



goodfood

2019  
ANNUAL REPORT



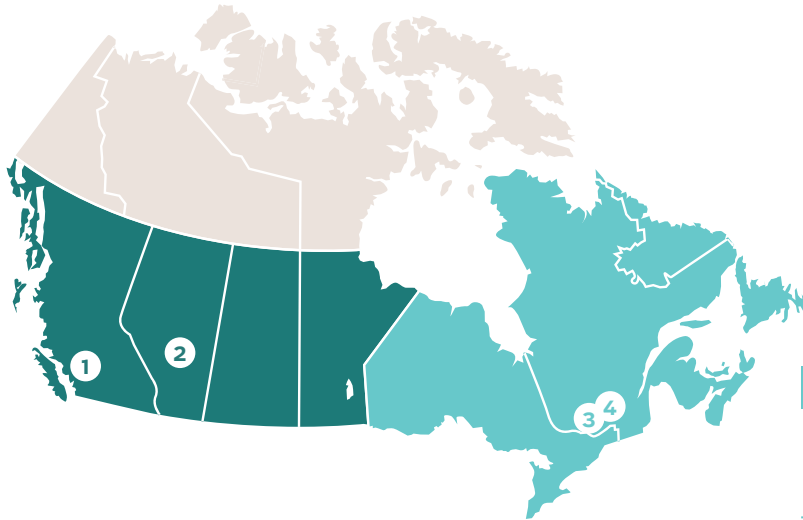


*goodfood* is a leading online grocery company in Canada. We deliver fresh meals and grocery products coast to coast and make it easier for our members to enjoy delicious meals at home, every week. Goodfood's mission is to make the impossible come true, from farm to kitchen, and we achieve that by empowering our members to complete their weekly meal planning and grocery shopping in less than 1 minute. Goodfood members have access to a unique selection of products online and exclusive pricing made possible by our world-class fulfilment ecosystem that nearly eliminates food waste and the expensive grocery store brick-and-mortar overhead.



**GOODFOOD'S NATIONAL OPERATING FOOTPRINT REACHES 95% OF THE CANADIAN POPULATION**

\$750M of sales capacity and 302,000 sq. ft in four production facilities



**WESTERN CANADA**

Capacity to serve **150-200K subscribers<sup>(1)</sup>**

**EASTERN CANADA**

Capacity to serve **300-400K subscribers<sup>(1)</sup>**

**1. VANCOUVER, BC**

84,000 sq. ft production and distribution facility (\$50M sales capacity)  
*Opening in FY2020*

**2. CALGARY, AB**

43,000 sq. ft production and distribution facility (\$200M sales capacity)

**3. MONTREAL, QC - BREAKFAST**

20,000 sq. ft production and distribution facility for breakfast meal solutions (\$100M sales capacity)

**4. MONTREAL, QC**

HQ & 155,000 sq. ft production and distribution facility (\$400M sales capacity)

**1,800**

**EMPLOYEES**

**200,000**

**SUBSCRIBERS<sup>1</sup>**

**4**

**PRODUCTION FACILITIES**

**\$161,333**

**REVENUE**  
(in thousands of Canadian \$)

**\$200,830**

**GMS<sup>1</sup>**  
(in thousands of Canadian \$)

<sup>(1)</sup> 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

(In thousands of Canadian dollars except active subscribers, margins and per share data)

For the years ended August 31,	2019	%Δ	2018	%Δ	2017
<b>OPERATING RESULTS</b>					
Active subscribers <sup>(1)</sup>	200,000	125%	89,000	187%	31,000
Revenue	\$161,333	129%	\$70,502	256%	\$19,796
Gross merchandise sales <sup>(1)</sup>	200,830	139%	84,093	264%	23,081
Gross profit	40,310	175%	14,660	308%	3,590
Gross margin	25.0%	4.2 pp	20.8%	2.7 pp	18.1%
Adjusted gross profit <sup>(1)</sup>	79,807	182%	28,251	311%	6,875
Adjusted gross margin <sup>(1)</sup>	39.7%	6.1 pp	33.6%	3.8 pp	29.8%
Net loss being comprehensive loss	(20,937)		(9,434)		(9,866)
Basic and diluted loss per share	(0.38)		(0.19)		(0.32)
<b>FINANCIAL POSITION</b>					
Cash <sup>(2)</sup>	\$47,649		\$24,453		\$17,548
Fixed assets	13,545		6,006		2,300
Total assets	80,783		34,309		21,310
Total debt <sup>(3)</sup>	14,031		2,592		512
Shareholders' equity	17,401		16,456		16,352
<b>CASH FLOWS PROVIDED BY (USED IN)</b>					
Operating activities	\$880		\$176		\$(1,885)
Financing activities	29,555		10,901		20,767
Investing activities	(7,239)		(4,171)		(1,853)

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes cash, cash equivalents and restricted cash.

<sup>(3)</sup> Includes the line of credit and the current and non-current portion of the long-term debt.





Jonathan Ferrari, Co-Founder, Chairman of the Board and CEO, featuring the new eco-friendly reusable box.

## NEW MEAL SOLUTIONS

- Launched 75+ private-label grocery products and rapidly increasing our offering
- Launched 27+ new breakfast meal solutions
- Launched ready-to-eat meal solutions inspired by Goodfood's best-rated recipes
- Launched value-positioned meal kit brand Yumm.ca
- Launched Clean 15 meal kit plan

## EXPANDING PRODUCTION AND SALES CAPACITY

- Expanded main Montreal facility to 155,000 sq. ft
- Leased 84,000 sq. ft facility in Vancouver
- Leased 20,000 sq. ft facility for breakfast meal solutions in Montreal
- Expanded production section of Calgary facility
- Invested significantly in automation to drive operating efficiency and improve cost structure
- \$750 million of sales capacity across 4 production facilities

## NEW FINANCING

- Obtained new bank and secured debt financing for a total of \$25.5 million
- Completed equity financing for gross proceeds of \$26.3 million

## IMPROVING MEMBER EXPERIENCE

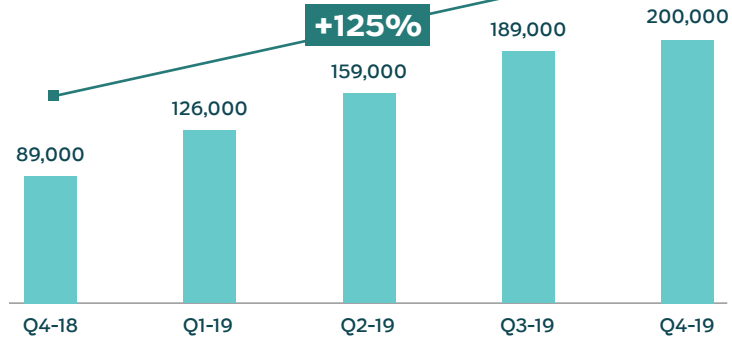
- Launched proprietary eco-friendly reusable box to help eliminate several million single-use packaging items
  - Developed and launched mobile App to simplify members' ordering process
-



# EVOLUTION OF KEY METRICS

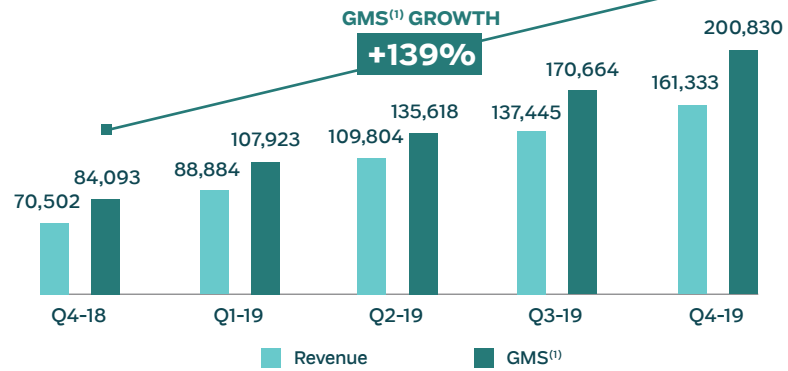


## SUBSCRIBERS<sup>(1)</sup>

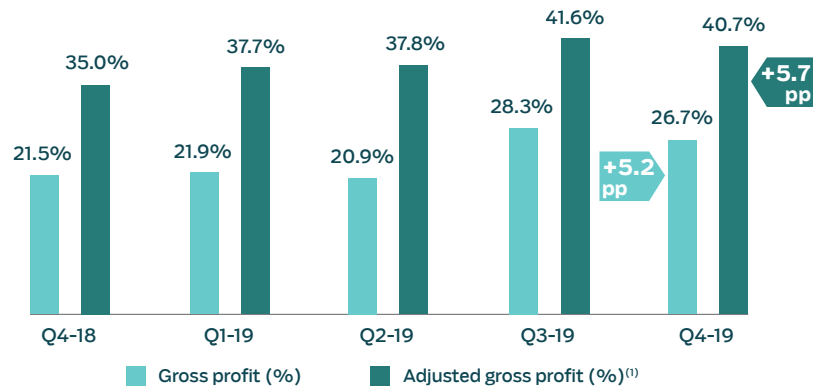


## REVENUE AND GMS<sup>(1)</sup> TRAILING 12 MONTHS

(in thousands of Canadian \$)



## GROSS PROFIT (%) AND ADJUSTED GROSS PROFIT (%)<sup>(1)</sup>



<sup>(1)</sup> 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.



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



**Neil Cuggy**  
Co-Founder, Director, President and COO

Goodfood continues to attain key milestones on its journey to become Canada's leading online grocer. In 2014, we founded the Company by combining our passion for food and technology. Five years later, we are an industry disrupter and leading player in the Canadian online grocery market, with an impressive growth profile, a unique customer experience, a diverse product offering, and state-of-the-art operations across Canada.

## CONTINUED GROWTH

Over the past year, we have demonstrated our ability to stay at the forefront of today's food industry, contributing to its rapid evolution. Leveraging our unique platform and obsession with member experience, we have more than doubled our active Goodfood subscribers<sup>(1)</sup> – from 89,000 a year ago to 200,000 at the end of Fiscal 2019. Growing our subscriber<sup>(1)</sup> base by 125% has translated in gross merchandise sales<sup>(1)</sup> growth of 139%, allowing us to surpass the \$200 million mark for the first time.

To support our continued growth, we have undertaken important strategic initiatives to expand our operations and improve our efficiency. In Montreal and Calgary, our recently completed expansions have more than doubled our production capacity. With the addition of a new facility in Montreal, focusing on breakfast meal solutions, and the upcoming opening of a facility in Vancouver, Goodfood is well positioned to continue on its growth trajectory and support sales of up to \$750 million with the existing operating footprint.

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With profitability in mind, we have invested significantly in automation, dedicating capital and resources to improve the efficiency of our operations and cost structure. Automation is leading to substantial optimization of our labor cost in addition to moving our fulfilment operations to world-class level.

## MORE AND BETTER CHOICES, FOR A BETTER EXPERIENCE

Our growth this year has been in large part driven by the exceptional experience we offer our members. Goodfood's mission is to make the impossible come true, from farm to kitchen, and we have taken important steps forward in achieving this mission with our subscriber experience. In addition to our growing meal kit offering, we have introduced key new products:

- **Breakfast:** Delicious smoothies, artisanal oat bowls and chef-inspired omelettes
- **Ready-to-eat:** Meals ready to be enjoyed in 2-4 minutes, inspired by Goodfood-developed, highly rated recipes
- **Private-label grocery items:** Products of high quality, priced at a ~15% discount to the grocery-store branded equivalents by eliminating expensive overhead, waste and the need for brick-and-mortar stores

To lead these initiatives, we have hired exceptionally talented people who align closely with our core values of dedication to Goodfood and our members, hunger for improvement and the pursuit of doing more with less. Their strong profiles and work experience at internationally renowned institutions will go a long way in building successful new product lines and continuing to improve our members' experience.

Our new product offerings are a core part of Goodfood's strategy and our goal of being the Canadian leader in online grocery delivery. The food grocery retail industry in Canada is valued at approximately \$124 billion and we are working to capture a large part of its growing online portion, estimated by industry analysts to increase from below \$2 billion to more than \$13 billion in the near term.

Our new product offerings have also been developed to respond to our members' demands. We are completely focused on our customers' happiness and believe that their satisfaction is the clearest driver of returns for our shareholders. Every day, our team works tirelessly to improve member experience, offer better choices and drive our mission forward.

## A GREEN VISION FOR GOODFOOD

Each and everyone of us has a level of responsibility towards the environment. Goodfood, as a rapidly growing company, industry disruptor and corporate citizen, has taken concrete action to ensure that we do our part for the planet and for the generations to come. Not only do we collect cardboard boxes in major Canadian cities, but we have also launched a new and proprietary reusable box and ice pack to eliminate several million of single-use packaging. Moreover, we are committed to reducing our use of plastic inside our delivery boxes by 50% in the upcoming 12 months. Together, these initiatives confirm our green vision while still providing a positive return on investment for our shareholders.



## 2020 AND BEYOND

Fiscal year 2019 has been a resounding success. By reaching the 200,000 subscribers<sup>(1)</sup> mark, we have cemented our market leadership and opened new possibilities for Goodfood. As we embark in a new year, our successful strategy could not provide us with a clearer path for growth and profitability.

In Fiscal 2020 and beyond, our strategy will build on the firm belief that our meal solutions will be at the center of the Canadian digital grocery basket and be completed by our private label product offering. We will continue to build a presence in home meal solutions and put our efforts into becoming the leading Canadian online grocer. We will also further invest in automation to make our operations more cost-efficient and make fulfilment not only a core competency, but a competitive advantage for Goodfood.

With our strong operating footprint and exceptional team of professionals, we are gearing for another successful year in 2020, and well beyond.

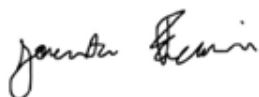
## MOST IMPORTANTLY

Having grown our workforce by 1,000 employees, our exceptional performance this year reflects the dedication of our people and the unwavering confidence of our shareholders, members, suppliers and other stakeholders. We want to express our deep appreciation for your trust and support.

Our Board of Directors also plays a key role in providing guidance and bolstering our corporate governance. We would like to thank Guy Leblanc, who stepped down this year to become Head of Investissement Québec, for his contribution and extend a warm welcome to Terry Yanofsky and François Vimard, who joined the Board in May and August, respectively. Their combined experience will be instrumental in guiding Goodfood to its next level of growth.

When we put together our first meal kits in 2014, we envisioned continuously improving the experience of Canadians in the kitchen. Our goal to be in every kitchen, every day, is ever closer. As we continue to build towards that ambitious goal, it is with great pride that we share with you our exceptional Fiscal year 2019 financial results.

Sincerely,



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



**Neil Cuggy**  
Co-Founder, Director, President  
and COO

<sup>(1)</sup> 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.

# BOARD OF DIRECTORS



**JONATHAN FERRARI**  
Co-Founder, Chairman of the  
Board & CEO



**NEIL CUGGY**  
Co-Founder, Director, President and  
COO



**HAMNETT HILL**  
Director



**DONALD OLDS**  
Director



**TERRY YANOFSKY**  
Director



**FRANÇOIS VIMARD**  
Director

# **GOODFOOD MARKET CORP.**

**YEAR ENDED AUGUST 31, 2019**



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## BASIS OF PRESENTATION

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The following has been prepared for the purposes of providing Management's Discussion and Analysis ("MD&A") of the financial condition of Goodfood Market Corp. and its subsidiary (also referred to in this MD&A as "we", "our", "Goodfood" or "the Company") as at August 31, 2019, and the operating results of the Company for the year then ended. In March 2019, the Company created a wholly-owned subsidiary, Yumm Meal Solutions Corp. This MD&A is dated November 14, 2019, and reflects information available at this date. All references in this MD&A to Fiscal 2019 and to Fiscal 2018 are to the fiscal year ended August 31, 2019, and August 31, 2018, respectively. This document should be read in conjunction with the Company's Consolidated Annual Audited Financial Statements and notes thereto for the year ended August 31, 2019. All amounts herein are expressed in Canadian dollars unless otherwise indicated.

The Company's Consolidated Annual Audited 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. Goodfood has applied IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), and IFRS 9, *Financial instruments* ("IFRS 9") and has early adopted IFRS 16, *Leases* ("IFRS 16").

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.

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## FORWARD-LOOKING STATEMENTS

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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, estimates and intentions. 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 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 year ended August 31, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com): limited operating history, negative operating cash flow, food industry, quality control and health concerns, regulatory compliance, regulation of the industry, public safety issues, product recalls, damage to Goodfood's reputation, transportation disruptions, product liability, ownership and protection of intellectual property, evolving industry, unionization activities, reliance on management, 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 disruption, reliance on data centers, open source license compliance, future capital requirements, operating risk and insurance coverage, management of growth, limited number of products, conflicts of interest, litigation, catastrophic events, risks associated with payments from customers and third parties, being accused of infringing intellectual property rights of others and, climate change and environmental risks. Although the forward-looking information

contained herein is based upon what we believe are reasonable assumptions, readers are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions were made in preparing the forward-looking information concerning the availability of capital resources, business performance, market conditions, and customer demand. 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.

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## NON-IFRS MEASURES

Certain financial measures used in this MD&A do not have any standardized meaning under IFRS, including "Gross merchandise sales", "Adjusted gross profit", "Adjusted gross margin", "EBITDA", "Adjusted EBITDA" and "Adjusted EBITDA margin". For the definition and reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures, as applicable, see the "Metrics and Non-IFRS Financial Measures" section of this MD&A.

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## COMPANY OVERVIEW

Goodfood is a leading online grocery company in Canada, delivering fresh meal solutions and grocery items that make it easy for members from coast to coast to enjoy delicious meals at home every week. Goodfood's mission is to make the impossible come true, from farm to kitchen, by enabling members to do their weekly meal planning and grocery shopping in less than 1 minute. Goodfood members get access to a unique selection of products online as well as exclusive pricing made possible by its world-class direct-to-consumer fulfilment ecosystem that cuts out food waste and expensive retail overhead. The Company has its main production facility and administrative offices based in Montreal, Quebec, and two secondary production facilities in Alberta and Quebec, with an additional production facility scheduled to open in January 2020 in British Columbia. Goodfood had 200,000 active subscribers as at August 31, 2019.

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## FINANCIAL OUTLOOK

The online grocery industry is one of the fastest growing industries in the world. As a result, Goodfood believes that there are significant opportunities and advantages to rapidly grow its subscriber base by continuing to invest in highly targeted marketing campaigns, capacity expansion through additional facilities and investments in automation, increasing its product offering and in continuing to expand its national platform. Goodfood's strategy is in part to delay short-term profitability in order to invest in long-term shareholder value creation. Growing Goodfood's market share, scale and product offering will allow the Company to deliver greater value to its customers while attaining high returns on invested capital. As the Company grows its subscriber base, we are confident that Goodfood will achieve economies of scale and additional efficiencies which will lead to improvements in profitability while maintaining an unrivalled experience for subscribers.

These objectives are based upon assumptions and are subject to risks and uncertainties, many of which are beyond our control. These risks and uncertainties could cause actual results to differ materially from these objectives. See the "Forward-Looking Statements" and "Business Risk" sections of this MD&A.



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**FISCAL 2019 HIGHLIGHTS**

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**HIGHLIGHTS OF FISCAL 2019 COMPARED TO FISCAL 2018 <sup>(1)</sup>**

- Revenue reached \$161.3 million, an increase of \$90.8 million, or 129%.
- Gross margin reached 25.0%, an improvement of 4.2 percentage points.
- Gross profit reached \$40.3 million, an increase of \$25.7 million, or 175%.
- Net loss reached \$20.9 million, an increase of \$11.5 million, resulting in net loss per share of \$0.38.
- Cash provided by operating activities reached \$0.9 million, an increase of \$0.7 million.
- Cash and cash equivalents and restricted cash as at August 31, 2019 reached \$47.6 million, an increase of \$23.2 million compared to August 31, 2018.
- Gross merchandise sales reached \$200.8 million, an increase of \$116.7 million, or 139%.
- Adjusted gross margin reached 39.7%, an improvement of 6.1 percentage points.
- Adjusted gross profit reached \$79.8 million, an increase of \$51.6 million, or 182%.
- Active subscribers reached 200,000 as at August 31, 2019, an increase of 111,000, or 125%, compared to August 31, 2018.

**HIGHLIGHTS OF THE THREE-MONTH PERIOD ENDED AUGUST 31, 2019 COMPARED TO THE THREE-MONTH PERIOD ENDED AUGUST 31, 2018 <sup>(1)</sup>**

- Revenue reached \$45.3 million, an increase of \$23.9 million, or 112%.
- Gross margin reached 26.7%, an improvement of 5.2 percentage points.
- Gross profit reached \$12.1 million, an increase of \$7.5 million, or 163%.
- Net loss reached \$5.9 million, an increase of \$2.9 million, resulting in net loss per share of \$0.10.
- Cash used in operating activities reached \$2.7 million, a decrease of \$3.6 million.
- Gross merchandise sales reached \$56.0 million, an increase of \$30.2 million, or 117%.
- Adjusted gross margin reached 40.7%, an improvement of 5.7 percentage points.
- Adjusted gross profit reached \$22.8 million, an increase of \$13.8 million, or 152%.

<sup>(1)</sup> The transition to IFRS 16 on September 1, 2018 had an impact on gross margin, adjusted gross margin, gross profit, adjusted gross profit, net loss and cash provided by operating activities. Refer to the related sections of this MD&A for the impact of the transition to IFRS 16.

**KEY HIGHLIGHTS OF FISCAL 2019 AND SUBSEQUENT EVENTS****Expansion of Main Production Facility Located in Quebec, Canada**

On September 24, 2018, the Company signed an amendment to the lease of the main production facility located in Montreal, to renew and extend the term of the initial premises and lease an additional 72,000 square-foot area, expanding to a total of 155,000 square feet, which doubles the production capacity of the facility. The initial lease term ends in October 2023 with renewal options for a further fifteen years. The leasehold improvements were substantially completed by August 31, 2019. It allowed the Company to efficiently manage its continued strong growth through added meal kit production capabilities and capacity to provide additional grocery products to its customers.

### Debt Financing

In November 2018, the Company signed an agreement with a leading Canadian financial institution for a secured three-year term loan of \$10 million, a \$2.5 million revolving line of credit and \$1 million in other short-term financing. In April 2019, the Canadian financial institution increased the amount in other short-term financing from \$1 million to \$3 million.

In August 2019, the Company obtained a commitment from the same Canadian financial institution for an additional secured term loan of \$2.5 million, bearing the same terms as the agreement signed in November 2018. The Canadian financial institution also increased the amount of the revolving line of credit from \$2.5 million to \$10 million and the amount of other short-term financing from \$3 million to \$5 million.

The term loan and the revolving line of credit bear variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50%. The term loans are repayable in quarterly installments of \$125 thousand and \$31 thousand beginning on December 4, 2020 and August 31, 2020, respectively, with a bullet repayment of the balance at the end of the term in November 2021.

As at August 31, 2019, \$1.5 million of the revolving line of credit was disbursed and \$12.5 million of the term loans were disbursed with proceeds used to fund expansion capital expenditures, invest in automation and refinance the Company's long-term debt.

In March 2019, the Company signed two interest rate swap agreements with the same leading Canadian financial institution. With these agreements, the Company effectively fixed the interest rate on notional amounts of \$2.5 million and \$1.3 million, at rates of 4.72% and 4.57%, respectively, of the Company's long-term debt until maturity in November 2021.

### Equity Issuance

On February 22, 2019, the Company completed a public offering and issued 6,019,212 common shares for gross proceeds of \$21.1 million. The Company has used a portion of these proceeds and will continue to use the proceeds for investments in automation, the expansion of the Alberta production facility, the development and rollout of breakfast and ready-to-eat meal solutions, the development of sustainable packaging, working capital and general corporate purposes. Refer to the "Use of Proceeds from Public Offerings" section of this MD&A for more information on use of proceeds.

### Expansion of Alberta, Canada Production Facility

During the second half of Fiscal 2019, the Company undertook major leasehold improvements in its Alberta, Canada production facility in order to increase the production capacity of this facility. The leasehold improvements were substantially completed by August 31, 2019. The added capacity will contribute to fulfill the growing demand for Goodfood products in Alberta and Western Canada in general.

### Yumm.ca

On May 16, 2019, the Company announced the launch of Yumm.ca, a value meal solutions option targeting cost-conscious customers available nationwide.

### Breakfast Meal Solutions and Production Facility

On June 10, 2019, the Company announced that its first breakfast meal solution, ready-to-blend superfood smoothies, was now available across Canada. Since then, the Company has expanded the breakfast product offering through the development of artisanal oat bowls and savoury omelettes.

On June 18, 2019, the Company signed a five-year lease with a renewal option of three years for a 20,000 square-foot breakfast production facility located in Quebec, Canada. Fixed rent payments represent a total commitment of \$895 thousand. Operations began in the new facility in August 2019.

### British Columbia, Canada Production Facility

On July 3, 2019, the Company signed a ten-year lease with a renewal option of five years for an 84,000 square-foot production facility located in British Columbia, Canada. The facility's delivery date was October 1, 2019, and the payment commencement date is January 15, 2020. Leasehold improvements in the facility began on October 1, 2019, and management intends to begin operations in the new facility in the beginning of calendar year 2020. Fixed rent payments represent a total commitment of \$14.6 million. The facility will be used to service customers in British Columbia, and offers flexibility in operational capabilities with space available for ready-to-cook products and possibly additional product offerings.

### Ready-to-Eat Meal Solutions

In July 2019, the Company launched its ready-to-eat meal solutions in the province of Quebec and is gradually expanding its distribution across Canada. The ready-to-eat product offering is comprised of prepared meals inspired by our internally-developed, original and highest rated ready-to-cook recipes, fresh salads, and hearty soups. The ready-to-eat product offering aims to expand the Company's offering to existing and prospective customers in order to provide full home meal solutions across the different meals of the day.

### Active Subscribers

As at August 31, 2019, we reached the 200,000 active subscribers mark. The new milestone resulted from the addition of 11,000 net new active subscribers in the fourth quarter and 111,000 net new active subscribers for the fiscal year.

### Private Label Offerings

In the fourth quarter of Fiscal 2019, the Company launched its private label products in the province of Quebec and is gradually expanding its distribution across Canada. The Company offers everyday grocery essentials with exclusive prices, including extra virgin olive oil, sea salt, a variety of premium proteins, peanut butter, tea and more.

### New Board Members

Terry Yanofsky and François Vimard joined Goodfood's Board of Directors in May and August of 2019, respectively. Ms. Yanofsky is the Senior Vice-President, General Manager of Sephora Canada and a seasoned retail executive. Mr. Vimard joined as Chair of the Audit Committee and is currently an independent Corporate Director. He spent over 22 years at Empire Ltd/Sobeys Inc., where he was most recently Interim President and CEO of both organizations and held the position of CFO from 2007 to 2016.

### Reusable Delivery Box Launch

On October 16, 2019, the Company launched its reusable delivery box in Alberta and Quebec, positioning the Company as a leader in the industry with respect to environmental sustainability initiatives.



**SELECTED ANNUAL FINANCIAL INFORMATION**

The selected financial information below was derived from the Company's Consolidated Annual Audited Financial Statements for the years ended August 31, 2019 and 2018, prepared in accordance with IFRS.

(In thousands of Canadian dollars)	August 31, 2019	August 31, 2018
<b>Financial position</b>		
Cash and cash equivalents and restricted cash	\$ 47,649	\$ 24,453
Fixed assets	13,545	6,006
Total assets	80,783	34,309
Total debt <sup>(1)</sup>	14,031	2,592
Shareholders' equity	17,401	16,456

(1) Total debt consists of the line of credit and the current and non-current portion of long-term debt.

(In thousands of Canadian dollars)	Years ended August 31,	
	2019	2018
<b>Comprehensive loss</b>		
Revenue	\$ 161,333	\$ 70,502
Gross profit	40,310	14,660
Net loss, being comprehensive loss	(20,937)	(9,434)
Basic and diluted loss per share	(0.38)	(0.19)
<b>Cash flows provided by (used in):</b>		
Operating activities	\$ 880	\$ 176
Financing activities	29,555	10,901
Investing activities	(7,239)	(4,171)

**METRICS AND NON-IFRS FINANCIAL MEASURES**

This section describes metrics and non-IFRS financial measures used by the Company throughout this MD&A. It also provides a reconciliation between non-IFRS financial measures and the most comparable IFRS financial measures, where applicable. Non-IFRS financial measures do not have standard definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Non-IFRS financial measures 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 respective financial statements for the periods indicated.

Metrics	Definitions
<b>Active subscribers</b>	An account that is scheduled to receive a delivery or has elected to skip delivery in the subsequent weekly delivery cycle. Active subscribers exclude cancelled accounts. For greater certainty, an Active subscriber is only accounted for once, although different products might have been ordered in a given weekly delivery cycle. While active subscribers 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 our consolidated financial statements, we believe that active subscribers is a useful metric for investors because it is indicative of potential future revenues. The Company reports the number of active subscribers at the beginning and end of the period, rounded to the nearest thousand.

Non-IFRS financial measures	Definitions
<b>Gross merchandise sales ("GMS")</b>	Gross merchandise sales measures the total retail value of goods sold by the Company and is calculated before taking into account all incentives and credits included in revenue. Incentives and credits, presented at retail value, are principally comprised of sign-up inducements, which typically provide new active subscribers with a discount on their first delivery. GMS is a non-IFRS financial measure. We believe that GMS is a useful revenue measure because the exclusion of incentives and credits provides a picture that is more indicative of future revenue.
<b>Adjusted gross profit &amp; Adjusted gross margin</b>	Adjusted gross profit and adjusted gross margin measure gross profit and gross margin on a retail value basis. Adjusted gross profit is calculated by subtracting the cost of goods sold from GMS. Adjusted gross margin is expressed in percentage terms and calculated as adjusted gross profit divided by GMS. Adjusted gross profit and adjusted gross margin are non-IFRS financial measures. We believe that adjusted gross profit and adjusted gross margin are useful measures of financial performance because GMS is indicative of future revenues and therefore, of future gross profit and gross margin.
<b>EBITDA, Adjusted EBITDA &amp; Adjusted EBITDA margin</b>	EBITDA is defined as net income or loss before net finance expenses (income), depreciation and amortization expense and income tax expense. Adjusted EBITDA is defined as EBITDA excluding share-based payments as they are an equity compensation item and other items that we believe do not necessarily arise as part of the Company's normal day-to-day operations and could distort the analysis of trends in business performance. Adjusted EBITDA margin is defined as adjusted EBITDA divided by revenue. 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 because these measures are useful to assess the Company's ability to seize growth opportunities in a cost-effective manner, to finance its ongoing operations and to service its long-term debt. They also allow comparisons between companies with different capital structures.

**ACTIVE SUBSCRIBERS**

	Three-month periods ended August 31,		Years ended August 31,	
	2019	2018	2019	2018
Active subscribers, beginning of period	189,000	76,000	89,000	31,000
Net change in active subscribers	11,000	13,000	111,000	58,000
Active subscribers, end of period	200,000	89,000	200,000	89,000

**GROSS MERCHANDISE SALES**

The reconciliation of revenue to GMS is as follows:

(In thousands of Canadian dollars)	Three-month periods ended August 31,		Years ended August 31,	
	2019	2018	2019	2018
Revenue	\$ 45,259	\$ 21,371	\$ 161,333	\$ 70,502
Credits removed from cancelled accounts	-	-	(638)	-
Incentives and credits	10,718	4,441	40,135	13,591
Gross merchandise sales	\$ 55,977	\$ 25,812	\$ 200,830	\$ 84,093

For the three-month period and year ended August 31, 2019, GMS increased by \$30.2 million and \$116.7 million, respectively, surpassing the \$200 million mark for the year. The increase in GMS was primarily driven by the continued growth in the number of active subscribers, the expansion of the national platform reaching new geographies in Canada, and increase in our product offering, including the launch of breakfast and ready-to-eat meal solutions, as well as planned strategic marketing activities.

**ADJUSTED GROSS PROFIT AND ADJUSTED GROSS MARGIN**

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

(In thousands of Canadian dollars)	Three-month periods ended August 31,		Years ended August 31,	
	2019	2018	2019	2018
Gross merchandise sales	\$ 55,977	\$ 25,812	\$ 200,830	\$ 84,093
Cost of goods sold	33,182	16,778	121,023	55,842
Adjusted gross profit	\$ 22,795	\$ 9,034	\$ 79,807	\$ 28,251
Adjusted gross margin	40.7%	35.0%	39.7%	33.6%

For the three-month period and year ended August 31, 2019, the adjusted gross margin improved by 5.7 percentage points and 6.1 percentage points, respectively. The increase in the adjusted gross margin resulted primarily from lower production labour costs as a percentage of GMS driven by continued investments in automation, lower unit costs with regards to packaging and shipping due to additional operational efficiencies, increased density among the delivery zones, and purchasing power with key suppliers. Food cost as a percentage of GMS has remained stable throughout the year driven by a strategy adopted by the Company, as Goodfood is trying to increase the value proposition to members in order to grow its subscriber base and revenue.

For the three-month period and year ended August 31, 2019, as a result of early adopting IFRS 16, adjusted gross profit and adjusted gross margin were favourably impacted by \$209 thousand and 0.4 percentage points, and \$536 thousand and 0.3 percentage points, respectively.

### EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

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

(In thousands of Canadian dollars)	Three-month periods ended August 31,		Years ended August 31,	
	2019	2018	2019	2018
Net loss	\$ (5,887)	\$ (2,956)	\$ (20,937)	\$ (9,434)
Net finance expenses (income)	81	(50)	346	(98)
Depreciation and amortization expense	874	202	2,617	461
EBITDA	\$ (4,932)	\$ (2,804)	\$ (17,974)	\$ (9,071)
Loss on disposal of fixed assets	-	-	-	113
Share-based payments	541	158	1,810	458
Adjusted EBITDA	\$ (4,391)	\$ (2,646)	\$ (16,164)	\$ (8,500)
Revenue	\$ 45,259	\$ 21,371	\$ 161,333	\$ 70,502
Adjusted EBITDA margin (%)	(9.7%)	(12.4%)	(10.0%)	(12.1%)

For the three-month period and year ended August 31, 2019, adjusted EBITDA margin improved by 2.7 percentage points and 2.1 percentage points, respectively. For the three-month period and year ended August 31, 2019, the increase in adjusted EBITDA margin, resulted primarily from higher revenues and operating leverage, lower production labour costs as a percentage of revenue, and lower unit costs with regards to packaging and shipping which generated a higher gross profit, offset by an increase in selling, general and administrative expenses.

EBITDA and adjusted EBITDA were also affected positively by \$510 thousand and \$1.4 million, respectively, during the three-month period and year ended August 31, 2019, due to the early adoption of IFRS 16. EBITDA, adjusted EBITDA, and adjusted EBITDA margin would have been (\$5.4) million and (\$19.4) million, (\$4.9) million and (\$17.6) million, and (10.8%) and (10.9%), respectively for the three-month period and year ended August 31, 2019 without the early adoption of IFRS 16.

For the year ended August 31, 2018, adjusted EBITDA excludes the non-cash loss on the disposal of fixed assets as we believe this item does not reflect the performance of the underlying business of the Company.



**RESULTS OF OPERATIONS – FISCAL 2019 AND 2018**

The following table sets forth the components of the Company's Consolidated Annual Audited Statement of Loss and Comprehensive Loss for the years ended August 31, 2019 and 2018:

(In thousands of Canadian dollars, except share information)	AS REPORTED				AMOUNT WITHOUT IFRS 16			
	YEARS ENDED				YEARS ENDED			
	AUGUST 31,				AUGUST 31,			
			Variance				Variance	
	2019	2018	(\$) <sup>(1)</sup>	(%) <sup>(2)</sup>	2019	2018	(\$) <sup>(1)</sup>	(%) <sup>(2)</sup>
Revenue	\$ 161,333	\$ 70,502	\$ 90,831	129%	\$ 161,333	\$ 70,502	\$ 90,831	129%
Cost of goods sold	121,023	55,842	(65,181)	117%	121,559	55,842	(65,717)	118%
Gross profit	\$ 40,310	\$ 14,660	\$ 25,650	175%	\$ 39,774	\$ 14,660	\$ 25,114	171%
Gross margin <sup>(3)</sup>	25.0%	20.8%	N/A	N/A	24.7%	20.8%	N/A	N/A
Selling, general and administrative expenses	\$ 58,284	\$ 23,618	\$(34,666)	147%	\$ 59,171	\$ 23,618	\$(35,553)	151%
Depreciation and amortization expenses	2,617	461	(2,156)	468%	1,276	461	(815)	177%
Loss on disposal of fixed assets	-	113	113	100%	-	113	113	100%
Net finance expenses (income)	346	(98)	(444)	453%	(286)	(98)	188	192%
Net loss, being comprehensive loss	\$ (20,937)	\$ (9,434)	\$(11,503)	122%	\$ (20,387)	\$ (9,434)	\$ (10,953)	116%
Basic and diluted net loss per share	\$ (0.38)	\$ (0.19)	\$ (0.19)	100%	\$ (0.37)	\$ (0.19)	\$ (0.18)	95%

(1) A positive variance represents a reduction to net loss and a negative variance represents an increase in net loss.

(2) Percentage change is presented in absolute values.

(3) Gross margin is calculated as gross profit divided by revenue and is expressed in percentage terms.

**EXPLANATION OF VARIANCES FOR REPORTED AMOUNTS FOR FISCAL 2019 COMPARED TO 2018**

- The increase in revenue was primarily driven by the continued growth in the number of active subscribers, the expansion of the national platform to reach new geographies in Canada and the increase in our product offering, including the launch of breakfast and ready-to-eat meal solutions.
- The increase in gross profit was primarily driven by the increase in revenue and to a higher gross margin.
- While the Company's early adoption of IFRS 16 had a positive impact of 0.3% on gross margin, the increase in gross margin primarily resulted from lower production costs as a percentage of revenue, lower unit costs for packaging and shipping due to increased operational efficiencies, additional automation investments, increased density among the delivery zones and purchasing power with key suppliers. This was partially offset by an increase in incentives and credits included in revenue primarily driven by the increase in active subscribers, the expansion of our national platform, the increase in our product offering, including the launch of breakfast and ready-to-eat meal solutions and planned strategic marketing activities. The Company expects that fixed costs as a percentage of revenues will continue to decrease with the Company's continued growth which should further increase gross margin in the future.

- The increase in selling, general and administrative expenses is primarily due to planned strategic increases in marketing costs based on successful client acquisition strategies and higher wage costs due to the addition of administrative personnel to support the Company's growth and increase in our product offering, partially offset by the classification of rent expense associated with leases previously classified as operating leases under IAS 17 as depreciation and interest expense pursuant to the Company's early adoption of IFRS 16.
- The increase in depreciation and amortization expenses resulted from the acquisition of fixed assets across all asset classes, mainly for the expansion of production facilities, investments in automation, and from the recognition of right-of-use assets recognized pursuant to the Company's early adoption of IFRS 16.
- The decrease in loss on disposal of fixed assets resulted from the disposal of fixed assets that occurred in Fiscal 2018. No other disposals of fixed assets have occurred during Fiscal 2019.
- The increase in net finance expenses (income) resulted primarily from the interest expense on lease obligations associated with the recognition of lease obligations pursuant to the Company's early adoption of IFRS 16, effective September 1, 2018, partially offset by higher interest income earned due to increased interest rates and cash position provided by operating and financing activities.
- The increase in net loss is mainly attributable to higher selling, general and administrative expenses and depreciation and amortization expenses, offset by higher gross profit.

## RESULTS OF OPERATIONS – THREE-MONTH PERIODS ENDED AUGUST 31, 2019 AND 2018

The following table sets forth the components of the Company's Consolidated Statement of Loss and Comprehensive Loss for the three-month periods ended August 31, 2019 and 2018:

(In thousands of Canadian dollars, except share information)	AS REPORTED				AMOUNT WITHOUT IFRS 16			
	THREE-MONTH PERIODS ENDED AUGUST 31,				THREE-MONTH PERIODS ENDED AUGUST 31,			
			Variance				Variance	
	2019	2018	(\$) <sup>(1)</sup>	(%) <sup>(2)</sup>	2019	2018	(\$) <sup>(1)</sup>	(%) <sup>(2)</sup>
Revenue	\$ 45,259	\$ 21,371	\$ 23,888	112%	\$ 45,259	\$ 21,371	\$ 23,888	112%
Cost of goods sold	33,182	16,778	(16,404)	98%	33,391	16,778	(16,613)	99%
Gross profit	\$ 12,077	\$ 4,593	\$ 7,484	163%	\$ 11,868	\$ 4,593	\$ 7,275	158%
Gross margin <sup>(3)</sup>	26.7%	21.5%	N/A	N/A	26.2%	21.5%	N/A	N/A
Selling, general and administrative expenses	\$ 17,009	\$ 7,397	\$ (9,612)	130%	\$ 17,310	\$ 7,397	\$ (9,913)	134%
Depreciation and amortization expenses	874	202	(672)	333%	464	202	(262)	130%
Net finance expenses (income)	81	(50)	(131)	262%	(91)	(50)	41	82%
Net loss, being comprehensive loss	\$ (5,887)	\$ (2,956)	\$ (2,931)	99%	\$ (5,815)	\$ (2,956)	\$ (2,859)	97%
Basic and diluted net loss per share	\$ (0.10)	\$ (0.06)	\$ (0.04)	67%	\$ (0.10)	\$ (0.06)	\$ (0.04)	67%

(1) A positive variance represents a reduction to net loss and a negative variance represents an increase in net loss.

(2) Percentage change is presented in absolute values.

(3) Gross margin is calculated as gross profit divided by revenue and is expressed in percentage terms.

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**EXPLANATION OF VARIANCES FOR REPORTED AMOUNTS FOR THE THREE-MONTH PERIOD ENDED AUGUST 31, 2019 COMPARED TO 2018**

- The increase in revenue was primarily driven by the continued growth in the number of active subscribers, the expansion of the national platform to reach new geographies in Canada and the increase in our product offering, including the launch of breakfast and ready-to-eat meal solutions.
- The increase in gross profit was primarily driven by the increase in revenue and to a higher gross margin.
- While the Company's early adoption of IFRS 16 had a positive impact of 0.5% on gross margin, the increase in gross margin primarily resulted from lower production costs as a percentage of revenue, lower unit costs for packaging and shipping due to increased operational efficiencies, additional automation investments, increased density among the delivery zones and purchasing power with key suppliers. This was partially offset by an increase in incentives and credits included in revenue primarily driven by the increase in active subscribers, the expansion of our national platform, the increase in our product offering, including the launch of breakfast and ready-to-eat meal solutions and planned strategic marketing activities. The Company expects that fixed costs as a percentage of revenues will continue to decrease with the Company's continued growth which should further increase gross margin in the future.
- The increase in selling, general and administrative expenses is primarily due to planned strategic increases in marketing costs based on successful client acquisition strategies and higher wage costs due to the addition of administrative personnel to support the Company's growth and increase in product offering, partially offset by the classification of rent expense associated with leases previously classified as operating leases under IAS 17 as depreciation and interest expense pursuant to the Company's early adoption of IFRS 16.
- The increase in depreciation and amortization expenses resulted from the acquisition of fixed assets across all asset classes, mainly for the expansion of production facilities, investments in automation, and from the recognition of right-of-use assets recognized pursuant to the Company's early adoption of IFRS 16.
- The increase in net finance expenses (income) resulted primarily from the interest expense on lease obligations associated with the recognition of lease obligations pursuant to the Company's early adoption of IFRS 16 partially offset by higher interest income earned due to increased interest rates and cash position provided by operating and financing activities.
- The increase in net loss is mainly attributable to higher selling, general and administrative expenses and depreciation and amortization expenses, offset by higher gross profit.

**FINANCIAL POSITION**

The following table provides an analysis of the variances in the Company's Consolidated Annual Audited Statement of Financial Position as at August 31, 2019 compared to August 31, 2018:

(In thousands of Canadian dollars)	AS REPORTED			AMOUNT WITHOUT IFRS 16		
	August 31, 2019	August 31, 2018	Variance	August 31, 2019	August 31, 2018	Variance
<b>Total Assets</b>	<b>\$ 80,783</b>	<b>\$ 34,309</b>	<b>\$ 46,474</b>	<b>\$ 70,212</b>	<b>\$ 34,309</b>	<b>\$ 35,903</b>
<i>Variance mainly due to:</i>						
Cash and cash equivalents	45,149	24,453	20,696	45,149	24,453	20,696
Inventories	4,735	1,585	3,150	4,735	1,585	3,150
Restricted cash	2,500	-	2,500	2,500	-	2,500
Fixed assets	13,545	6,006	7,539	14,053	6,006	8,047
Right-of-use-assets	11,089	-	11,089	-	-	-
<b>Total Liabilities</b>	<b>\$ 63,382</b>	<b>\$ 17,853</b>	<b>\$ 45,529</b>	<b>\$ 52,261</b>	<b>\$ 17,853</b>	<b>\$ 34,408</b>
<i>Variance mainly due to:</i>						
Line of credit	1,540	500	1,040	1,540	500	1,040
Accounts payable and accrued liabilities	30,704	11,343	19,361	30,704	11,343	19,361
Deferred revenue	5,923	2,522	3,401	5,923	2,522	3,401
Long-term debt, including current portion	12,491	2,092	10,399	12,787	2,092	10,695
Lease obligations, including current portion	12,724	-	12,724	-	-	-
<b>Total Shareholders' Equity</b>	<b>\$ 17,401</b>	<b>\$ 16,456</b>	<b>\$ 945</b>	<b>\$ 17,951</b>	<b>\$ 16,456</b>	<b>\$ 1,495</b>
<i>Variance mainly due to:</i>						
Common shares	56,598	36,283	20,315	56,598	36,283	20,315
Deficit	(41,546)	(20,609)	(20,937)	(40,996)	(20,609)	(20,387)

**EXPLANATION OF VARIANCES FOR REPORTED AMOUNTS FROM AUGUST 31, 2018 TO AUGUST 31, 2019**

- The increase in cash and cash equivalents is the result of increased net cash provided by operating and financing activities as cash flow from operations contributed \$880 thousand, in addition to the equity and debt financing transactions completed during this fiscal year.
- The increase in inventories is due to the Company's growth, where the increase in food inventory and packaging inventory generally follows weekly and monthly revenue trends, respectively.
- The increase in restricted cash is the result of a covenant from the August 2019 debt financing where the bank amended the existing financing agreement to provide the Company with \$12 million in further term loans, revolving line of credit and other short-term financing but required a cash collateral account of \$2.5 million.
- The increase in fixed assets is primarily due to investments in the capacity expansions and automation of the Company's production facilities in order to increase production capacity.
- The increase in right-of-use assets and lease obligations reflects the Company's early adoption of IFRS 16.



- The increase in accounts payable and accrued liabilities is primarily due to higher purchases resulting from the Company's growth, increase in the Company's corporate credit cards limits and more favourable payment terms as a result of increased purchasing power with key suppliers as the Company increases its scale.
- The increase in deferred revenue is due to Company's growth and to the timing of period-end within the Company's weekly delivery cycle.
- The increase in long-term debt resulted from the secured financing closed in November 2018, where the Company obtained a commitment from a leading Canadian financial institution for a \$10 million three-year term loan, a \$2.5 million revolving line of credit and other short-term financing with favourable repayment terms. In August 2019, the Company obtained a commitment from the same Canadian financial institution to an additional secured term loan of \$2.5 million, bearing the same terms as the agreement signed in November 2018, which further explains the increase in long-term debt. The Canadian financial institution also increased the amount of the revolving line of credit from \$2.5 million to \$10 million. As at August 31, 2019, \$10 million and \$2.5 million of the term loans were disbursed, respectively, and the proceeds were used to fund expansion capital expenditures, invest in automation, and refinance the Company's long-term debt.
- The increase in common shares is mainly due to the public offering completed on February 22, 2019, where 6,019,212 common shares were issued for gross proceeds of \$21.1 million, less share issuance costs of \$1.5 million. In addition, a portion of the agent compensation options granted in connection with the private placement completed in June 2017 was exercised during the third quarter of Fiscal 2019 resulting in the issuance of 299,064 common shares for gross proceeds of \$598 thousand.
- The increase in deficit is due to the net loss incurred for Fiscal 2019.

## LIQUIDITY AND CAPITAL RESOURCES

### CAPITAL MANAGEMENT

The Company's objective in managing its capital is to ensure sufficient liquidity position to finance its operations, to maximize the preservation of capital and deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements, convertible notes and short-term and long-term senior debt, which are included in the Company's definition of capital. The Company manages its excess cash such that it has sufficient reserve to fund its operations and capital expenditures.

### CASH FLOWS

A summary of net cash flows by activity for years ended August 31, 2019 and 2018 is presented below:

(In thousands of Canadian dollars)	Years ended August 31,		Variance
	2019	2018	
Net cash provided by operating activities	\$ 880	\$ 176	\$ 704
Net cash provided by financing activities	29,555	10,901	18,654
Net cash used in investing activities	(7,239)	(4,171)	(3,068)
Net change in cash and cash equivalents	\$ 23,196	\$ 6,906	\$ 16,290
Cash and cash equivalents, beginning of period	24,453	17,547	6,906
Cash and cash equivalents and restricted cash, end of period	\$ 47,649	\$ 24,453	\$ 23,196

The positive variance in net cash provided by operating activities is due to a favorable change in non-cash operating working capital, mostly driven by the Company's growth and more favourable payment terms with key suppliers, and to a lesser extent, the classification of lease payments under IFRS 16 of \$1.8 million as financing activities instead of as operating activities (\$641 thousand for the year ended August 31, 2018), partially offset by a higher net loss.

The positive variance in net cash provided by financing activities is primarily due to the issuance of \$21.1 million of common shares and \$12.5 million in proceeds from issuance of long-term debt during Fiscal 2019, partially offset by the issuance of \$10 million of common shares and \$2.5 million in proceeds from issuance of long-term debt during Fiscal 2018.

The negative variance in net cash used in investing activities is primarily due to the increase in capital expenditures in Fiscal 2019 relating to investments in automation and the expansion of production facilities in order to increase operational efficiencies and production capacity.

A summary of net cash flows by activity for the three-month periods ended August 31, 2019 and 2018 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended August 31,		Variance
	2019	2018	
Net cash (used in) provided by operating activities	\$ (2,710)	\$ 939	\$ (3,649)
Net cash provided by (used in) financing activities	3,307	(175)	3,482
Net cash used in investing activities	(2,661)	(298)	(2,363)
Net change in cash and cash equivalents	\$ (2,064)	\$ 466	\$ (2,530)
Cash and cash equivalents, beginning of period	49,713	23,987	25,726
Cash and cash equivalents and restricted cash, end of period	\$ 47,649	\$ 24,453	\$ 23,196

The negative variance in net cash provided by operating activities is primarily due to a higher net loss, a less favorable change in non-cash operating working capital and a \$1 million tenant allowance that reimbursed a significant portion of the capital expenditures for the production facility in Alberta, Canada received in the fourth quarter of Fiscal 2018, partially offset by the classification of lease payments under IFRS 16 of \$580 thousand as financing activities instead of as operating activities (\$228 thousand for the three-month period ended August 31, 2018).

The positive variance in net cash provided by financing activities is primarily due to proceeds received from the \$2.5 million term loan disbursement and the \$1 million disbursement from the revolving line of credit in August 2019.

The negative variance in net cash used in investing activities is primarily due to the higher capital expenditures in the fourth quarter of Fiscal 2019 relating to investments in automation and the expansion of production facilities in order to increase operational efficiencies and production capacity.

## CREDIT FACILITY

Significant financing transactions that took place in Fiscal 2019 were as follows:

- In November 2018, the Company obtained, from a leading Canadian financial institution, a secured three-year term loan of \$10 million, a \$2.5 million revolving line of credit and \$1 million in other short-term financing. The credit facility is secured by a first-ranking hypothec on all of the Company's movable and immovable assets.

- In April 2019, the Canadian financial institution increased the amount in other short-term financing from \$1 million to \$3 million.
- In August 2019, the Company obtained, from the same Canadian financial institution, an additional secured term loan of \$2.5 million, bearing the same terms as the commitment made in November 2018. The Canadian financial institution also increased the amount of the revolving line of credit from \$2.5 million to \$10 million and the amount of other short-term financing from \$3 million to \$5 million.
- As at August 31, 2019, \$10 million and \$2.5 million of the term loans were disbursed, respectively, as well as \$1.5 million of the revolving line of credit, bearing variable interest at CDOR plus 2.50% (4.46% as at August 31, 2019). The proceeds were used to fund the expansion of capital expenditures, invest in automation, and refinance the Company's long-term debt. The term loan is repayable in quarterly installments of \$125 thousand and \$31 thousand, beginning on December 4, 2020 and August 31, 2020, respectively, with a bullet repayment of the balance at the end of the term in November 2021.
- In March 2019, the Company signed two interest rate swap agreements with the same leading Canadian financial institution. With these agreements, the Company effectively fixed the interest rate on notional amounts of \$2.5 million and \$1.3 million, at a rate 4.72% and 4.57%, respectively, of the Company's long-term debt until maturity in November 2021.
- As at August 31, 2019, the Company has corporate credit cards used for business purposes with authorised limits totaling \$7.9 million. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.
- The credit facility includes a collateral requirement of \$2.5 million placed in a restricted cash account and financial covenants with which the Company was in compliance as at August 31, 2019.

### CONTRACTUAL OBLIGATIONS

The following are amounts due on contractual maturities of financial liabilities, including estimated interest payments, as well as commitments with respect to leases as at August 31, 2019:

(In thousands of Canadian dollars)	Total	Less than 1 year	1 to 5 years	More than 5 years
Line of credit	\$ 1,540	\$ 1,540	\$ -	\$ -
Accounts payable and accrued liabilities	30,704	30,704	-	-
Long-term debt, including current portion	13,755	597	13,158	-
Leases <sup>(1) (2)</sup>	15,868	1,874	7,050	6,944
	<b>\$ 61,867</b>	<b>\$ 34,715</b>	<b>\$ 20,208</b>	<b>\$ 6,944</b>

<sup>(1)</sup> As at August 31, 2019, future lease payments of \$5.6 million for which the Company is reasonably certain to exercise the renewal options have been recognized in lease obligations included in the Consolidated Annual Audited Statement of Financial Position as at August 31, 2019, representing an amount of \$6.4 million of undiscounted cash flows.

<sup>(2)</sup> With the exception of future cash flows associated with the British Columbia facility described in the "Fiscal 2019 Highlights" section of this MD&A, there are no future cash outflows related to lease agreements to which the Company is potentially exposed that are not reflected in the measurement of lease obligations.

**COMMON SHARES**

In connection with the public offering completed on February 22, 2019, the Company issued 6,019,212 common shares (of which 26,500 common shares were purchased by Board members and key management personnel) at a price of \$3.50 per share for gross proceeds of \$21.1 million, less share issuance costs of \$1.5 million. Refer to the "Use of Proceeds from Public Offerings" section of this MD&A for information on use of proceeds by the Company.

**SELECTED QUARTERLY INFORMATION AND RECONCILIATION OF QUARTERLY NON-IFRS MEASURES**

The table below presents active subscribers, gross merchandise sales, revenue, net loss and basic and diluted net loss per share for the last eight fiscal quarters:

	Three-month periods ended							
	Aug. 31, 2019 <sup>(1)</sup>	May 31, 2019 <sup>(1)</sup>	Feb. 28, 2019 <sup>(1)</sup>	Nov. 30, 2018 <sup>(1)</sup>	Aug. 31, 2018	May 31, 2018	Feb. 28, 2018	Nov. 30, 2017
Active subscribers	200,000	189,000	159,000	126,000	89,000	76,000	61,000	45,000
<b>(in thousands of Canadian dollars)</b>								
Gross merchandise sales	\$ 55,977	\$ 61,212	\$ 46,535	\$ 37,105	\$ 25,812	\$ 26,166	\$ 18,840	\$ 13,275
Credits removed from cancelled accounts	-	-	638	-	-	-	-	-
Incentives and credits	(10,718)	(11,348)	(10,580)	(7,488)	(4,441)	(3,943)	(3,167)	(2,039)
Revenue	45,259	49,864	36,593	29,617	21,371	22,223	15,673	11,236
Net loss	(5,887)	(3,639)	(6,560)	(4,851)	(2,956)	(1,564)	(2,393)	(2,520)
Basic and diluted net loss per share <sup>(2)</sup>	(0.10)	(0.06)	(0.13)	(0.09)	(0.06)	(0.03)	(0.05)	(0.05)

<sup>(1)</sup> The transition to IFRS 16 had an impact on net loss and basic and diluted net loss per share. Refer to the related sections of this MD&A for the impact of the transition to IFRS 16.

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

**TRENDS AND SEASONALITY**

The Company's revenues and expenses are affected by seasonality. During holiday and popular vacation periods, the Company anticipates revenues to be lower as a higher proportion of active subscribers elect to skip their delivery. The Company also anticipates the growth rate of active subscribers 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 cost to be positively affected due to improved availability during periods with warmer weather.



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## FINANCIAL RISK MANAGEMENT

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### 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, amounts receivable included in other current assets, restricted cash, and security deposits included in other assets. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited because the Company deals with major North American financial institutions and an internationally established payment processor.

### INTEREST RATE RISK

The Company's long-term debt and revolving 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. The Company manages its interest rate risk by using variable-to-fixed interest rate swaps as described in the "Liquidity and Capital Resources" section of the MD&A and in detail in Note 13 to its Consolidated Annual Audited Financial Statements for year ended August 31, 2019.

### 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 short and long-term detailed cash forecasts to ensure it has sufficient funds to fulfill its obligations.

For the fiscal year ending August 31, 2020, anticipated operating losses, as the Company continues to grow its active subscriber base, and additional capital expenditures are expected to reduce the Company's cash balance and liquidity position compared to August 31, 2019, absent additional financing. We believe that the Company's cash on hand and financing capacity will provide adequate sources of funds to meet short-term requirements, finance planned capital expenditures and fund any operating losses.

### BUSINESS RISK

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For a detailed discussion of the Company's risk factors, please refer to the Company's Annual Information Form for the year ended August 31, 2019 available on SEDAR at [www.sedar.com](http://www.sedar.com).

### ADDITIONAL FINANCING REQUIREMENTS

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As a result of realized and anticipated growth in the number of active subscribers, planned investment in operations, logistics, automation and technology, new product development, as well as the potential for continued operating losses, the Company may require additional financing in the future to realize the goals outlined in the "Financial Outlook" section of this MD&A.

### OFF-BALANCE SHEET ARRANGEMENTS

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The Company does not currently 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 revenue or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material, with the exception of the new lease that was signed for the British Columbia, Canada production facility and is described in the "Fiscal 2019 Highlights" section of this MD&A.

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## FINANCIAL INSTRUMENTS

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### 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.

### DERIVATIVES

The Company entered into two interest rate swap agreements during the year ended August 31, 2019, as described in the "Liquidity and Capital Resources" section of the MD&A and in detail in Note 13 to the Company's Consolidated Annual Audited Financial Statements for year ended August 31, 2019.

### FINANCIAL COVENANTS

As discussed in the "Liquidity and Capital Resources" section of the MD&A, the Company's secured a credit facility that includes financial covenants which may restrict the Company's ability to pursue future transactions or opportunities. As at August 31, 2019, the Company was in compliance with these financial covenants.

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## RELATED PARTY TRANSACTIONS

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

During the year ended August 31, 2019, the Company had the following related party transaction:

- On February 22, 2019, in connection with the public offering described in "Liquidity and Capital Resources" section of this MD&A, 26,500 common shares were purchased by Board members and key management personnel at a price of \$3.50 per share.

This transaction is recorded at the amount of consideration paid as established and agreed to by the related parties.

### KEY MANAGEMENT PERSONNEL

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

During the year ended August 31, 2019, the Company had the following transaction with key management personnel:

- The Company incurred an expense of \$2.0 million with respect to short-term employee benefits paid to key management personnel (including directors' fees);
- The Company incurred share-based payments of \$1.1 million with respect to stock option awards granted to key management personnel;
- 1,156,766 stock options were granted to key management personnel and members of the board.

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## OUTSTANDING SHARE DATA

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As at August 31, 2019, the Company had 58,144,400 common shares issued and outstanding and 3,910,169 stock options outstanding. The basic weighted average number of common shares as at August 31, 2019 was 55,069,384.

As at November 14, 2019, the Company had 58,144,400 common shares issued and outstanding and 3,976,697 stock options outstanding.

For additional information with respect to stock options, refer to Note 19 to the Company's Consolidated Annual Audited Financial Statements for the year ended August 31, 2019.

## USE OF PROCEEDS FROM PUBLIC OFFERINGS

### MAY 2018 PUBLIC OFFERING

On May 7, 2018, the Company completed a public offering and issued 4,000,000 common shares for net proceeds of \$9.1 million.

The following table compares the estimated use of proceeds presented in the Company's final short form prospectus dated May 2, 2018 with the actual use of proceeds as at August 31, 2019:

(In thousands of Canadian dollars)	Actual Use of proceeds	Estimated Use of proceeds	Variance
Western Canada expansion	\$ 3,657	\$ 4,000	\$ (343)
Process automation	1,711	2,000	(289)
Expansion of product offering and development of new meal solutions	1,037	1,000	37
Working capital and general corporate purposes	2,669	2,087	582
Total net proceeds	9,074	9,087	(13)
Share issuance costs	926	913	13
Gross proceeds	\$ 10,000	\$ 10,000	\$ -

### FEBRUARY 2019 PUBLIC OFFERING

On February 22, 2019, the Company completed a public offering and issued 6,019,212 common shares for net proceeds of \$19.6 million (including proceeds from over-allotment option).

The following table compares the estimated use of proceeds presented in the Company's final short form prospectus dated February 18, 2019 with the actual use of proceeds as at August 31, 2019:

(In thousands of Canadian dollars)	Actual use of proceeds	Estimated use of proceeds <sup>(1)</sup>	Variance
Capital expenditures and process automation	\$ 4,311	\$ 10,000	\$ (5,689)
Expansion of product offering and development of new meal solutions	2,246	5,000	(2,754)
Implementation of reusable packaging initiatives	83	500	(417)
Working capital and general corporate purposes	4,065	4,065	-
Remaining as at August 31, 2019	8,865	N/A	8,865
Total net proceeds	19,570	19,565	5
Share issuance costs	1,497	1,502	(5)
Gross proceeds	\$ 21,067	\$ 21,067	\$ -

<sup>(1)</sup> Included in the estimated use of proceeds for Working capital and general corporate purposes is the additional net proceeds from the exercise of the Treasury Over-Allotment Option.

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**SEGMENT REPORTING**

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The Company has one reportable segment as our principal business activity is focused on developing and servicing the Canadian home meal solutions market.

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**DIVIDEND POLICY**

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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.

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**CRITICAL ACCOUNTING ESTIMATES**

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The preparation of the Consolidated Annual Audited Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The Company's significant accounting estimates and assumptions for the year ended August 31, 2019, include the estimation of the redemption percentage for sales and referral credits included in deferred revenue and the recoverability of deferred income taxes. The Company uses judgment in determining the date at which fixed assets are available for their intended use. The significant accounting judgements and estimates are disclosed in Note 4 of its Consolidated Annual Audited Financial Statements for the year ended August 31, 2019.

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**ADOPTION OF NEW ACCOUNTING STANDARDS**

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**IFRS 16**

Effective September 1, 2018, the Company early adopted IFRS 16, *Leases*, using the modified retrospective approach. Accordingly, comparative figures as at and for the year ended August 31, 2018 and the three-month period and year ended August 31, 2018, have not been restated and continue to be reported under IAS 17, *Leases* ("IAS 17") and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*.

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard introduces a single lessee accounting model and requires a lessee 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.

For information with regards to the Company's specific application of IFRS 16 and the impact of this transition, refer to Note 5 to the Company's Consolidated Annual Audited Financial Statements for the year ended August 31, 2019.

**IFRS 15**

Effective September 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers*, using the cumulative effect method, with the effect of adopting this standard recognized on September 1, 2018, the date of initial application. Accordingly, comparative figures as at August 31, 2018, and for the three-month period and year ended August 31, 2018, have not been restated.



IFRS 15 replaces 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*. 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. Under IFRS 15, revenue is recognized when a customer obtains control of the goods and services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment.

The Company generates revenue from the sale of meal solutions. IFRS 15 did not have an impact on the Company's accounting policies for revenue recognition since, under both IFRS 15 and previous standards, the Company recognizes revenue upon delivery of the meal solutions.

For information with regards to the Company's specific application of IFRS 15 and the impact of this transition, refer to Note 5 to the Company's Consolidated Annual Audited Financial Statements for the year ended August 31, 2019.

### IFRS 9

Effective September 1, 2018, the Company adopted IFRS 9, *Financial Instruments*.

IFRS 9 sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard simplifies the classification of a financial asset as either at amortized cost or at fair value and requires the use of a single impairment method. The approach is based on how an entity manages financial instruments in the context of its business model and the contractual cash flow characteristics of financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

The Company's cash and cash equivalents, security deposits and amounts receivable, previously classified as loans and receivables under IAS 39, are classified as financial assets subsequently measured at amortized cost under IFRS 9. There is thus no change to the initial measurement of the Company's financial assets.

The Company's accounts payable and accrued liabilities, and long-term debt, previously classified as other financial liabilities under IAS 39, are classified as financial liabilities subsequently measured at amortized cost under IFRS 9. There is thus no change in the initial measurement of the Company's financial liabilities.

There was no impact of transition to IFRS 9 on the Company's Statement of Financial Position as at September 1, 2018.

For information with regards to the Company's specific application of IFRS 9 and the impact of this transition, refer to Note 5 to the Company's Consolidated Annual Audited Financial Statements for the year ended August 31, 2019.

### STANDARDS ISSUED BUT NOT YET EFFECTIVE

Please refer to Note 26 of the Company's Consolidated Annual Audited Financial Statements for the year ended August 31, 2019. The amended standards and interpretations are not expected to have a significant impact on the Company's Consolidated Annual Audited Financial Statements.

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**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

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In accordance with National Instrument 52-109 Certification 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.

**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, particularly during the period in which the annual filings are being prepared, 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 August 31, 2019.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")**

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).

In addition, 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 August 31, 2019.

No changes were made to the Company's ICFR that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

# **GOODFOOD MARKET CORP.**

**YEARS ENDED AUGUST 31, 2019 AND 2018**

# GOODFOOD MARKET CORP.

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Goodfood Market Corp.

### ***Opinion***

We have audited the consolidated financial statements of Goodfood Market Corp. (the "Entity"), which comprise:

- the consolidated statements of financial position as at August 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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





### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions;
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be 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 Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Page 4

- 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

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

Montréal, Canada

November 13, 2019

# GOODFOOD MARKET CORP.

Consolidated Statements of Financial Position

August 31, 2019 and 2018

(In thousands of Canadian dollars)

	Notes	2019	2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 45,149	\$ 24,453
Sales tax receivable		2,012	1,657
Inventories	6	4,735	1,585
Other current assets	7	839	204
		<b>52,735</b>	<b>27,899</b>
Non-current assets:			
Restricted cash	13	2,500	–
Fixed assets	8	13,545	6,006
Right-of-use assets	9	11,089	–
Intangible assets	10	512	55
Other non-current assets	11	402	349
		<b>\$ 80,783</b>	<b>\$ 34,309</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Line of credit	13	\$ 1,540	\$ 500
Accounts payable and accrued liabilities	12	30,704	11,343
Deferred revenue		5,923	2,522
Current portion of long-term debt	13	31	528
Current portion of lease obligations	14	1,273	–
		<b>39,471</b>	<b>14,893</b>
Non-current liabilities:			
Long-term debt	13	12,460	1,564
Lease obligations	14	11,451	–
Other non-current liabilities	5	–	1,396
		<b>63,382</b>	<b>17,853</b>
Shareholders' equity:			
Common shares	15	56,598	36,283
Contributed surplus		2,349	782
Deficit		(41,546)	(20,609)
		<b>17,401</b>	<b>16,456</b>
		<b>\$ 80,783</b>	<b>\$ 34,309</b>

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# GOODFOOD MARKET CORP.

Consolidated Statements of Loss and Comprehensive Loss

Years ended August 31, 2019 and 2018

(In thousands of Canadian dollars, except share information)

	Notes	2019	2018
Revenue		\$ 161,333	\$ 70,502
Cost of goods sold		121,023	55,842
Gross profit		40,310	14,660
Expenses:			
Selling, general and administrative		58,284	23,618
Depreciation and amortization		2,617	461
Loss on disposal of fixed assets		–	113
		60,901	24,192
Net finance expenses (income)	16	346	(98)
Net loss, being comprehensive loss for the period		\$ (20,937)	\$ (9,434)
Basic and diluted loss per share	17	\$ (0.38)	\$ (0.19)

See accompanying notes to the consolidated financial statements.



# GOODFOOD MARKET CORP.

Consolidated Statements of Changes in Equity

Years ended August 31, 2019 and 2018

(In thousands of Canadian dollars, except share information)

	Notes	Common Shares		Contributed		Total
		Number	Amount	Surplus	Deficit	
Balance as at August 31, 2017		47,753,832	\$ 27,144	\$ 382	\$ (11,175)	\$ 16,351
Net loss		-	-	-	(9,434)	(9,434)
Share issuance	15	4,000,000	10,000	-	-	10,000
Share issuance costs	15	-	(926)	-	-	(926)
Share-based payments	19	-	-	458	-	458
Stock options exercised	19	71,413	65	(58)	-	7
Balance as at August 31, 2018		51,825,245	\$ 36,283	\$ 782	\$ (20,609)	\$ 16,456
Net loss		-	\$ -	\$ -	\$ (20,937)	\$ (20,937)
Share issuance	15	6,019,212	21,067	-	-	21,067
Share issuance costs	15	-	(1,497)	-	-	(1,497)
Share-based payments	19	-	-	1,810	-	1,810
Stock options exercised	19	879	5	(2)	-	3
Stock options settled in cash	19	-	-	(99)	-	(99)
Exercise of agent compensation options	15	299,064	740	(142)	-	598
Balance as at August 31, 2019		58,144,400	\$ 56,598	\$ 2,349	\$ (41,546)	\$ 17,401

See accompanying notes to the consolidated financial statements.

# GOODFOOD MARKET CORP.

Consolidated Statements of Cash Flows

Years ended August 31, 2019 and 2018

(In thousands of Canadian dollars)

	Notes	2019	2018
Cash provided by (used in):			
Operating:			
Net loss		\$ (20,937)	\$ (9,434)
Adjustments for:			
Depreciation and amortization		2,617	461
Share-based payments	19	1,810	458
Stock options settled in cash	19	(99)	–
Loss on disposal of fixed assets		–	113
Net finance expenses (income)	16	346	(98)
Other non-current assets		(91)	(165)
Other non-current liabilities		–	1,173
Change in non-cash operating working capital:			
Sales tax receivable		(355)	(883)
Inventories		(3,150)	(1,203)
Other current assets		(543)	(34)
Accounts payable and accrued liabilities		17,881	8,107
Deferred revenue		3,401	1,681
		880	176
Financing:			
Net borrowing under line of credit		1,040	500
Proceeds from issuance of long-term debt	13	12,500	2,500
Debt issue costs	13	(64)	(13)
Repayment of long-term debt	13	(1,983)	(1,007)
Proceeds from exercise of stock options		3	7
Proceeds from exercise of agent compensation options	15	598	–
Proceeds from issuance of common shares	15	21,067	10,000
Share issuance costs	15	(1,497)	(926)
Interest paid	5	(911)	(160)
Payments of lease obligations		(1,198)	–
		29,555	10,901
Investing:			
Interest received	5	647	263
Acquisition and deposits on fixed assets	8	(7,640)	(4,431)
Acquisition of intangible assets	10	(246)	(3)
		(7,239)	(4,171)
Increase in cash and cash equivalents		23,196	6,906
Cash and cash equivalents, beginning of year		24,453	17,547
Cash and cash equivalents and restricted cash, end of year		\$ 47,649	\$ 24,453

See accompanying notes to the consolidated financial statements.

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

Years ended August 31, 2019 and 2018

(Amounts are in thousands of Canadian dollars, except share and stock options information)

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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 has its main production facility and administrative offices based in Montreal, Quebec, and two secondary production facilities in Alberta and Quebec with an additional production facility scheduled to open in the beginning of calendar year 2020 in British Columbia.

The Company is a leading online grocery company in Canada, delivering fresh meal solutions that make it easy for members from coast to coast to enjoy delicious meals at home every week. The Company's members get access to a unique selection of products online as well as exclusive pricing made possible by its direct to consumer fulfilment eco-system that cuts out food waste and expensive retail overhead.

In March 2019, the Company created a wholly-owned subsidiary, Yumm Meal Solutions Corp. (the "Subsidiary"). These financial statements are prepared on a consolidated basis since the creation of the Subsidiary.

## NOTE 2 BASIS OF ACCOUNTING

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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 25.

As at September 1, 2018, the Company has applied IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9, *Financial Instruments* ("IFRS 9"), effective for annual reporting periods beginning on or after January 1, 2018, and has early adopted IFRS 16, *Leases* ("IFRS 16"). Changes to significant accounting policies are described in Note 5.

The consolidated financial statements of the Company for the years ended August 31, 2019 and 2018 were authorized for issue by the Board of Directors ("Board") on November 13, 2019.

## NOTE 3 FUNCTIONAL AND PRESENTATION CURRENCY

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

## NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, 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 reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

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 revenue.

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

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## 4.2 FIXED ASSETS

Judgement is necessary in 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 20).

## NOTE 5 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

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### 5.1 IFRS 16, LEASES

Effective September 1, 2018, the Company early adopted IFRS 16 using the modified retrospective approach. Accordingly, comparative figures as at and for the year ended August 31, 2018 have not been restated and continue to be reported under IAS 17, *Leases* ("IAS 17") and IFRIC 4, *Determining whether an arrangement contains a lease* ("IFRIC 4"). Refer to Note 25.6 for further information on accounting policy effective before and after September 1, 2018.

On initial application, for leases previously classified as operating leases under IAS 17, the Company has elected to record right-of-use assets based on the corresponding lease liability of \$7,456, adjusted for any deferred lease inducements and any lease payments made at or before the commencement date that were recorded in other non-current liabilities and other current assets and other assets, on the statement of financial position as at August 31, 2018. For leases previously classified as finance leases under IAS 17, the Company measured the right-of-use asset and lease liability at the previous carrying amount of the finance lease asset of \$100 and finance lease liability of \$100, respectively.

As such, as at September 1, 2018, the Company recorded lease obligations of \$7,556 and right-of-use assets of \$6,173, which are net of the deferred lease inducements and lease payments made at or before the commencement of the lease of \$1,396 and \$13, respectively, with no net impact on deficit.

When measuring lease liabilities for those leases previously classified as operating leases under IAS 17, the Company discounted future lease payments using its incremental borrowing rate as at September 1, 2018. The weighted-average rate applied is 5.53%.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after September 1, 2018. The Company has also elected to apply the practical expedient on facility leases, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. Additionally, the Company applied the practical expedient to rely on its assessment if leases were onerous under IAS 37,

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*Provisions, contingent liabilities and contingent assets* and therefore adjusted the right-of-use asset at the date of initial application by the onerous lease provision rather than conduct an impairment test. No loss was recognized at the date of transition.

The following table reconciles the Company's operating lease commitments as at August 31, 2018, as previously disclosed in the Company's annual audited financial statements, to the lease obligations recognized on initial application of IFRS 16 on September 1, 2018.

Operating lease commitments as at August 31, 2018	\$ 6,946
Discounted using the incremental borrowing rate as at September 1, 2018	5,361
Variable lease payments excluded under IFRS 16	(742)
Renewal options reasonably certain to be exercised	2,837
Minimum lease payments on finance lease liabilities as at August 31, 2018	100
Lease obligations recognized as at September 1, 2018	\$ 7,556

## 5.2 IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective September 1, 2018, the Company adopted IFRS 15, using the cumulative effect method, with the effect of adopting this standard recognized on September 1, 2018, the date of initial application. Accordingly, comparative figures as at August 31, 2018 have not been restated. Refer to Note 25.13 for additional information on the accounting policy applied by the Company.

IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue* ("IAS 18"), 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*. IFRS 15 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. Under IFRS 15, revenue is recognized when a customer obtains control of the goods and services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment.

The Company generates revenue from the sale of meal solutions. IFRS 15 did not have an impact on the Company's accounting policies for revenue recognition, as under both IFRS 15 and IAS 18, the Company recognizes revenue at a point in time, which is upon delivery of meal solutions, as it meets the criteria to satisfy the performance obligation. The Company records deferred revenue until the delivery, as subscribers pay in advance. These deferred revenue are recognized within a short period of time as the meal solutions are paid by customer shortly before delivery.

Having completed the five-step analysis, the Company identified contracts with customers and performance obligations therein, determined transaction price and its allocation to performance obligation and confirmed the appropriateness of its revenue recognition policy being at a point in time as it is the moment the Company transfers control over the product to the customers.

## 5.3 IFRS 9, FINANCIAL INSTRUMENTS

Effective September 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39, *Financial Instruments: Recognition and Measurement*



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Notes to the Consolidated Financial Statements

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("IAS 39"). This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Cash and cash equivalents, security deposits and amounts receivable that were classified as loans and receivables under IAS 39 are classified as financial assets subsequently measured at amortized cost. There is no change to the initial measurement of the Company's financial assets.

Accounts payable and accrued liabilities, and long-term debt that were classified as other financial liabilities under IAS 39 are classified as financial liabilities subsequently measured at amortized cost. There is no change in the initial measurement of the Company's financial liabilities.

There was no impact of transition to IFRS 9 on the Company's statement of financial position as at September 1, 2018.

## 5.4 CHANGE IN ACCOUNTING POLICY FOR INTEREST CLASSIFICATION

The Company has decided to change its accounting policy in relation to the classification of interest paid and received in its consolidated statement of cash flows. Interests paid are classified in financing activities and interests received are classified in investing activities whereas both were classified in operating activities before. To reflect this change in accounting policy, the Company has recast the 2018 figures. The Company believes the new policy is preferable as it more closely aligns the interest payment with the use of proceeds from financing. Also, interest payments increased as a result of the increase in debt and the adoption of IFRS 16 which are not related to operating activities.

## NOTE 6 INVENTORIES

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2019 was \$99,234 (2018 – \$45,274).

	2019	2018
Food	\$ 2,835	\$ 889
Packaging supplies	1,523	570
Work in process	377	126
	\$ 4,735	\$ 1,585

## NOTE 7 OTHER CURRENT ASSETS

	2019	2018
Amounts receivable	\$ 606	\$ 121
Prepaid expenses	180	71
Other	53	12
	\$ 839	\$ 204

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

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(Amounts are in thousands of Canadian dollars, except share and stock options information)

## NOTE 8 FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware	Leasehold improvements	Assets under construction	Total
Cost:						
Balance as at						
August 31, 2017	\$ 56	\$ 222	\$ 108	\$ 7	\$ 1,951	\$ 2,344
Additions	144	667	126	121	3,203	4,261
Transfers	23	1,014	–	4,117	(5,154)	–
Disposal	–	(128)	–	–	–	(128)
Balance as at						
August 31, 2018	\$ 223	\$ 1,775	\$ 234	\$ 4,245	\$ –	\$ 6,477
Additions	493	4,827	440	55	3,011	8,826
Transfers	–	–	–	2,779	(2,779)	–
Reclassification to right-of-use assets	–	(122)	–	–	–	(122)
Balance as at						
August 31, 2019	\$ 716	\$ 6,480	\$ 674	\$ 7,079	\$ 232	\$ 15,181
Accumulated depreciation:						
Balance as at						
August 31, 2017	\$ 6	\$ 26	\$ 12	\$ –	\$ –	\$ 44
Depreciation	27	128	56	231	–	442
Disposals	–	(15)	–	–	–	(15)
Balance as at						
August 31, 2018	\$ 33	\$ 139	\$ 68	\$ 231	\$ –	\$ 471
Depreciation	97	390	148	552	–	1,187
Reclassification to right-of-use assets	–	(22)	–	–	–	(22)
Balance as at						
August 31, 2019	\$ 130	\$ 507	\$ 216	\$ 783	\$ –	\$ 1,636
Net carrying amounts:						
Balance as at						
August 31, 2018	\$ 190	\$ 1,636	\$ 166	\$ 4,014	\$ –	\$ 6,006
Balance as at						
August 31, 2019	586	5,973	458	6,296	232	13,545

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As at August 31, 2019, \$1,273 (August 31, 2018 – \$111) of fixed asset additions are included in accounts payable and accrued liabilities and \$38 (August 31, 2018 – \$147) of leasehold improvement transfers relates to capitalized depreciation expense.

As at August 31, 2019, \$115 (August 31, 2018 – \$101) of deposits on fixed assets are included in other non-current assets. During 2019, \$101 of deposits on fixed assets included in other non-current assets as at August 31, 2018 were transferred to fixed assets.

As at August 31, 2018, \$100 of machinery and equipment additions related to finance leases.

## NOTE 9 RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
Balance as at September 1, 2018	\$ 5,835	\$ 100	\$ 238	\$ 6,173
Additions	5,614	421	357	6,392
Disposals	-	-	(39)	(39)
Depreciation	(1,101)	(231)	(105)	(1,437)
Balance as at August 31, 2019	\$ 10,348	\$ 290	\$ 451	\$ 11,089

## NOTE 10 INTANGIBLE ASSETS

	Software	Intellectual property	Intangible in development	Total
Cost:				
Balance as at August 31, 2017	\$ 91	\$ -	\$ -	\$ 91
Additions	3	-	-	3
Balance as at August 31, 2018	\$ 94	\$ -	\$ -	\$ 94
Additions	130	74	284	488
Balance as at August 31, 2019	\$ 224	\$ 74	\$ 284	\$ 582
Accumulated amortization:				
Balance as at August 31, 2017	\$ 20	\$ -	\$ -	\$ 20
Amortization	19	-	-	19
Balance as at August 31, 2018	\$ 39	\$ -	-	\$ 39
Amortization	31	-	-	31
Balance as at August 31, 2019	\$ 70	\$ -	\$ -	\$ 70
Net carrying amounts:				
Balance as at August 31, 2018	\$ 55	\$ -	\$ -	\$ 55
Balance as at August 31, 2019	\$ 154	\$ 74	\$ 284	\$ 512

As at August 31, 2019, \$242 (August 31, 2018 – nil) of intangible asset additions are included in accounts payable and accrued liabilities.

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

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(Amounts are in thousands of Canadian dollars, except share and stock options information)

## NOTE 11 OTHER NON-CURRENT ASSETS

	2019	2018
Security deposits	\$ 287	\$ 229
Deposits on fixed assets	115	101
Other	-	19
	<b>\$ 402</b>	<b>\$ 349</b>

## NOTE 12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Accounts payable	\$ 23,961	\$ 9,366
Accrued liabilities	6,743	1,977
	<b>\$ 30,704</b>	<b>\$ 11,343</b>

## NOTE 13 DEBT

	Notes	2019	2018
<b>Interest-bearing financing:</b>			
Secured term loan, variable interest at bank prime plus 2.5%, maturing in November 2021	13.1	\$ 10,000	\$ -
Secured term loan, variable interest at bank prime plus 2.5%, maturing in November 2021	13.1	2,500	-
<b>Finance leases:</b>			
Finance leases at implicit rates, nil (2018 – 6.28% to 6.79%), maturing from January 2020 to March 2023	5.1	-	100
<b>Matured borrowings:</b>			
Unsecured term loan, variable rate (2018 – 6.80%)		-	2
Secured term loan, variable interest at bank prime plus 3.25%		-	2,000
		<b>\$ 12,500</b>	<b>\$ 2,102</b>
Interest rate swaps	13.2	46	-
Unamortized financing costs		(55)	(10)
		<b>\$ 12,491</b>	<b>\$ 2,092</b>
Current portion of long-term debt		(31)	(528)
		<b>\$ 12,460</b>	<b>\$ 1,564</b>

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## 13.1 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, a \$500 revolving line of credit and \$500 in credit card availability. The credit facility was secured by inventory and a first-ranking movable hypothec on the Company's assets.

On October 12, 2017, the term loan of \$2,500 was disbursed, bearing variable interest at bank prime plus 3.25% (6.95% as at August 31, 2018). The term loan was repayable in equal quarterly instalments of \$125 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 term loan had a balance of \$2,000 and the operating line of credit was fully drawn. As at August 31, 2019, the secured credit facility obtained from the Canadian chartered bank was completely replaced by the credit facility obtained from the Canadian financial institution described below.

In November 2018, the Company obtained from a Canadian financial institution a secured three-year term loan of \$10,000, a \$2,500 revolving line of credit and \$1,000 in other short-term financing. This credit facility is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The proceeds were used to fund expansion capital expenditures, invest in automation, and refinance the Company's long-term debt. In April 2019, the Canadian financial institution increased the amount in other short-term financing from \$1,000 to \$3,000. In August 2019, the Company obtained from the same Canadian financial institution an additional secured term loan of \$2,500, bearing the same terms as the term loan obtained in November 2018. The Canadian financial institution also increased the amount of the revolving line of credit from \$2,500 to \$10,000 and the amount of other short-term financing from \$3,000 to \$5,000.

As at August 31, 2019, \$12,500 of the term loans were disbursed, bearing variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50% (4.46% as at August 31, 2019). The term loans are repayable in quarterly installments of \$125 and \$31, beginning on December 4, 2020 and August 31, 2020, respectively, with a bullet repayment of the balance at the end of the term ending in November 2021. As at August 31, 2019, \$1,540 of the revolving line of credit was disbursed, bearing variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50% (4.46% as at August 31, 2019). Debt issuance costs of \$64 were incurred and recorded against the debt at the inception date of the debt. For the year ending August 31, 2019, debt issuance costs of \$9 (2018 – \$2) were amortized and recorded in net finance expenses.

As at August 31, 2019, the Company has corporate credit cards used for business purposes with authorised limits totaling \$7,875 (August 31, 2018 – \$1,365), including the \$5,000 in other short-term financing secured from a Canadian financial institution. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.

The credit facility includes a collateral requirement of \$2,500 placed in a restricted cash account and financial covenants with which the Company was in compliance as at August 31, 2019.

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

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## 13.2 INTEREST RATE SWAPS

Effective March 1, 2019, the Company signed a swap agreement with the same Canadian financial institution whereby the Company fixed the annual interest rate at 2.22% plus 2.50% on a notional amount of \$2,500 until November 2021. With this agreement, the Company effectively fixed the interest rate at 4.72% for this portion of the Company's long-term debt.

Effective March 14, 2019, the Company signed a second swap agreement with the same Canadian financial institution whereby the Company fixed the annual interest rate at 2.07% plus 2.50% on a notional amount of \$1,263 until November 2021. With this agreement, the Company effectively fixed the interest rate at 4.57% for this portion of the Company's long-term debt.

As at August 31, 2019, the Company's interest rate swaps are classified as derivative financial liabilities not designated as hedging instruments. In accordance with IFRS 9, the Company's swap agreements are measured at fair value with gains and losses in fair value presented in net finance expenses in the Company's consolidated statements of loss and comprehensive loss. For the period ended August 31, 2019, a loss in fair value of \$46 is presented in net finance expenses (Note 16) with a corresponding liability presented in long-term debt.

## 13.3 PRINCIPAL PAYMENTS

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

	<b>Principal payments</b>
2020	\$ 31
2021	500
2022	11,969

## NOTE 14 LEASE OBLIGATIONS

The following table presents the lease obligations of the Company:

	<b>August 31, 2019</b>
<b>Balance as at September 1, 2018</b>	<b>\$ 7,556</b>
Additions	6,392
Disposals	(26)
Payment of lease obligations	(1,840)
Interest expense on lease obligations	642
<b>Lease obligations as at August 31, 2019</b>	<b>\$ 12,724</b>



# GOODFOOD MARKET CORP.

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The following table presents an analysis of the contractual undiscounted cash flows from lease obligations:

	<b>August 31, 2019</b>
Maturity analysis – contractual undiscounted cash flows	
Less than one year	\$ 1,874
One to five years	7,050
More than five years <sup>(1)</sup>	6,944
Total undiscounted lease obligations as at August 31, 2019	\$ 15,868
Lease obligations as at August 31, 2019	\$ 12,724
Current portion	1,273
Non-current portion	11,451

<sup>(1)</sup> As at August 31, 2019, future lease payments of \$5,591 for which the Company is reasonably certain to exercise the renewal options have been recognized in lease obligations, representing an amount of \$6,443 of undiscounted cash flows.

With the exception of future cash flows associated with the British Columbia facility described below, there are no future cash outflows related to lease agreements to which the Company is potentially exposed that are not reflected in the measurement of lease obligations.

## British Columbia facility

On July 3, 2019, the Company signed a ten-year lease with a renewal option of five years for an 84,000 square-foot production facility located in Vancouver, British Columbia, Canada. The expected delivery date of the facility is October 1, 2019 and payment commencement date is January 15, 2020. Management intends to begin operations in the new facility in the beginning of calendar year 2020. Fixed rent payments represent a total commitment of \$14,630. Considering that as at August 31, 2019, the Company did not have a right-of-use asset, the facility was not reflected as a right-of-use asset and no corresponding lease liability was recorded.

## **NOTE 15 SHARE CAPITAL**

### **15.1 SHARE ISSUANCES**

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 (of which 60,000 common shares were purchased by Board members and key management personnel) at a price of \$2.50 per share for gross proceeds of \$10,000, less share issuance costs of \$926.

In connection with the public offering completed on February 22, 2019, the Company issued 6,019,212 common shares (of which 26,500 common shares were purchased by Board members and key management personnel) at a price of \$3.50 per share for gross proceeds of \$21,067, less share issuance costs of \$1,497.

During the period ended August 31, 2019, 879 common shares (2018 – 71,413 common shares) of the Company were issued following the exercise of stock options (refer to Note 19).

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

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## 15.2 EXERCISE OF AGENT COMPENSATION OPTIONS

In connection with the Company's private placement completed on June 1, 2017, the Company granted 405,002 two-year compensation options to the agents to purchase common shares of the Company at a price of \$2.00 per common share. During the period that ended August 31, 2019, 299,064 options were exercised for gross proceeds of \$598. The remaining balance of agent compensation options that were not exercised expired on June 1, 2019.

## NOTE 16 NET FINANCE EXPENSES (INCOME)

	2019	2018
Interest expense on long-term debt	\$ 292	\$ 162
Interest expense on lease obligations	642	-
Interest income	(687)	(280)
Foreign exchange loss	53	20
Fair value loss on interest rate swaps (Note 13.2)	46	-
	\$ 346	\$ (98)

## NOTE 17 LOSS PER SHARE

	2019	2018
Net loss	\$ (20,937)	\$ (9,434)
Basic weighted average number of common shares	55,069,384	49,068,678
Loss per share – basic and diluted	\$ (0.38)	\$ (0.19)

The exercise of stock options and share issuance is weighted from the transaction date.

Stock options 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 ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

	2019	2018
Short-term employee benefit expense	\$ 39,419	\$ 18,753
Operating lease expense	-	816

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

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## NOTE 19 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 options to purchase common shares where at any given time the number of stock options reserved for issuance is equal to 7.5% 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, 2019, 450,661 stock options were available for issuance (2018 – 1,165,791).

Total share-based payments recognized under the stock option plan amounted to \$1,810 for the year ended August 31, 2019 (2018 – \$458).

During the period that ended August 31, 2019, 2,661,531 options (2018 – 787,666 options) were granted at a weighted average exercise price of \$2.89 (2018 – \$2.55) per option, of which 1,156,766 options (2018 – 300,000) were granted to key management personnel and members of the Board.

The weighted average fair value of stock options granted during the year ended August 31, 2019 was \$1.36 (2018 – \$1.42) 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:

	2019	2018
Volatility	53%	65%
Risk-free interest rate	1.84%	2.07%
Expected life of options	5.1 years	5.1 years
Common share value at grant date	\$ 2.89	\$ 2.55
Exercise price	\$ 2.89	\$ 2.55

Information concerning the movement in stock options is as follows:

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,425,471	\$ 1.96	751,581	\$ 1.07
Granted	2,661,531	2.89	787,666	2.55
Exercised	(879)	2.62	(71,413)	0.10
Stock options settled in cash <sup>(1)</sup>	(74,740)	1.62	–	–
Forfeited	(101,214)	2.85	(42,363)	0.30
Outstanding, end of year	3,910,169	2.57	1,425,471	1.96
Exercisable, end of year	639,039	\$ 1.60	322,483	\$ 1.02

<sup>(1)</sup> On December 4, 2018, the Company exceptionally agreed to settle in cash a specific number of vested stock options with two members of management. The net cash settled amount was \$99 and represents the difference between the fair value of the stock on the date of settlement and the exercise stock price. There are no other stock options that can be or are intended to be net settled in cash in the future.

For the year ended August 31, 2019, the weighted average share price of the Company's common shares upon the exercise date of stock options was \$2.94 (2018 – \$2.94).

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Summary of options outstanding as at August 31, 2019 and 2018 is as follows:

Exercise price	Number of options outstanding	Weighted average contractual life outstanding	Exercisable options
Balance as at August 31, 2019:			
Less than \$1.00	178,834	6.81	178,834
\$ 1.00 – 1.99	283,718	5.98	109,808
\$ 2.00 – 2.49	203,325	6.87	143,050
\$ 2.50 – 2.99	2,313,573	7.08	207,347
\$ 3.00 – 3.49	930,719	7.67	–
	<b>3,910,169</b>	<b>7.12</b>	<b>639,039</b>
Balance as at August 31, 2018:			
Less than \$1.00	178,834	6.75	146,236
\$ 1.00 – 1.99	347,820	6.98	86,955
\$ 2.00 – 2.49	215,082	6.98	89,292
\$ 2.50 – 2.99	683,735	7.71	–
	<b>1,425,471</b>	<b>7.30</b>	<b>322,483</b>

## NOTE 20 INCOME TAXES

The following table reconciles income taxes computed at the Company's statutory rate of 26.6% (2018 – 26.7%) and the total tax expense for the years ended August 31:

	2019	2018
Loss before income taxes	\$ (20,937)	\$ (9,434)
Income tax benefit at the combined Canadian statutory rate	(5,569)	(2,519)
Decrease resulting from:		
Change in unrecognized deferred income tax assets	5,045	2,387
Permanent differences	520	132
Other	4	–
Total income expense	\$ –	\$ –

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Movement in temporary differences during the year ended August 31, 2019 is detailed as follows:

	Balance as at August 31, 2018	Recognized in Profit or loss	Balance as at August 31, 2019
Deferred income tax assets:			
Lease obligation	\$ 1,748	\$ 988	\$ 2,736
Deferred income tax liabilities:			
Fixed assets	(1,748)	(988)	(2,736)
	\$ -	\$ -	\$ -

As at August 31, 2019 and 2018, the Company had unrecognized deferred income tax assets as follows:

	2019	2018
Deferred income tax assets:		
Net operating loss carry forwards	\$ 8,241	\$ 3,398
Fixed assets	636	-
Share issuance costs	689	506
Intangible assets	254	246
Other non-current liabilities	-	258
Other	47	20
Unrecognized deferred income tax assets	\$ 9,867	\$ 4,428

The Company has operating tax losses carried forward of \$31,097 (2018 – \$12,824) and unrecognized deductible temporary differences of \$6,133 (2018 – \$3,885) 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, 2019, the amounts and expiry dates of the tax losses carried forward were as follows:

2035	\$ 49
2036	712
2037	3,547
2038	8,516
2039	18,273
	\$ 31,097

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## NOTE 21 FINANCIAL INSTRUMENTS

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The Company has determined that the fair values of cash and cash equivalents, amounts receivable included in other current assets, restricted cash, security deposits included in other assets, line of credit, and accounts payable and accrued liabilities approximate their respective carrying amounts at the consolidated statement of financial position date, due to the short-term maturity of those instruments.

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.

The fair value of interest rate swaps as at August 31, 2019 was estimated using Level 2 inputs.

## NOTE 22 FINANCIAL RISKS

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### 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, amounts receivable included in other current assets, restricted cash, and security deposits included in other assets. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited because the Company deals with major North American financial institutions and an internationally established payment processor.

### Interest rate risk:

The Company's long-term debt and revolving 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. The Company manages its interest rate risk by using variable-to-fixed interest rate swaps as described in Note 13.

### *Sensitivity analysis for interest rate risk*

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

### Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budgets and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

### *Capital management*

The Company's objective in managing its capital is to ensure a sufficient liquidity position to finance its operations, to maximize the preservation of capital and to deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements, convertible notes, and long-term and short-term debt, which are included in the Company's definition of capital. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

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

	2019					
	Total carrying amount	Contractual cash flows <sup>(3)</sup>	Less than 1 year	1 to 5 years	More than 5 years	
Line of credit	\$ 1,540	\$ 1,540	\$ 1,540	\$ -	\$ -	
Accounts payable and accrued liabilities	30,704	30,704	30,704	-	-	
Long-term debt, including current portion <sup>(1), (2)</sup>	12,491	13,755	597	13,158	-	
	<b>\$ 44,735</b>	<b>\$ 45,999</b>	<b>\$ 32,841</b>	<b>\$ 13,158</b>	<b>\$ -</b>	

	2018					
	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years	
Line of credit	\$ 500	\$ 500	\$ 500	\$ -	\$ -	
Accounts payable and accrued liabilities	11,343	11,343	11,343	-	-	
Long-term debt, including current portion <sup>(1), (2)</sup>	2,092	2,415	658	1,757	-	
	<b>\$ 13,935</b>	<b>\$ 14,258</b>	<b>\$ 12,501</b>	<b>\$ 1,757</b>	<b>\$ -</b>	

(1) In November 2018, the Company signed a new debt agreement with proceeds partially used to refinance the long-term debt as at August 31, 2018 (see further details in Note 13).

(2) As at August 31, 2019, an interest rate of 4.46% (2018 – 6.95%) was used to determine the estimated interest payments on the Company's variable-rate portion of the Company's long-term debt, and interest rates of 4.72% and 4.57% were used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

(3) See Note 14 for contractual payments due on lease obligations.



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## NOTE 23 RELATED PARTIES

The chief executive officer ("CEO") and the president and chief operating officer ("President and 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 February 22, 2019, in connection with the public offering described in Note 15, 26,500 common shares were purchased by Board members and key management personnel at a price of \$3.50 per share;
- On May 7, 2018, in connection with the public offering described in Note 15, 60,000 common shares were purchased by Board members and key management personnel at a price of \$2.50 per share.

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

### 23.2 KEY MANAGEMENT PERSONNEL

Key management personnel includes the members of the Board as well as the CEO, President and COO, and chief financial officer.

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

	2019	2018
Short-term employee benefits (includes directors' fees)	\$ 1,963	\$ 867
Share-based payments	1,062	356

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## NOTE 24 BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss.

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## NOTE 25 SIGNIFICANT ACCOUNTING POLICIES

### 25.1 BASIS OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and of the Subsidiary.

#### Subsidiary

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.

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## 25.2 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.

## 25.3 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.

## 25.4 RESTRICTED CASH

Restricted cash is cash where specific restrictions exist on the Company's ability to use this cash. Restricted cash consists primarily of cash held as collateral, which is subject to the terms of the financing agreement (see Note 13).

## 25.5 FIXED ASSETS

### 25.5.1 RECOGNITION AND MEASUREMENT

Items of 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.

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.

### 25.5.2 SUBSEQUENT EXPENDITURE

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.

### 25.5.3 DEPRECIATION

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

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Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

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

## 25.6 LEASES

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

### Policy applicable from September 1, 2018

Effective September 1, 2018, the Company early adopted IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard introduces a single lessee accounting model and requires a lessee 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. The Company's accounting policy under IFRS 16 is as follows:

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. This policy is applied to contracts entered into, or changed, on or after September 1, 2018.

#### *Right-of-use asset*

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability 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 assets are 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 liability.

#### *Lease liability*

The lease liability 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.

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The Company determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

Lease payments included in the measurement of the lease liability comprise 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 liability is 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 liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## Policy applicable before September 1, 2018

Under IAS 17, the Company's accounting policy was as follows:

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

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

Finance leases were 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 were 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 were recognized in net finance expenses (income) in net loss.

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

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

## **25.7 INTANGIBLE ASSETS**

### **25.7.1 RECOGNITION AND MEASUREMENT**

Intangible assets that have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

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## 25.7.2 SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in net loss as incurred.

## 25.7.3 AMORTIZATION

Amortization is recognized in net 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 depreciated 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	5 years
Intellectual property	5 years

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

## 25.8 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.

## 25.9 FINANCIAL INSTRUMENTS

Effective September 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

### 25.9.1 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 issue.

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## 25.9.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

### Financial assets – Policy applicable from September 1, 2018

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") – debt investment, FVOCI – equity investment, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

#### *Amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL: (1) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### *Debt investment*

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL: (1) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. The Company has not designated any financial assets at fair value through profit or loss and does not have any financial assets at FVOCI.

Financial assets at amortised costs are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in net loss. Any gain or loss on derecognition is recognised in net loss.

### Financial assets – Policy applicable before September 1, 2018

Financial assets were classified in four categories:

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

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

#### *Loans and receivables*

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

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## *Held-to-maturity investments*

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

## *Available-for-sale financial assets*

These assets were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, were recognized in other comprehensive loss and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity is reclassified to net loss. The Company did not have financial assets as available for sale.

## Financial liabilities

Financial liabilities are classified as measured at 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, including interest expenses, are recognized in net loss. Any gain or loss on derecognition is also recognized in net loss.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. Swaps are measured at FVTPL with the gains and losses recognized in the consolidated statements of loss and comprehensive loss.

## **25.9.3 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.

### Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or 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 recognised 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 recognised in net loss.

## **25.9.4 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.



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## 25.9.5 IMPAIRMENT

With respect to impairment of financial assets, IFRS 9 requires applying the expected credit losses model instead of the incurred credit losses model set out in IAS 39. Under the expected credit losses model, the Company must recognize 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. Although cash and cash equivalents and restricted cash are subject to the IFRS 9 impairment requirements, the expected credit losses identified were not significant.

## 25.9.6 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.

## 25.10 PROVISIONS

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

### 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.

## 25.11 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.

## 25.12 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).

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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 19. 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.

## 25.13 REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective September 1, 2018, the Company adopted IFRS 15, using the cumulative effect method, with the effect of adopting this standard recognized on September 1, 2018, the date of initial application. Accordingly, comparative figures as at August 31, 2018 have not been restated. The effect of initially applying IFRS 15 is described in Note 5.2.

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. 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.

## 25.14 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.

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.

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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 consolidated statements of financial position.

## **25.15 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.

## **25.16 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).

## **25.17 FINANCE INCOME AND FINANCE EXPENSES**

Finance income comprises interest income and foreign exchange gains. Finance expenses comprise interest expense on long-term debt and changes in fair value of convertible notes. Prior to the year ended August 31, 2019, the Company recognized finance income and finance expenses as operating activities in the Company's consolidated statements of cash flows. As described in Note 5.4, the Company decided to change its accounting policy in relation to the classification of interest paid and received in its consolidation statements of cash flows. Refer to Note 5.4 for more information.

## **25.18 SEGMENT REPORTING**

The Company determined that it operated a single operating segment for the years ended August 31, 2019 and 2018.

# GOODFOOD MARKET CORP.

Notes to the Consolidated Financial Statements

Years ended August 31, 2019 and 2018

(Amounts are in thousands of Canadian dollars, except share and stock options information)

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## **NOTE 26 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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A number of new standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8).

## ANNUAL MEETING OF SHAREHOLDERS

Wednesday, January 8, 2020

10:00 a.m.

Offices of Fasken Martineau DuMoulin LLP

800, Square-Victoria Street

Suite 3700

Montréal, Québec

H4Z 1E9

## STOCK INFORMATION

Shares listed: Toronto Stock Exchange

Ticker symbol: FOOD

Initial public offering: 2017

52-week high/low (Sept. 1, 2018 – Aug. 31, 2019): \$3.74-\$2.45

Share price as at November 13, 2019: \$3.12

Common shares outstanding as at August 31, 2019: 58,144,400

## TRANSFER AGENT AND REGISTRAR

TSX Trust

## AUDITORS

KPMG LLP

## LEGAL COUNSEL

Fasken Martineau DuMoulin LLP

## INVESTOR RELATIONS

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## MEDIA CONTACT

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## CORPORATE OFFICE

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# goodfood

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