**2,776**	3,174
Other non-current assets		**312**	650
Total assets		**$ 57,808**	$ 129,848
Liabilities and Shareholders' Deficiency			
Current liabilities:			
Accounts payable and accrued liabilities		**$ 17,993**	$ 27,104
Deferred revenues		**4,105**	5,501
Debt	15	**4,036**	11,743
Current portion of lease obligations	17	**2,862**	8,468
		28,996	52,816
Non-current liabilities:			
Convertible debentures	16	**41,752**	27,469
Lease obligations	17	**10,502**	60,741
Total liabilities		**81,250**	141,026
Shareholders' deficiency:			
Common shares	18	**180,369**	173,788
Contributed surplus	19	**8,009**	10,584
Convertible debentures	16	**5,367**	5,174
Deficit		**(217,187)**	(200,724)
Total shareholders' deficiency		**(23,442)**	(11,178)
Total liabilities and shareholders' deficiency		**$ 57,808**	$ 129,848

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

Approved on behalf of Goodfood Market Corp. by:

Signed	Signed
Jonathan Ferrari, Director and Chair of the Board	*Donald Olds, Director and Chair of the Audit Committee*

GOODFOOD MARKET CORP.

Consolidated Statements of Changes in Deficiency
(In thousands of Canadian dollars)

For the 52 weeks ended

	Notes	Common Shares	Contributed Surplus	Convertible Debentures	Deficit	Total
						September 3, 2022
Balance as at August 31, 2021		$ 170,094	$ 5,901	$ 843	$ (78,963)	$ 97,875
Net loss		–	–		(121,761)	(121,761)
Share-based payments expense [1]	19	–	6,945	–	–	6,945
Net convertible debenture issuance [2]	16	–	–	4,452	–	4,452
Net convertible debenture conversions [3]	16	1,291	–	(121)	–	1,170
Stock options exercised	19	726	(216)	–	–	510
Restricted share units vested	19	2,032	(2,032)	–	–	–
Employee share purchase plan	19	(355)	(14)	–	–	(369)
Balance as at September 3, 2022		$ 173,788	$ 10,584	$ 5,174	$ (200,724)	$ (11,178)
						September 2, 2023
Balance as at September 3, 2022		$ 173,788	$ 10,584	$ 5,174	$ (200,724)	$ (11,178)
Net loss		–	–	–	(16,463)	(16,463)
Share-based payments expense	19	–	3,903	–	–	3,903
Net convertible debenture issuance [2]	16	–	–	202	–	202
Net convertible debenture conversions [3]	16	196	–	(9)	–	187
Restricted share units vested	19	6,475	(6,475)	–	–	–
Employee share purchase plan	19	(90)	(3)	–	–	(93)
Balance as at September 2, 2023		**$ 180,369**	**$ 8,009**	**$ 5,367**	**$ (217,187)**	**$ (23,442)**

[1] In Fiscal 2022, share based payments expense includes $1.1 million related to grants awarded to settle short-term incentive compensation for certain employees.
[2] The equity component of the convertible debentures presented above is net of income taxes of $0.1 million (2022 – net of income taxes of $1.6 million and $0.4 million of related issue costs).
[3] The conversions of the convertible debentures presented above is net of income taxes of $11 thousands (2022 – $0.1 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 52 weeks ended	Notes	September 2, 2023	September 3, 2022
Operating:			
Net loss		**$ (16,463)**	$ (121,761)
Adjustments for:			
Depreciation and amortization	12,13,14,20	**10,837**	17,295
Impairment	6,12,13,14	**–**	46,085
Net loss on disposal of non-financial assets	6	**2,362**	–
Gain on termination of leases	6	**(12,137)**	–
Write-offs of non-financial assets	6	**2,252**	639
Share-based payments expense	19	**3,903**	5,876
Net finance costs	7	**5,668**	5,233
Deferred income tax recovery	8	**(61)**	(1,495)
Change in non-cash operating working capital	20	**(6,138)**	(11,108)
Other		**427**	255
Net cash used in operating activities		**(9,350)**	(58,981)
Investing:			
Additions to fixed assets	12	**(716)**	(35,880)
Additions to intangible assets	14	**(1,019)**	(2,561)
Proceeds from disposal of non-financial assets		**2,580**	–
Interest received		**1,115**	770
Net cash provided by (used in) investing activities		**1,960**	(37,671)
Financing:			
Net proceeds from issuance of convertible debentures		**12,249**	28,061
Net repayment of debt	15	**(7,813)**	(625)
Repayment of revolving facility	15	**–**	(9,063)
Interest paid		**(4,616)**	(4,417)
Payments of lease obligations	17	**(4,407)**	(6,215)
Shares purchased under employee share purchase plan	19	**(89)**	(369)
Proceeds from exercise of stock options	19	**–**	510
Other		**106**	120
Net cash (used in) provided by financing activities		**(4,570)**	8,002
Decrease in cash and cash equivalents		**(11,960)**	(88,650)
Cash and cash equivalents, beginning of period		**36,885**	125,535
Cash and cash equivalents, end of period		**$ 24,925**	$ 36,885
Supplemental cash flow information	20		

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

1. REPORTING ENTITY

Goodfood Market Corp. is a digital meal solutions brand in Canada, delivering fresh meal solutions and add-ons that make it easy for customers from across Canada to enjoy delicious meals at home every day. References to Goodfood Market Corp. (or "Goodfood", the "Company") represent the financial position, financial performance, cash flows and disclosures of Goodfood Market Corp. and its subsidiary on a consolidated basis.

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

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 52 weeks ended September 2, 2023 and September 3, 2022 were authorized by the Board of Directors ("Board") on November 21, 2023 for publication on November 22, 2023.

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 subsidiary.

Subsidiaries

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 is comprised of interest income and foreign exchange gains. Finance costs is comprised of interest expense on debt, lease obligations, convertible debentures, foreign exchange losses and changes in fair value of interest rate swaps. The Company classifies interest paid as financing activities and interest 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 ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated to the assets and liabilities on a pro rata basis, except that no loss is allocated to inventories or financial assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of loss.

Once classified as held-for-sale, intangible assets and fixed assets are no longer amortized or depreciated and are classified as current assets.

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 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 10 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 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 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. If any such indication exists, the recoverable amount of the asset is estimated.

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 (or a CGU’s) fair value less costs of disposal (“FVLCD”) and its value in use (“VIU”). In assessing VIU, 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 or the CGU. Impairment losses are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis and are recognized in the consolidated statements of loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of impairment loss is recognized in the consolidated statements of loss.

3.12 FINANCIAL INSTRUMENTS

3.12.1 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.

3.12.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial assets

All financial assets are recognized at amortized cost, except for interest rate swaps, recognized at FVTPL.

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.

3.12.3 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.

3.12.4 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.

3.12.5 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.

3.12.6 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.

3.12.7 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.

3.12.8 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 LOSS PER SHARE

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the weighted average number of common shares outstanding during the year adjusted to include the dilutive impact of stock options, restricted share units, unvested shares in connection with the employee share purchase plan (“ESPP”) and the convertible debentures conversion option.

3.18 SEGMENT REPORTING

The Company determined that it operated a single operating segment for Fiscal 2023 and 2022.

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 CRITICAL JUDGEMENTS

Impairment of non-current assets

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.

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 judgement could affect the Company’s financial position if the lease term of the leases is reassessed differently.

4.2 KEY SOURCES OF ESTIMATES AND ASSUMPTIONS

Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or CGU. Management estimates the recoverable amount of the CGUs based on the higher of VIU and FVLCD. The VIU is based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future economic benefits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future economic benefits and the application of an appropriate discount rate. When measuring FVLCD, management makes key assumptions on expected fair values and costs of disposal. Actual results could vary from these estimates which may cause significant adjustments to the Company's long-lived assets in subsequent reporting periods.

Measurement of net sales

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.

Leases

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. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements to clarify the classification of liabilities as current or non-current (the "2020 amendments"). For the purposes of non-current classification, the amendment removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period.

The amendments apply for annual reporting periods beginning on or after January 1, 2024. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

Other standards

The following new and amended standards are not expected to have a significant impact on the Company's consolidated financial statements.

- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*

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

6. REORGANIZATION AND OTHER RELATED COSTS

6.1 IMPAIRMENT OF NON-FINANCIAL ASSETS

In Fiscal 2022, as a result of the Company's reorganization plan and the breach of certain financial covenants, the Company decided to close several facilities as well as to shut-down its on-demand grocery product offering. This resulted in the following CGUs being identified 1) at the individual asset level, 2) at the leased facility level (including right-of-use asset and fixed assets pertaining to the leased premises) and 3) at the geographical area level based on where customers are served that generate independent cash inflows. Consequently, the Company performed an impairment test of its non-financial assets since it had reason to believe that the carrying amount of the CGUs might not be recoverable.

During the year ended September 2, 2023, the Company did not record any impairment charge (2022 - $37.9 million on fixed assets, $7.7 million on right-of-use assets and $0.5 million on intangible assets). Impairment charge per CGU is as follow:

CGU level	Recoverable amount	If FVLCD, fair value level inputs	Impairment charge 2023	Impairment charge 2022
Individual assets	FVLCD	Level 3	$ –	$ 9,022
Leased facilities	VIU	N/A	–	37,063
Geographical areas	FVLCD	Level 3	–	–
Impairment charge of non-financial assets			**$ –**	$ 46,085

When determining the FVLCD of its individual assets, the Company used market inputs based on the expected price the Company would be able to sell the asset for on a secondary market. In Fiscal 2022, subsequent to the impairment test, the individual assets were reclassified as assets held for sale as they met the condition to be classified as such. As at September 2, 2023, there are no assets held for sale as they have been sold or written-off.

In Fiscal 2022, when determining the VIU of its leased facilities, the Company used a discounted cash flow model in which the main assumptions included the length of time the Company would expect to find a market participant to take over the lease and market rental rates. In addition, the discount rate employed for each cash flow projection was determined to be 8% based on capitalization rates according to the market in which the facilities are located.

6.2 REORGANIZATION AND OTHER RELATED COSTS

The following table summarized the reorganization and other related costs:

	2023	2022
Net gains related to facility closures [(1)]	**$ (8,315)**	$ (121)
Write-offs of non-financial assets	**2,252**	102
Net loss on disposal of non-financial assets	**2,362**	–
Employee termination and benefit costs	**2,210**	4,321
External advisor fees [(2)]	**1,017**	2,440
Other	**6**	–
	$ (468)	$ 6,742

(1) For the 52 weeks ended September 2, 2023, net gains related to facility closures included net gain on termination of leases amounting to $12.1 million.
(2) External advisor fees consist of fees related to the Company's reorganization initiatives.

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

7. NET FINANCE COSTS

		2023		2022
Interest expense on debt	**$**	**618**	$	1,093
Interest expense on lease obligations		**1,474**		2,572
Interest expense on debentures, including accretion interest		**4,487**		2,216
Interest income		**(1,115)**		(736)
Other finance costs		**254**		106
Foreign exchange (gain) loss		**(50)**		8
Fair value gain on interest rate swaps		**–**		(26)
	$	**5,668**	$	5,233

8. INCOME TAXES

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

		2023		2022
Loss before income taxes	**$**	**(16,524)**	$	(123,256)
Canadian statutory rates		**26.21%**		26.15%
Income tax benefit at the combined Canadian statutory rate	**$**	**(4,331)**	$	(32,231)
Decrease resulting from:				
Change in unrecognized deferred income tax assets		**3,454**		29,210
Permanent differences		**1,043**		1,525
Change in tax rates		**(122)**		145
Other		**(105)**		(144)
Total income tax recovery	**$**	**(61)**	$	(1,495)

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

		Lease obligations		Net operating losses		Debentures		Fixed assets and Right-of-use assets		Deferred income tax assets (liabilities)
As at August 31, 2021	$	17,125	$	318	$	(318)	$	(17,125)	**$**	**–**
Recognized in net loss		(12,045)		1,779		(284)		12,045		1,495
Recognized in equity		–		–		(1,495)		–		(1,495)
As at September 3, 2022	$	5,080	$	2,097	$	(2,097)	$	(5,080)	$	–
Recognized in net loss		(5.080)		(474)		535		5,080		61
Recognized in equity		–		–		(61)		–		(61)
As at September 2, 2023	**$**	**–**	**$**	**1,623**	**$**	**(1,623)**	**$**	**–**	**$**	**–**

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

The Company had unrecognized deferred income tax assets as follows:

As at	September 2, 2023	September 3, 2022
Net operating losses carry forwards	**$ 33,655**	$ 30,456
Fixed assets and right-of-use assets	**14,977**	13,018
Shares and debt issuance costs	**907**	1,334
Intangible assets	**1,526**	3,140
Other	**620**	343
Unrecognized deferred income tax assets	**$ 51,685**	$ 48,291

The Company has federal operating tax losses carried forward of $131.0 million (2022 – $$118.1 million) which are partially recognized for an amount of $6.2 million (2022 – $8.0 million), and unrecognized deductible temporary differences of $65.6 million (2022 – $66.0 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 September 2, 2023, the amounts and expiry dates of the federal tax losses carried forward were as follows:

2035	**$ 49**
2036	**712**
2037	**3,547**
2038	**8,516**
2039	**18,089**
2040	**812**
2041	**22,625**
2042	**63,531**
2043	**13,139**
	$ 131,020

9. SUPPLEMENTAL STATEMENT OF LOSS AND COMPREHENSIVE LOSS INFORMATION

	2023	2022
Expense related to variable lease payments not included in the lease obligations	**$ 1,337**	$ 2,477
Salaries, fees and other short-term employee benefits	**43,890**	99,017

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

10. ACCOUNTS AND OTHER RECEIVABLES

As at		**September 2, 2023**		September 3, 2022
Sales taxes receivable	**$**	**1,853**	$	2,357
Rewards program receivable		**238**		504
Volume discounts receivable		**96**		97
Other receivables		**1,949**		638
	$	**4,136**	$	3,596

11. INVENTORIES

As at		**September 2, 2023**		September 3, 2022
Food	**$**	**1,807**	$	4,953
Packaging supplies		**1,221**		1,611
Work in process		**253**		320
	$	**3,281**	$	6,884

The cost of inventories recognized as an expense within cost of goods sold during the 52 weeks ended September 2, 2023 was $88.6 million (2022 – $174.3 million).

The Company recorded an expense within cost of goods sold during the 52 weeks ended September 2, 2023 for a net amount of $1.1 million (2022 – $1.6 million) for the write-down of inventories. Included in this amount is $1.3 million (2022 – $1.2 million) related to the discontinuance of products related to on-demand grocery.

(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, 2021	$ 4,077	$ 10,014	$ 3,579	$ 13,282	$ 10,422	$ 41,374
Additions (1)	2,185	9,239	2,550	4,887	16,555	35,416
Transfers	61	6,962	304	18,211	(25,538)	–
Transfers to assets held for sale	(152)	(3,830)	(116)	(134)	(115)	(4,347)
Write-offs	–	–	–	–	(741)	(741)
As at September 3, 2022	$ 6,171	$ 22,385	$ 6,317	$ 36,246	$ 583	$ 71,702
Additions	–	323	14	195	–	532
Disposal	(1,236)	(1,247)	(398)	(7,226)	–	(10,107)
Transfers	–	–	–	15	(15)	–
Transfers from assets held for sale	–	57	19	–	–	76
Other	–	(4)	–	–	(57)	(61)
As at September 2, 2023	**$ 4,935**	**$ 21,514**	**$ 5,952**	**$ 29,230**	**$ 511**	**$ 62,142**
Accumulated depreciation, impairment loss and write-offs:						
As at August 31, 2021	$ 845	$ 2,605	$ 1,267	$ 3,290	$ –	$ 8,007
Depreciation	1,086	2,236	1,526	3,155	–	8,003
Impairment loss (Note 6)	2,824	11,554	941	22,056	497	37,872
Write-offs	13	13	76	–	–	102
Transfers to assets held for sale	(61)	(541)	(57)	(31)	–	(690)
As at September 3, 2022	$ 4,707	$ 15,867	$ 3,753	$ 28,470	$ 497	$ 53,294
Depreciation	337	1,235	1,268	1,529	–	4,369
Disposal	(705)	(495)	(198)	(5,860)	–	(7,258)
Write-offs	24	152	135	386	14	711
As at September 2, 2023	**$ 4,363**	**$ 16,759**	**$ 4,958**	**$ 24,525**	**$ 511**	**$ 51,116**
Net carrying amounts:						
As at September 3, 2022	$ 1,464	$ 6,518	$ 2,564	$ 7,776	$ 86	$ 18,408
As at September 2, 2023	**572**	**4,755**	**994**	**4,705**	**–**	**11,026**

(1) Additions of assets under construction include $1.6 million related to capitalized depreciation of right-of-use assets in Fiscal 2022 and none in Fiscal 2023.

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

13. RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
As at August 31, 2021	$ 68,171	$ 427	$ 559	$ 69,157
Additions and lease modifications	24,476	281	42	24,799
Derecognition [(1)]	(20,875)	(38)	–	(20,913)
Impairment loss (Note 6)	(7,675)	–	–	(7,675)
Depreciation	(9,570)	(195)	(184)	(9,949)
As at September 3, 2022	$ 54,527	$ 475	$ 417	$ 55,419
Additions and lease modifications	160	112	–	272
Derecognition [(1)]	(39,504)	(57)	(12)	(39,573)
Depreciation	(4,769)	(210)	(153)	(5,132)
As at September 2, 2023	**$ 10,414**	**$ 320**	**$ 252**	**$ 10,986**

(1) Derecognition of right-of-use assets include terminations of leased facilities in Fiscal 2023 as well as a change in assumptions relating to the lease term of a facility in Fiscal 2022.

The Company recorded sublease revenue of $1.7 million (2022 – $1.1 million) within net sales during the 52 weeks ended September 2, 2023.

14. INTANGIBLE ASSETS

	Software [(1)]	Intellectual property	Total
Cost:			
As at August 31, 2021	$ 2,427	$ 74	$ 2,501
Additions	2,561	–	2,561
As at September 3, 2022	$ 4,988	$ 74	$ 5,062
Additions	995	–	995
As at September 2, 2023	**$ 5,983**	**$ 74**	**$ 6,057**
Accumulated amortization, impairment loss and write-offs:			
As at August 31, 2021	$ 389	$ 30	$ 419
Amortization	916	15	931
Impairment loss (Note 6)	538	–	538
As at September 3, 2022	$ 1,843	$ 45	$ 1,888
Amortization	1,321	15	1,336
Write-offs	57	–	57
As at September 2, 2023	**$ 3,221**	**$ 60**	**$ 3,281**
Net carrying amounts:			
As at September 3, 2022	$ 3,145	$ 29	$ 3,174
As at September 2, 2023	**2,762**	**14**	**2,776**

(1) For the 52 weeks ended September 2, 2023, the net carrying amount of software under development amounted to $0.3 million (2022 – $0.4 million).

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

15. DEBT

As at		**September 2, 2023**		September 3, 2022
Interest-bearing financing:				
Secured term loan, variable interest at BA [1] plus 4.50%, maturing in November 2023	**$**	**4,062**	$	–
Matured borrowings:				
Secured term loan, variable interest at BA [1] plus 2.50%, maturing in November 2022		**–**		11,875
	$	**4,062**	$	11,875
Unamortized financing costs		**(26)**		(132)
	$	**4,036**	$	11,743
Current portion of debt		**(4,036)**		(11,743)
	$	**–**	$	–

[1] BA is defined as the Canadian Banker's Acceptance Rate.

CREDIT FACILITY 2022

During the second quarter of Fiscal 2023, the Company reached an agreement to amend the syndicated credit agreement (Credit Facility 2021) 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. The facilities bear variable interest rates of BA plus 4.50% and mature in November 2023. The facilities feature updated financial conditions, including minimum cash balance and financing related covenants. The term loan is repayable in quarterly installments of $313 thousand with a bullet repayment of the balance of $4.1 million at the end of the term in November 2023. As at September 2, 2023, no amount was drawn from the revolving facility. The total drawn credit facility is presented as a current liability.

16. CONVERTIBLE DEBENTURES

2028 Debentures

On February 6, 2023, the Company issued 12,675 convertible unsecured subordinated debentures (the "2028 Debentures") at a price of $1,000 per Debenture for gross proceeds of $12.7 million. The 2028 Debentures mature on February 6, 2028 (the "Maturity Date") and bear a fixed interest rate of 12.5% per annum. The interest portion for the period commencing on the issuance date and ending in February 2025 will be capitalized semi-annually and convertible at a price equal to the volume weighted average trading price of the Common Shares on the TSX for the five (5) consecutive trading days ending on the date on which such interest portion becomes due, plus a premium of 50%. As of February 6, 2025 and until the Maturity Date, the interest portion will be payable semi-annually in cash.

The 2028 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 $0.75 (the "Conversion Price") per common share.

As of February 6, 2026, Goodfood may repurchase the non-converted portion of a 2028 Debenture at an amount of the principal and accrued interest plus an amount providing the holder with an internal rate of return (IRR) equal to 18% for the period during which such Debenture will have been outstanding. The holders may require a repurchase on the same terms upon a change of control of the Company.

The 2028 Debentures are direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the Company's credit facility, and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

The conversion option, net of related issuance costs and deferred income taxes, has been recorded in shareholders' equity for an amount of $0.2 million. Factoring in the 2028 Debentures issuance costs, the effective interest rate on the Debentures is 13.5%.

2027 Debentures

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

The 2027 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 $4.60 (the "Conversion Price") 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 2027 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 2027 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 2027 Debentures in accordance with the make-whole premium provisions set forth by the indenture of the 2027 Debentures.

The conversion option, net of related issuance costs and deferred income taxes, has been recorded in shareholders' equity for an amount of $4.5 million. Factoring in the 2027 Debentures issuance costs, the effective interest rate on the Debentures is 12.6%.

2025 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%.

The following table summarizes the continuity of the Company's Debentures for the 52 weeks ended:

	September 2, 2023	September 3, 2022
Convertible debentures, liability component balance, beginning of year	**$ 27,469**	$ 5,623
Net proceeds from issuance of the Debentures [1][2]	**11,970**	22,048
Accretion interest	**2,489**	901
Conversion of the Debentures	**(176)**	(1,103)
Convertible debentures, liability component balance, end of year	**$ 41,752**	$ 27,469

(1) For Fiscal 2023 issued convertible debentures, issuance costs attributable to the liability component amount to $0.4 million. Net proceeds of $0.2 million, including $0.1 million of deferred income taxes, were recorded as the equity component.

(2) For Fiscal 2022 issued convertible debentures, issuance costs attributable to the liability component amount to $1.5 million. Net proceeds of $4.5 million, including $0.4 million of issuance costs and $1.6 million of deferred income taxes, were recorded as the equity component.

The following summarizes convertible debentures for the 52 weeks ended:

	September 2, 2023	September 3, 2022
In thousands of dollars		
Reclassification from Convertible debentures liability component to common shares	**$ 176**	$ 1,103
Reclassification from Convertible debentures equity component to common shares	**20**	188
Deferred income tax expense recognized upon Debentures conversion	**11**	66
Deferred income tax recovery recognized upon Debentures issuance	**72**	1,561
In number of debentures or common shares		
Number of debentures converted	**210**	1,364
Number of common shares issued from converted debentures (Note 18)	**45,652**	293,647
Total number of outstanding Debentures, end of period	**47,953**	35,488

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

17. LEASE OBLIGATIONS

The following table summarizes the continuity of the Company's lease obligations for the 52 weeks ended:

	September 2, 2023	September 3, 2022
Balance, beginning of year	**$ 69,209**	$ 73,111
Additions and lease modifications	**272**	24,615
Derecognition	**(51,710)**	(22,302)
Payment of lease obligations [(1)]	**(5,881)**	(9,259)
Interest expense on lease obligations [(2)]	**1,474**	3,044
Balance, end of year	**$ 13,364**	$ 69,209

[(1)] In Fiscal 2022, payment of lease obligations includes $1.0 million repayment received for leasehold incentives from a landlord.
[(2)] In Fiscal 2022, interest expense on lease obligations includes $0.5 million capitalized in assets under construction and none in Fiscal 2023.

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

As at	**September 2, 2023**	September 3, 2022
Less than one year	**$ 3,457**	$ 11,024
One to five years	**10,247**	40,807
More than 5 years	**1,350**	27,942
Total undiscounted lease obligations	**$ 15,054**	$ 79,773
Lease obligations balance, end of year	**$ 13,364**	$ 69,209
Current portion	**$ 2,862**	$ 8,468
Non-current portion	**$ 10,502**	$ 60,741

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

18. 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 52 weeks ended:

		September 2, 2023		**September 3, 2022**
	Number of shares	**Carrying amount**	Number of shares	Carrying amount
Balance, beginning of year	**75,233,023**	**$ 173,788**	74,647,547	$ 170,094
Debenture conversions (Note 16)	**45,652**	**196**	293,647	1,291
Exercise of stock options (Note 19)	**–**	**–**	161,707	726
Restricted share units vested	**1,421,765**	**6,475**	231,453	2,032
Employee share purchase units vested	**11,283**	**3**	8,900	14
Purchased and held in trust through employee share purchase plan (Note 19)	**(186,216)**	**(93)**	(110,231)	(369)
Balance, end of year	**76,525,507**	**$ 180,369**	75,233,023	$ 173,788

As at September 2, 2023, the number of common shares issued and fully paid was 76,872,271 (2022 – 75,404,854).

LOSS PER SHARE

As at	**September 2, 2023**	September 3, 2022
Basic and diluted weighted average number of common shares outstanding	**76,103,206**	74,982,435

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

For the year ended September 2, 2023 and the year ended September 3, 2022, the diluted loss per share calculation did not take into consideration the potential dilutive effect of stock options, restricted share units, unvested shares in connection with the employee share purchase plan and the Debentures conversion option as they are not dilutive.

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

19. 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 52 weeks ended:

		September 2, 2023		September 3, 2022
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**3,262,799**	**$ 4.44**	3,174,309	$ 4.47
Granted	**1,848,701**	**0.54**	979,912	4.72
Exercised	**–**	**–**	(161,707)	3.03
Forfeited	**(566,551)**	**2.98**	(541,301)	5.48
Expired	**(515,226)**	**4.73**	(188,414)	4.61
Outstanding, end of year	**4,029,723**	**2.82**	3,262,799	4.44
Exercisable, end of year	**2,252,171**	**$ 3.98**	1,865,747	$ 4.04

For the 52 weeks ended September 3, 2022, the weighted average share market price of the Company's common shares upon the exercise date of stock options was $7.79.

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

		2023		2022
Exercise Price	**Number of options outstanding**	**Weighted average remaining life**	Number of options outstanding	Weighted average remaining life
Less than $2.99	**2,167,191**	**6.2**	712,491	4.0
$ 3.00 – 5.99	**1,409,242**	**5.3**	1,821,368	6.2
$ 6.00 – 8.99	**453,290**	**5.0**	728,940	6.2
Outstanding, end of year	**4,029,723**	**5.7**	3,262,799	5.7
Exercisable, end of year	**2,252,171**	**4.7**	1,865,747	5.0

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

Stock options granted during the 52 weeks ended September 2, 2023 had a weighted average fair value of $0.31 per option (2022 – $2.33), using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2023	2022
Expected volatility	**66%**	58%
Risk-free interest rate	**3.03%**	1.54%
Expected life of options	**4.8 years**	4.8 years
Common share value at grant date	**$ 0.54**	$ 4.72
Weighted average exercise price	**$ 0.54**	$ 4.72

During the 52 weeks ended September 2, 2023, an expense of $1.0 million (2022 – $1.9 million) was recorded in the consolidated statements of loss in relation to the Stock Option Plan.

RESTRICTED SHARE UNIT 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 52 weeks ended:

	September 2, 2023	September 3, 2022
Outstanding, beginning of year	**2,000,716**	625,491
Granted	**2,054,907**	2,651,498
Vested	**(1,421,566)**	(231,453)
Forfeited	**(755,729)**	(1,044,820)
Outstanding, end of year	**1,878,328**	2,000,716

During the 52 weeks ended September 2, 2023, an expense of $2.8 million (2022 – $3.9 million) was recorded in the consolidated statements of loss in relation to the RSU Plan.

As at September 2, 2023, 1,779,176 stock options and RSUs (2022 – 2,276,970) were available for issuance.

(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 the 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 52 weeks ended:

	September 2, 2023			September 3, 2022		
	Number of shares		**Amount**	Number of shares		Amount
Unvested contributions, beginning of year	**171,829**	**$**	**878**	70,498	$	523
Contributions	**186,216**		**93**	110,231		369
Vested	**(11,283)**		**(3)**	(8,900)		(14)
Unvested contributions, end of year	**346,762**	**$**	**968**	171,829	$	878

During the 52 weeks ended September 2, 2023, an expense of $0.1 million (2022 – $0.1 million) was recorded in the consolidated statements of loss in relation to the employee share purchase plan.

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

As at	**September 2, 2023**		September 3, 2022	
Accounts and other receivables	**$**	(540)	$	2,761
Inventories		3,603		7,434
Other current assets		780		(224)
Accounts payable and accrued liabilities		(8,585)		(21,485)
Deferred revenues		(1,396)		406
	$	(6,138)	$	(11,108)

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

The following transactions had no cash impact for the 52 weeks ended:

As at	September 2, 2023	September 3, 2022
Investing activities		
Unpaid fixed assets additions	$ –	$ 184
Unpaid intangible assets additions	–	24
Capitalized depreciation on right-of-use assets and interest expense on lease obligations included in assets under construction additions	–	2,061
Financing activities		
Unpaid debenture issuance costs	$ 6	$ –

The following had a cash impact in the net cash generated from operating activities for the 52 weeks ended:

As at	September 2, 2023	September 3, 2022
Operating activities		
Payments related to discontinuance of products related to on-demand offering	$ **319**	$ –
Payments made for reorganization and other related costs (1)	**6,275**	6,319

(1) Payments made for reorganization and other related costs are mainly composed of penalties paid upon lease termination, employee termination and benefit costs paid as well as external advisors fees paid (refer to Note 6).

21. COMMITMENTS

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	September 2, 2023	September 3, 2022
Less than 1 year	$ **6,539**	$ 9,236
Between 1 and 5 years	**1,247**	390
More than 5 years	–	–
	$ **7,786**	$ 9,626

22. FINANCIAL INSTRUMENTS

Goodfood has determined that the fair value of cash and cash equivalents, accounts and other receivables, 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 debt approximates its carrying amount as it bears a variable interest rate at BA plus 4.50% which is a similar market interest rate for financial instruments with similar terms and risks.

The Company determined the valuation of its Debentures at issuance using Level 3 inputs. As at September 2, 2023, the Company determined that the fair value of its Debentures approximates $24.8 million which was determined based on market trading value.

23. FINANCIAL RISKS

Credit risk:

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligation. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk is primarily attributable to its cash and cash equivalents and accounts and other receivables. The majority of the Company’s net sales are paid prior to delivery and therefore the main credit exposure to net sales is with respect to the payment processor. 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 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 managed its interest rate risk by using a variable-to-fixed interest rate swap which matured in November 2021. As interest rates on Debentures are fixed, the Company is not exposed to interest rate risk on those instruments.

Sensitivity analysis for interest rate risk

An increase or decrease of 100 basis points in the market 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.

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.

In order to manage its liquidity risk, the Company constantly reviews its operations and overall business to drive efficiencies to form the basis for positive cash flow and long-term profitable growth. The Company expects to have sufficient liquidities in order to repay its credit facility when it becomes due in November 2023.

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

This assessment could be affected by economic, financial and future competitive factors, and other future events that are beyond the control of the Company. Management's liquidity assessment could be impacted if the actual operational performance is lower than the one used in the forecasted cash flows.

Capital management

The Company's objective in managing its capital structure is to ensure a sufficient liquidity position 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, convertible debentures, as well as short-term or long-term debt.

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

					September 2, 2023
	Total carrying amount	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 17,993	$ 17,993	$ 17,993	$ –	$ –
Debt [1]	4,036	4,142	4,142	–	–
Debentures, liability component	41,752	64,959	2,033	62,926	–
Lease obligations, including current portion	13,364	15,054	3,457	10,247	1,350
	$ 77,145	**$ 102,148**	**$ 27,625**	**$ 73,173**	**$ 1,350**

					September 3, 2022
	Total carrying amount	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 27,104	$ 27,104	$ 27,104	$ –	$ –
Debt [1]	11,743	12,086	12,086	–	–
Debentures, liability component	27,469	45,220	2,282	42,938	–
Lease obligations, including current portion	69,209	79,773	11,024	40,807	27,942
	$ 135,525	$ 164,183	$ 52,496	$ 83,745	$ 27,942

(1) As at September 2, 2023, an interest rate of 7.87% (2022 – 5.34%) was used to determine the estimated interest payments on the variable-rate portion of the Company's debt.

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

24. RELATED PARTIES

KEY MANAGEMENT PERSONNEL

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

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

	For the 52 weeks ended	
	September 2, 2023	September 3,2022
Salaries, fees and other short-term employee benefits	**$ 2,290**	$ 1,983
Share-based payments expense	**2,189**	2,931

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.

In connection with the issuance of the 2028 Debentures, 2,425 Debentures were purchased by the Board members and key management personnel at a price of $1,000 per Debenture. In connection with the issuance of the 2027 Debentures, 415 Debentures were purchased by Board members 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.

CORPORATE INFORMATION

STOCK INFORMATION

Shares listed: **Toronto Stock Exchange**
Ticker symbol: **FOOD**
Initial public offering: **2017**
52-week high/low : **$0.83 - $0.29**
Share price as at November 21, 2023 : **$0.42**
Common shares outstanding as at September 2, 2023: **76,525,507**

TRANSFER AGENT AND REGISTRAR

TSX Trust

AUDITORS

KPMG LLP

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP

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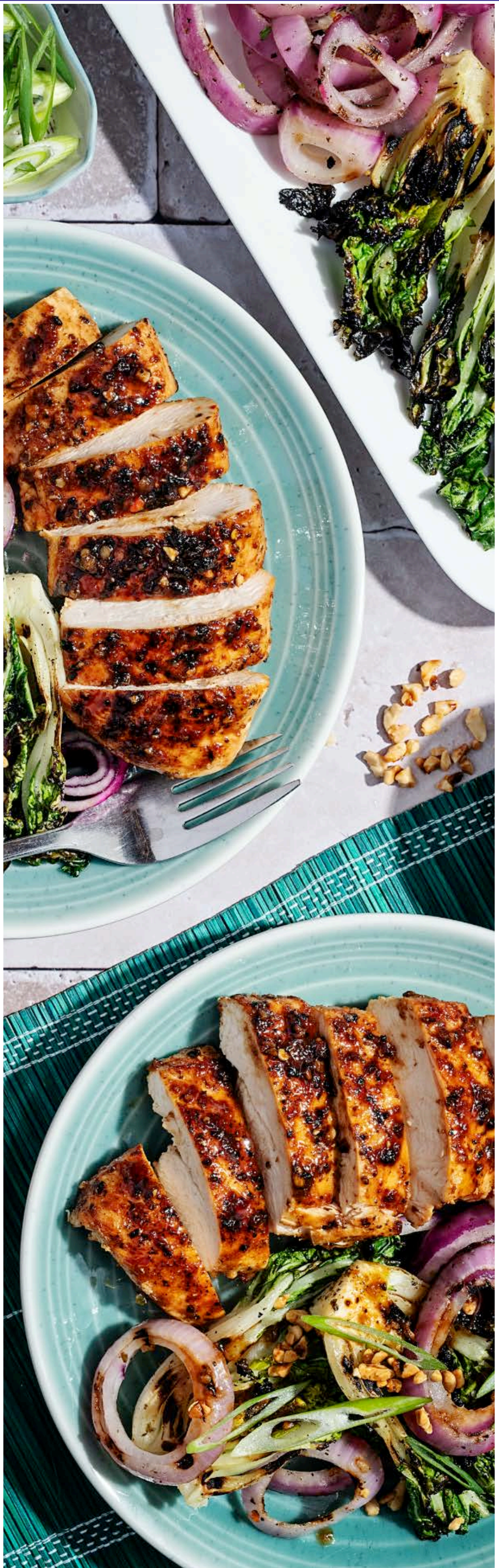
ANNUAL MEETING OF SHAREHOLDERS

Tuesday, January 16, 2024
Virtual Meeting - Details to Come



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