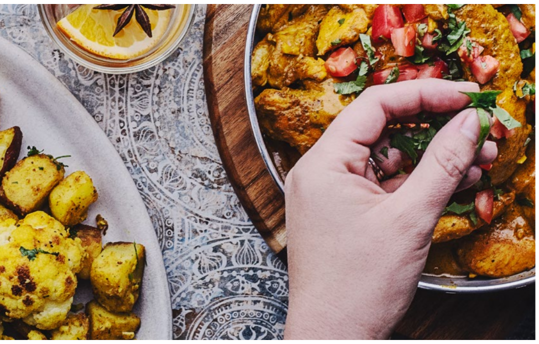




goodfood

2020
annual report



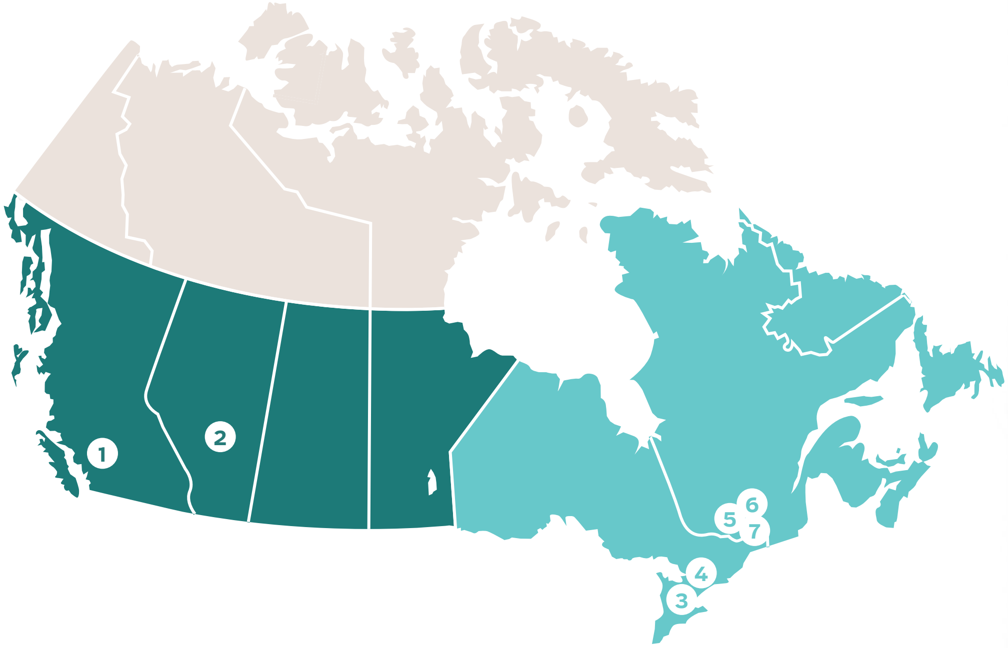
Brand ambassador Anne-Marie Withenshaw and her family sharing good*food*

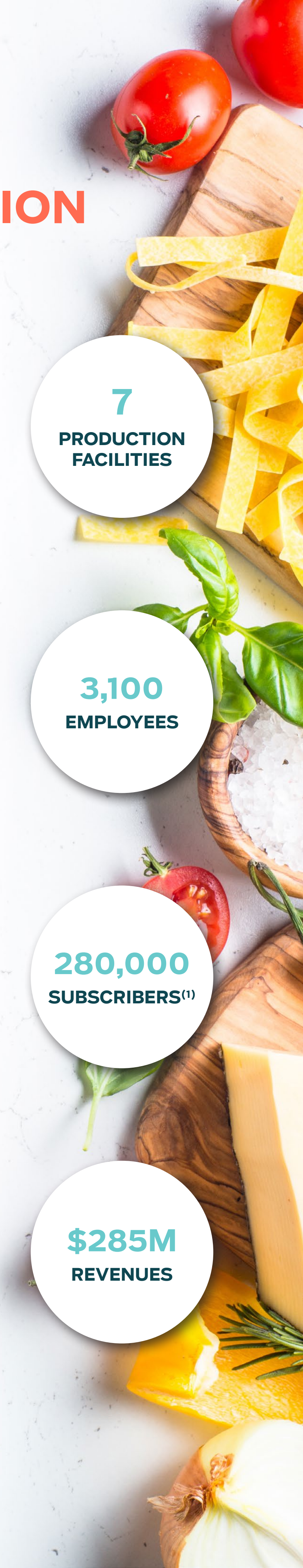
good*food* is a leading online grocery company in Canada, delivering fresh meal solutions and grocery items that make it easy for members across Canada to enjoy delicious meals at home every day. Goodfood's mission is to make the impossible come true, from farm to kitchen, by enabling members to complete their weekly meal planning and grocery shopping in minutes. Goodfood members have access to a unique selection of online products as well as exclusive pricing made possible by its world class direct-to-consumer fulfilment ecosystem that eliminates food waste and costly retail overhead.

GOODFOOD'S NATIONAL OPERATING FOOTPRINT REACHES

95% OF THE CANADIAN POPULATION

589,000 square feet of purpose-built capacity in 7 facilities from coast to coast





7
PRODUCTION FACILITIES

3,100
EMPLOYEES

280,000
SUBSCRIBERS[(1)]

$285M
REVENUES

WESTERN CANADA

1

VANCOUVER, BC

84,000 sq. ft production and distribution facility

2

CALGARY, AB

43,000 sq. ft production and distribution facility

EASTERN CANADA

3

TORONTO, ON

42,000 sq. ft production and distribution facility

4

TORONTO, ON

200,000 sq. ft production facility (under construction)

5

MONTREAL, QC - BREAKFAST

20,000 sq. ft production and distribution facility for breakfast meal solutions

6

MONTREAL, QC

HQ & 155,000 sq. ft production and distribution facility

7

MONTREAL, QC

45,000 sq. ft production and distribution facility

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

3-YEAR

FINANCIAL HIGHLIGHTS

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

For the years ended August 31,	2020	%Δ	2019	%Δ	2018
OPERATING RESULTS					
Revenue	**$285,372**	**77%**	$161,333	129%	$70,502
Gross profit	**86,419**	**114%**	40,310	175%	14,660
Adjusted EBITDA[1]	**4,675**		(16,164)		(8,500)
Net loss being comprehensive loss	**(4,136)**		(20,937)		(9,434)
Basic and diluted loss per share	**(0.07)**		(0.38)		(0.19)
OPERATING METRICS					
Active subscribers[1]	**280,000**	**40%**	200,000	125%	89,000
Gross margin	**30.3%**	**5.3 pp**	25.0%	4.2 pp	20.8%
Adjusted EBITDA Margin[1]	**1.6%**	**11.6 pp**	(10.0%)	2.1 pp	(12.1%)
FINANCIAL POSITION					
Cash[2]	**$106,902**		$47,649		$24,453
Fixed assets	**19,191**		13,545		6,006
Total assets	**163,046**		80,783		34,309
Total debt[3]	**21,678**		14,031		2,592
Total convertible debentures[4]	**16,425**		—		—
Shareholders' equity	**57,558**		17,401		16,456
CASH FLOWS PROVIDED BY (USED IN)					
Operating activities	**$8,555**		$880		$176
Financing activities	**60,118**		29,555		10,901
Investing activities	**(9,420)**		(9,739)		(4,171)

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(2) Includes cash, cash equivalents and restricted cash.

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

(4) Includes the liability and equity components of the convertible debentures.

2020
KEY HIGHLIGHTS

IMPROVING MEMBER EXPERIENCE

- Launched Goodfood Flex: allowing subscribers to mix and match products
- Launched Goodfood WOW: a monthly unlimited same-day delivery service
- Expanded Goodfood product offering from ~40 to ~400 SKUs
- Expanded Goodcourier: in-house last-mile delivery

WORLD-CLASS OPERATING FOOTPRINT

- Footprint of 7 purpose-built facilities in 2021
- Launched Vancouver facility, first facility in the Greater Toronto Area (“GTA”) and third facility in Montreal
- Announced buildout of flagship second facility in GTA
- Opened in-house ready-to-eat kitchen at main Montreal facility

VIBRANT GOODFOOD COMMUNITY

- Built solid bond with customers, employees and community throughout COVID-19 pandemic
- Provided meals to frontline healthcare workers across the country
- Established enhanced sanitary measures
- Positive impact of pandemic on online grocery penetration and Goodfood unit economics

STRONG FINANCIAL PERFORMANCE

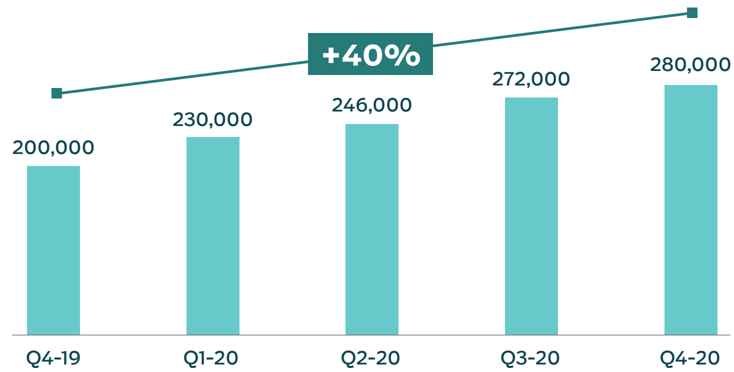
- Net income in Q3 and Q4, positive Adjusted EBITDA[1] for the year
- Added to S&P/TSX Smallcap Index, selected to TSX30 as top 30 performing stocks
- Completed $70 million in equity and convertible financing
- Generated $9 million in cash flows from operations
- Ended 2020 in strong financial position with $107 million of cash[2] on hand

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

EVOLUTION OF

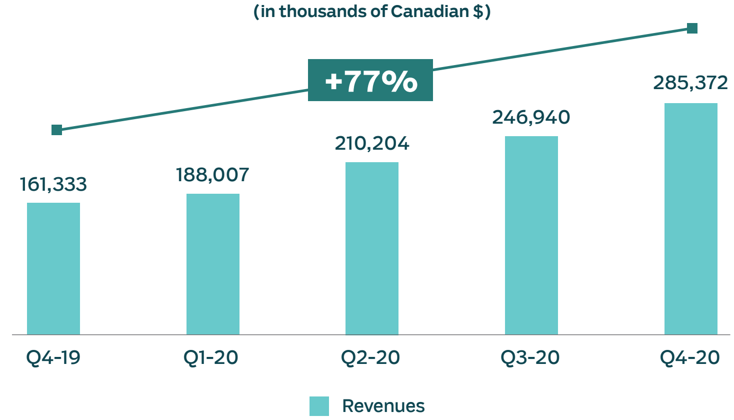
KEY METRICS

ACTIVE SUBSCRIBERS[1]

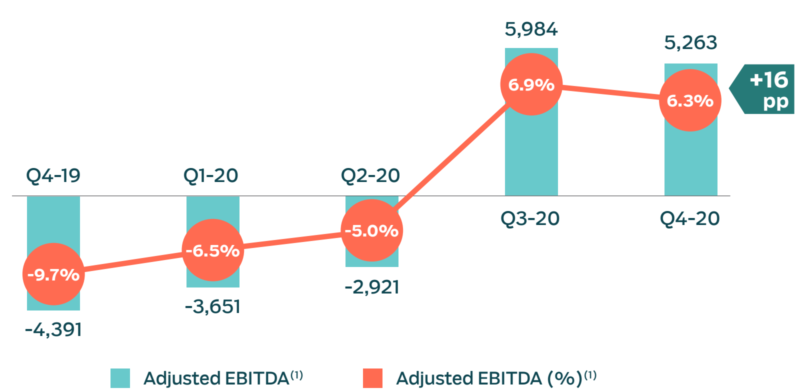


REVENUES — TRAILING 12 MONTHS

(in thousands of Canadian $)



ADJUSTED EBITDA[1] AND ADJUSTED EBITDA MARGIN[1]



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MESSAGE TO
SHAREHOLDERS

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

This has been a year of tremendous challenges and rapid evolution for Goodfood. We would like to begin this year's letter to shareholders by highlighting the immense efforts of our more than 3,000 dedicated employees across the country who came together to deliver an essential service to our almost 300,000 members from coast to coast. Feeding Canadians has never been as important as it is during this global pandemic that is affecting us all and we are incredibly proud of the role we at Goodfood are playing to feed Canadians safely.

When we began our adventure nearly six years ago, our vision was to build the leading online grocer in the country by using our incredible meal kits as an entry point into Canadian kitchens and one of Canada's largest industries. It allowed us to build the first few aisles of the Goodfood grocery store with one strong line of business. We have since worked tirelessly to develop that product further and, last year, we began bringing more aisles to life with an expanded product offering. Today, we boast a deep and varied offering that successfully brings online a more complete grocery basket and shopping experience. We are strategically and efficiently building and cementing leadership in the e-commerce grocery landscape, and we are only just getting started.

Neil Cuggy
Co-Founder, Director, President and COO

OUR STRATEGY: FEEDING CANADIANS BETTER AND MORE CONVENIENTLY AS WE GROW

Our strategy is simple: do the best for customers so they can make us their best option. Since inception and again in Fiscal 2020, we have focused on growing our subscriber[1] base, now 280,000 members strong. This past year, beyond attracting more subscribers[1] to our delicious ready-to-cook and breakfast products, we have added many arrows to our quiver: new exquisite ready-to-eat meal solutions and top-notch grocery products. Combining new products with faster delivery times and added flexibility has gone a long way in increasing Goodfood's value proposition to customers. Adding density, scale and investments in automated world-class fulfillment capabilities has bolstered our industry-leading unit economics, allowing us in turn to add even more new satisfied subscribers[1]. That is the basis of our strategic flywheel, which you can see below.

Growth in online grocery delivery originally projected to occur over years was accelerated to a few months, with an existing $1-2 billion industry becoming a $6+ billion[3] market almost overnight.

STRONG TAILWINDS...

The Canadian food industry continues to evolve rapidly, and we have remained at its forefront and contributed to its continued evolution. Prior forecasts had initially estimated the online grocery market to grow at a 21% CAGR through 2023[2] and to hit a market size of over $10 billion. These strong tailwinds were driven by the confluence of key secular trends: the increased penetration of e-commerce across the country, a millennial rising making this generation a powerful grocery shopper, and a stronger product offering across the industry, including Goodfood's, improving the quality of choices available.

(1) This is a metric or non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Please refer to the Metrics and Non-IFRS financial measures section in the Management's Discussion and Analysis.
(2) IGD/CanadianGrocer.com.
(3) Dalhousie University, New survey on COVID-19 grocery shopping; May 2020.

MESSAGE TO SHAREHOLDERS (CONT'D)

...MADE EVEN STRONGER BY CURRENT CIRCUMSTANCES...

These existing tailwinds were made even stronger by the COVID-19 pandemic. Growth in online grocery delivery originally projected to occur over years was accelerated to a few months, with an existing $1-2 billion industry becoming a $6+ billion[1] market almost overnight. The tailwinds were already strong and escalated to hurricane levels very quickly.

Early in Fiscal 2020, we were already well on our way to breaking new records in subscribers[2], revenues and improving profitability levels. Achieving and surpassing these goals was accelerated by the current circumstances and we are observing clear signs of sustainability and further meaningful upside as we continue seeing growing basket sizes, member base and exciting demand levels for our existing and new product offering.

To that effect, we continue to invest in a world-class fulfillment ecosystem with new facilities and increased automation to grow Goodfood's fulfillment capacity and increase the speed and efficiency of our operations. These investments position us ideally to capitalize on the accelerated growth tailwinds in the coming years.

Compared to Fiscal 2019, we grew our member base by 40%, revenues by 77% and improved gross margin by 5.3 percentage points.

...AND SUPPORTED BY A GREAT GOODFOOD COMMUNITY

Beyond financial results, making the most of growth opportunities ahead of us relies more than ever on our community.

Throughout these challenging times, we have realized and embraced Goodfood's increased importance to its customers, who rely on our products to be delivered to their doors in order to feed their family, providing a safe alternative to crowded grocery stores and long lines. Furthermore, we are proud to provide job opportunities to Canadian workers from coast-to-coast in these difficult times.

We have received tremendous support from our community this year. It has translated not only into great financial results, but more importantly into a deeper bond with our ecosystem, and we are extremely grateful for that. As such, we are dedicated to giving back. During the year, we supported frontline healthcare workers with free meals across the country and organized donations to food banks and charitable organizations, while maintaining our commitment to providing a safe work environment for our growing workforce across Canada.

[1] Dalhousie University, New survey on COVID-19 grocery shopping; May 2020.
[2] 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.

ANOTHER YEAR OF STRONG GROWTH, A FIRST YEAR OF PROFITABILITY

Fiscal 2020 marked our first year of profitability on an Adjusted EBITDA[1] basis, fueled by continued demand, leading to revenue growth, margin improvement and stronger unit economics.

Compared to Fiscal 2019, we grew our member base by 40%, revenues by 77% and improved gross margin by 5.3 percentage points. Combining our strong growth to gross margin improvement and the consistent demonstration of operating leverage has resulted in Adjusted EBITDA[1] reaching $4.6 million for the year.

Achieving profitability at this level is a milestone that we are very proud to have achieved. As the online grocery industry continues to expand rapidly, our ambition remains to be its leader. While we will continue to pursue profitability, we are equally proud of the growth achieved and are equally committed to continuing on our exceptional trajectory over the coming years. We understand the economics and shareholder value brought by strong growth and it remains our main priority.

In Fiscal 2021, our main target will remain growth. Growth has however taken a broader, deeper meaning for Goodfood.

DON'T JUST FLY, SOAR

In the six years Goodfood has been in existence, we have aimed high in order to deliver the best possible product to Canadians with the best possible return to our shareholders, and it is only the beginning.

In Fiscal 2021, our main target will remain growth. Growth has however taken a broader, deeper meaning for Goodfood. We plan to grow our subscriber[1] base, but will also continue to increase our offering of delicious products as well as further improve delivery times to customers and the flexibility we provide our members. We will continue to obsess about our clients' happiness as it has been the best vector of success these past six years, and we will aim to provide them with a frictionless shopping experience with the best products available powered by our world-leading fulfillment ecosystem.

We also plan to grow our workforce; not simply in numbers, but in capabilities and support. As we all adapt to new realities and working from home, supporting our people is paramount to the success of Goodfood.

We plan to grow our community and sustainability efforts. Building on the great initiatives already in place, we will rise to our role as a community leader and support our ecosystem as best we can. Despite disruptions, our sustainability efforts have not waned. We have launched several initiatives, including reusable boxes, paper grocery bags, bamboo-based packaging, compostable plastics, while cutting out plastic use as much as possible. You can count on us to continue innovating on that front while protecting our margins.

In 2021, we want Goodfood to not simply fly, but truly soar on its way to becoming a multibillion-dollar online grocery leader.

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MESSAGE TO SHAREHOLDERS (CONT'D)

STILL, MOST IMPORTANTLY

Having almost doubled our workforce to more than 3,000 employees, our exceptional performance this year still reflects the dedication of our people. Our success would not have been possible without their incredible contributions both in good and more challenging times. To all Goodfoodies, we want to say thank you.

Our performance this year has still also been driven by the unwavering confidence of our shareholders, customers, board members, suppliers and other stakeholders. We want to express our deep appreciation for your trust and support. Having seen our stock price gain 176% in the past year[1], and having been included in the TSX30 as one of the top thirty performers on the Toronto Stock Exchange, we are thrilled to have rewarded your confidence in our strategy with strong returns.

When we created Goodfood, we envisioned continuously improving the experience of Canadian grocery shoppers and our goal to be in every kitchen, every day, is even closer than last year. As we continue to build towards that ambitious goal, it is with great pride that we share with you our Fiscal year 2020 financial results.

Fellow shareholders, we thank you for your partnership and for another year of continued support – onwards and upwards!

Our stock price gained 176% in the past year[1], and we've been included in the TSX30 as one of the top thirty performers on the Toronto Stock Exchange.

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

Neil Cuggy
Co-Founder, Director, President
and COO

[1] This represents share price return between November 14, 2019 to November 10, 2020

BOARD OF
DIRECTORS

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

NEIL CUGGY
Co-Founder, Director, President and COO

HAMNETT HILL
Director

DONALD OLDS
Director

TERRY YANOFSKY
Director

FRANÇOIS VIMARD
Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2020

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November 11, 2020

BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding the business environment, trends and significant changes in the results of operations and financial condition of Goodfood Market Corp. and its subsidiary (also referred to in this MD&A as "we", "our", "Goodfood" or the "Company") for the years ended August 31, 2020 and 2019 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended August 31, 2020 and 2019. Please also refer to Goodfood's press release announcing its results for year ended August 31, 2020 issued on November 11, 2020. Quarterly reports, the Annual Report, and the Annual Information Form can be found on SEDAR at www.sedar.com and under the "Investor Relations – Financial Information" section of our website: https://www.makegoodfood.ca/en/investors. Press releases are available on SEDAR and under the "Investor Relations – Press Releases" section of our corporate website.

The Company's consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the financial information herein was derived from those statements.

All amounts herein are expressed in Canadian dollars unless otherwise indicated and all references to Fiscal 2020 and to Fiscal 2019 are to the fiscal years ended August 31, 2020, and August 31, 2019, respectively.

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.

FORWARD-LOOKING STATEMENTS

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, 2020 available on SEDAR at www.sedar.com: limited operating history, negative operating cash flow, food industry, COVID-19 pandemic, quality control and health concerns, regulatory compliance, regulation of the industry, public safety issues, product recalls, damage to Goodfood's reputation, transportation disruptions, storage and delivery of perishable foods, product liability, unionization activities, consolidation trends, ownership and protection of intellectual property, evolving industry, reliance on management, 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. In addition, information and expectations set forth herein are subject to and could change materially in relation to developments regarding the duration and severity of the COVID-19 pandemic and its impact on product demand, labour mobility, supply chain continuity and other elements beyond our control. Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking information contained herein is provided as of the date hereof, and we do not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

METRICS AND NON-IFRS FINANCIAL MEASURES

The table below describes metrics and non-IFRS financial measures used by the Company throughout this MD&A. 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. They are provided as additional information to complement IFRS measures and to provide a further understanding of the Company's results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS and should be read in conjunction with the financial statements for the periods indicated. For a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures, as applicable, see the "Metrics and Non-IFRS Financial Measures – Reconciliation" section of this MD&A.

Metrics	Definitions
Active subscribers	An account that is scheduled to receive a delivery, has elected to skip delivery in the subsequent weekly delivery cycle or that is registered to Goodfood WOW. 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 the Company's 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.
EBITDA, **Adjusted EBITDA** **&** **Adjusted EBITDA margin**	EBITDA is defined as net income or loss before net finance costs, depreciation and amortization and income taxes. Adjusted EBITDA is defined as EBITDA excluding share-based payments. Adjusted EBITDA margin is defined as the percentage of adjusted EBITDA to revenues. 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.

In the fourth quarter of the year ended August 31, 2020, the Company discontinued the reporting of Gross Merchandise Sales, Adjusted Gross Profit and Adjusted Gross Margin as management believes these non-IFRS measures do not provide additional information to complement IFRS measures and to understand the financial performance of Goodfood.

COMPANY OVERVIEW

Goodfood (TSX:FOOD) is a leading online grocery company in Canada, delivering fresh meal solutions and grocery items that make it easy for members from across Canada to enjoy delicious meals at home every day. Goodfood's mission is to make the impossible come true, from farm to kitchen, by enabling members to complete their weekly meal planning and grocery shopping in minutes. Goodfood members have access to a unique selection of online products as well as exclusive pricing made possible by its world class direct-to-consumer fulfilment ecosystem that eliminates food waste and costly retail overhead. The Company's main production facility and administrative offices are based in Montreal, Québec, with five additional production facilities located in the provinces of Québec, Ontario, Alberta, and British Columbia. A seventh production facility located in the province of Ontario is currently under construction. As at August 31, 2020, Goodfood had 280,000 active subscribers.

FINANCIAL OUTLOOK

The online grocery industry is among the fastest growing industries in the world. As a result, Goodfood believes 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 involves in part delaying short-term profitability in order to invest in generating long-term shareholder value creation, and also to continue improving its cost structure to achieve long-term margin and profitability goals. Growing Goodfood's subscriber base, 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, it is confident that it will achieve economies of scale and additional efficiencies which will lead to improvements in profitability while maintaining an unrivalled customer experience.

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations. As an essential service in Canada, Goodfood continued to operate throughout the pandemic and experienced an acceleration of growth in demand. While subscriber orders have been fulfilled and consumer behaviour during the pandemic has contributed to an increase in subscriber base, orders by subscribers and overall business, operations and supply chains were significantly challenged with temporary supplier closures and substitution of unavailable ingredients combined with workforce shortages and additional sanitary measures, putting pressure on food and labour costs. Pressure on supply chains, inventory levels and increased operational costs or disruptions and labour shortages could increase depending on the duration and severity of the pandemic as well as any changes to Goodfood's industry regulatory framework.

As a result of the COVID-19 pandemic, the number of employees working remotely has increased significantly, which has also increased demands on information technology resources and systems and increased the risk of phishing and other cybersecurity attacks.

The magnitude, duration, and severity of the COVID-19 pandemic are difficult to predict and could affect the significant estimates and judgements used in the preparation of the Company's consolidated financial statements.

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 objectives. See the ''Forward-Looking Statements'' and ''Business Risk" sections of this MD&A.

FISCAL 2020 HIGHLIGHTS

HIGHLIGHTS OF FISCAL 2020 COMPARED TO FISCAL 2019

- Revenues reached $285.4 million, an increase of $124.0 million, or 77% year-over-year.
- Gross margin reached 30.3%, an improvement of 5.3 percentage points and gross profit reached $86.4 million, an increase of $46.1 million, or 114%.
- Goodfood reported net income for the last two quarters of Fiscal 2020, reducing the net loss for the year ended August 31, 2020 to $4.1 million, an improvement year-over-year of $16.8 million, resulting in basic loss per share of $0.07.
- Cash flows provided by operating activities reached $8.6 million, an improvement of $7.7 million compared to the same period last year.
- The Company reported a cash balance of $106.9 million (including cash and cash equivalents and restricted cash) as at August 31, 2020, an increase of $59.3 million compared to the same period last year.
- Goodfood reported positive Adjusted EBITDA margin for the first time since the Company's inception, reaching 1.6% for the year ended August 31, 2020, an improvement of 11.6 percentage points year-over-year.
- Active subscribers reached 280,000 as at August 31, 2020, an increase of 80,000, or 40%, compared to August 31, 2019.

HIGHLIGHTS OF THE THREE-MONTH PERIOD ENDED AUGUST 31, 2020 COMPARED TO THE THREE-MONTH PERIOD ENDED AUGUST 31, 2019

- Revenues reached $83.7 million, an increase of $38.4 million, or 85% year-over-year.
- Gross margin totalled 32.8%, an improvement of 6.1 percentage points and gross profit increased $15.4 million, or 127%, to reach $27.5 million.
- For the second consecutive quarter, Goodfood reported positive net income that amounted to $1.6 million, an improvement of $7.5 million compared to the same period in 2019, resulting in basic earnings per share of $0.03.
- Cash flows provided by operating activities reached $2.4 million, an improvement of $5.1 million year-over-year.
- Adjusted EBITDA margin was positive for the second consecutive quarter and reached 6.3%, an improvement of 16.0 percentage points year-over-year.

KEY HIGHLIGHTS OF FISCAL 2020 AND SUBSEQUENT EVENTS

Launch of Reusable Delivery Box and Green Initiatives

In October 2019, the Company launched its reusable delivery box, positioning the Company as a leader in the industry with respect to environmental sustainability initiatives. As a result of the ongoing COVID-19 pandemic, the Company has suspended its reusable delivery box program to reduce the risk of potential cross contamination for its members and intends to reinstate its reusable delivery box program when sanitary conditions permit.

During the fourth quarter of Fiscal 2020, Goodfood entered into an agreement with a supplier for plant-based packaging solutions to be used for select ready-to-eat products as part of the Company's green initiatives to eliminate 12 million pieces of single-serve packaging.

Chief Technology Officer Appointment

In November 2019, the Company announced the appointment of Raghu Mocharla to its management team as Chief Technology Officer. Mr. Mocharla was most recently Vice President, E-Commerce at Indigo and has more than 20 years of experience of progressively senior positions in technology development and management and is charged with strengthening the Company's competitive advantage in building a world-class user experience and automation ecosystem for online grocery deliveries.

Meal Solutions

Throughout Fiscal 2020, the Company further expanded its ready-to-eat and breakfast meal solutions across Canada. The Company's product mix aims to expand its offerings to existing and prospective customers in order to provide full home meal solutions across the different meals of the day. Goodfood's meal solutions include ready-to-blend smoothies and other breakfast items, prepared meals, cooked meats and sides, as well as salads and soups.

During Fiscal 2020, the Company completed the construction of its ready-to-eat meal solutions kitchen in the main Montreal, Québec facility to enable operations to expand its product offering and produce them in-house.

Private Label Grocery Products

During the year ended August 31, 2020, the Company further expanded its private label grocery products across Canada, with over 200 products available to purchase as at that date. The Company offers everyday grocery essentials with exclusive prices, across an array of categories: bakery, dessert, meat and seafood, drinks, pantry, produce, snacks, dairy and kitchen essentials. Our current member favourites include: Extra Virgin Olive Oil, Clean Green Juice and Gourmet Triple Chocolate Cookies.

Convertible Debenture Financing

In February 2020, the Company completed a $30 million financing through the issuance of convertible debentures. The debentures bear a fixed interest rate of 5.75% per annum, payable semi-annually, and mature on March 31, 2025. The debentures are convertible at the holder's option into Goodfood common shares at a conversion price of $4.70 per common share. Net proceeds from the offering are being used to fund the buildout of a new Toronto production and distribution facility, to further invest in capital projects (including automation related capital projects) at the existing production facilities in Montreal, Calgary and Vancouver as well as Toronto, and for general corporate purposes. As at August 31, 2020, $11.3 million, net of tax, or 11,864 convertible debentures, were converted into 2.5 million common shares.

Launch of Vancouver Fulfillment Center

In March 2020, the Company announced the official launch of a 84,000 square feet fulfillment center in Vancouver, British Columbia, which has been instrumental in helping to expand the Company's footprint in Western Canada.

Launch of First Toronto Fulfillment Center

In April 2020, the Company announced that it had signed a lease for its first fulfillment centre in the Greater Toronto Area, further expanding its national operating footprint. Fulfillment of orders at the new 42,000 square feet facility began in May 2020.

New Fulfillment Center in Montreal

In July 2020, the Company signed a lease for a 45,000 square feet facility in Montreal, further expanding its footprint and capabilities in the key urban centre. The new facility increased Goodfood's footprint to six facilities across Canada totalling nearly 590,000 square feet of purpose-built online grocery and meal solution delivery fulfillment capacity. The Company began operations in the new facility in October 2020.

Flagship Fulfillment Center in the Greater Toronto Area

In May 2020, the Company announced that it had signed a lease for its second fulfillment center in the Greater Toronto Area. The state of the art 200,000 square feet facility will expand Goodfood's operating footprint to seven facilities from coast-to-coast. The fulfillment center is currently under construction and should be operational by the end of summer 2021 and is expected to create over 2,000 jobs at full capacity.

Inclusion in the S&P/TSX Smallcap Index

In June 2020, the Company announced that it had been selected to join the S&P/TSX Smallcap Index effective June 22, 2020. The Index is a key benchmark measure for the Canadian small cap equity markets and Goodfood's inclusion among its constituents is a testament to the track record of strong capital markets and financial performance delivered to date.

Launch of Flex Ordering Platform

In July 2020, the Company announced the launch of its new user-friendly ordering interface, Flex, to enhance subscriber experience. The new interface provides added flexibility to members, allowing them to freely purchase any quantity of meal solutions and private label groceries on a weekly basis. Members can fill their basket with grocery products, meal solutions or any combination of the two.

Equity Issuance

In August 2020, the Company completed a public offering and issued 4.8 million common shares for net proceeds of $27.1 million. The Company intends to use the proceeds for capital expenditures to build out same-day delivery capabilities (including fulfilment technology and automation equipment) and for general corporate purposes. Refer to the "Use of Proceeds from Public Offerings" section of this MD&A for information on use of proceeds by the Company.

Active Subscribers

As at August 31, 2020, Goodfood reached 280,000 active subscribers, with the addition of 8,000 net new active subscribers during the fourth quarter and 80,000 net new active subscribers during the fiscal year, representing an increase of 40% year-over-year. A strong rise in demand, accelerated by the COVID-19 pandemic, has driven subscriber additions, and prompted higher order rates and average order values, particularly in the second half of the fiscal year.

COVID-19 Impact and Measures

The World Health Organization declared COVID-19 a global pandemic on March 11, 2020, and the outbreak has had an impact on Goodfood's overall business and operations. As the Company is deemed an essential service in Canada, Goodfood has continued to operate without interruption.

In the second half of Fiscal 2020, Goodfood experienced several positive impacts on its financial results related to the COVID-19 pandemic such as increased subscriber growth, number of orders and average order values, which positively impacted revenue. However, the Company also experienced staffing and supply chain challenges which resulted in direct incremental costs of approximately $3.5 million for the year ended August 31, 2020. The COVID-19 related costs consist of $3 million in additional production labour costs which includes $1.7 million due to temporary wage increases and $1.3 million incurred for temporary agency premiums (but do not include the cost of standard hourly wages), as well as $0.5 million in other production costs and selling, general and administrative expenses (including personal protection equipment, hand sanitizers, nursing staff and additional health and safety measures). The aforementioned direct costs incurred do not include time spent by management throughout the crisis. In order to alleviate pressure on operations coming from the increase in demand and to maintain high quality standards for our existing members, the Company curtailed delivery days for a few weeks and strategically matched its marketing spend to its supply chain capabilities on a temporary basis.

As part of the pandemic initiatives implemented by the Company:

- It launched the Essential Canadian Pay Program which ended on July 5, 2020, and which increased the pay of all hourly and salaried operations and production employees by $2 or more per hour; and
- It utilized various external agencies to hire qualified production agency employees to accommodate the increase in orders and volume.

At the onset of the pandemic, weekly newsletters from Goodfood's CEO were sent to members providing updates of the Company's operations and included information regarding precautionary measures implemented at its facilities in addition to its already rigorous food safety standards. These measures included, but were not limited to:

- Enhanced hygiene procedures, including additional cleaning at all of its facilities, mandatory hand washing prior to entry (for both visitors and employees), and accessibility to hand sanitizer stations;
- Social distancing measures put in place for the health and safety of employees, including a free shuttle service for employees to reduce the use of public transit, mandatory non-contact temperature checks before entering the facility, installation of physical safety barriers, requirement for all frontline employees to wear personal protection equipment, such as face masks and face shields, and the hiring of nurses and a security team to ensure the health screening for employees and reinforce social distancing measures inside and outside of all facilities; and
- Suspension of its Box Pick-up and Reusable Box Program to eliminate the risk of cross-contamination in its facilities.

Launch of Goodfood WOW

In October 2020, the Company announced the launch of its new unlimited same-day grocery delivery service, in the Greater Montreal Area. This new service is scheduled to expand to other major Canadian cities over the next year. The new service offers an even more flexible and convenient online grocery experience, allowing members to order any combination of meal kits, groceries, prepared meals and other products as frequently as needed during the week, with same-day delivery included for all orders over $35 – all for only $9.99 a month.

SELECTED ANNUAL FINANCIAL INFORMATION

(In thousands of Canadian dollars)

As at	**August 31, 2020**	August 31, 2019	August 31, 2018
Financial position			
Cash and cash equivalents and restricted cash	**$ 106,902**	$ 47,649	$ 24,453
Fixed assets	**19,191**	13,545	6,006
Total assets	**163,046**	80,783	34,309
Total debt [(1)]	**21,678**	14,031	2,592
Total convertible debentures [(2)]	**16,425**	–	–
Shareholders' equity	**57,558**	17,401	16,456

(1) Total debt consists of the line of credit and the current and non-current portion of long-term debt.
(2) Total convertible debentures consist of the liability and equity components of the convertible debentures.

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

For the years ended August 31,	**2020**	2019	2018
Comprehensive loss			
Revenues	**$ 285,372**	$ 161,333	$ 70,502
Gross profit	**86,419**	40,310	14,660
Net loss, being comprehensive loss	**(4,136)**	(20,937)	(9,434)
Basic loss per share	**(0.07)**	(0.38)	(0.19)
Diluted loss per share	**(0.07)**	(0.38)	(0.19)
Cash flows provided by (used in):			
Operating activities	**$ 8,555**	$ 880	$ 176
Financing activities	**60,118**	29,555	10,901
Investing activities	**(9,420)**	(9,739)	(4,171)

METRICS AND NON-IFRS FINANCIAL MEASURES - RECONCILIATION

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

ACTIVE SUBSCRIBERS

	For the three-month periods ended August 31,		For the years ended August 31,	
	2020	2019	**2020**	2019
Active subscribers, beginning of period	**272,000**	189,000	**200,000**	89,000
Net change in active subscribers	**8,000**	11,000	**80,000**	111,000
Active subscribers, end of period	**280,000**	200,000	**280,000**	200,000

EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

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

(In thousands of Canadian dollars, except percentage information)

	For the three-month periods ended August 31,		For the years ended August 31,	
	2020	2019	**2020**	2019
Net income (loss)	**$ 1,590**	$ (5,887)	**$ (4,136)**	$ (20,937)
Net finance costs	**911**	81	**2,380**	346
Depreciation and amortization	**1,818**	874	**5,361**	2,617
Deferred income tax expense (recovery)	**526**	–	**(804)**	–
EBITDA	**$ 4,845**	$ (4,932)	**$ 2,801**	$ (17,974)
Share-based payments	**418**	541	**1,874**	1,810
Adjusted EBITDA	**$ 5,263**	$ (4,391)	**$ 4,675**	$ (16,164)
Revenues	**$ 83,691**	$ 45,259	**$ 285,372**	$ 161,333
Adjusted EBITDA margin (%)	**6.3%**	(9.7%)	**1.6%**	(10.0%)

For the three-month period and year ended August 31, 2020, adjusted EBITDA margin improved by 16.0 percentage points and 11.6 percentage points, respectively, compared to the corresponding period in 2019. For the three-month period and year ended August 31, 2020, the increase in adjusted EBITDA margin resulted primarily from a larger revenue base which accelerated the operating leverage effect as selling, general and administrative expenses as a percentage of revenues decreased, and higher gross margin, offset by additional expenses resulting from the launch of new product offerings as well as the additional costs incurred due to COVID-19.

RESULTS OF OPERATIONS – FISCAL 2020 AND FISCAL 2019

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

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

For the years ended August 31,	2020	2019	($) [1]	(%) [2]
Revenues	**$ 285,372**	$ 161,333	$ 124,039	77%
Cost of goods sold	**198,953**	121,023	(77,930)	64%
Gross profit	**$ 86,419**	$ 40,310	$ 46,109	114%
Gross margin	***30.3%***	*25.0%*	*N/A*	*N/A*
Selling, general and administrative expenses	**$ 83,618**	$ 58,284	$ (25,334)	43%
Depreciation and amortization	**5,361**	2,617	(2,744)	105%
Net finance costs	**2,380**	346	(2,034)	588%
Loss before income taxes	**(4,940)**	(20,937)	15,997	76%
Deferred income tax recovery	**(804)**	–	804	100%
Net loss, being comprehensive loss	**$ (4,136)**	$ (20,937)	$ 16,801	80%
Basic loss per share	**$ (0.07)**	$ (0.38)	$ 0.31	82%
Diluted loss per share	**$ (0.07)**	$ (0.38)	$ 0.31	82%

(1) A positive variance represents a decrease to net loss and a negative variance represents an increase in net loss.
(2) Percentage change is presented in absolute values.

VARIANCE ANALYSIS FOR FISCAL 2020 COMPARED TO FISCAL 2019

- The Company's continued focus on its strategy to become Canada's leading online grocer by increasing its product offering and flexibility to members led to a positive impact on basket size and order frequency. The increase in revenues is primarily due to growth in active subscribers, increased average order values and the positive impacts of COVID-19 on order rates. The decrease in incentives and credits as a percentage of revenues from 24.5% to 15.9% also contributed to the increase in revenues.
- The increase in gross profit and gross margin resulted primarily from a decrease in incentives and credits as well as lower food costs as a percentage of revenues. In addition, 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 contributed to the increase in gross profit and gross margin. This was partially offset by supplementary costs incurred directly related to the COVID-19 pandemic during the second half of Fiscal 2020 for additional production employees, temporary wage increases, and other production costs such as personal protection equipment and sanitizers.
- The increase in selling, general and administrative expenses is primarily due to higher wages resulting from the expansion of the management team and related administrative functions needed to support the Company's growth and increase in product offerings. Selling, general and administrative expenses as a percentage of revenues decreased from 36.1% to 29.3%.
- The increase in depreciation and amortization expense resulted from the recognition of new leased assets and from the additions of fixed assets across all asset classes.
- The increase in net finance costs primarily relates to interest expense resulting from a higher level of indebtedness in Fiscal 2020 due to the issuance of convertible debentures in February 2020, as well as an increase in lease obligations.
- The deferred income tax recovery is due to the recognition of previously unrecognized tax benefits to offset a deferred tax liability recognized on the equity component of the convertible debentures issued in February 2020. At the issuance of the convertible debentures, an income tax recovery of $1.3 million was recorded. During the year ended August 31, 2020, $0.5 million was reversed upon conversion of certain convertible debentures.
- The decrease in net loss is explained principally by the increase in revenues and higher gross profit.

RESULTS OF OPERATIONS – THREE-MONTH PERIODS ENDED AUGUST 31, 2020 AND 2019

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

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

For the three-month periods ended August 31,	2020	2019	($) [1]	(%) [2]
Revenues	**$ 83,691**	$ 45,259	$ 38,432	85%
Cost of goods sold	**56,217**	33,182	(23,035)	69%
Gross profit	**$ 27,474**	$ 12,077	$ 15,397	127%
Gross margin	***32.8%***	*26.7%*	*N/A*	*N/A*
Selling, general and administrative expenses	**$ 22,629**	$ 17,009	$ (5,620)	33%
Depreciation and amortization	**1,818**	874	(944)	108%
Net finance costs	**911**	81	(830)	1,025%
Net income (loss) before income taxes	**2,116**	(5,887)	8,003	136%
Deferred income tax expense	**526**	–	(526)	100%
Net income (loss), being comprehensive income (loss)	**$ 1,590**	$ (5,887)	$ 7,477	127%
Basic earnings (loss) per share	**$ 0.03**	$ (0.10)	$ 0.13	130%
Diluted earnings (loss) per share	**$ 0.03**	$ (0.10)	$ 0.13	130%

(1) A positive variance represents an increase in net income or a decrease in net loss and a negative variance represents a decrease in net income or an increase in net loss.
(2) Percentage change is presented in absolute values.

VARIANCE ANALYSIS FOR THE THREE-MONTH PERIOD ENDED AUGUST 31, 2020 COMPARED TO THE THREE-MONTH PERIOD ENDED AUGUST 31, 2019

- The Company's continued focus on its strategy to become Canada's leading online grocer by increasing its product offering and flexibility to members impacted positively the average basket size and order frequency which, combined with a larger subscriber base, in turn increased revenues. The decrease in incentives and credits as a percentage of revenues from 23.7% to 12.1% also contributed to the increase in revenues.
- The increase in gross profit and gross margin primarily resulted from a decrease in incentives and credits as a percentage of revenues, combined with a price increase on certain items, lower unit costs for packaging and shipping explained by an increased density among the delivery zones and purchasing power with key suppliers. This was offset by supplemental costs incurred directly related to the COVID-19 pandemic for additional production employees, temporary wage increases, and other production costs such as personal protection equipment and sanitizers.
- The increase in selling, general and administrative expenses is primarily due to higher wages as the Company continues to grow. Selling, general and administrative expenses as a percentage of revenues decreased from 37.6% to 27.0%.
- The increase in depreciation and amortization expense is mainly due to the additions of fixed assets across all asset classes.
- The increase in net finance costs is mainly due to a higher level of indebtedness arising from the issuance of convertible debentures in February 2020, as well as higher lease obligations.
- The deferred income tax expense relates to the reversal of recognized tax losses recorded in the third quarter of Fiscal 2020 resulting from the conversion of convertible debentures into common shares in the fourth quarter of Fiscal 2020.
- The increase in net income is explained principally by higher revenues and gross profit as well as a decrease in marketing expense, slightly offset by higher wages and salaries to support the growth of the business.

FINANCIAL POSITION

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

(In thousands of Canadian dollars)

As at	August 31, 2020	August 31, 2019	Variance
Total Assets	**$ 163,046**	$ 80,783	$ 82,263
Variance mainly due to:			
Cash and cash equivalents	**104,402**	45,149	59,253
Inventories	**6,962**	4,735	2,227
Fixed assets	**19,191**	13,545	5,646
Right-of-use assets	**21,130**	11,089	10,041
Intangible assets	**2,203**	512	1,691
Total Liabilities	**$ 105,488**	$ 63,382	$ 42,106
Variance mainly due to:			
Accounts payable and accrued liabilities	**40,878**	30,704	10,174
Line of credit	**9,063**	1,540	7,523
Convertible debentures	**14,194**	–	14,194
Lease obligations, including current portion	**23,348**	12,724	10,624
Total Shareholders' Equity	**$ 57,558**	$ 17,401	$ 40,157
Variance mainly due to:			
Common shares	**97,801**	56,598	41,203
Convertible debentures	**2,231**	–	2,231
Deficit	**(45,682)**	(41,546)	(4,136)

VARIANCE ANALYSIS FROM AUGUST 31, 2019 TO AUGUST 31, 2020

- The increase in cash and cash equivalents is primarily due to the issuance of convertible debentures in February 2020 and the issuance of shares in August 2020 combined with increased net cash flows provided by operating activities.
- The increase in inventories is primarily related to the Company's growth, with an increase in food and packaging inventory to support the weekly and monthly revenues cycles and also due to the product offering expansion and additional production facilities. Despite the opening of new facilities and the launch of several new products, inventories as a percentage of cost of goods sold decreased year-over-year.
- The increase in fixed assets is primarily due to investments in capacity expansions and automation of the Company's production facilities in order to increase production capacity and efficiency.
- The increase in right-of-use assets and lease obligations resulted from the recognition of new lease agreements, primarily for the leased facilities in British Columbia and Ontario.
- The increase in intangible assets resulted from investments in the development of an enterprise resource planning system to optimize the Company's operations as it continues to scale up, as well as labour costs developing new functionalities on the Goodfood website platform to allow increased product offerings and flexibility for our members.
- The increase in accounts payable and accrued liabilities is primarily due to the Company's growth and expansion of its product offering and favourable payment terms as a result of increased purchasing power with key suppliers as the Company increases its scale, which resulted in higher purchases and payroll related accruals related to the increased headcount and expansion of the management team.
- The Company drew on its line of credit during Fiscal 2020 to fund capital expenditures and as a contingency plan to improve its liquidity position during the COVID-19 pandemic.
- The increase in convertible debentures resulted from the issuance of convertible debentures in February 2020. Refer to the "Debt" section of this MD&A for additional information on the convertible debentures.
- The increase in common shares is mainly due to the public offering completed in August 2020 as well as the conversion of convertible debentures.
- The increase in deficit is due to the net loss for Fiscal 2020.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL MANAGEMENT

The Company's objective in managing its capital structure is to ensure sufficient liquidity to finance its operations and growth and to deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements of equity securities, convertible debentures, cash flows provided by operating activities and short-term or long-term debt, which are included in the Company's definition of capital. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

CASH FLOWS

A summary of net cash flows by activity is presented below:

(In thousands of Canadian dollars)

For the years ended August 31,		2020		2019		Variance
Net cash flows provided by operating activities	**$**	**8,555**	$	880	$	7,675
Net cash flows provided by financing activities		**60,118**		29,555		30,563
Net cash flows used in investing activities		**(9,420)**		(9,739)		319
Net change in cash and cash equivalents	**$**	**59,253**	$	20,696	$	38,557
Cash and cash equivalents, beginning of period		**45,149**		24,453		20,696
Cash and cash equivalents, end of period	**$**	**104,402**	$	45,149	$	59,253

Net cash flows provided by operating activities increased from $0.9 million to $8.6 million for the year ended August 31, 2020 primarily due to the decrease in net loss recorded for the year ended August 31, 2020, partly offset by a less favourable variance in non-cash operating working capital primarily resulting from changes in accounts payable and accrued liabilities.

Net cash flows provided by financing activities for the year ended August 31, 2020 is primarily comprised of net proceeds from the issuance of convertible debentures and common shares during Fiscal 2020 as well as borrowing under the line of credit, partially offset by interest and lease obligation payments. Net cash flows provided by financing activities for the year ended August 31, 2019 is made up of net proceeds from the issuance of common shares, as well as proceeds from the issuance of long-term debt and borrowing under the line of credit, partly offset by interest and lease obligation payments.

Net cash flows used in investing activities for the year ended August 31, 2020 is primarily comprised of fixed asset additions driven by the buildout of the Vancouver fulfillment facility, the construction related to the partial in-housing of the ready-to-eat production at our Montreal facility, and the continued investment in automation equipment. Net cash flows used in investing activities for the year ended August 31, 2019 is mainly made up of fixed assets additions driven primarily by investments in automation equipment.

A summary of net cash flows by activity is presented below:

(In thousands of Canadian dollars)

For the three-month periods ended August 31,		2020		2019		Variance
Net cash flows provided by (used in) operating activities	**$**	**2,423**	$	(2,710)	$	5,133
Net cash flows provided by financing activities		**26,789**		3,307		23,482
Net cash flows used in investing activities		**(2,797)**		(5,161)		2,364
Net change in cash and cash equivalents	**$**	**26,415**	$	(4,564)	$	30,979
Cash and cash equivalents, beginning of period		**77,987**		49,713		28,274
Cash and cash equivalents, end of period	**$**	**104,402**	$	45,149	$	59,253

Net cash flows provided by operating activities increased by $5.1 million to $2.4 million for the quarter ended August 31, 2020 primarily due to the net income recorded for the three-month period ended August 31, 2020, partially offset by an unfavourable variance in change in non-cash operating working capital mainly explained by a decrease in deferred revenue resulting from the timing of cash receipts with respect to the Company's weekly delivery cycle.

Net cash flows provided by financing activities for the quarter ended August 31, 2020 is primarily comprised of net proceeds resulting from the public issuance of common shares. Net cash flows provided by financing activities for the three-month period ended August 31, 2019 is made up of net proceeds from the issuance of long-term debt.

Net cash flows used in investing activities for the fourth quarter ended August 31, 2020 is primarily comprised of fixed assets additions mainly attributable to technology implementation and redesign of facilities layouts. Net cash flows used in investing activities for the three-month period ended August 31, 2019 is primarily made up of fixed assets additions driven by investments in automation equipment.

The following are amounts of cash, cash equivalents and restricted cash:

(In thousands of Canadian dollars)

As at August 31,	2020	2019
Cash and cash equivalents	**$ 104,402**	$ 45,149
Restricted cash [(1)]	**2,500**	2,500
	$ 106,902	$ 47,649

(1) Restricted cash consists of cash held as collateral, which is subject to the terms of the financing agreement (Refer to the "Debt" section of this MD&A).

DEBT

Significant financing transactions that took place in Fiscal 2020 were as follows:

- On February 26, 2020, the Company issued 30,000 convertible unsecured subordinated debentures (the "Debentures") at a price of $1,000 per Debenture for gross proceeds of $30 million. The Debentures mature on March 31, 2025 and bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2020. Factoring in the Debentures issuance costs, the effective interest rate on the Debentures is 11.76%. The Debentures are convertible into common shares of the Company at any time at the option of the holder at a conversion price of $4.70. Starting on March 31, 2023, under certain conditions, the debentures may be redeemed in whole or in part at the option of the Company at a price equal to the principal amount thereof plus accrued and unpaid interest. As at August 31, 2020, 11,864 Debentures ($11.9 million) were converted into 2.5 million common shares, resulting in 18,136 Debentures ($18.1 million) outstanding.
- As at August 31, 2020, the Company had one signed swap agreement with a Canadian financial institution whereby the Company fixed the annual interest rates on notional amounts totalling $11.3 million until November 2021.
- As at August 31, 2020, $10 million and $2.5 million of the Company's term loans with the same Canadian financial institution were disbursed, as well as $9.1 million of the available $10 million revolving line of credit, bearing variable interest at the Canadian Dollar Offered Rate ("CDOR") plus 2.50%. The proceeds are being used to fund the expansion, capital expenditures, invest in automation, and were also used to refinance the Company's long-term debt. The term loans are repayable in quarterly installments of $125 thousand and $31 thousand, beginning on November 30, 2020 and August 31, 2020, respectively, with a bullet repayment of the balance at the end of the term in November 2021.
- The Company's 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, 2020.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

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, 2020:

(In thousands of Canadian dollars)

	Payments due for the years following August 31, 2020			
	Total	**1 year**	**1 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 40,878**	$ 40,878	$ –	$ –
Line of credit (1)	**9,063**	9,063	–	–
Long-term debt, including current portion	**13,104**	1,142	11,962	–
Debentures, liability component	**23,447**	1,140	22,307	–
Lease obligations, including current portion (2) (3)	**28,424**	4,076	13,822	10,526
Other (4)	**1,974**	1,870	104	–
	$ 116,890	**$ 58,169**	**$ 48,195**	**$ 10,526**

(1) As at August 31, 2020, letters of credit amounting to $0.9 million reduced the availability on the line of credit.

(2) As at August 31, 2020, 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 statement of financial position, representing an amount of $6.4 million of undiscounted cash flows.

(3) As at August 31, 2020, fixed rent payments representing a total commitment of $34 million and $1.5 million over the term of the leases are not reflected in the measurement of lease obligations. For more information, please refer to the "Off-balance sheet arrangements" section of this MD&A.

(4) As at August 31, 2020, Goodfood had commitments under purchase and service contract obligations for both operating and capital expenditures. Cash on hand will be used to fund these purchase obligations.

COMMON SHARES

Significant equity transactions that took place in Fiscal 2020 were as follows:

- 910,641 stock options were exercised for common shares;
- In connection with the issuance of 30,000 Debentures on February 26, 2020, 11,864 Debentures ($11.9 million) were converted into 2,524,242 common shares. Refer to the "Use of Proceeds from Public Offerings" section of this MD&A for information on use of proceeds by the Company; and
- In connection with the public offering completed on August 5, 2020, the Company issued 4,755,250 common shares. 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 FINANCIAL INFORMATION

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

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

	Fiscal 2020				Fiscal 2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Active subscribers	**280,000**	272,000	246,000	230,000	200,000	189,000	159,000	126,000
Revenues	**$ 83,691**	$ 86,600	$ 58,790	$ 56,291	$ 45,259	$ 49,864	$ 36,593	$ 29,617
Gross margin	**32.8%**	28.8%	30.3%	28.8%	26.7%	28.3%	20.9%	21.9%
Net income (loss)	**$ 1,590**	$ 2,786	$ (3,360)	$ (5,152)	$ (5,887)	$ (3,639)	$ (6,560)	$ (4,851)
Net finance costs	**911**	1,154	218	97	81	89	89	87
Depreciation and amortization	**1,818**	1,484	1,066	993	874	701	555	487
Deferred income tax expense (recovery)	**526**	–	(1,330)	–	–	–	–	–
Share-based payments	**418**	560	485	411	541	465	429	375
Adjusted EBITDA [(1)]	**$ 5,263**	$ 5,984	$ (2,921)	$ (3,651)	$ (4,391)	$ (2,384)	$ (5,487)	$ (3,902)
Adjusted EBITDA margin [(1)]	**6.3%**	6.9%	(5.0)%	(6.5)%	(9.7)%	(4.8)%	(15.0)%	(13.2)%
Basic earnings (loss) per share [(2)]	**$ 0.03**	$ 0.05	$ (0.06)	$ (0.09)	$ (0.10)	$ (0.06)	$ (0.13)	$ (0.09)
Diluted earnings (loss) per share [(2)]	**0.03**	0.05	(0.06)	(0.09)	(0.10)	(0.06)	(0.13)	(0.09)

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

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

TRENDS AND SEASONALITY

The Company's revenues and expenses are impacted by seasonality. During the holiday and summer seasons, the Company anticipates revenues to be lower as a higher proportion of active subscribers elect to skip their delivery. The Company anticipates the growth rate of active subscribers to be lower during these periods. While this is typically the case, the COVID-19 pandemic may have an impact on this trend. 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.

FINANCIAL RISK MANAGEMENT

CREDIT RISK

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligation. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk is primarily attributable to its cash and cash equivalents, amounts receivable, and restricted cash. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited given the Company deals with major North American financial institutions and an internationally established payment processor.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's long-term debt and revolving 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 cash flow risk due to fluctuations in lenders' base rates. The Company manages its interest rate risk by using a variable-to-fixed interest rate swap as described in the "Liquidity and Capital Resources" section of this MD&A.

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss and does not designate derivatives (interest rate swap) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not significantly impact the fair value of the interest rate swaps and consequently, the Company's net loss.

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.

For the fiscal year ending August 31, 2021, additional capital expenditures as the Company continues to expand its footprint across Canada, as well as growing its active subscriber base and product offering, are expected to reduce the Company's cash balance and liquidity position compared to August 31, 2020, absent additional financing. We believe that the Company's cash and cash equivalents 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

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, 2020 available on SEDAR at www.sedar.com.

COVID-19

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations. As an essential service in Canada, Goodfood continued to operate throughout the pandemic and experienced an acceleration of growth in demand. While subscriber orders have been fulfilled and consumer behaviour during the pandemic has contributed to an increase in subscriber base, orders by subscribers and overall business, operations and supply chains were significantly challenged with temporary supplier closures and substitution of unavailable ingredients combined with workforce shortages and additional sanitary measures, putting pressure on food and labour costs. Pressure on supply chains, inventory levels and increased operational costs or disruptions and labour shortages could increase depending on the duration and severity of the pandemic as well as any changes to Goodfood's industry regulatory framework.

As a result of the COVID-19 pandemic, the number of employees working remotely has increased significantly, which has also increased demands on information technology resources and systems and increased the risk of phishing and other cybersecurity attacks.

The magnitude, duration, and severity of the COVID-19 pandemic are difficult to predict and could affect the significant estimates and judgements used in the preparation of the Company's consolidated financial statements.

ADDITIONAL FINANCING REQUIREMENTS

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

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 revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material, other than the following:

During the year ended August 31, 2020, the Company signed a ten-year lease for a 200,000 square-feet fulfillment centre located in the Greater Toronto Area, Ontario, Canada with two renewal options of five years. As at August 31, 2020, the Company did not have access to the asset and therefore, the facility was not reflected as a right-of-use asset and no corresponding lease liability was recorded. The expected delivery date and the expected rent payment commencement date is by the end of summer 2021, at which point management intends to commence operations. Fixed rent payments represent a total commitment of $34 million over the term of the lease.

During the year ended August 31, 2020, the Company signed a thirty-month lease for a 44,967 square-feet fulfillment center located in Montreal, Québec, Canada with two renewal options of 90 days. As at August 31, 2020, the Company did not have access to the asset and therefore, the facility was not reflected as a right-of-use asset and no corresponding lease liability was recorded. The lease commencement date was October 1, 2020. Fixed rent payments represent a total commitment of $1.5 million over the term of the lease.

FINANCIAL INSTRUMENTS

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

As at August 31, 2020, the Company had one interest rate swap agreement, as described in the "Liquidity and Capital Resources" section of the MD&A.

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, 2020, the Company was in compliance with these financial covenants.

RELATED PARTIES

KEY MANAGEMENT PERSONNEL

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

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

(In thousands of Canadian dollars)

For the years ended August 31,	2020	2019
Salaries, fees and other short-term employee benefits	**$ 2,884**	$ 1,963
Share-based payments	**865**	1,062

RELATED PARTY TRANSACTIONS

For the year ended August 31, 2020, in connection with the issuance of Debentures, 75 Debentures were purchased by Board members and key management personnel at a price of $1,000 per Debenture.

STOCK OPTIONS

A stock option plan (the "Stock Option Plan") was established by the Company to attract and retain employees, consultants, directors and officers. The plan provides for the granting of stock options to purchase common shares where at any given time the number of stock options reserved for issuance is equal to 10% of the Company's issued and outstanding common shares. Under the plan, stock options generally vest over a period of four years and expire eight years from the grant date.

OUTSTANDING SHARE DATA

As at	November 10, 2020	August 31, 2020	August 31, 2019
Common shares outstanding (1)	**67,076,723**	**66,311,121**	58,144,400
Debentures outstanding (2)	**3,122,553**	**3,858,723**	–
Stock options outstanding	**4,899,143**	**4,751,695**	3,910,169
Stock options exercisable	**1,017,863**	**896,335**	639,039

(1) As at November 10, 2020 and August 31, 2020, 30,612 and 23,412 common shares, respectively, were held in trust through the employee share purchase plan.

(2) As at November 10, 2020 and August 31, 2020, 14,676 and 18,136 Debentures were outstanding which are convertible into 3,122,553 and 3,858,723 common shares of the Company, respectively, at a conversion price of $4.70. For more information, please refer to the "Debt" section of this MD&A.

USE OF PROCEEDS FROM PUBLIC OFFERINGS

AUGUST 2020 PUBLIC OFFERING

On August 5, 2020, the Company completed a public offering and issued 4,755,250 common shares for net proceeds of $27.1 million (including proceeds from over-allotment option). As at August 31, 2020, none of the proceeds received from the public offering completed on August 5, 2020 had been used.

The following table compares the estimated use of proceeds presented in the Company's final short-form prospectus dated July 24, 2020 with the actual use of proceeds as at August 31, 2020:

(In thousands of Canadian dollars)

	Actual use of proceeds	Estimated use of proceeds (1)	Variance
Capital expenditures to build out same-day delivery capabilities (including fulfilment technology and automation equipment)	$ –	$ 15,000	$ (15,000)
General corporate purposes	–	12,093	(12,093)
Remaining as at August 31, 2020	27,093	N/A	27,093
Total net proceeds	27,093	27,093	–
Share issuance costs	1,676	1,676	–
Gross proceeds	$ 28,769	$ 28,769	$ –

(1) Included in the estimated use of proceeds for general corporate purposes are the additional net proceeds from the exercise of the treasury over-allotment option.

FEBRUARY 2020 CONVERTIBLE DEBENTURES PUBLIC OFFERING

On February 26, 2020, the Company completed a public offering and issued $30 million of Debentures for net proceeds of $28 million.

The following table compares the estimated use of proceeds presented in the Company's final short-form prospectus dated February 19, 2020 with the actual use of proceeds as at August 31, 2020:

(In thousands of Canadian dollars)

	Actual use of proceeds	Estimated use of proceeds	Variance
Buildout of a new Toronto production and distribution facility	$ 385	$ 10,000	$ (9,615)
Capital projects (including process automation)	3,069	10,000	(6,931)
General corporate purposes	5,007	8,063	(3,056)
Remaining as at August 31, 2020	19,501	N/A	19,501
Total net proceeds	27,962	28,063	(101)
Debentures issuance costs	2,038	1,937	101
Gross proceeds	$ 30,000	$ 30,000	$ –

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, 2020:

(In thousands of Canadian dollars)

	Actual use of proceeds	Estimated use of proceeds (1)	Variance
Capital expenditures and process automation	$ 9,668	$ 10,000	$ (332)
Expansion of product offering and development of new meal solutions	5,731	5,000	731
Implementation of reusable packaging initiatives	106	500	(394)
Working capital and general corporate purposes	4,065	4,065	–
Remaining as at August 31, 2020	–	N/A	–
Total net proceeds	19,570	19,565	5
Share issuance costs	1,497	1,502	(5)
Gross proceeds	$ 21,067	$ 21,067	$ –

(1) Included in the estimated use of proceeds for working capital and general corporate purposes are the additional net proceeds from the exercise of the Treasury Over-Allotment Option.

SEGMENT REPORTING

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

DIVIDEND POLICY

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

CRITICAL ACCOUNTING ESTIMATES

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

The Company's significant accounting estimates and assumptions for the year ended August 31, 2020 include the uncertainties related to the COVID-19 pandemic, the estimation of the redemption percentage for sales incentives and credits including referral credits, the date at which fixed assets are available for intended use, the impairment of long-lived assets, the estimated term for leases, the discount rate for leases, and the recoverability of deferred income taxes.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Please refer to Note 28 of the Company's consolidated financial statements for the years ended August 31, 2020 and 2019. The Company is currently assessing the impact of adopting these amended standards and interpretations on the Company's consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 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, 2020.

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, 2020.

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

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2020 AND 2019

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, 2020 and 2019
- 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, 2020 and 2019, 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 entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP*

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

Montréal, Canada

November 10, 2020

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

GOODFOOD MARKET CORP.

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

As at	**Notes**	**August 31, 2020**	August 31, 2019
Assets			
Current assets:			
Cash and cash equivalents		**$ 104,402**	$ 45,149
Amounts receivable	4	**4,464**	2,605
Inventories	5	**6,962**	4,735
Other current assets	6	**780**	246
		116,608	52,735
Non-current assets:			
Restricted cash	12	**2,500**	2,500
Fixed assets	7	**19,191**	13,545
Right-of-use assets	8	**21,130**	11,089
Intangible assets	9	**2,203**	512
Non-current deposits	10	**1,414**	402
Total assets		**$ 163,046**	$ 80,783
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	11	**$ 40,878**	$ 30,704
Line of credit	12	**9,063**	1,540
Deferred revenues		**5,390**	5,923
Current portion of long-term debt	12	**656**	31
Current portion of lease obligations	14	**2,990**	1,273
		58,977	39,471
Non-current liabilities:			
Long-term debt	12	**11,959**	12,460
Convertible debentures	13	**14,194**	–
Lease obligations	14	**20,358**	11,451
Total liabilities		**105,488**	63,382
Shareholders' equity:			
Common shares	18	**97,801**	56,598
Contributed surplus		**3,208**	2,349
Convertible debentures	13	**2,231**	–
Deficit		**(45,682)**	(41,546)
Total shareholders' equity		**57,558**	17,401
Total liabilities and shareholders' equity		**$ 163,046**	$ 80,783

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

Approved on behalf of Goodfood Market Corp. by:

(signed)
Jonathan Ferrari, Director and
Chair of the Board

(signed)
Francois Vimard, Director and
Chair of the Audit Committee

GOODFOOD MARKET CORP.

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

For the years ended August 31,	Notes	2020	2019
Revenues		**$ 285,372**	$ 161,333
Cost of goods sold		**198,953**	121,023
Gross profit		**86,419**	40,310
Selling, general and administrative expenses		**83,618**	58,284
Depreciation and amortization	7, 8, 9, 20	**5,361**	2,617
Operating profit		**(2,560)**	(20,591)
Net finance costs	15	**2,380**	346
Loss before income taxes		**(4,940)**	(20,937)
Deferred income tax recovery	16	**(804)**	–
Net loss, being comprehensive loss for the period		**$ (4,136)**	$ (20,937)
Basic loss per share		**$ (0.07)**	$ (0.38)
Basic weighted average number of common shares outstanding	18	**58,919,209**	55,069,384
Diluted loss per share		**$ (0.07)**	$ (0.38)
Diluted weighted average number of common shares outstanding	18	**58,919,209**	55,069,384

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

GOODFOOD MARKET CORP.

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

For the years ended August 31,

2020

	Notes	Common Shares	Contributed Surplus	Convertible Debentures	Deficit	Total
Balance as at August 31, 2019		$ 56,598	$ 2,349	$ –	$ (41,546)	**$ 17,401**
Net loss for the period		–	–	–	(4,136)	**(4,136)**
Share-based payments	19	–	1,874	–	–	**1,874**
Stock options exercised	19	2,968	(1,015)	–	–	**1,953**
Employee share purchase plan	19	(96)	–	–	–	**(96)**
Share issuance, net of issuance costs	18	27,093	–	–	–	**27,093**
Convertible debentures issuance, net of issuance costs and tax [(1)]	13	–	–	3,690	–	**3,690**
Convertible debentures conversions, net of tax [(2)]	13	11,238	–	(1,459)	–	**9,779**
Balance as at August 31, 2020		**$ 97,801**	**$ 3,208**	**$ 2,231**	**$ (45,682)**	**$ 57,558**

2019

	Notes	Common Shares	Contributed Surplus	Convertible Debentures	Deficit	Total
Balance as at August 31, 2018		$ 36,283	$ 782	$ –	$ (20,609)	$ 16,456
Net loss for the period		–	–	–	(20,937)	(20,937)
Share-based payments	19	–	1,810	–	–	1,810
Stock options exercised	19	5	(2)	–	–	3
Stock options settled in cash	19	–	(99)	–	–	(99)
Share issuance, net of issuance costs	18	19,570	–	–	–	19,570
Agent compensation options exercised	18	740	(142)	–	–	598
Balance as at August 31, 2019		$ 56,598	$ 2,349	$ –	$ (41,546)	$ 17,401

(1) The equity component of the convertible debentures presented above is net of income taxes of $1.3 million.
(2) The conversions of the convertible debentures presented above is net of income taxes of $0.5 million.

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

GOODFOOD MARKET CORP.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

For the years ended August 31,	Notes	2020	2019
Operating:			
Net loss		$ **(4,136)**	$ (20,937)
Adjustments for:			
Depreciation and amortization		**5,361**	2,617
Share-based payment		**1,874**	1,810
Net finance costs		**2,380**	346
Deferred income tax recovery		**(804)**	–
Change in non-cash operating working capital	20	**4,400**	17,234
Non-current deposits and other		**(520)**	(190)
		8,555	880
Financing:			
Net borrowing under line of credit		**7,523**	1,040
Proceeds from issuance of convertible debentures, net of issuance costs	13	**27,976**	–
Proceeds from issuance of common shares, net of issuance costs	18	**27,241**	19,570
Proceeds from exercise of stock options	19	**1,953**	3
Shares purchased under employee share purchase plan		**(96)**	–
Interest paid		**(1,905)**	(911)
Payments of lease obligations		**(2,574)**	(1,198)
Proceeds from issuance of long-term debt, net of issuance costs	12	**–**	12,436
Repayment of long-term debt	12	**–**	(1,983)
Proceeds from exercise of agent compensation options		**–**	598
		60,118	29,555
Investing:			
Interest received		**782**	647
Additions and deposits on fixed assets	7, 10	**(8,426)**	(7,640)
Additions to intangible assets	9	**(1,776)**	(246)
Restricted cash	12	**–**	(2,500)
		(9,420)	(9,739)
Increase in cash and cash equivalents		**59,253**	20,696
Cash and cash equivalents, beginning of year		**45,149**	24,453
Cash and cash equivalents, end of year		**$ 104,402**	$ 45,149
Supplemental disclosure of cash flow information	20		

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

NOTE 1 REPORTING ENTITY

Goodfood Market Corp. is an online grocery company in Canada, delivering fresh meal solutions and grocery items to members across Canada.

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. References to Goodfood Market Corp. (or "Goodfood", the "Company") represent the financial position, financial performance, cash flows and disclosures of Goodfood Market Corp. and its subsidiary.

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

NOTE 2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Details of the Company's accounting policies are included in Note 25.

The consolidated financial statements of the Company for the years ended August 31, 2020 and 2019 were authorized by the Board of Directors ("Board") on November 10, 2020 for publication on November 11, 2020.

2.2 BASIS OF MEASUREMENT

The consolidated financials statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss;
- equity share-based payment arrangements which are measured at fair value at grant date pursuant to IFRS 2, *Share-based payment*; and
- lease obligations, which are measured at the present value of minimum lease payments at lease inception.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are stated in Canadian dollars, which is the functional and presentation currency of Goodfood Market Corp.

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Goodfood Market Corp.'s consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. These assumptions and estimates are regularly reviewed. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The Company's main judgements, estimates, and assumptions are presented below:

3.1 ECONOMIC CONDITIONS AND UNCERTAINTIES

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations. As an essential service in Canada, Goodfood continued to operate throughout the pandemic and experienced an acceleration of growth in demand. While subscriber orders have been fulfilled and consumer behaviour during the pandemic has contributed to an increase in subscriber base, orders by subscribers and overall business, operations and supply chains were significantly challenged with temporary supplier closures and substitution of unavailable ingredients combined with workforce shortages and additional sanitary measures, putting pressure on food and labour costs. Pressure on supply chains, inventory levels and increased operational costs or disruptions and labour shortages could increase depending on the duration and severity of the pandemic as well as any changes to Goodfood's industry regulatory framework. The magnitude, duration, and severity of the COVID-19 pandemic are difficult to predict and could affect the significant estimates and judgements used in the preparation of the Company's consolidated financial statements. Further details on the impact of the pandemic and measures implemented are provided in Management's Discussion and Analysis for the year ended August 31, 2020.

3.2 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.

3.3 LONG-LIVED 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, right-of-use assets and intangible assets present indicators of impairment. For the purposes of its analysis, management uses its judgement considering factors such as the economic environment and the market in which the Company operates, budget forecasts and physical obsolescence.

3.4 ESTIMATE OF THE LEASE TERM

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will exercise renewal options at the end of the lease term. With the exception of one lease, the Company determined that the term of its leases is the original lease term as it is not reasonably certain that the renewal options will be exercised. This significant estimate could affect the Company's financial position if the exercise of renewal options of the leases are reassessed differently.

3.5 DISCOUNT RATE FOR LEASES

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate ("IBR"). The Company generally used its IBR when recording leases initially, since the implicit rates were not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The IBR for each lease was determined on the commencement date of the lease.

3.6 DEFERRED INCOME TAXES

Deferred tax assets are recognized for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which tax attributes can be realized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Company has determined that it is not yet probable that deferred tax assets on the tax losses carried forward and other temporary differences will be realized and has recognized deferred tax assets to the extent of recognized deferred tax liabilities (refer to Note 16).

(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 4 AMOUNTS RECEIVABLE

As at	August 31, 2020	August 31, 2019
Sales taxes receivable	**$ 3,063**	$ 2,011
Rewards program receivable	**863**	288
Volume discounts receivable	**421**	176
Other receivables	**117**	130
	$ 4,464	$ 2,605

NOTE 5 INVENTORIES

As at	August 31, 2020	August 31, 2019
Food	**$ 4,534**	$ 2,835
Packaging supplies	**1,928**	1,523
Work in process	**500**	377
	$ 6,962	$ 4,735

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2020 was $172.8 million (2019 – $99.2 million).

NOTE 6 OTHER CURRENT ASSETS

As at	August 31, 2020	August 31, 2019
Prepaid expenses	**$ 524**	$ 180
Deposits and other	**256**	66
	$ 780	$ 246

(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 7 FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware and other	Leasehold improvements	Assets under construction [1]	Total
Cost:						
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)
As at August 31, 2019	$ 716	$ 6,480	$ 674	$ 7,079	$ 232	**$ 15,181**
Additions	790	2,049	736	1,436	3,075	**8,086**
Transfers	–	–	–	3,256	(3,256)	**–**
As at August 31, 2020	**$ 1,506**	**$ 8,529**	**$ 1,410**	**$ 11,771**	**$ 51**	**$ 23,267**
Accumulated depreciation:						
As at August 31, 2018	$ 33	$ 139	$ 68	$ 231	$ –	$ 471
Depreciation	97	390	148	552	–	1,187
Disposals	–	(22)	–	–	–	(22)
As at August 31, 2019	$ 130	$ 507	$ 216	$ 783	$ –	**$ 1,636**
Depreciation	205	891	292	1,052	–	**2,440**
As at August 31, 2020	**$ 335**	**$ 1,398**	**$ 508**	**$ 1,835**	**$ –**	**$ 4,076**
Net carrying amounts:						
As at August 31, 2019	$ 586	$ 5,973	$ 458	$ 6,296	$ 232	$ 13,545
As at August 31, 2020	**1,171**	**7,131**	**902**	**9,936**	**51**	**19,191**

[1] Additions of assets under construction include $0.5 million (2019 – $38 thousand) related to capitalized depreciation of right-of-use assets.

GOVERNMENT GRANTS

During the year ended August 31, 2020, the Company recognized $0.2 million in government grants as a reduction to the cost of machinery and equipment.

(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 8 RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
As at August 31, 2018	$ 5,835	$ 100	$ 238	$ 6,173
Additions	5,614	421	357	6,392
Derecognition	–	–	(39)	(39)
Depreciation	(1,101)	(231)	(105)	(1,437)
As at August 31, 2019	$ 10,348	$ 290	$ 451	**$ 11,089**
Additions	12,411	536	324	**13,271**
Derecognition	–	–	(73)	**(73)**
Depreciation	(2,581)	(378)	(198)	**(3,157)**
As at August 31, 2020	**$ 20,178**	**$ 448**	**$ 504**	**$ 21,130**

NOTE 9 INTANGIBLE ASSETS

	Software [1]	Intellectual property	Total
Cost:			
As at August 31, 2018	$ 94	$ –	$ 94
Additions	414	74	488
As at August 31, 2019	$ 508	$ 74	**$ 582**
Additions	1,978	–	**1,978**
Disposals, write-offs and transfers	(63)	–	**(63)**
As at August 31, 2020	**$ 2,423**	**$ 74**	**$ 2,497**
Accumulated amortization:			
As at August 31, 2018	$ 39	$ –	$ 39
Amortization	31	–	31
As at August 31, 2019	$ 70	–	**$ 70**
Amortization	222	15	**237**
Disposals, write-offs and transfers	(13)	–	**(13)**
As at August 31, 2020	**$ 279**	**$ 15**	**$ 294**
Net carrying amounts:			
As at August 31, 2019	$ 438	$ 74	$ 512
As at August 31, 2020	**2,144**	**59**	**2,203**

(1) For the year ended August 31, 2020, software under development amounted to $0.6 million (2019 – $0.3 million).

NOTE 10 NON-CURRENT DEPOSITS

As at	**August 31, 2020**	August 31, 2019
Security deposits	**$ 882**	$ 287
Deposits on fixed assets	**532**	115
	$ 1,414	$ 402

(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	August 31, 2020	August 31, 2019
Accounts payable	$ 26,068	$ 23,961
Accrued liabilities	14,810	6,743
	$ 40,878	$ 30,704

NOTE 12 DEBT

As at	August 31, 2020	August 31, 2019
Interest-bearing financing:		
Secured term loan, variable interest at CDOR [(1)] plus 2.50%, maturing in November 2021	$ 12,500	$ 12,500
	$ 12,500	$ 12,500
Interest rate swap	146	46
Unamortized financing costs	(31)	(55)
	$ 12,615	$ 12,491
Current portion of long-term debt	(656)	(31)
	$ 11,959	$ 12,460

(1) CDOR is defined as the Canadian Dollar Offered Rate.

CREDIT FACILITY

During the year ended August 31, 2019, the Company obtained from a Canadian financial institution two secured three-year term loans totalling $12.5 million, a $10 million revolving line of credit and $5 million in other short-term financing. The credit facility is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The proceeds are being used to fund expansion, capital expenditures, invest in automation, and were also used to refinance the Company's long-term debt.

As at August 31, 2020 and 2019, $12.5 million of the term loans were disbursed, bearing variable interest at CDOR plus 2.50%. The term loans are repayable in quarterly installments of $31 thousand and $125 thousand, beginning on August 31, 2020 and November 30, 2020, respectively, with a bullet repayment of the balance at the end of the term in November 2021.

As at August 31, 2020, $9.1 million (2019 – $1.5 million) of the revolving line of credit was drawn, bearing variable interest at CDOR plus 2.50%.

As at August 31, 2020, Goodfood had letters of credit outstanding totalling $0.9 million (2019 – $86 thousand) that reduced the availability on the line of credit.

As at August 31, 2020, the Company has corporate credit cards used for business purposes with authorized limits totaling $7.3 million (2019 – $7.9 million), including $5 million 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 $2.5 million placed in a restricted cash account. As at August 31, 2020 and 2019, the Company was in compliance with all covenants under the credit facility.

INTEREST RATE SWAPS

During the year ended August 31, 2019, the Company had entered into two swap agreements with the same Canadian financial institution whereby the Company fixed the interest rate on a notional amount totalling $3.8 million until November 2021.

(All tabular amounts are in thousands of Canadian dollars, except share information)

In the first quarter of the year ended August 31, 2020, the Company entered into two additional swap agreements with the same Canadian financial institution whereby the Company fixed the interest rate on a notional amount of $3.2 million until November 2021.

During the third quarter of the year ended August 31, 2020, the Company consolidated its four swap agreements totaling a notional amount of $7 million into one new swap agreement, increasing the notional amount covered to $11.3 million. The new swap agreement fixed the interest rate until November 2021.

As at August 31, 2020, the Company's interest rate swap is classified as a derivative financial liability not designated as a hedging instrument. For the year ended August 31, 2020, a loss in fair value of $0.1 million is presented in net finance costs (refer to Note 15). As at August 31, 2020, a liability of $0.1 million (2019 – $46 thousand) is presented in long-term debt.

PRINCIPAL PAYMENTS

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

		Principal payments
2021	$	**656**
2022		**11,844**

NOTE 13 CONVERTIBLE DEBENTURES

On February 26, 2020, the Company issued 30,000 convertible unsecured subordinated debentures (the "Debentures") at a price of $1 thousand per Debenture for gross proceeds of $30 million. The Debentures mature on March 31, 2025 (the "Maturity Date") and bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2020.

The Debentures are convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the Maturity Date and the last business day immediately preceding the date specified for redemption by the Company at a price of $4.70 (the "Conversion Price") per common share.

On or after March 31, 2023, and prior to March 31, 2024, provided that the volume weighted average trading price of the Company's common shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price, the Debentures may be redeemed in whole or in part at the option of the Company at price equal to the principal amount thereof plus accrued and unpaid interest. On or after March 31, 2024, and prior to the Maturity Date, the Debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

In the event of a change in control, the Company will be required to make a payment to the holders of the Debentures in accordance with the make-whole premium provisions set forth by the indenture of the Debentures.

The conversion option, net of related issuance costs and deferred income taxes, has been recorded in shareholders' equity for an amount of $3.7 million. Factoring in the Debentures issuance costs, the effective interest rate on the Debentures is 11.76%.

During the year ended August 31, 2020, 11,864 Debentures were converted into common shares of the Company, resulting in the issuance of 2,524,242 common shares and the Company recorded a reclassification to common shares of $9.3 million and $2.0 million from the convertible debentures liability and equity components, respectively (refer to Note 18).

(All tabular amounts are in thousands of Canadian dollars, except share information)

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

		August 31, 2020
Proceeds from issuance of the Debentures	$	30,000
Debentures issuance costs		(2,038)
Net proceeds	$	27,962
Amount classified as equity (net of issuance costs of $366) [(1)]		(5,020)
Accretion interest		505
Conversion of the Debentures		(9,253)
Convertible debentures, liability component balance, end of year	$	14,194

(1) In connection with the issuance of the Debentures, a net amount of $3.7 million was recorded in equity, representing gross proceeds of $5.4 million, less allocated issuance costs of $0.4 million and a deferred income tax recovery of $1.3 million.

NOTE 14 LEASE OBLIGATIONS

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

		August 31, 2020		August 31, 2019
Balance, beginning of year	$	12,724	$	7,556
Additions		13,271		6,392
Derecognition		(73)		(26)
Payment of lease obligations		(3,501)		(1,840)
Interest expense on lease obligations		927		642
Balance, end of year	$	23,348	$	12,724

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

As at		August 31, 2020		August 31, 2019
Maturity analysis – contractual undiscounted cash flows				
Less than one year	$	4,076	$	1,874
One to five years		13,822		7,050
More than 5 years [(1)]		10,526		6,944
Total undiscounted lease obligations	$	28,424	$	15,868
Lease obligations balance, end of year	$	23,348	$	12,724
Current portion	$	2,990	$	1,273
Non-current portion	$	20,358	$	11,451

(1) As at August 31, 2020, future lease payments of $5.6 million (2019 – $5.6 million) for which the Company is reasonably certain to exercise the renewal options, have been recognized in lease obligations, representing an amount of $6.4 million (2019 – $6.4 million) of undiscounted cash outflows.

During the year ended August 31, 2020, the Company signed a ten-year lease for a 200,000 square-feet fulfillment centre located in the Greater Toronto Area, Ontario, Canada with two renewal options of five years. As at August 31, 2020, the Company did not have access to the asset, and therefore, the facility was not reflected as a right-of-use-asset and no corresponding lease obligation was recorded. The expected delivery date and the expected rent payment commencement date is by the end of summer 2021, at which point management intends to commence operations. Fixed rent payments represent a total commitment of $34 million over the term of the lease.

(All tabular amounts are in thousands of Canadian dollars, except share information)

During the year ended August 31, 2020, the Company signed a thirty-month lease for a 44,967 square-feet fulfillment center located in Montreal, Québec, Canada with two renewal options of 90 days. As at August 31, 2020, the Company did not have access to the asset and therefore, the facility was not reflected as a right-of-use asset and no corresponding lease obligation was recorded. The lease commencement date was October 1, 2020. Fixed rent payments represent a total commitment of $1.5 million over the term of the lease.

NOTE 15 NET FINANCE COSTS

	For the years ended August 31,	
	2020	2019
Interest expense on debt	**$ 733**	$ 292
Interest expense on lease obligations	**927**	642
Interest expense on the Debentures, including accretion interest	**1,309**	–
Interest income	**(772)**	(687)
Foreign exchange loss	**83**	53
Fair value loss on interest rate swaps	**100**	46
	$ 2,380	$ 346

NOTE 16 INCOME TAXES

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

	For the years ended August 31,	
	2020	2019
Loss before income taxes	**$ (4,940)**	$ (20,937)
Canadian statutory rates	**26.5%**	26.6%
Income tax benefit at the combined Canadian statutory rate	**$ (1,312)**	$ (5,569)
Decrease resulting from:		
Change in unrecognized deferred income tax assets	**(19)**	5,045
Permanent differences	**531**	520
Other	**(4)**	4
Total income tax recovery	**$ (804)**	$ –

(All tabular amounts are in thousands of Canadian dollars, except share information)

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

	Lease obligations	Net operating losses	Debentures	Fixed assets	Deferred income tax assets (liabilities)
As at August 31, 2019	$ 2,736	$ –	$ –	$ (2,736)	**$ –**
Recognized in net loss	2,201	1,044	(240)	(2,201)	**804**
Recognized in equity	–	–	(804)	–	**(804)**
As at August 31, 2020	**$ 4,937**	**$ 1,044**	**$ (1,044)**	**$ (4,937)**	**$ –**

	Lease obligations	Fixed assets	Deferred income tax assets (liabilities)
As at August 31, 2018	$ 1,748	$ (1,748)	$ –
Recognized in net loss	988	(988)	–
As at August 31, 2019	$ 2,736	$ (2,736)	$ –

The Company had unrecognized deferred income tax assets as follows:

As at	**August 31, 2020**	August 31, 2019
Deferred income tax assets:		
Net operating loss carry forwards	**$ 7,453**	$ 8,241
Fixed assets	**1,250**	636
Share and debt issuance costs	**1,265**	689
Intangible assets	**329**	254
Other	**92**	47
Unrecognized deferred income tax assets	**$ 10,389**	$ 9,867

The Company has operating tax losses carried forward of $32.1 million (2019 – $31.1 million) which are partially recognized for an amount of $3.9 million, and unrecognized deductible temporary differences of $7.1 million (2019 – $6.1 million) that are available to reduce taxable income. Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can realize the benefits therefrom. As at August 31, 2020, 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**
2040	**967**
	$ 32,064

(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 17 SUPPLEMENTAL STATEMENT OF LOSS AND COMPREHENSIVE LOSS INFORMATION

	For the years ended August 31,	
	2020	2019
Expense related to variable lease payments not included in the lease obligations	**$ 157**	$ 138
Salaries, fees and other short-term employee benefits	**70,932**	39,419

NOTE 18 SHAREHOLDER'S CAPITAL

COMMON SHARES

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

The movements in common shares were as follows for the years ended August 31:

		2020		2019
	Number of shares	**Carrying amount**	Number of shares	Carrying amount
Balance, beginning of year	**58,144,400**	**$ 56,598**	51,825,245	$ 36,283
Share issuance through a bought deal offering	**4,755,250**	**28,769**	6,019,212	21,067
Debentures conversions (Note 13)	**2,524,242**	**11,238**	–	–
Exercise of stock options (Note 19)	**910,641**	**2,968**	879	5
Purchased and held in trust through employee share purchase plan (Note 19)	**(23,412)**	**(96)**	–	–
Share issuance costs	**–**	**(1,676)**	–	(1,497)
Agent compensation options exercised	–	–	299,064	740
Balance, end of year	**66,311,121**	**$ 97,801**	58,144,400	$ 56,598

During the year ended August 31, 2020, the Company issued 4,755,250 common shares at a price of $6.05 per common share for gross proceeds of $28.8 million, less share issuance costs of $1.7 million, in connection with a public offering completed.

During the year ended August 31, 2019, the Company issued 6,019,212 common shares at a price of $3.50 per common share for gross proceeds of $21.1 million, less share issuance costs of $1.5 million, in connection with the public offering completed.

In connection with the Company's private placement completed during the year ended August 31, 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 year ended August 31, 2019, 299,064 options were exercised for gross proceeds of $0.6 million. The remaining balance of agent compensation options that were not exercised expired on June 1, 2019.

(All tabular amounts are in thousands of Canadian dollars, except share information)

LOSS PER SHARE

As at	**August 31, 2020**	August 31, 2019
Basic and diluted weighted average number of common shares outstanding	**58,919,209**	55,069,384

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

For the year ended August 31, 2020, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the stock options, unvested shares in connection with the employee share purchase plan and the Debentures conversion option as they are not dilutive.

For the year ended August 31, 2019, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the stock options as they are not dilutive.

NOTE 19 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

A stock option plan (the "Stock Option Plan") was established by the Company to attract and retain employees, consultants, directors and officers. The plan provides for the granting of options to purchase common shares where at any given time the number of stock options reserved for issuance is equal to 10% of the Company's issued and outstanding common shares. Under the plan, options generally vest over a period of four years and expire eight years from the grant date. As at August 31, 2020, 1,881,758 stock options were available for issuance (2019 – 450,661).

The following table summarizes the continuity of the stock options during the years ended August 31:

		2020		2019
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**3,910,169**	**$ 2.57**	1,425,471	$ 1.96
Granted	**2,299,307**	**4.41**	2,661,531	2.89
Exercised	**(910,641)**	**2.14**	(879)	2.62
Stock options settled in cash	–	–	(74,740)	1.62
Forfeited	**(547,140)**	**2.82**	(101,214)	2.85
Outstanding, end of year	**4,751,695**	**3.51**	3,910,169	2.57
Exercisable, end of year	**896,335**	**$ 2.48**	639,039	$ 1.60

For the year ended August 31, 2020, the weighted average share price of the Company's common shares upon the exercise date of stock options was $6.44 (2019 – $2.94).

(All tabular amounts are in thousands of Canadian dollars, except share information)

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

		2020		2019
Exercise Price	**Number of options outstanding**	**Weighted average remaining life**	Number of options outstanding	Weighted average remaining life
Less than $1.00	**86,658**	**5.6**	178,834	6.8
$ 1.00 – 1.99	**160,830**	**5.0**	283,718	6.0
$ 2.00 – 2.49	**101,106**	**5.2**	203,325	6.9
$ 2.50 – 2.99	**1,469,755**	**6.1**	2,313,573	7.1
$ 3.00 – 3.49	**1,751,790**	**7.0**	930,719	7.7
$ 3.50 – 3.99	**328,532**	**7.6**	–	–
$ 6.00 – 6.49	**653,024**	**7.9**	–	–
$ 7.00 – 7.49	**200,000**	**8.0**	–	–
Outstanding, end of year	**4,751,695**	**6.8**	3,910,169	7.1
Exercisable, end of year	**896,335**	**6.0**	639,039	6.7

Stock options granted were valued using the Black-Scholes option pricing model with the following weighted-average assumptions for the years ended August 31:

	2020	2019
Volatility	**53%**	53%
Risk-free interest rate	**0.97%**	1.84%
Expected life of options	**5.1 years**	5.1 years
Common share value at grant date	**$ 4.41**	$ 2.89
Weighted average exercise price	**$ 4.41**	$ 2.89

During the year ended August 31, 2020, an expense of $1.9 million (2019 – $1.8 million) was recorded in the consolidated statements of loss and comprehensive loss in relation to the Stock Option Plan.

EMPLOYEE SHARE PURCHASE PLAN

On September 1, 2019, the Company implemented an employee share purchase plan ("ESPP") to attract and retain employees and directors. Under this plan, employees or directors are permitted to contribute between 1% and 5% of their eligible earnings, up to $10,000 annually, to purchase Company's equity shares. The Company, in turn, provides a matching contribution equal to 50% of the participant's personal contribution. Shares purchased with the Company's contributions become vested two years from the contribution date. All contributions are used by the plan's trustee to purchase equity shares on the open market, on behalf of employees.

The following table summarizes the changes in the ESPP's position for the year ended:

	August 31, 2020	
	Number of shares	**Amount**
Unvested contributions, beginning of year	**–**	**$ –**
Contributions	**23,412**	**96**
Vested	**–**	**–**
Unvested contributions, end of year	**23,412**	**$ 96**

(All tabular amounts are in thousands of Canadian dollars, except share information)

NOTE 20 SUPPLEMENTAL CASH FLOW INFORMATION

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

As at	August 31, 2020	August 31, 2019
Amounts receivable	$ (1,869)	$ (812)
Inventories	(2,227)	(3,150)
Other current assets	(534)	(86)
Accounts payable and accrued liabilities	9,563	17,881
Deferred revenues	(533)	3,401
	$ 4,400	$ 17,234

The additional transactions that had no cash impact on investing activities for the year ended August 31, 2020 were as follows:

- Fixed asset additions of $0.9 million (2019 – $1.3 million) and intangible asset additions of $0.4 million (2019 – $0.2 million) were unpaid and included in accounts payable and accrued liabilities; and
- Assets under construction additions of $0.5 million (2019 – $38 thousand) relate to capitalized depreciation on right-of-use assets.

The additional transaction that had no cash impact on financing activities for the year ended August 31, 2020 was as follows:

- Share issuance costs of $0.1 million (2019 – nil) were unpaid and included in accounts payable and accrued liabilities.

The following are the amounts of cash, cash equivalents and restricted cash:

As at	August 31, 2020	August 31, 2019
Cash and cash equivalents	$ 104,402	$ 45,149
Restricted cash [(1)]	2,500	2,500
	$ 106,902	$ 47,649

[(1)] Restricted cash consists of cash held as collateral, which is subject to the terms of the financing agreement (refer to Note 12).

NOTE 21 COMMITMENTS

As at August 31,2020, Goodfood had commitments under purchase and service contract obligations for both operating and capital expenditures that do not meet the definition of a lease under IFRS 16, *Leases*.

The following summarizes the commitments of Goodfood as at August 31, 2020 that are due in each of the next five years and thereafter:

	Total commitments
2021	$ 1,870
2022	39
2023	35
2024	23
2025	7
2026 and thereafter	–
	$ 1,974

NOTE 22 FINANCIAL INSTRUMENTS

Goodfood has determined that the fair value of cash and cash equivalents, amounts receivable, restricted cash, 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.

Goodfood determined that the fair value of its long-term debt and Debentures approximates their carrying amount as they bear interest at market interest rates for financial instruments with similar terms and risks.

The Company determined the valuation of its Debentures at issuance using Level 3 inputs.

The fair value of the interest rate swap as at August 31, 2020 was estimated using Level 2 inputs.

NOTE 23 FINANCIAL RISKS

Credit risk:

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligation. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses. The Company's exposure to credit risk is primarily attributable to its cash and cash equivalents, amounts receivable, and restricted cash. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited given the Company deals with major North American financial institutions and an internationally established payment processor.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to change in market interest rates. 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 cash flow risk due to fluctuations in lenders' base rates. The Company manages its interest rate risk by using a variable-to-fixed interest rate swap as described in Note 12.

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not significantly impact the fair value of the interest rate swaps and consequently, the Company's net loss.

Sensitivity analysis for interest rate risk

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

Liquidity risk:

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

Capital management

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

(All tabular amounts are in thousands of Canadian dollars, except share information)

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

					2020
	Total carrying amount	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 40,878	$ 40,878	$ 40,878	$ –	$ –
Line of credit	9,063	9,063	9,063	–	–
Long-term debt, including current portion [1]	12,615	13,104	1,142	11,962	–
Debentures, liability component	14,194	23,447	1,140	22,307	–
Lease obligations, including current portion	23,348	28,424	4,076	13,822	10,526
	$ 100,098	**$ 114,916**	**$ 56,299**	**$ 48,091**	**$ 10,526**

					2019
	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 30,704	$ 30,704	$ 30,704	$ –	$ –
Line of credit	1,540	1,540	1,540	–	–
Long-term debt, including current portion [1]	12,491	13,755	597	13,158	–
Lease obligations, including current portion	12,724	15,868	1,874	7,050	6,944
	$ 57,459	$ 61,867	$ 34,715	$ 20,208	$ 6,944

(1) As at August 31, 2020, an interest rate of 3.00% (2019 – 4.46%) was used to determine the estimated interest payments on the variable-rate portion of the Company's long-term debt, and the fixed interest rate pursuant to the swap agreement mentioned in Note 12 was used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

NOTE 24 RELATED PARTIES

KEY MANAGEMENT PERSONNEL

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

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

	For the years ended August 31,	
	2020	2019
Salaries, fees and other short-term employee benefits	**$ 2,884**	$ 1,963
Share-based payments	**865**	1,062

RELATED PARTY TRANSACTIONS

For the year ended August 31, 2020, in connection with the issuance of Debentures described in Note 13, 75 Debentures were purchased by Board members and key management personnel at a price of $1,000 per Debenture.

For the year ended August 31, 2019, in connection with the public offering described in Note 18, 26,500 common shares were purchased by Board members and key management personnel at a price of $3.50 per common share.

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

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.

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 GOVERNMENT GRANTS

Government grants are recognized only when the Company has reasonable assurance that it meets the conditions and will receive the grants. Government grants related to assets, including investment tax credits, are recognized in the consolidated statement of financial position as a deduction from the carrying amount of the related asset. They are then recognized in profit or loss over the estimated useful life of the depreciable asset that the grants were used to acquire, as a deduction from the depreciation expense.

Other government grants are recognized in profit or loss as a deduction from the related expenses.

25.4 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.

25.5 RESTRICTED CASH

Restricted cash is cash where specific restrictions exist on the Company's ability to use this cash. Restricted cash consists primarily of cash held as collateral, which is subject to the terms of the financing agreement (refer to Note 12).

25.6 FIXED ASSETS

25.6.1 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, as well as directly attributable payroll and consulting costs.

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.

25.6.2 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.

25.6.3 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.

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

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

25.7 LEASES

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

Right-of-use asset

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use 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 obligation.

Lease obligation

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

Lease payments included in the measurement of the lease obligation comprise fixed payments (including in-substance fixed payments), the exercise price under a purchase option that the Company is reasonably certain to exercise, and lease payments in an optional renewal period if the Company is reasonably certain to exercise a renewal option.

The lease obligation is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option, or if there is a revised in-substance fixed lease payment.

When the lease obligation is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

25.8 INTANGIBLE ASSETS

25.8.1 RECOGNITION AND MEASUREMENT

Intangible assets that have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets include the cost of software tools and licenses as well as directly attributable payroll and consulting costs.

25.8.2 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.

25.8.3 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	3 to 5 years
Intellectual property	5 years

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

25.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company reviews the carrying amount of its non-financial assets, which include intangible assets with a finite useful life, fixed assets and right-of-use assets on each reporting date, in order to determine if specific events or changes in circumstances indicate that their carrying amounts may not be recoverable.

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

25.10 FINANCIAL INSTRUMENTS

25.10.1 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.

25.10.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

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.

Amortized cost

A financial asset is measured at amortized 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 amortized cost or FVOCI are measured at FVTPL. The Company has not designated any financial assets at fair value through profit or loss and does not have any financial assets at FVOCI.

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

25.10.3 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, cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in net loss.

25.10.4 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.

25.10.5 IMPAIRMENT

With respect to impairment of financial assets, IFRS 9, *Financial Instruments*, requires applying the expected credit losses model. 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.

25.10.6 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.

25.10.7 INTEREST RATE SWAP AGREEMENTS

In accordance with IFRS 9, the Company's swap agreement is measured at fair value with gains and losses in fair value presented in net finance costs in the Company's consolidated statements of loss and comprehensive loss.

25.10.8 CONVERTIBLE DEBENTURES

Convertible debentures are measured at amortized cost, using the effective interest rate method. They are initially measured at fair value, which is the consideration received, net of transaction costs incurred, net of the equity component. Transactions costs related to those instruments are included in the value of the instruments and amortized using the effective interest rate method. The effective interest expense is included in net finance costs in the consolidated statements of loss and comprehensive loss.

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issuance, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, without being subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the portion recognized in equity will be transferred to common shares. Issuance costs are divided between the liability and equity components in proportion to their respective values.

On the early redemption or repurchase of convertible debentures, the Company allocates the consideration paid on extinguishment to the liability based on its fair value at the date of the transaction and the residual is allocated to the conversion option. Any resulting gain or loss relating to the liability element is credited or charged to the consolidated statement of loss and the difference between the carrying amount and the amount considered to be settled relating to the holder option is treated as a common share transaction.

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

25.12 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.

25.13 SHARE-BASED PAYMENTS

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

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 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.

25.14 EMPLOYEE SHARE PURCHASE PLAN

The Company's contributions, used to purchase shares on the open market on behalf of employees, are recognized when incurred as an employee benefit expense, with a corresponding increase in contributed surplus. The amount expensed is adjusted to reflect the number of awards for which it is expected that the vesting conditions will be me met, so that the amount ultimately expensed will depend on the number of awards that meet the vesting conditions at the vesting date.

Unvested shares held in trust on behalf of employees are treasury shares and, therefore, deducted from equity until they become vested.

25.15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

25.16 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.

<u>Current income tax</u>

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.

<u>Deferred income tax</u>

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred income tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax assets and liabilities are offset only if certain criteria are met.

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.

25.17 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.

25.18 EARNINGS PER SHARE

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

25.19 FINANCE INCOME AND FINANCE EXPENSES

Finance income comprises interest income and foreign exchange gains. Finance expenses comprise interest expense on debt, lease obligations, convertible debentures, foreign exchange losses and changes in fair value of interest rate swaps. The Company classifies interests paid as financing activities and interests received as investing activities in the Company's consolidated statements of cash flows.

25.20 SEGMENT REPORTING

The Company determined that it operated a single operating segment for the years ended August 31, 2020 and 2019.

NOTE 26 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The below standards, amendments to standards and interpretations have been issued and are applicable to the Company for its annual periods beginning on and after September 1, 2020, with an earlier application permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The Company is currently assessing the impact of adopting these amended standards and interpretations on the Company's consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Estimates and Errors*

In October 2018, the IASB issued an amendment to IAS 1 and IAS 8 to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to clarify how to classify debt and other liabilities as current or noncurrent. The amendments help to determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity.

CORPORATE
INFORMATION

STOCK INFORMATION
Shares listed: **Toronto Stock Exchange**
Ticker symbol: **FOOD**
Initial public offering: **2017**
52-week high/low (Sept. 1, 2019 – Aug. 31, 2020): **$9.20-$1.49**
Share price as at November 10, 2020: **$8.29**
Common shares outstanding as at August 31, 2020: **66,311,121**

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ANNUAL MEETING OF SHAREHOLDERS
Wednesday, January 13, 2021
10:00 a.m.
Virtual Meeting - Details to Come

goodfood

makegoodfood.ca