


# goodfood

ANNUAL REPORT 2018





Dear fellow shareholders,

As Chairman and CEO of Goodfood Market Corp., I am pleased to present the financial results and operational achievements for Fiscal Year 2018, ended August 31, 2018.

Fiscal 2018 was another landmark year for Goodfood. Not only did we deliver solid financial performance and strong growth in active subscribers, we also established a presence in Western Canada with the launch of our new national platform. We are now serving Canadians from coast to coast and results continue to exceed our expectations.

The enthusiasm for the Goodfood experience was felt throughout the year, and as a result, we are now delivering more than one million delicious ready-to-cook meals every month, confirming our clear leadership position as Canada's best-selling home meal solutions brand.

Our active subscriber base has almost tripled, increasing from 31,000 at the end of Fiscal 2017 to 89,000 at the end of Fiscal 2018. Gross Merchandise Sales ("GMS") also increased significantly to \$84 million, an increase of \$61 million or 264% over Fiscal 2017. The fact that GMS is growing faster than our number of subscribers demonstrates that our loyal subscriber base continues to grow and order more meals per month. The increase in GMS is also a result of our successful introduction of new meal solutions at higher price points. Our GMS run-rate totalled \$107 million at the end of the fiscal year, up from \$36 million.

While delivering exceptional growth, Goodfood also generated positive cash flow from operating activities during the last two quarters of the year, and for the year as a whole. This reflects our continued strong growth in revenue, our additional operational efficiency gains and our ability to generate economies of scale. Being cash flow positive allows us to pursue our aggressive growth targets, while being less dependant on capital markets.

### **Operational Excellence**

As we managed this growth, we also successfully launched our national platform with the opening of a state-of-the art production facility in Calgary. With a production capacity of approximately \$100 million in annual revenue, this new facility is increasing our addressable market by over 11 million consumers.

At the same time, we are doubling the production and distribution facility in Montréal, which will increase national delivery capacity to \$500 million. With these two expansions, we also grew our employee count, creating more than 700 jobs across the country.

We have also made significant investments in automation, while continuing to focus on improving operational efficiencies, leading to a significant reduction in labour costs as a percentage of revenue and improvement on margins. Our adjusted gross margin, at 33.6% for the year and 35.0% for the fourth quarter, reached its highest level since the company's founding.

Also of note, we were honoured with two prestigious awards in the last year, the first for business strategy and the second for entrepreneurship. In April, we received the Mercuriades award from the Federation of Chambers of Commerce of Quebec (FCCQ) in the Successful Business Strategy category. Later in November, we were named the E&Y Young Entrepreneurs of the Year.



### Expanded Product Offering

Our focus on the consumer experience is at the heart of what we do. We are always looking at how we can tailor our product offering and make ordering as well as preparation simpler for our consumers. During the year, our chefs created over 750 new recipes and added an additional 10 weekly options for our members to choose from, bringing the total to over 23 recipes per week and catering to a wider variety of taste preferences. We also introduced the Easy Prep plan which consists of 15-20 minute recipes that are a rapid, stress-free option for the preparation of wholesome meals. This plan includes set recipes with our usual high-quality ingredients already partially prepared.

Further, we have also launched our *L'Artisan* recipe collection featuring higher end cuts of protein, responding to subscriber demand for a more upscale meal experience that can be enjoyed once or twice a week. *L'Artisan* recipe options include proteins like NY strip, lamb chops or tiger shrimp. These recipes have flexible price points, contingent on food cost, and are offered at a higher price point than our classic meal collection.

### 2019 and Beyond

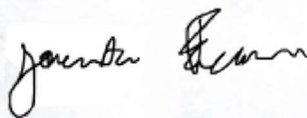
Fiscal 2018 ended on a high note with strong momentum. For Fiscal 2019, we will remain focused on three key objectives: maintaining our market leadership and growing our subscriber base across the country, continuing to improve the consumer experience by adding more recipes and meal options, and continuing to invest in automation to improve our gross margin.

We also see a compelling opportunity and long runway for growth in the direct-to-consumer home meal solutions industry, a market whose value we expect will grow to over \$9 billion in the future. Goodfood is uniquely positioned to gain significant market share in key segments of the industry by leveraging our ability to deliver food across the country and capitalize on consumer tastes and preferences. As we continue to expand product offering, we intend to roll out solutions for all three meals of the day, with options that address all levels of engagements, from ready-to-cook to ready-to-eat during Fiscal 2019.

Finally, we remain committed to environmental sustainability. Our pre-portioned meal kits and our ability to order the precise amount of food required from suppliers go a long way towards reducing food wastage both at home and in our supply chain. We recognize the need to do more and our objective is to reduce packaging as much as possible, while balancing the need to maintain ingredient freshness.

### Thank you

In closing, I want to take this opportunity to express my gratitude to our 1,000 committed and dedicated employees working tirelessly to promote Goodfood's mission and values. I am extremely proud of our team accomplishing so much during this past year. I am confident that we can continue to achieve much more together in the years ahead. I also want to acknowledge the unwavering support and vision of Goodfood's Board of Directors, always available to provide valuable counsel.



Jonathan Ferrari  
Chairman and CEO



Neil Cuggy  
President and COO

Financial Statements of

**GOODFOOD MARKET CORP.**

Years ended August 31, 2018 and 2017

# GOODFOOD MARKET CORP.

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Goodfood Market Corp.

We have audited the accompanying financial statements of Goodfood Market Corp., which comprise the statements of financial position as at August 31, 2018 and 2017, the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Goodfood Market Corp. as at August 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP\**

November 22, 2018

Montréal, Canada

# GOODFOOD MARKET CORP.

Statements of Financial Position  
August 31, 2018 and 2017

	Notes	2018	2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 24,453,231	\$ 17,548,417
Sales tax receivable		1,656,554	773,462
Inventories	6	1,585,310	382,374
Other current assets	7	204,420	152,682
		<b>27,899,515</b>	18,856,935
Non-current assets:			
Fixed assets	8	6,005,563	2,300,147
Intangible assets	9	55,170	70,602
Other non-current assets	10	349,142	82,558
		<b>\$ 34,309,390</b>	\$ 21,310,242
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Line of credit	12	\$ 500,000	\$ -
Accounts payable and accrued liabilities	11	11,343,138	3,529,373
Deferred revenue		2,521,999	841,037
Current portion of long-term debt	12	527,750	116,662
		<b>14,892,887</b>	4,487,072
Non-current liabilities:			
Long-term debt	12	1,564,105	395,147
Other non-current liabilities	13	1,396,412	76,444
		<b>17,853,404</b>	4,958,663
Shareholders' equity:			
Common shares	14	36,283,498	27,144,084
Contributed surplus		781,778	382,197
Deficit		(20,609,290)	(11,174,702)
		<b>16,455,986</b>	16,351,579
Commitments	22		
Subsequent events	24		
		<b>\$ 34,309,390</b>	\$ 21,310,242

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director



# GOODFOOD MARKET CORP.

Statements of Loss and Comprehensive Loss  
Years ended August 31, 2018 and 2017

	Notes	2018	2017
Revenue		\$ 70,501,757	\$ 19,796,240
Cost of goods sold		55,841,951	16,206,503
Gross profit		14,659,806	3,589,737
Expenses:			
Selling, general and administrative		23,617,947	7,360,829
Depreciation and amortization		461,415	54,032
Loss on disposal of fixed assets		113,097	—
Reverse acquisition of Mira VII	5	—	1,805,410
		24,192,459	9,220,271
Net finance expenses (income):			
Loss on remeasurement to fair value of convertible notes	16	—	4,257,944
Other net finance income	15	(98,065)	(22,431)
		(98,065)	4,235,513
Net loss, being comprehensive loss for the year		\$ (9,434,588)	\$ (9,866,047)
Basic and diluted loss per share	17	\$ (0.19)	\$ (0.32)

See accompanying notes to financial statements.

# GOODFOOD MARKET CORP.

Statements of Changes in Equity  
Years ended August 31, 2018 and 2017

	Notes	Common shares		Contributed surplus	Deficit	Total
		Number	Amount			
Balance as at August 31, 2016		24,837,978	\$ 59,000	\$ -	\$ (1,308,655)	\$ (1,249,655)
Net loss		-	-	-	(9,866,047)	(9,866,047)
Conversion of preferred shares	14	9,101,106	1,271,565	-	-	1,271,565
Conversion of convertible notes	16	2,645,718	5,291,436	-	-	5,291,436
Share issuance	14	10,542,883	21,085,766	-	-	21,085,766
Share issuance costs	14	-	(1,725,693)	193,186	-	(1,532,507)
Effect of reverse acquisition of Mira VII	5	562,500	1,125,000	-	-	1,125,000
Share-based payments	18	-	-	219,612	-	219,612
Stock options exercised	18	63,647	37,010	(30,601)	-	6,409
Balance as at August 31, 2017		47,753,832	\$27,144,084	\$ 382,197	\$ (11,174,702)	\$16,351,579
Net loss		-	-	-	(9,434,588)	(9,434,588)
Share issuance	14	<b>4,000,000</b>	<b>10,000,000</b>	-	-	<b>10,000,000</b>
Share issuance costs	14	-	(925,942)	-	-	(925,942)
Share-based payments	18	-	-	<b>457,745</b>	-	<b>457,745</b>
Stock options exercised	18	<b>71,413</b>	<b>65,356</b>	(58,164)	-	<b>7,192</b>
Balance as at August 31, 2018		<b>51,825,245</b>	<b>\$36,283,498</b>	<b>\$ 781,778</b>	<b>\$ (20,609,290)</b>	<b>\$16,455,986</b>

See accompanying notes to financial statements.

# GOODFOOD MARKET CORP.

Statements of Cash Flows

Years ended August 31, 2018 and 2017

	Notes	2018	2017
Cash provided by (used in):			
Operating:			
Net loss		\$ (9,434,588)	\$ (9,866,047)
Adjustments for:			
Depreciation and amortization		461,415	54,032
Share-based payments		457,745	219,612
Loss on disposal of fixed assets		113,097	—
Loss on remeasurement to fair value of convertible notes		—	4,257,944
Other net finance income		(98,065)	(22,431)
Interest paid		(159,791)	(41,271)
Interest received		262,585	41,788
Consideration transferred for Mira VII in excess of net assets acquired	5	—	1,262,644
Other non-current assets		(165,463)	(56,942)
Other non-current liabilities		1,173,201	—
Other non-cash items		—	22,534
Change in non-cash operating working capital:			
Sales tax receivable		(883,092)	(692,214)
Inventories		(1,202,936)	(303,174)
Other current assets		(34,337)	(131,416)
Accounts payable and accrued liabilities		8,107,162	2,551,633
Deferred revenue		1,680,962	818,014
		<b>277,895</b>	<b>(1,885,294)</b>
Financing:			
Net borrowing under line of credit		500,000	—
Proceeds from issuance of long-term debt		2,500,000	231,865
Debt issue costs		(12,500)	—
Repayment of long-term debt		(1,007,228)	(24,609)
Proceeds from exercise of stock options		7,192	6,409
Proceeds from issuance of common shares		10,000,000	21,085,766
Share issuance costs		(925,942)	(1,532,507)
Proceeds from issuance of convertible notes		—	1,000,000
		<b>11,061,522</b>	<b>20,766,924</b>
Investing:			
Acquisition and deposits on fixed assets	8	(4,431,109)	(1,811,777)
Acquisition of intangible assets	9	(3,494)	(41,366)
		<b>(4,434,603)</b>	<b>(1,853,143)</b>
Increase in cash and cash equivalents		<b>6,904,814</b>	17,028,487
Cash and cash equivalents, beginning of year		<b>17,548,417</b>	519,930
Cash and cash equivalents, end of year		<b>\$ 24,453,231</b>	<b>\$ 17,548,417</b>

See accompanying notes to financial statements.

# GOODFOOD MARKET CORP.

Notes to Financial Statements  
Years ended August 31, 2018 and 2017

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## NOTE 1 REPORTING ENTITY

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Goodfood Market Corp. (the "Company") is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange. The Company is domiciled in Montréal, Québec, Canada where its main production facility and administrative offices are located and has a secondary production facility in Calgary, Alberta, Canada.

The Company is a home meal solution service company, delivering fresh ingredients that make it easy for subscribers to prepare delicious meals at home every week. Subscribers select their favorite dishes from a variety of originally developed recipes online. The Company prepares a personalized box of fresh ingredients and delivers it to the subscriber's doorstep with easy step-by-step instructions.

On September 1, 2017, the Company completed an amalgamation under the *Canada Business Corporations Act* with its wholly owned subsidiary, Goodfood Market Inc. Following the amalgamation, the Company is comprised of a single legal entity and was renamed Goodfood Market Corp.

## NOTE 2 BASIS OF PRESENTATION

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### 2.1 STATEMENT OF COMPLIANCE

The 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").

The financial statements of the Company for the years ended August 31, 2018 and 2017 were authorized for issue by the Board of Directors ("Board") on November 22, 2018.

### 2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis.

### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

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### 3.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held in financial institutions, outstanding deposits and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

### 3.2 INVENTORIES

Inventories are valued at the lower of cost and net realizable value. The cost of inventories is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

# GOODFOOD MARKET CORP.

Notes to Financial Statements  
Years ended August 31, 2018 and 2017

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## 3.3 FIXED ASSETS

Items of fixed assets are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use.

When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of fixed assets are determined by comparing the proceeds from disposal with the carrying amount and are recognized in net loss.

The cost of replacing a part of an item of fixed assets is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in net loss as incurred.

Depreciation is calculated over the cost of the asset less its residual value and is recognized in net loss on a straight-line basis over the estimated useful lives of each part of an item of fixed assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated and reflect the cost of fixed assets, which are not yet available for their intended use. Assets under construction will start to be depreciated when they are available for their intended use. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. 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:

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<b>Asset</b>	<b>Period</b>
Furniture and fixtures	5 years
Machinery and equipment	3 to 20 years
Computer hardware	3 to 5 years
Leasehold improvements	Shorter of lease term and useful life

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## 3.4 LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in net loss.

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

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A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized in net loss on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### 3.5 INTANGIBLE ASSETS

Intangible assets that have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in net loss as incurred. Amortization is recognized in net loss on a straight-line basis over the estimated useful lives of the finite life of intangible assets. The estimated useful life for the current years is as follows:

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Asset	Period
Software	5 years

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The Company's software assets are internally generated.

### 3.6 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 and fixed assets on each reporting date, in order to determine if specific events or changes in circumstances indicate that their carrying amounts may not be recoverable.

For impairment testing purposes, assets that cannot be tested individually are aggregated into a cash generating unit ("CGU"). An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in net loss.

### 3.7 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

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.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

# GOODFOOD MARKET CORP.

Notes to Financial Statements  
Years ended August 31, 2018 and 2017

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## 3.7.1 FINANCIAL ASSETS

Financial assets are classified in four categories:

### Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in net loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in net loss. The Company has not designated any financial assets at fair value through profit or loss.

### Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The Company currently classifies its cash and cash equivalents, security deposits and amounts receivable as loans and receivables.

### Held-to-maturity investments

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The Company has no financial assets as held-to-maturity.

### Available-for-sale financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive loss and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to net loss. The Company has no financial assets as available for sale.

### *Impairment*

At each reporting date, the Company assesses whether its financial assets are impaired. Impairment losses are recognized in net loss when there is objective evidence that the financial assets are impaired. Financial assets are deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

## 3.7.2 FINANCIAL LIABILITIES

The measurement of financial liabilities depends on their classification, as described below:

### Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in net loss as incurred. Financial liabilities at fair value through net loss are measured at fair value and changes therein, including any interest expense, are recognized in net loss. The Company designated its convertible notes as financial liabilities at fair value through profit or loss.

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

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## Other financial liabilities

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method. The Company currently classifies the line of credit, accounts payable and accrued liabilities, and long-term debt as other financial liabilities.

### **3.7.3 OFFSETTING OF FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

### **3.7.4 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.

### **3.8 PROVISIONS**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

## Contingent liability

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the Company, or a present obligation that arises from past events (and therefore exists), but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

### **3.9 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.



# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

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## 3.10 SHARE-BASED PAYMENTS

Employees and directors of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 18. That cost is recognized as a compensation expense, together with a corresponding increase in equity (contributed surplus), over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired. The expense or credit in the statements of loss and comprehensive loss for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

## 3.11 REVENUE

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 when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and there is no continuing management involvement with the goods. For the sale of meal kits, transfer of risks and rewards occurs upon the delivery of goods. Deferred revenue is recognized for consideration received in advance of the related revenue. Sales and referral credits are also included in deferred revenue and are measured based on the fair value of the sales and referral credits granted, taking into consideration the estimated redemption percentage. Sales and referral credits are recognized as revenue upon redemption and when the Company fulfills its obligation.

## 3.12 TAXES

Income tax expense comprises current and deferred income taxes. It is recognized in net loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

### Current income tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the years and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

### Deferred income tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

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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.

## Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

## **3.13 FOREIGN CURRENCY**

Transactions in foreign currencies are comprised of purchases from foreign suppliers. These transactions are translated using the functional currency of the Company at exchange rates at the dates of the transactions. The related payables denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. The resulting foreign currency gains or losses are recognized on a net basis within net finance expenses in net loss.

## **3.14 EARNINGS PER SHARE**

Basic earnings per share are computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted earnings per share are computed using the weighted average number of common shares outstanding during the year adjusted to include the dilutive impact of stock options and convertible notes.

The dilutive effect of outstanding options is excluded as additional share dilution in the computation of diluted earnings per share as such inclusion would have been antidilutive due to the net loss reported by the Company (further details are given in Note 17).

# GOODFOOD MARKET CORP.

Notes to Financial Statements

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## 3.15 FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income and foreign exchange gains. Finance costs comprise interest expense on long-term debt and changes in fair value of convertible notes. The Company recognizes finance income and finance costs as operating activities in the Company's statements of cash flows.

## 3.16 SEGMENT REPORTING

The Company determined that it operated a single operating segment for the years ended August 31, 2018 and 2017.

## 3.17 NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE COMPANY

### *IFRS 2, Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective or early application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to apply the amendments to IFRS 2 in its financial statements prospectively, effective September 1, 2018.

### *IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue - Barter Transactions Involving Advertising Services*. In April 2016, the IASB issued Clarifications to IFRS 15, *Revenue from Contracts with Customers*, which are effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the standard to licenses of intellectual property.

The Company will adopt IFRS 15 on September 1, 2018 and estimates that doing so will have no impact on the financial statements. Disclosures will be enhanced as required by IFRS 15.

# GOODFOOD MARKET CORP.

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## *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the complete IFRS 9, *Financial Instruments* (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard, which aligns hedge accounting more closely with risk management. The Company will adopt IFRS 9 (2014) in its financial statements for the annual period beginning on September 1, 2018.

While the adoption of IFRS 9 (2014) will change the classification of certain of the Company's financial instruments, the changes in classification do not result in any changes in measurement. As well, the new impairment guidelines do not result in a change in the carrying value of the Company's financial assets at amortized cost.

## *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on September 1, 2019.

Given that the Company has significant contractual obligations accounted for as operating leases under IAS 17, its preliminary conclusion is that there will be a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the presentation of expense associated with the lease arrangements between selling, general and administrative expense, and amortization, and other net finance income.

The Company is in the process of analyzing the full impact of the adoption of IFRS 16. The Company intends to adopt IFRS 16 using the "modified retrospective approach".

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

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## **NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the 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 MEASUREMENT OF REVENUES**

Revenues are presented net of refunds, sales incentives and credits, including referral credits. Credit amounts are estimated based on the Company's history and experience of the redemption percentage of those credits. The corresponding estimated liability for credits is included in deferred revenues.

### **4.2 FIXED ASSETS**

Judgement is necessary in the determining the date at which fixed assets are available for their intended use. Also, at each reporting date, management determines whether fixed assets and intangible assets present indicators of impairment. For the purposes of its analysis, management uses its judgement considering factors such as the economic environment and the market in which the Company operates, budget forecasts and physical obsolescence.

### **4.3 DEFERRED INCOME TAX**

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Company has determined that it cannot recognize deferred tax assets on the tax losses carried forward (further details are given in Note 19).

## **NOTE 5 REVERSE ACQUISITION OF MIRA VII BY GOODFOOD MARKET INC.**

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On April 25, 2017, Mira VII, together with its wholly-owned subsidiary, Mira VII Subco Inc. ("Subco"), entered into an amalgamation agreement with Goodfood Market Inc. pursuant to which Subco would amalgamate with Goodfood Market Inc. (the "Amalgamation") to complete an arm's length qualifying transaction in accordance with the policies of the TSX Venture Exchange (the "Qualifying Transaction"). The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation was to become a wholly-owned subsidiary of Mira VII at the time of the completion of the Amalgamation.

Immediately prior to the completion of the Qualifying Transaction, Mira VII consolidated its common shares on the basis of one post-consolidation Mira VII common share for every 22.2222 Mira VII common shares existing before such consolidation. Similarly, immediately prior to the Amalgamation, Goodfood Market Inc. split its common shares on the basis of 24.8379775 shares for each share existing prior to such split (the "Share Split").

# GOODFOOD MARKET CORP.

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On June 1, 2017, the Amalgamation was completed and Mira VII changed its name to Goodfood Market Corp. On June 7, 2017, the common shares of Goodfood Market Corp. began trading upon the Toronto Stock Exchange under the symbol "FOOD" and the common shares of the former Mira VII were delisted from the TSX Venture Exchange.

Mira VII acquired legal control of Goodfood Market Inc. by way of an amalgamation between Goodfood Market Inc. and Subco, a wholly-owned subsidiary of Mira VII. However, as the shareholders of Goodfood Market Inc. gained voting control of Mira VII pursuant to the issuance of Mira VII common shares to the shareholders of Goodfood Market Inc., representing a significant majority interest, Goodfood Market Inc. was determined to be the accounting acquirer and, consequently, the transaction was accounted for as a reverse acquisition of Mira VII by Goodfood Market Inc. As Mira VII did not meet the definition of a business, the transaction was accounted for as a reverse acquisition of net assets, pursuant to IFRS 2, *Share-based payment*.

The acquisition-date fair value of the consideration transferred by the accounting acquirer, Goodfood Market Inc., for its interest in the accounting acquiree, Mira VII, of \$1,125,000 for 562,500 common shares, was determined based on the fair value of the equity interest Goodfood Market Inc. would have had to give to the owners of Mira VII, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that resulted from the reverse acquisition, and was recorded as an increase in common shares in the statements of financial position.

As the fair value of Mira VII's identifiable net deficiency in assets at the reverse acquisition date was \$137,644, the excess of consideration transferred over the net assets acquired of \$1,262,644 was reflected as a reverse acquisition of Mira VII expense in the statements of loss and comprehensive loss.

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Mira VII by Goodfood Market Inc. for the year ended August 31, 2017:

Consideration transferred for Mira VII in excess of net assets acquired	\$ 1,262,644
Professional fees	368,792
Exchange and listing fees	173,974
	<b>\$ 1,805,410</b>

## NOTE 6 INVENTORIES

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2018 was \$45,273,985 (2017 - \$13,245,554).

	2018	2017
Packaging supplies	\$ 570,362	\$ 205,349
Food	888,948	177,025
Work in process	126,000	-
	<b>\$ 1,585,310</b>	<b>\$ 382,374</b>

# GOODFOOD MARKET CORP.

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## NOTE 7 OTHER CURRENT ASSETS

	2018	2017
Prepaid expenses	\$ 71,270	\$ 101,188
Amounts receivable	120,785	-
Other	12,365	51,494
	<b>\$ 204,420</b>	<b>\$ 152,682</b>

## NOTE 8 FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware	Leasehold improvements	Assets under construction	Total
<b>Cost:</b>						
Balance as at						
August 31, 2016	\$ 9,506	\$ 69,684	\$ 5,492	\$ -	\$ -	\$ 84,682
Additions	46,887	152,480	102,397	7,080	1,950,685	2,259,529
Balance as at						
August 31, 2017	56,393	222,164	107,889	7,080	1,950,685	2,344,211
Additions	144,240	666,895	126,185	121,004	3,202,678	4,261,002
Transfer	22,344	1,014,000	-	4,117,019	(5,153,363)	-
Disposals	-	(128,390)	-	-	-	(128,390)
Balance as at						
August 31, 2018	<b>\$ 222,977</b>	<b>\$ 1,774,669</b>	<b>\$ 234,074</b>	<b>\$ 4,245,103</b>	<b>\$ -</b>	<b>\$ 6,476,823</b>
<b>Accumulated depreciation:</b>						
Balance as at						
August 31, 2016	\$ 2,056	\$ 3,443	\$ 619	\$ -	\$ -	\$ 6,118
Depreciation	3,600	22,636	11,592	118	-	37,946
Balance as at						
August 31, 2017	5,656	26,079	12,211	118	-	44,064
Depreciation	27,084	127,984	55,734	231,687	-	442,489
Disposals	-	(15,293)	-	-	-	(15,293)
Balance as at						
August 31, 2018	<b>\$ 32,740</b>	<b>\$ 138,770</b>	<b>\$ 67,945</b>	<b>\$ 231,805</b>	<b>\$ -</b>	<b>\$ 471,260</b>
<b>Net carrying amounts:</b>						
Balance as at						
August 31, 2017	\$ 50,737	\$ 196,085	\$ 95,678	\$ 6,962	\$ 1,950,685	\$ 2,300,147
Balance as at						
August 31, 2018	<b>190,237</b>	<b>1,635,899</b>	<b>166,129</b>	<b>4,013,298</b>	<b>-</b>	<b>6,005,563</b>

As at August 31, 2018, \$99,774 (2017 - \$21,975) of machinery and equipment additions relates to finance leases, \$146,767 (2017 - nil) of leasehold improvement transfers relates to capitalized rent expense and \$110,806 (2017 - \$426,333) of fixed asset additions is included in accounts payable and accrued liabilities.

# GOODFOOD MARKET CORP.

Notes to Financial Statements  
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## NOTE 9 INTANGIBLE ASSETS

	Software
<b>Cost:</b>	
Balance as at August 31, 2016	\$ 49,770
Additions	41,366
Balance as at August 31, 2017	91,136
Additions	<b>3,494</b>
Balance as at August 31, 2018	<b>\$ 94,630</b>
<b>Accumulated amortization:</b>	
Balance as at August 31, 2016	\$ 4,448
Amortization	16,086
Balance as at August 31, 2017	20,534
Amortization	<b>18,926</b>
Balance as at August 31, 2018	<b>\$ 39,460</b>
<b>Net carrying amounts:</b>	
Balance as at August 31, 2017	\$ 70,602
Balance as at August 31, 2018	<b>55,170</b>

## NOTE 10 OTHER NON-CURRENT ASSETS

	2018	2017
Security deposits	\$ 229,095	\$ 77,058
Deposits on fixed assets	101,121	-
Other	18,926	5,500
	<b>\$ 349,142</b>	<b>\$ 82,558</b>

## NOTE 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Accounts payable	\$ 9,366,092	\$ 2,460,951
Accrued liabilities	1,977,046	1,068,422
	<b>\$ 11,343,138</b>	<b>\$ 3,529,373</b>



# GOODFOOD MARKET CORP.

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## NOTE 12 DEBT

	2018	2017
<b>Interest-bearing financing:</b>		
Secured term loan, variable interest at bank prime plus 3.25%, maturing in August 2022 (further details are given in Note 12.1)	\$ 2,000,000	\$ -
Unsecured term loan, variable rate 6.80% (2017 – 6.05%), maturing in September 2019	1,676	24,400
<b>Finance leases:</b>		
Finance leases at implicit rates ranging, 6.28% to 6.79% (2017 – 6.28%), maturing from January 2020 to March 2023	100,349	17,704
<b>Matured borrowings:</b>		
Secured term loan, variable rate (2017 – 10.03%)	-	230,000
Unsecured term loan, fixed rate (2017 – 8.78%)	-	214,480
Unsecured term loan, fixed rate of (2017 – 5.80%)	-	13,975
Unsecured demand loan, variable rate (2017 – 6.20%)	-	11,250
	<b>2,102,025</b>	511,809
Unamortized financing costs	10,170	-
	<b>2,091,855</b>	511,809
Current portion of long-term debt	527,750	116,662
	<b>\$ 1,564,105</b>	\$ 395,147

### 12.1 CREDIT FACILITY

In September 2017, the Company obtained a commitment from a Canadian chartered bank for a secured credit facility which includes a five-year variable-rate term loan of \$2,500,000, a \$500,000 revolving line of credit and \$500,000 in credit card availability. The credit facility is secured by inventory and a first-ranking movable hypothec on the Company's assets.

On October 12, 2017, the term loan of \$2,500,000 was disbursed, bearing variable interest at bank prime plus 3.25% (6.95% as at August 31, 2018). The term loan is repayable in equal quarterly instalments of \$125,000 beginning on November 30, 2017 and ending August 31, 2022. The proceeds of the term loan were used to refinance the Company's long-term debt, finance capital expenditures, and for general corporate purposes.

As at August 31, 2018, the operating line of credit of \$500,000 was fully drawn, bearing variable interest at bank prime plus 3.25% (6.95% as at August 31, 2018). The line of credit is used to finance day-to-day operations and is repayable on demand. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.

The credit facility includes financial covenants with which the Company was in compliance as at August 31, 2018.

### 12.2 FINANCE LEASES

The company is party to finance leases for the leasing of automotive equipment.

# GOODFOOD MARKET CORP.

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## 12.3 PRINCIPAL PAYMENTS

Principal payments due on the long-term debt in each of the following years and the minimum payments required under the finance leases are as follows:

	<u>Credit facility</u>	<u>Finance leases</u>		<u>Total principal payments</u>
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 501,676	\$ 26,074	\$ 4,336	\$ 527,750
2020	500,000	21,818	3,934	521,818
2021	500,000	18,756	3,647	518,756
2022	500,000	18,756	3,647	518,756
2023	-	14,945	1,781	14,945
	<u>\$ 2,001,676</u>	<u>\$ 100,349</u>	<u>\$ 17,345</u>	<u>\$ 2,102,025</u>

As at August 31, 2018, there was no amount of accrued interest included in accrued liabilities with respect to the Company's long-term debt (2017 - \$2,273).

## NOTE 13 OTHER NON-CURRENT LIABILITIES

	<u>2018</u>	<u>2017</u>
Lease inducement on leasehold improvements	\$ 912,088	\$ -
Other lease incentives	484,324	76,444
	<u>\$ 1,396,412</u>	<u>\$ 76,444</u>

## NOTE 14 SHARE CAPITAL

### 14.1 COMMON SHARES

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

In connection with the public offering completed on May 7, 2018, the Company issued 4,000,000 common shares at a price of \$2.50 per share for gross proceeds of \$10,000,000, less share issuance costs of \$925,942.

During the second quarter of fiscal 2018, 71,413 common shares of the Company were issued following the exercise of stock options (refer to Note 18).

In connection and following the Amalgamation (refer to Note 5), the following common share transactions were undertaken by the Company:

- On June 1, 2017, in connection with the Amalgamation, all outstanding common shares of Goodfood Market Inc. were exchanged on a one-for-one basis for common shares of the Company;
- During the fourth quarter of fiscal 2017, 63,647 common shares of the Company were issued following the exercise of stock options (refer to Note 18).

# GOODFOOD MARKET CORP.

Notes to Financial Statements

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In connection and prior to the Amalgamation, the following transactions were undertaken by Goodfood Market Inc.:

- On May 31, 2017, the common shares of Goodfood Market Inc. were split on a 1:24.8379775 basis (the "Share Split"). The Share Split is reflected retrospectively to current years in these financial statements;
- On May 31, 2017, following a resolution of the majority holders of preferred shares, all outstanding preferred shares were converted into 9,101,106 common shares of Goodfood Market Inc.;
- On June 1, 2017, in connection with the Amalgamation, all outstanding convertible notes were converted in accordance with their contractual provisions into 2,645,718 common shares of Goodfood Market Inc. (from which 1,319,717 common shares were issued to a company controlled by a Board member); and
- On June 1, 2017, in connection with the Amalgamation, Goodfood Market Inc. issued 10,542,883 common shares in a private placement for gross proceeds of \$21,085,766, incurring share issue costs of \$1,725,693. Included in share issue costs is \$193,186 related to the fair value of 405,002 two-year compensation options granted to the agents to purchase common shares of the Company at a price of \$2.00 per common share.

The assumptions used to estimate the fair value of the agent compensation options using the Black-Scholes option pricing model are as follows:

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Volatility	60%
Risk-free interest rate	0.73%
Expected life of options	1 year
Common share value at grant date	\$2.00
Exercise price	\$2.00

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## 14.2 CLASS A PREFERRED SHARES

The Company is not authorized to issue preferred shares.

Goodfood Market Inc. was authorized to issue an unlimited number of no par value voting Class A preferred shares, in Series, participating in priority to common shares. Class A preferred shares were classified as a financial liability measured at amortized cost as Class A preferred shares provided the holders with a contingent settlement in cash to the value of their subscription amount, based upon the occurrence of a liquidity event. Class A preferred shares were convertible on a one-for-one basis, subject to antidilution provisions, into common shares at any time at the option of the holder, upon majority approval of the Class A preferred shareholders or the closing of an initial public offering generating gross proceeds of at least \$20,000,000 or such lower amount upon majority approval of Class A preferred shareholders.

Prior to the Amalgamation, the following preferred share transactions were undertaken by Goodfood Market Inc.:

- In September 2016, convertible notes with a conversion date fair value of \$471,550 were converted into 46,419 Class A preferred shares Series 2 (from which 34,306 shares were issued to a company controlled by a Board member);

# GOODFOOD MARKET CORP.

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- On May 31, 2017, following a resolution of the majority holders of preferred shares, all outstanding Class A preferred shares consisting of 320,000 Class A Series 1 preferred shares and 46,419 Class A Series 2 preferred shares were converted (of which 270,306 shares were held by a company controlled by a Board member) into 9,101,106 common shares of Goodfood Market Inc. (of which 6,713,854 common shares were issued to a company controlled by a Board member); and
- On May 31, 2017, following the conversion of all outstanding Class A preferred shares into common shares, Goodfood Market Inc. amended its articles of incorporation as such that its authorized capital consisted solely of an unlimited number of common shares.

	Number of shares	Amount
Balance as at August 31, 2016	320,000	\$ 800,015
Issuance upon conversion of convertible notes	46,419	471,550
Conversion into common shares of Goodfood Market Inc.	(366,419)	(1,271,565)
Balance as at August 31, 2017	-	\$ -

## NOTE 15 OTHER NET FINANCE INCOME

	2018	2017
Interest expense on long-term debt	\$ 162,223	\$ 42,259
Interest income	(279,986)	(63,054)
Foreign exchange loss (gain)	19,698	(1,636)
	\$ (98,065)	\$ (22,431)

## NOTE 16 FINANCIAL INSTRUMENTS

The Company has determined that the fair values of cash and cash equivalents, security deposits and amounts receivable included in other current assets, line of credit, and accounts payable and accrued liabilities approximate their respective carrying amounts at the statement of financial position date, due to the short-term maturity of those instruments. The Company determined that the fair value of its long-term debt approximates its carrying amount as it bears interest at market interest rates for financial instruments with similar terms and risks.

### 16.1 CONVERTIBLE NOTES

Balance as at August 31, 2016	\$ 506,368
Issuance of convertible notes	1,000,000
Conversion into Class A preferred shares, Series 2	(471,550)
Loss on remeasurement to fair value	4,257,944
Conversion into common shares	(5,291,436)
Interest entitlement reclassified to accounts payable and accrued liabilities	(1,326)
Balance as at August 31, 2017	\$ -

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On June 1, 2017, in connection with the Amalgamation described in Note 5, all outstanding one and three-year convertible notes with an aggregate conversion date fair value of \$5,291,436 were converted into 2,645,718 common shares (of which \$2,639,434 and 1,319,717 common shares were converted by a company controlled by a Board member).

The fair value of convertible notes as at June 1, 2017, immediately prior to conversion into common shares, was estimated using Level 3 inputs and was equal to the fair value of the common shares issued upon conversion plus a residual interest entitlement. The fair value per common share issued upon conversion was determined with reference to the private placement share price of \$2.00 (refer to Note 14). The number of shares issued upon conversion was determined with reference to the terms of the convertible notes.

## NOTE 17 LOSS PER SHARE

	2018	2017
Net loss	\$ (9,434,588)	\$ (9,866,047)
Basic weighted average number of common shares	49,068,678	30,625,537
Loss per share - basic and diluted	(0.19)	(0.32)

Basic weighted average number of common shares has been adjusted retrospectively to reflect the Share Split. The conversion of convertible notes into common shares, exercise of stock options and share issuance is weighted from the transaction date.

Class A preferred shares, stock options and convertible notes prior to their conversion into common shares were excluded from the diluted weighted average number of common shares calculation because such inclusion would have been antidilutive due to the net loss reported by the Company.

## NOTE 18 STOCK OPTION PLAN

On June 1, 2017, in connection with the Amalgamation, the stock option plans of Goodfood Market Inc. and Mira VII were dissolved and replaced by a plan established by the Company.

The stock option plan was established by the Company to attract and retain employees, consultants, directors and officers. The plan provides for the granting of options to purchase common shares where at any given time the number of stock options reserved for issuance is equal to 5% of the Company's issued and outstanding common shares. Under the plan, options generally vest over a period of four years and expire eight years from the grant date. As at August 31, 2018, 1,165,791 stock options were available for issuance (2017 – 1,636,111).

Upon dissolution of the Mira VII stock option plan, all outstanding Mira VII stock options were cancelled, and upon dissolution of the Goodfood Market Inc. stock option plan, all outstanding Goodfood Market Inc. stock options were cancelled and exchanged for stock options of the Company with comparable terms except for a reduced vesting period. To reflect the reduced vesting period, the Company accelerated the recognition of compensation cost with respect to these options for the year ended August 31, 2017. Following the Amalgamation, all stock options were granted at an exercise price equal to the common shares fair value at the date of grant.

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Total share-based payments recognized under the stock option plan amounted to \$457,745 for the year ended August 31, 2018 (2017 - \$219,612).

The weighted average fair value of stock options granted during the year ended August 31, 2018 was \$1.42 (2017 - \$0.83) and was estimated at the date on which the options were granted using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2018	2017
Volatility	65%	68%
Risk-free interest rate	2.07%	1.25%
Expected life of options	5.1 years	5.1 years
Common share value at grant date	\$2.55	\$1.26
Exercise price	\$2.55	\$1.05

Information concerning the movement in stock options is as follows:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	751,581	\$ 1.07	54,644	\$ 0.10
Granted	787,666	2.55	760,584	1.05
Exercised	(71,413)	0.10	(63,647)	0.10
Forfeited	(42,363)	0.30	-	-
Outstanding, end of year	1,425,471	1.96	751,581	1.07
Exercisable, end of year	322,483	\$ 1.02	214,914	\$ 0.60

For the year ended August 31, 2018, the weighted average share price of the Company's common shares upon the exercise date of stock options was \$2.94 (2017 - \$1.49).

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

Summary of options outstanding as at August 31, 2018 and 2017 is as follows:

	Exercise price	Number of options outstanding	Weighted average contractual life outstanding	Exercisable options
Balance as at August 31, 2018:				
	\$ 0.10	178,834	6.75	146,236
	\$ 1.56	347,820	6.98	86,955
	\$ 2.00	114,708	6.75	89,292
	\$ 2.01	100,374	7.25	–
	\$ 2.53	21,087	7.87	–
	\$ 2.56	334,618	7.96	–
	\$ 2.62	9,065	7.62	–
	\$ 2.71	300,000	7.45	–
	\$ 2.90	18,965	7.37	–
	\$ 1.96	1,425,471	7.30	322,483
Balance as at August 31, 2017:				
	\$ 0.10	289,053	7.75	158,664
	\$ 1.56	347,820	7.98	–
	\$ 2.00	114,708	7.75	56,250
	\$ 1.07	751,581	7.86	214,914

## NOTE 19 INCOME TAXES

The following table reconciles income taxes computed at the Company's statutory rate of 26.7% (2017 – 26.8%) and the total tax expense for the years ended August 31:

	2018	2017
Loss before income taxes	\$ (9,434,589)	\$ (9,866,047)
Income tax benefit at the combined Canadian statutory rate	(2,519,036)	(2,644,101)
Decrease resulting from:		
Change in unrecognized deferred income tax assets	2,386,856	1,198,211
Permanent differences	132,180	1,504,388
Change in tax status and effect of reverse acquisition	–	(76,086)
Difference between reversal rate and current rate	–	17,588
Total income tax expense	\$ –	\$ –

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

Movement in temporary differences during the year ended August 31, 2018 is detailed as follows:

	Balance as at August 31, 2017	Recognized in profit or loss	Balance as at August 31, 2018
Deferred income tax assets:			
Other non-current liabilities	\$ –	\$ 112,237	\$ 112,237
Deferred income tax liabilities:			
Fixed assets	–	(112,237)	(112,237)
	\$ –	\$ –	\$ –

As at August 31, 2018 and 2017, the Company had unrecognized deferred income tax assets as follows:

	2018	2017
Deferred income tax assets:		
Net operating loss carry forwards	\$ 3,398,449	\$ 1,232,747
Fixed assets	–	9,886
Share issuance costs	505,854	334,229
Intangible assets	245,568	198,906
Other non-current liabilities	257,813	22,691
Other	20,272	–
Unrecognized deferred income tax assets	\$ 4,427,956	\$ 1,798,459

The Company has operating tax losses carried forward of \$12,824,337 (2017 – \$4,651,876) and unrecognized deductible temporary differences of \$3,884,929 (2017 – \$2,134,763) 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 utilize the benefits therefrom. As at August 31, 2018, the amounts and expiry dates of the tax losses carried forward were as follows:

2035	\$ 49,298
2036	712,284
2037	3,547,031
2038	8,515,724
	\$ 12,824,337

## NOTE 20 ADDITIONAL INFORMATION ON STATEMENT OF LOSS AND COMPREHENSIVE LOSS

	2018	2017
Short-term employee benefit expense	\$ 18,753,232	\$ 5,584,729
Operating lease expense	815,992	161,032





# GOODFOOD MARKET CORP.

Notes to Financial Statements  
Years ended August 31, 2018 and 2017

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## Interest rate risk:

The Company's long-term debt and line of credit bear interest at variable rates which are determined by a base rate set by the lender plus a margin. As a result, the Company is exposed to interest rate risk due to fluctuations in lenders' base rates.

### *Sensitivity analysis for interest rate risk*

An increase or decrease of 100 basis points in the interest rate would not have a significant impact on the Company's net loss.

## **NOTE 22 COMMITMENTS**

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As at August 31, 2018, the Company is committed to minimum annual lease payments under operating leases as follows:

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Less than one year	\$ 1,253,505
Between one and five years	4,432,639
More than five years	1,260,141
	<hr/>
	\$ 6,946,285

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## **NOTE 23 RELATED PARTIES**

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The chief executive officer ("CEO") and the president also acting as chief operating officer ("COO") are controlling shareholders of the Company and are members of the Board of the Company. The CEO is also Chairman of the Board.

### **23.1 RELATED PARTIES**

The Company's related party transactions are as follows:

- On May 7, 2018, in connection with the public offering described in Note 14, 60,000 common shares were purchased by Board members at a price of \$2.50 per share;
- On June 1, 2017, convertible notes held by a company controlled by a Board member with a carrying value of \$2,639,434 were converted into 1,319,717 common shares;
- On May 31, 2017, 34,306 Class A Series 1 preferred shares and 236,000 Class A Series 2 preferred shares held by a company controlled by a Board member with a carrying value of \$706,953 were converted into 6,713,854 common shares;
- On September 14, 2016, the Company issued a convertible note with a face value of \$500,000 to a company controlled by a Board member; and
- On September 6, 2016, convertible notes held by a company controlled by a Board member with a carrying value of \$471,550 were converted into 34,306 Class A Series 2 preferred shares.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties. Convertible notes were subsequently measured at fair value through net loss.

# GOODFOOD MARKET CORP.

Notes to Financial Statements

Years ended August 31, 2018 and 2017

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## 23.2 KEY MANAGEMENT PERSONNEL

Key management personnel includes the members of the Board as well as the CEO, COO and Chief Financial Officer.

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

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	2018	2017
Short-term employee benefits (includes directors' fees)	\$ 867,191	\$ 276,533
Share-based payments	356,240	80,503

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On September 1, 2018, 1,075,000 stock options at an exercise price of \$2.55 were issued to key management personnel.

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## NOTE 24 SUBSEQUENT EVENTS

### 24.1 EXPANSION OF EASTERN CANADIAN FACILITY

On September 24, 2018, the Company signed an amendment to the lease of the Eastern Canada facility, to renew and extend the term of the initial premises and lease an additional 72,000 square-foot area, expanding to a total 155,000 square-feet, which will double the production capacity of the facility. The initial lease term ends in October 2023 with renewal options for some further fifteen years. The additional leases are classified as operating leases with an additional estimated commitment of \$3,433,000.

### 24.2 DEBT FINANCING

In November 2018, the Company obtained a commitment from a Canadian financial institution for a secured three-year term loan of \$10 million, a \$2.5 million revolving credit facility and \$1.0 million in other short-term financing. The term loan and the revolving credit facility are bearing variable interest at bankers' acceptance rate plus 2.50%. The term loan will be repayable in quarterly instalments of \$125,000 beginning on December 4, 2020 with a bullet repayment of the balance at the end of the three-year term.. The proceeds from the financing will be used to fund expansion capital expenditures, invest in automation, refinance the Company's long-term debt and for general corporate purposes.



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