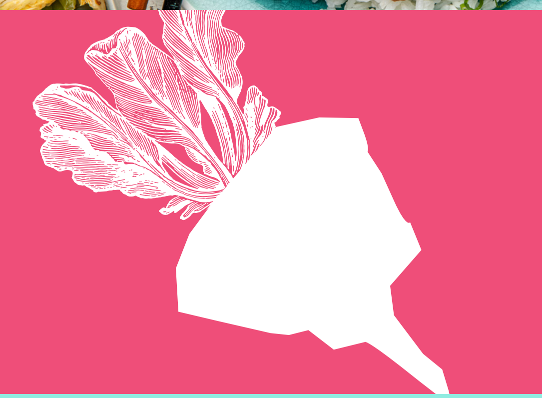
goodfood

ANNUAL REPORT 2022



Goodfood (TSX: FOOD) is a leading digitally native meal solutions brand in Canada, delivering fresh meals and add-ons that make it easy for customers from across Canada to enjoy delicious meals at home every day. The Goodfood team is building Canada's most loved millennial food brand, with the mission to create experiences that spark joy and help our community live longer on a healthier planet.

Goodfood customers have access to uniquely fresh and delicious products, as well as exclusive pricing, made possible by its world class culinary team and direct-to-consumer infrastructures and technology. We are passionate about connecting our partner farms and suppliers to our customers' kitchens while eliminating food waste and costly retail overhead.

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

2022
AT A GLANCE

4
PRODUCTION FACILITIES

1,300
EMPLOYEES

157K
QUATERLY ACTIVE CUSTOMERS[1]

$269M
NET SALES

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

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

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

3-YEAR
FINANCIAL HIGHLIGHTS

For the years ended	September 3, 2022	%Δ	August 31, 2021	%Δ	August 31, 2020
Operating Results					
Net Sales	268,586	(29%)	379,234	33%	285,372
Gross Profit	68,055	(41%)	116,094	34%	86,419
Adjusted EBITDA[1]	(40,721)		(15,306)		3,306
Net loss being comprehensive loss	(121,761)		(31,792)		(5,341)
Basic and diluted loss per share	(1.62)		(0.45)		(0.09)
Operating Metrics					
Gross Margin	25.3%	(5.3) pp	30.6%	0.3 pp	30.3%
Adjusted EBITDA Margin[1]	(15.2%)	(11.2) pp	(4.0%)	(5.2) pp	1.2%
Financial Position					
Cash[2]	36,885		125,535		106,902
Fixed assets	18,408		33,367		19,191
Total assets	129,848		255,262		161,557
Total debt[3]	11,743		21,351		21,678
Total convertible debentures[4]	32,643		6,466		16,425
Shareholders' equity (deficit)	(11,178)		97,875		56,069
Cash flows provided by (used in)					
Operating activities	(58,981)		(16,358)		7,186
Financing activities	8,002		55,503		60,118
Investing activities	(37,671)		(18,012)		(8,051)

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

MESSAGE TO SHAREHOLDERS

Dear fellow Shareholders,

Goodfood has seen its fair share of challenges this year. From consumer behaviour moving away from e-commerce purchases, a behaviour that we do believe is temporary in nature, to tough capital markets conditions on the back of macroeconomic forces not seen in over forty years, we have faced headwinds that have made Fiscal 2022 Goodfood's most difficult year since its inception in 2014.

A DIFFICULT YEAR

After two years of strong growth and profitability driven by the quality of our offering and further accelerated by pandemic-driven restrictions, Fiscal 2022 has been marked by the re-opening of economies and consumer behaviour shifting away from e-commerce as a whole. This change drove lower sales and volume de-leverage, affecting our cost structure and materially negatively impacting our financial results. Combined with inflation and our significant investments in on-demand delivery, lower volumes translated into lower gross margin, Adjusted EBITDA[1] and cash flows.

The tough conditions faced this year should not overshadow the significant progress made to consistently improve the operating and financial performance of the Company quarter after quarter. Through Project Blue Ocean, a series of operational and strategic initiatives implemented for the most part this year, our gross margin improved from 23% in the fourth quarter of last year to 28% in the fourth quarter of this year, while our Adjusted EBITDA[1] loss was improved from $18 million in the Q4 of Fiscal 2021 to $2 million this Q4.

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

MESSAGE TO SHAREHOLDERS

BACK TO OUR ROOTS, WITH A TWIST

In October of 2022, we announced the decision to stop our on-demand delivery and re-focus our efforts on the differentiatedweekly subscriptionoffering that has always been the cornerstone of our customervalue proposition.

Our rapid on-demand delivery had strong consumer fit, with net promoter scores being consistently high.It allowed new and existing Goodfood customers to experience an instant grocery solution rivaling trips tobrick-and-mortar stores. Due in part to the high attachment rate of our meal-kits, the on-demandproposition had attractive at-scale economics. However, considering the changing capital and consumermarkets context, we made the difficult but financially responsible decision to discontinue our on-demandoffering, to position the company to return to profitable growth.

This decision does have the silver lining of allowing us to focus squarely on our weekly meal-kit experience. Our teams are now fully focused and aligned on building Canada's best weekly meal planning solution. Our culinary team is consistently innovating and delivering flavors that spark joy, while our fulfilment teams are continuously working to improve the delivery experience and flexibility that will serve to further enhance our customer value proposition. We are also adding depth to our weekly meal solution offering, by offering a growing selection of Goodfood branded add-on products to our customers. Providing a wider offering to complement our meal kits is the twist that will drive larger baskets, more frequent orders, and higher retention

While discontinuing our on-demand offering was tough, we are very excited by our re-focused and re-energized meal kit offering and our customers are too. We are doubling down on building Canada's most loved millennial food brand through our weekly deliveries and more, creating experiences that spark joy while helping our community live longer on a healthier planet.

MESSAGE TO SHAREHOLDERS

CASH IS KING: OUR FOCUS IS ON POSITIVE CASH FLOWS AND PROFITABILITY

Adjusted EBITDA[1] profitability and reaching positive cash flow from operations, while building a customer value proposition that will provide years of growth are driving all our strategic decisions.
We established Project Blue Ocean in the Spring of Fiscal 2022 and we have implemented the majority of the identified initiatives:

- Ingredients simplification with ingredients sourced declining from over 400 to below 200
- Alignment of workforce with scale leading to significant headcount reductions
- Footprint rationalization leading to consolidation of production in 2 facilities in Montreal and Calgary
- Reduction of capital investments (capex)
- Meal kit and add on products price increases

These initiatives have driven the substantial improvements in gross margin and Adjusted EBITDA[1] achieved this year. But we will not stop there. To achieve positive and growing quarterly Adjusted EBITDA[1] in the first half of Fiscal 2023, we have taken more important steps, namely discontinuing on-demand grocery delivery and further reducing overhead costs. We currently expect to be Adjusted EBITDA[1] positive in the first half of Fiscal 2023.

Our focus on profitability and cash flows has started to bear fruit and coupled with our unrelenting focus on continuously improving our customer experience remains our top priority. This is our foundation for profitable growth for years to come.

[1] This is a metric or non-IFRS inancial 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.

MESSAGE TO SHAREHOLDERS

MOST IMPORTANTLY

Our consistent improvement this year is the result of the dedication and hard work of our incredible team. Our current path towards profitability would not be possible without our team's incredible contributions both in good and challenging times. To all Goodfoodies, we want to say thank you for your hard work and your trust in our strategy. Our ability to overcome this year's challenges and thrive for success in the coming years has also been driven by the confidence of our major shareholders, customers, board members, suppliers, and other stakeholders. We want to express our deep appreciation for your trust and support.

Over the years, we have stayed true to the purpose that powers our brand and products. Our core purpose is to spark joy by making cooking and eating a fun, exciting and enjoyable experience, to help Canadians live longer by achieving a balanced and healthy diet, and to live on a healthier planet by offering planet-conscious products that are sourced, packaged and delivered sustainably. As we continue to build towards that ambitious purpose, we share with you our Fiscal year 2022 financial results.

Thank you,

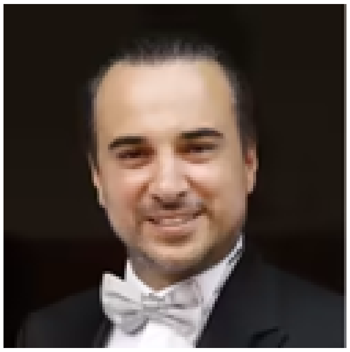
Jonathan Ferrari
Co-Founder, Chairman of the Board and CEO

Neil Cuggy
Co-Founder, Director, President and COO

BOARD OF DIRECTORS

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

NEIL CUGGY
Co-Founder, Director,
President and COO



JOHN KHABBAZ
Director

DONALD OLDS
Director

TERRY YANOFSKY
Director

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 3, 2022

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BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding the business environment, trends and significant changes in the results of operations and financial condition of Goodfood Market Corp. and its subsidiaries (the "Company" or "Goodfood") for the 52-weeks ended September 3, 2022 and August 31, 2021 and should be read in conjunction with our audited annual consolidated financial statements and the accompanying notes for the 52-weeks ended September 3, 2022. Please also refer to Goodfood's press release announcing its results for the 52-weeks ended September 3, 2022 issued on December 2, 2022. 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 annual audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the financial information herein was derived from those statements.

In September 2021, the Company changed its fiscal year-end from a fixed year-end ending August 31 of each year to a floating year-end ending on the first Saturday of September of each year in order to align with comparative companies who are using floating year-ends. As a result, the Company is following a 52-week reporting cycle but will include a 53rd week every five to six years. For Fiscal 2022, the fourth quarter ended on September 3, 2022 is comprised of 1 less day compared to the fourth quarter in Fiscal 2021 and the 52-weeks ended September 3, 2022 is comprised of 3 additional days compared to Fiscal 2021. For simplicity, in this transition year, we refer to 13-weeks ended September 3, 2022 which is 13 weeks, we refer to 13-weeks ended August 31, 2021 even though it is 13-weeks and one day, we refer to 52-weeks ended September 3, 2022 which is 52-weeks and four days and we refer to 52-weeks ended August 31, 2021 which is 52 weeks and one day.

The consolidated financial statements for the 52-weeks ended September 3, 2022 have been prepared on the basis that the Company will continue as a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. During the fourth quarter of Fiscal 2022, the Company entered into a tolerance letter with its lenders as a result of a failure to meet certain financial covenants. The lenders agreed to tolerate such covenant breaches under certain conditions which include restricting Goodfood from using the revolver portion of the facility, under which no amount is currently outstanding other than letters of credit. In addition, the Company launched its Blue Ocean initiative, a review of its operations and overall business to drive efficiencies, return the Company to positive Adjusted EBITDA[1] by the first half of 2023 and to form the basis for the path to positive cash flow and long-term profitable growth. As part of the Blue Ocean initiative, the Company optimized its manufacturing footprint via the consolidation of several facilities throughout Canada and the Company shutdown its Goodfood On-Demand offering resulting in the following charges of $46.1 million of impairment of non-financial assets and $1.2 million of discontinuance of products related to Goodfood On-Demand grocery in the fourth quarter of 2022. The Company's ability to continue as a going concern is dependent on initiatives, including Project Blue Ocean, being realized and/or its ability to secure additional financing to meet anticipated cash needs for working capital and capital expenditures as required. As a result and in the context of the Blue Ocean initiatives and current status of the Company's credit facility and financing needs, there exists a material uncertainty about the Company's ability to continue as a going concern.

All amounts herein are expressed in Canadian dollars unless otherwise indicated and all references to 2022 refer to Fiscal 2022 and 2021 refer to Fiscal 2021 unless otherwise indicated.

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

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

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

The information in this MD&A is current to December 2, 2022, unless otherwise noted.

KEY FINANCIAL HIGHLIGHTS

This section provides a summary of our financial performance for the fourth quarter of Fiscal 2022 compared to the same period in 2021 and for Fiscal 2022 compared to the same period in 2021. We present metrics and measures to help investors better understand our performance, including certain metrics and measures which are not recognized by IFRS. Definitions of these non-IFRS financial measures are provided in the "Metrics and Non-IFRS Financial Measures" section of this MD&A and are important metrics to be considered when analyzing our performance. For a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures, as applicable, see the "Metrics and Non-IFRS Financial Measures – Reconciliation" section of this MD&A.

HIGHLIGHTS OF THE FOURTH QUARTER OF 2022 COMPARED TO THE FOURTH QUARTER OF 2021

- Net sales were $50.4 million, a decrease of $29.0 million, or 37% compared to the same quarter last year.
- Gross margin totalled 28.3%, an increase of 5.4 percentage points and gross profit of $14.3 million decreased by $3.9 million or 21% compared to the same quarter last year. Gross margin and gross profit include $1.2 million of write-down due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted gross margin[1] which excludes the $1.2 million charge of write-down due to the discontinuance of products totalled 30.7%, an increase of 7.8 percentage points and adjusted gross profit[1] of $15.5 million decreased by $2.7 million or 15% compared to the same quarter last year.
- Net loss was $58.4 million compared to $22.1 million in the same quarter in 2021, an increase in net loss of $36.3 million. As a result of Blue Ocean initiatives, net loss includes a $46.1 million impairment charge and $1.2 million of write-down due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted EBITDA margin[1] was negative 3.8%, an improvement of 18.6 percentage points compared to the same quarter last year.
- Cash flows used in operating activities totalled $13.1 million, an improvement of $10.6 million compared to the same quarter last year.
- Active customers[1] of 157,000 compared to 249,000 for the same quarter in 2021

HIGHLIGHTS OF FISCAL 2022 COMPARED TO THE SAME PERIOD OF 2021

- Net sales were $268.6 million, a decrease of $110.6 million, or 29% compared to the same period last year.
- Gross margin totalled 25.3%, a decrease of 5.3 percentage points and gross profit of $68.1 million decreased by $48.0 million or 41% compared to the same period last year. Gross margin and gross profit include $1.2 million of write-down due to the discontinuance of products related to Goodfood On-Demand grocery.
- Adjusted gross margin[1] which excludes the $1.2 million charge of write-down due to the discontinuance of products totalled 25.8%, a decrease of 4.8 percentage points and adjusted gross profit[1] of $69.2 million decreased by $46.9 million or 40% compared to the period last year.
- Net loss was $121.8 million compared to $31.8 million in the same period in 2021, an increase in net loss of $90.0 million. As a result of Blue Ocean initiatives, net loss includes a $46.1 million impairment

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

charge and $1.2 million of write-down due to the discontinuance of products related to Goodfood On-Demand grocery.

- Adjusted EBITDA margin[1] was negative 15.2%, a decrease of 11.2 percentage points compared to the same period last year.
- Cash flows used in operating activities totalled $59.0 million, an increase of $42.6 million compared to the same period last year.

FORWARD-LOOKING INFORMATION

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

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in, or implied by, such forward-looking information. These risks and uncertainties include, but are not limited to, the following risk factors which are discussed in greater detail under "Risk Factors" in the Company's Annual Information Form for the 52-weeks ended September 3, 2022 available on SEDAR at www.sedar.com: limited operating history, negative operating cash flow and net losses, going concern risk, food industry including current industry inflation levels, COVID-19 pandemic impacts and the appearance of COVID variants, quality control and health concerns, regulatory compliance, regulation of the industry, public safety issues, product recalls, damage to Goodfood's reputation, transportation disruptions, storage and delivery of perishable foods, product liability, unionization activities, consolidation trends, ownership and protection of intellectual property, evolving industry, reliance on management, failure to attract or retain key employees which may impact the Company's ability to effectively operate and meet its financial goals, factors which may prevent realization of growth targets, inability to effectively react to changing consumer trends, competition, availability and quality of raw materials, environmental and employee health and safety regulations, the inability of the Company's IT infrastructure to support the requirements of the Company's business, online security breaches, disruptions and denial of service attacks, reliance on data centers, open source license compliance, future capital requirements, operating risk and insurance coverage, management of growth, limited number of products, conflicts of interest, litigation, catastrophic events, risks associated with payments from customers and third parties, being accused of infringing intellectual property rights of others and, climate change and environmental risks. This is not an exhaustive list of risks that may affect the Company's forward-looking statements. Other risks not presently known to the Company or that the Company believes are not significant could also cause actual results to differ materially from those expressed in its forward-looking statements. Although the forward-looking information contained herein is based upon what we believe are reasonable assumptions, readers are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions were made in preparing the forward-looking information concerning the availability of capital resources, business performance, market conditions, and customer demand. In addition, 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 the appearance of COVID variants 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 defines metrics and non-IFRS financial measures used by the Company throughout this MD&A. Non-IFRS financial measures do not have standardized definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. They are provided as additional information to complement IFRS measures and to provide a further understanding of the Company's results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS and should be read in conjunction with the consolidated financial statements for the periods indicated.

In the fourth quarter of Fiscal 2022, the Company added the adjusted gross profit and adjusted gross margin metrics to measure performance from one period to the next without the variations that could potentially distort the trends in our operating performance primarily related to the discontinuation of our Goodfood On-Demand service offering.

Metrics	Definitions
Active customers	An active customer is a customer that has placed an order within the last three months. Active customers include customers who have placed an order *(1)* received as part of our weekly meal subscription plan, a subscription active customer; and *(2)* received on a next-day, same-day or less basis, an on-demand active customer. For greater certainty, an active customer is only accounted for once, although different products and multiple orders might have been purchased within a quarter. While the active customers metric is not an IFRS or non-IFRS financial measure, and, therefore, does not appear in, and cannot be reconciled to a specific line item in the Company's consolidated financial statements, we believe that the active customers metric is a useful metric for investors because it is indicative of potential future net sales. The Company reports the number of active customers at the beginning and end of the period, rounded to the nearest thousand. A subscription active customer and an on-demand active customer should be evaluated independently, as a customer of the Company's platform can be counted as both a subscription active customer and an on-demand active customer. For example, this could occur if the customer has made an on-demand order in the three months prior to the relevant measurement date and holds a subscription account which has not been cancelled on or before the relevant measurement date. Pursuant to the Company shutting down its Goodfood On-Demand offering as result of Project Blue Ocean, the Company will no longer differentiate active customers as subscription active customers or on-demand active customers in future quarters.
Adjusted gross profit **&** **Adjusted gross margin**	Adjusted gross profit is defined as gross profit excluding the impact of the discontinuance of products related to Goodfood On-Demand offering pursuant to the Company's Blue Ocean initiative. Adjusted gross margin is defined as the percentage of adjusted gross profit to net sales. The Company uses adjusted gross profit and adjusted gross margin to measure its performance from one period to the next excluding the variation caused by the items described above. Adjusted gross profit and adjusted gross margin are non-IFRS financial measures. We believe that these metrics are useful measures of financial performance to assess underlying trends in our ongoing operations. Please refer to the "Metrics and non-IFRS financial measures – reconciliation" section of the MD&A for a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures.

EBITDA, **Adjusted EBITDA** **&** **Adjusted EBITDA margin**	EBITDA is defined as net income or loss before net finance costs, depreciation and amortization and income taxes. Adjusted EBITDA is defined as EBITDA excluding share-based payments expense, the impact of the write-down due to the discontinuance of products related to Goodfood On-Demand offering, impairment of non-financial assets and reorganization and other related costs pursuant to the Company's Blue Ocean initiative. Adjusted EBITDA margin is defined as the percentage of adjusted EBITDA to net sales. EBITDA, adjusted EBITDA, and adjusted EBITDA margin are non-IFRS financial measures. We believe that EBITDA, adjusted EBITDA, and adjusted EBITDA margin are useful measures of financial performance to assess the Company's ability to seize growth opportunities in a cost-effective manner, to finance its ongoing operations and to service its long-term debt. They also allow comparisons between companies with different capital structures. Please refer to the "Metrics and non-IFRS financial measures – reconciliation" section of the MD&A for a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measures.
Total net (debt) cash **Total net (debt) cash to total capitalization**	Total net (debt) cash is a non-IFRS measure that measures how much total cash the Company has after taking into account its total debt. Total cash include cash and cash equivalent. Total debt includes the current and long-term portions of the debt as well as the liability component of the convertible debentures. We believe that total net (debt) cash measure is a useful measure to assess the Company's overall financial position. Total net (debt) cash to total capitalization is a non-IFRS measure that is calculated as total net (debt) cash over total capitalization. Total capitalization is measured as total debt plus shareholder's equity. We believe this non-IFRS financial ratio to be a useful measure to assess the Company's financial leverage. Please refer to the "Liquidity and capital resources" section of the MD&A for a reconciliation of these non-IFRS financial measures to the most comparable IFRS financial measure.

COMPANY OVERVIEW

WHO WE ARE AND OUR VISION

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

OUR OPERATIONS

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

As part of our Blue Ocean initiative and driven by our objective to return to a positive Adjusted EBITDA[1] position in the first half of 2023, we simplified our Western operations by consolidating our British Columbia production facility into our Calgary facility. Together, our Montreal and Calgary facilities serve the whole of

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

Canada. In addition, we concluded a strategic review of our Goodfood On-Demand delivery model including the MFCs and announced the closing of all our MFCs and the shutdown of our wider 30-minute on-demand offering. Our go-forward strategy is centered on building the Goodfood brand through our weekly meal plans and add-ons nationally, providing approximately 500 Goodfood branded products, as well as increasing flexibility and access to our products over time.

The following table provides a summary of our operating locations, as at December 1, 2022:

	Total number of locations	Administrative offices	Distribution and manufacturing centres	Fulfillment facilities
Greater Montreal Area (Quebec)	1	X	X	X
Greater Toronto Area (Ontario)	2	X		X
Calgary (Alberta)	1		X	X

FINANCIAL OUTLOOK

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

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

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

- Ingredients simplification with ingredients sourced declining from over 400 to below 200
- Alignment of workforce with scale leading to significant headcount reductions
- Footprint rationalization leading to consolidation of production in 2 facilities in Montreal and Calgary
- Reduction of capital investments (capex)
- Meal kit and add on products price increases

These initiatives and the recently announced discontinuation of on-demand are having a positive impact on the financial performance of the business. For the first quarter of 2023, in light of the stable demand driven by our weekly subscriptions and improved margins, we now expect net sales of approximately $46-48 million and a gross margin in the 32-34% range. Towards the end of the first quarter of fiscal 2023, we initiated further selling general and administrative expenses reduction through headcount streamlining and contract re-negotiations to align our cost-structure to our go-forward operating model. As a result, we are reconfirming our expected path to return to positive quarterly Adjusted EBITDA[1] in the first half of 2023 with continued growth thereafter.

Despite recent challenges (see the discussions in the "Basis of Presentation" and "Capital Management" sections of the MD&A including material uncertainty regarding our ability to continue as a going concern), our focus on profitability and cash flows has started to bear fruit and, coupled with our unrelenting focus on nurturing our customer relationships, remains our top priority towards which we continue to strive. The Goodfood team is fully focused on building Canada's most loved millennial food brand.

FISCAL 2022 AT A GLANCE

Board of Director Francois Vimard departure

On October 26, 2022, the Company announced that François Vimard had stepped down as a director of the Company to focus on his other Board commitments and to pursue other interests.

Blue Ocean initiative

As announced on July 13th, 2022, the Company launched its Blue Ocean initiative, a review of its operations and overall business to drive efficiencies, return the Company to positive Adjusted EBITDA[1] by the first half of 2023 and to form the basis for the path to positive cash flow and long-term profitable growth. As part of the Blue Ocean initiative, the Company increased its pricing, simplified its ready-to-cook operations through the optimization of its raw ingredient portfolio and optimized its manufacturing footprint via the consolidation of its breakfast facility in Montreal into its main production facility and the consolidation of its British Columbia production facility into its Calgary facility. In addition, after a strategic review completed in the fourth quarter of 2022, the Company announced on October 14th, 2022, the shutdown of its Goodfood On-Demand offering and the closing of all its MFCs and its and a return to a strategy centered on building the Goodfood brand through its weekly meal plans and add-ons nationally, providing approximately 500 Goodfood branded products, as well as increasing flexibility and access to its products over time. The Company is continuing to develop and implement additional cost savings measures. The result of the aforementioned resulted in an impairment charge of $46.1 million in the fourth quarter of 2022 as well as a charge for the discontinuance of products related to Goodfood On-Demand offering of $1.2 million.

Appointment of John Khabbaz to our Board of Directors replacing Hamnett Hill

In April 2022, the Company announced the appointment of its newest Board of Directors member John Khabbaz. John Khabbaz is the Founder and Chief Investment Officer of Phoenician Capital, an investment management firm headquartered in New York City. Phoenician's mission is to invest in high-quality businesses built on foundations of strong unit economics and often led by pioneering founders. Mr. Khabbaz earned his undergraduate degree from McGill University and then attended Columbia University, where he received his MBA. Prior to founding Phoenician Capital in 2007, Khabbaz held leadership roles at a multi-asset class financial firm. Before that, he was the founder and CEO of a manufacturing business based in New York, with global operations spanning three continents.

$30 million bought deal offering of convertible unsecured debentures

In February 2022, the Company completed a $30 million bought deal offering of convertible unsecured debentures. The Company intended to use the net proceeds from the Offering to accelerate the scaling of Goodfood's on-demand grocery and meal solutions network, through the signing of multiple incremental new micro-fulfillment centers leases, fund their required capital expenditures as well as their initial start-up and expenses, and for general corporate purposes, as further detailed in the Final short-form prospectus dated February 4, 2022. For more detail refer to the "Use of Proceeds from Public Offerings" section of the MD&A.

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

Change in fiscal year-end

In September 2021, the Company changed its fiscal year-end from a fixed year-end ending August 31 of each year to a floating year-end ending on the first Saturday of September of each year in order to align with comparative companies who are using floating year-ends. As a result, the Company will follow a 52-week reporting cycle but will include a 53rd week every five to six years. For Fiscal 2022, the fourth quarter ended on September 3, 2022 is comprised of 1 less day compared to the fourth quarter in Fiscal 2021 and the year ending September 3, 2022 is comprised of 3 additional days compared to Fiscal 2021.

Appointment of its Chief Technology Officer

In September 2021, the Company announced the appointment of Bipasha Chiu as its new Chief Technology Officer. Bipasha is an experienced technology transformation and delivery executive focused in retail and digital commerce that will help continue building our technology platform.

METRICS AND NON-IFRS FINANCIAL MEASURES – RECONCILIATION

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

ACTIVE CUSTOMERS

	For the 13-weeks ended		For the 52-weeks ended	
	September 3, 2022	August 31, 2021	**September 3, 2022**	August 31, 2021
Active customers, beginning of period	**211,000**	296,000	**249,000**	278,000
Net change in active customers	**(54,000)**	(47,000)	**(92,000)**	(29,000)
Active customers, end of period	**157,000**	249,000	**157,000**	249,000

ADJUSTED GROSS PROFIT AND ADJUSTED GROSS MARGIN

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

(In thousands of Canadian dollars, except percentage information)

	For the 13-weeks ended		For the 52-weeks ended	
	September 3, 2022	August 31, 2021	**September 3, 2022**	August 31, 2021
Gross profit	**$ 14,256**	$ 18,153	**$ 68,055**	$ 116,094
Discontinuance of products related to on-demand offering	**1,194**	–	**1,194**	–
Adjusted gross profit	**$ 15,450**	$ 18,153	**$ 69,249**	$ 116,094
Net sales	**$ 50,357**	$ 79,358	**$ 268,586**	$ 379,234
Gross margin	**28.3%**	22.9%	**25.3%**	30.6%
Adjusted gross margin (%)	**30.7%**	22.9%	**25.8%**	30.6%

For the fourth quarter of 2022, adjusted gross margin increased by 7.8 percentage points compared to the corresponding period in 2021 mainly due to larger basket sizes, lower credit and incentives as a percentage of net sales as well as lower product costs and lower fulfilment costs driven by improved efficiencies partially offset by a lower sales base resulting from a shift in customer behaviors driven by post COVID-19 effects and the current economic conditions.

For the 52-weeks ended September 3, 2022, adjusted gross margin decreased by 4.8 percentage points compared to the corresponding period in 2021 mainly due to a decrease in net sales leading to operating de-leverage as well as the timing gap between inflationary pressures across all input costs and subsequent price increases.

EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

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

(In thousands of Canadian dollars, except percentage information)

	For the 13-weeks ended		For the 52-weeks ended	
	September 3, 2022	August 31, 2021	**September 3, 2022**	August 31, 2021
Net loss	**$ (58,408)**	$ (22,123)	**$ (121,761)**	$ (31,792)
Net finance costs	**1,677**	524	**5,233**	2,170
Depreciation and amortization	**4,853**	2,176	**17,295**	8,820
Deferred income tax expense (recovery)	**39**	97	**(1,495)**	500
EBITDA	**$ (51,839)**	$ (19,326)	**$ (100,728)**	$ (20,302)
Share-based payments expense	**1,472**	1,587	**5,986**	4,857
Discontinuance of products related to on-demand offering	**1,194**	–	**1,194**	–
Impairment of non-financial assets	**46,085**	–	**46,085**	–
Reorganization and other related costs	**1,160**	–	**6,742**	139
Adjusted EBITDA	**$ (1,928)**	$ (17,739)	**$ (40,721)**	$ (15,306)
Net sales	**$ 50,357**	$ 79,358	**$ 268,586**	$ 379,234
Adjusted EBITDA margin (%)	**(3.8)%**	(22.4)%	**(15.2)%**	(4.0)%

For the fourth quarter of 2022, adjusted EBITDA margin improved by 18.6 percentage points compared to the corresponding period in 2021 mainly driven by stronger adjusted gross margin and lower selling, general and administrative expenses resulting in lower marketing expense and lower salary base from Blue Ocean initiatives, partly offset by a lower net sales base.

For the 52-weeks ended September 3, 2022, adjusted EBITDA margin decreased by 11.2 percentage points compared to the corresponding period in 2021 mainly due to a lower sales base. The lower sales were the result of a shift in customer behaviors from post COVID-19 effects as well as the current economic conditions partially offset by a higher on-demand active customer base compared to Fiscal 2021. A decrease in gross margin contributed to the lower adjusted EBITDA margin primarily due to a decrease in net sales leading to operating de-leverage as well as the timing gap between inflationary pressures across all input costs and subsequent price increases. In addition, lower adjusted EBITDA margin can be explained mainly by higher wages and salaries as a percentage of net sales resulting from the expansion of the management team and related administrative functions needed to build out the physical and digital on-demand fulfillment infrastructure, including the product offering required to support the Company's Goodfood On-Demand offering as well as marketing spend as a percentage of net sales.

RESULTS OF OPERATIONS – FOURTH QUARTER OF FISCAL 2022 AND 2021

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

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

For the 13-weeks periods ended		September 3, 2022		August 31, 2021		($)	(%)
Net sales	**$**	**50,357**	$	79,358	$	(29,001)	(37)%
Cost of goods sold		**36,101**		61,205		(25,104)	(41)%
Gross profit	**$**	**14,256**	$	18,153	$	(3,897)	(21)%
Gross margin		**28.3%**		22.9%		N/A	5.4 p.p.
Selling, general and administrative expenses		**18,850**		37,479		(18,629)	(50)%
Depreciation and amortization		**4,853**		2,176		2,677	123%
Impairment of non-financial assets		**46,085**		–		46,085	N/A
Reorganization and other related costs		**1,160**		–		1,160	N/A
Net finance costs		**1,677**		524		1,153	220%
Loss before income taxes	**$**	**(58,369)**	$	(22,026)	$	(36,343)	(165)%
Deferred income tax expense		**39**		97		(58)	(60)%
Net loss, being comprehensive loss	**$**	**(58,408)**	$	(22,123)	$	(36,285)	(164)%
Basic and diluted loss per share	**$**	**(0.78)**	$	(0.31)	$	(0.47)	(152)%

VARIANCE ANALYSIS FOR THE FOURTH QUARTER OF 2022 COMPARED TO FOURTH QUARTER OF 2021

- Net sales decreased compared to the same period last year mainly due to the change in customer behaviors driven by removal of lock-down restrictions, the increased vaccine coverage as well as the current economic conditions partially offset by a higher on-demand active customer base in the fourth quarter of Fiscal 2022 compared to the same quarter last year.
- The decrease in gross profit primarily resulted from a decrease in net sales. The increase in gross margin was driven by larger basket sizes, lower credit and incentives, lower product costs and lower fulfilment costs as a percentage of sales driven by improved efficiencies.
- The decrease in selling, general and administrative expenses is primarily due to lower marketing spend and wages and salaries driven primarily by lower net sales and the Company's Blue Ocean initiatives. Selling, general and administrative expenses as a percentage of net sales decreased from 47.2% to 37.4%.
- Reorganization and other related costs were incurred in the fourth quarter of Fiscal 2022 mainly consisting of headcount reduction costs and external advisor fees related to the execution of Project Blue Ocean.
- Impairment of non-financial assets incurred in the fourth quarter of Fiscal 2022 was primarily related to the discontinuation of Goodfood On-Demand and other Blue Ocean initiatives primarily related to closure of facilities.
- The increase in depreciation and amortization expense is mainly due to the recognition of right-of-use assets from new facility lease agreements and related additions of leasehold improvements.
- The increase in net finance costs is mainly due to the Company's $30 million convertible debenture issued in February 2022 and higher lease obligations compared to the same quarter last year.
- The increase in net loss in the fourth quarter of 2022 compared to the same quarter last year is mainly due to an impairment of non-financial assets, lower net sales and higher depreciation and amortization partly offset by higher gross margin and lower wages and salaries and marketing spend.

RESULTS OF OPERATIONS – FISCAL 2022 AND 2021

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

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

For the 52-weeks periods ended		September 3, 2022		August 31, 2021		($)	(%)
Net sales	**$**	**268,586**	$	379,234	$	(110,648)	(29)%
Cost of goods sold		**200,531**		263,140		(62,609)	(24)%
Gross profit	**$**	**68,055**	$	116,094	$	(48,039)	(41)%
Gross margin		**25.3%**		30.6%		N/A	(5.3) p.p.
Selling, general and administrative expenses		**115,956**		136,257		(20,301)	(15)%
Depreciation and amortization		**17,295**		8,820		8,475	96%
Impairment of non-financial assets		**46,085**		–		46,085	N/A
Reorganization and other related costs		**6,742**		139		6,603	4,750%
Net finance costs		**5,233**		2,170		3,063	141%
Loss before income taxes	**$**	**(123,256)**	$	(31,292)	$	(91,964)	(294)%
Deferred income tax (recovery) expense		**(1,495)**		500		(1,995)	N/A
Net loss, being comprehensive loss	**$**	**(121,761)**	$	(31,792)	$	(89,969)	(283)%
Basic and diluted loss per share	**$**	**(1.62)**	$	(0.45)	$	(1.17)	(260)%

VARIANCE ANALYSIS FOR FISCAL 2022 COMPARED TO FISCAL 2021

- Net sales decreased year-over-year mainly due to the change in customer behaviors driven by the removal of lock-down restrictions and the increased vaccine coverage and the current economic conditions partially offset by a higher Goodfood On-Demand active customer base during Fiscal 2022.
- The decrease in gross profit and gross margin primarily resulted from a decrease in net sales leading to operating de-leverage as well as the current extraordinary inflationary pressures, both impacting our input costs mainly on food, labour, production and shipping costs. The increase in food costs was also driven by the expansion of our private label grocery offering. Higher production costs primarily resulted from an increase in production and fulfillment labour due to inflationary increases in wages and operating de-leverage.
- The decrease in selling, general and administrative expenses is primarily due to lower marketing spend driven by lower net sales and the Company's reorganization initiatives, including Project Blue Ocean, to align its workforce and marketing spend towards its current net sales base which primarily impacted the second half of Fiscal 2022 results. Selling, general and administrative expenses as a percentage of net sales increased from 35.9% to 43.2%, primarily due to volume deleverage and the timing of impacts realized from Project Blue Ocean impacting results in the second half of Fiscal 2022.
- Reorganization and other related costs were incurred in Fiscal 2022 mainly consisting of headcount reduction costs and external advisor fees related to the execution of Project Blue Ocean.
- The increase in depreciation and amortization expense is mainly due to the recognition of right-of-use assets from new facility lease agreements and related additions of leasehold improvements as the Company expanded its product offering of grocery products and the ramp-up of new facilities across Canada prior to the strategic review of its strategy which began in the fourth quarter of Fiscal 2022.
- Impairment of non-financial assets incurred in the fourth quarter of Fiscal 2022 was primarily related to the discontinuation of Goodfood On-Demand and other Blue Ocean initiatives mainly related to closure of facilities.
- The increase in net finance costs is mainly due to the Company's increase of new facilities as the Company expanded its product offering of grocery products and the ramp-up of new facilities across Canada as well as the Company's $30 million convertible debenture issued in February 2022.
- A deferred income tax recovery was recognized due to the issuance of $30 million convertible debentures in February 2022.

- The increase in net loss year-over-year is mainly due to lower net sales and gross profit as well as the previously referenced impairment of non-financial assets, higher depreciation and amortization expense as well as higher reorganization and other related costs.

FINANCIAL POSITION

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

(In thousands of Canadian dollars)

As at	September 3, 2022	August 31, 2021	Variance	Main components
Cash and cash equivalents	**$ 36,885**	$ 125,535	$ (88,650)	Due to the year-to-date net loss and capital investments in facilities partially offset by the convertible debenture issuance in February 2022
Inventories	**6,884**	14,318	(7,434)	Due to lower net sales and improvement in inventory management process as well as discontinuance of products related to our on-demand offering
Assets held for sale	**3,654**	–	3,654	Related to our Blue Ocean Initiatives
Fixed assets	**18,408**	33,367	(14,959)	Mainly due to impairment of fixed assets and reclassification to assets held for sale
Right-of-use assets	**55,419**	69,157	(13,738)	Mainly due to impairment of right-of-use assets related to our Blue Ocean initiatives as well as termination of leases
Accounts payable and accrued liabilities	**27,104**	52,207	(25,103)	Mainly due to lower sales base and lower salaries and benefits accrual
Long-term debt, including current portion	**11,743**	21,351	(9,608)	Mainly due to repayment. Debt is classified fully as short-term due to the breach of certain financial covenants
Lease obligations, including current portion	**69,209**	73,111	(3,902)	New locations were added to the Company's facility portfolio partially offset by a termination of a lease and repayment terms
Convertible debentures, liability component	**27,469**	5,623	21,846	Liability component of the $30 million convertible debentures issued in February 2022

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

During the year ended September 3, 2022, the Company recorded an impairment charge of $37.9 million on fixed assets, $7.7 million on right-of-use assets and $0.5 million on intangible assets from the following CGUs:

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

When determining the fair value less costs of disposal ("FVLCD") of its individual assets, the Company used market inputs based on the expected price the Company would be able to sell the asset for on a secondary market. Subsequent to the impairment test, the individual assets were reclassified as assets held for sale as they met the condition to be classified as such as at September 3, 2022.

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

LIQUIDITY AND CAPITAL RESOURCES

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

CAPITAL STRUCTURE

(In thousands of Canadian dollars, except percentage information)

As at		September 3, 2022		August 31, 2021
Long-term debt, including current portion		**11,743**		21,351
Convertible debentures, liability component		**27,469**		5,623
Total debt	**$**	**39,212**	$	26,974
Shareholders' (deficiency) equity		**(11,178)**		97,875
Total capitalization	**$**	**28,034**	$	124,849
Cash and cash equivalents	**$**	**36,885**	$	125,535
Total net (debt) cash (1)	**$**	**(2,327)**	$	98,561
Total net (debt) cash to total capitalization (1)		**(8.3)%**		78.9%

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

Goodfood's total net debt was $2.3 million compared to total net cash of $98.6 million last year. This year-over-year negative variance of $100.9 million drove a decrease in total (debt) cash to total capitalization mainly due to its net loss as well as its investment in capital partially offset by the issuance of convertible debentures in February 2022.

CAPITAL MANAGEMENT

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

The Company entered into a tolerance letter with its lenders as a result of a failure to meet certain financial covenants. The lenders agreed to tolerate such covenant breaches under certain conditions which include restricting Goodfood from using the revolver portion of the facility, under which no amount is currently outstanding or available other than letters of credit. Goodfood is in the process of negotiating the terms of a revised credit facility arrangement. In the event that a new credit facility is not in place in the near term, the Company would expect to have in place a further extension of the current tolerance letter. There can be no assurance as to a credit facility arrangement being put in place in a timely manner, the terms of such an arrangement or obtaining a further extension of the current tolerance letter. As a results of the covenant breach, a charge of $0.7 million related to external advisor fees was recorded in the fourth quarter of 2022 in reorganization and other related cost.

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

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

- We continue to work through Blue Ocean initiative to drive efficiencies and return the Company to positive Adjusted EBITDA by the first half of 2023 and to form the basis for the path to positive cash flow and long-term profitable growth;
- We continue to work with our lenders to pursue a revised credit facility arrangement;
- We continue to evaluate and examine other financing options.

CASH FLOWS

A summary of net cash flows by activity for the 13-weeks ended September 3, 2022 and August 31, 2021 is presented below:

(In thousands of Canadian dollars)

For the 13-weeks ended		**September 3, 2022**		August 31, 2021		Variance
Cash flows used in operations, excluding change in non-cash operating working capital	**$**	**(3,661)**	$	(17,614)	$	13,953
Change in non-cash operating working capital		**(9,453)**		(6,112)	$	(3,341)
Net cash flows used in operating activities	**$**	**(13,114)**	$	(23,726)	$	10,612
Net cash flows used in investing activities		**(4,449)**		(7,709)		3,260
Net cash flows used in financing activities		**(44,401)**		(142)		(44,259)
Net change in cash and cash equivalents	**$**	**(61,964)**	$	(31,577)	$	(30,387)
Cash and cash equivalents, beginning of period		**98,849**		157,112		(58,263)
Cash and cash equivalents, end of period	**$**	**36,885**	$	125,535	$	(88,650)

Net cash flows used in operating activities improved by $10.6 million for the fourth quarter 2022 compared to the same period last year primarily due to a lower net loss before non-cash expenses partially offset by lower accounts payable and accrued liabilities driven by a lower sales base.

Net cash flows used in investing activities improved by $3.3 million for the fourth quarter 2022 compared to the same period last year primarily due to lower fixed assets additions as facility roll-outs came were concluded before fourth quarter of Fiscal 2022.

Net cash flows used in financing activities increased by $44.3 million for the fourth quarter 2022 compared to the same period last year primarily due to the Company's repayment of its revolver.

A summary of net cash flows by activity for the 52-weeks ended September 3, 2022 and August 31, 2021 is presented below:

(In thousands of Canadian dollars)

For the 52-weeks ended		September 3, 2022		August 31, 2021		Variance
Cash flows used in by operations, excluding change in non-cash operating working capital	**$**	**(47,873)**	$	(16,344)	$	(31,529)
Change in non-cash operating working capital		**(11,108)**		(14)	$	(11,094)
Net cash flows used in operating activities	**$**	**(58,981)**	$	(16,358)	$	(42,623)
Net cash flows used in investing activities		**(37,671)**		(18,012)		(19,659)
Net cash flows provided by financing activities		**8,002**		55,503		(47,501)
Net change in cash and cash equivalents	**$**	**(88,650)**	$	21,133	$	(109,783)
Cash and cash equivalents, beginning of period		**125,535**		104,402		21,133
Cash and cash equivalents, end of period	**$**	**36,885**	$	125,535	$	(88,650)

Net cash flows used in operating activities increased by $42.6 million for the 52-weeks of 2022 compared to the same period last year primarily due to the increase in net loss and lower accounts payable and accrued liabilities driven by a lower sales base.

Net cash flows used in investing activities increased by $19.7 million for the 52-weeks of 2022 compared to the same period last year primarily due to higher fixed assets additions and deposits mainly attributable to the build-out of facilities.

Net cash flows provided by financing activities decreased by $47.5 million for the 52-weeks of 2022 compared to the same period last year primarily due to last year's issuance of common shares being higher in comparison to Fiscal 2022's issuance of convertible debentures.

DEBT

During the first quarter of Fiscal 2021, the Company entered into a syndicated credit agreement totaling $46 million, including a term loan of $12.5 million, a revolving facility of $27.5 million and $6 million in other short-term financing ("Credit Facility 2021"). During the second quarter of Fiscal 2021, the Company increased the revolving facility by $15 million for a total of $42.5 million, and the other short-term financing by an amount not to exceed $15 million, and an additional lender was added to the syndicate. This increase brought the total available financing to $70 million. The Credit Facility 2021 is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The facilities bear variable interest rates of the Canadian Banker's Acceptance plus 2.50% and mature in November 2023. The term loan is repayable in four quarterly installments of $156 thousand beginning on November 30, 2021 and increasing to four quarterly installments of $313 thousand on November 30, 2022 with a bullet repayment of the balance of $10.6 million at the end of the term in November 2023.

For more detail with respect to the status of the Credit Facility 2021 and the existence of a tolerance letter with the Company's lenders, please refer to the subsection "Capital Management" of the "Liquidity and Capital Resources" section of this MD&A.

INTEREST RATE SWAP

Goodfood had one swap agreement in place whereby the Company fixed the interest rate on a notional amount of $10.9 million which matured in November 2021. Goodfood has not entered into a new swap as at the end of the fourth quarter of Fiscal 2022.

CONVERTIBLE DEBENTURES

On February 11, 2022, the Company issued 30,000 convertible unsecured subordinated debentures (the "2022 Debentures") at a price of $1 thousand per Debenture for gross proceeds of $30 million. The Debentures mature on March 31, 2027 and bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2022. Factoring in the 2022 Debentures issuance costs, the effective interest rate on the 2022 Debentures is 12.6%. The Debentures are convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the Maturity Date and the last business day immediately preceding the date specified for redemption by the Company at a conversion price of $4.60 per common share.

On or after March 31, 2025, and prior to March 31, 2026, provided that the volume weighted average trading price of the Company's common shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price, the 2022 Debentures may be redeemed in whole or in part at the option of the Company at a price equal to the principal amount thereof plus accrued and unpaid interest. On or after March 31, 2026, and prior to the Maturity Date, the 2022 Debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

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

During the 52-weeks ended September 3, 2022, 1,364 Debentures (2021 – 11,284) were converted into common shares of the Company, resulting in the issuance of 293,647 (2021 – 2,400,819) common shares and the Company reclassified $1.1 million (2021 – $9.0 million) and $0.2 million (2021 – $1.9 million), respectively from the convertible debentures liability to common shares and from the equity component of the convertible debentures to common shares. A deferred income tax recovery of $1.6 million (2021 – nil) was recognized upon issuance of the 2022 Debentures for the 52-weeks ended September 3, 2022 (2021 – nil). A deferred income tax expense of $0.1 million (2021 – $0.5 million) was recognized upon conversion of the Debentures for the 52-weeks ended September 3, 2022. As at September 3, 2022, 35,488 Debentures (2021 – 6,852 Debentures) were outstanding.

COMMON SHARES

Significant equity transactions that took place during the 13-weeks and 52-weeks ended September 3, 2022 were as follows:

- Nil and 161,707 stock options were exercised, respectively, for the same number of common shares;
- 72,897 and 231,453 restricted share units vested, respectively, and the same number of common shares were issued; and
- 744 and 1,364 Debentures were converted into 161,737 and 293,647 common shares.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

	Fiscal 2022				Fiscal 2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Active customers [1]	**157,000**	211,000	246,000	254,000	249,000	296,000	306,000	290,000
Net sales	**$ 50,357**	$ 67,031	$ 73,377	$ 77,821	$ 79,358	$ 107,795	$ 100,654	$ 91,427
Gross profit	**14,256**	17,556	17,595	18,648	18,153	37,732	30,636	29,573
Gross margin	**28.3%**	26.2%	24.0%	24.0%	22.9%	35.0%	30.4%	32.3%
Discontinuance of products related to on-demand offering	**1,194**	–	–	–	–	–	–	–
Adjusted Gross profit [1]	**15,450**	17,556	17,595	18,648	18,153	37,732	30,636	29,573
Adjusted Gross margin [1]	**30.7%**	26.2%	24.0%	24.0%	22.9%	35.0%	30.4%	32.3%
Net loss	**$ (58,408)**	$ (21,103)	$ (20,640)	$ (21,610)	$ (22,123)	$ (2,333)	$ (4,252)	$ (3,083)
Net finance costs	**1,677**	1,596	1,056	904	524	431	540	675
Depreciation and amortization	**4,853**	5,220	4,282	2,940	2,176	2,318	2,292	2,033
Deferred income tax expense (recovery)	**39**	(2)	(1,559)	27	97	61	129	213
EBITDA [1]	**$ (51,839)**	$ (14,289)	$ (16,861)	$ (17,739)	$ (19,326)	$ 477	$ (1,291)	$ (162)
Share-based payments expense	**1,472**	1,177	1,984	1,353	1,587	869	1,404	997
Discontinuance of products related to on-demand offering	**1,194**	–	–	–	–	–	–	–
Impairment of non-financial assets	**46,085**	–	–	–	–	–	–	–
Reorganization and other related costs	**1,160**	2,477	1,293	1,812	–	–	139	–
Adjusted EBITDA [1]	**$ (1,928)**	$ (10,635)	$ (13,584)	$ (14,574)	$ (17,739)	$ 1,346	$ 252	$ 835
Adjusted EBITDA margin [1]	**(3.8)%**	(15.9)%	(18.5)%	(18.7)%	(22.4)%	1.2%	0.3%	0.9%
Basic and diluted loss per share [2]	**$ (0.78)**	$ (0.28)	$ (0.28)	$ (0.29)	$ (0.31)	$ (0.03)	$ (0.06)	$ (0.05)

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

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

Quarterly net sales increased sequentially for the first three quarters of Fiscal 2021, principally due to the Company's increasing product offering and flexibility as well as the ongoing impact of Covid-19 restrictions which positively impacted the average basket size and order frequency. With accelerated removal of lock-down restrictions and the increased vaccine coverage, Goodfood's net sales decreased in the last quarter of Fiscal 2021. Transitioning into the first quarter of Fiscal 2022, weekly orders and active customers increased throughout the quarter compared to the seasonal lows experienced in the latter part of the fourth quarter of Fiscal 2021, while net sales of the first quarter of Fiscal 2022 came in slightly lower than the fourth quarter of Fiscal 2021 as the quarterly order frequency was slightly lower. Net sales decreased in the second quarter of Fiscal 2022 due to four less days in the quarter compared to the first quarter of Fiscal 2021 coupled with the normal seasonal impact of Christmas and New Year holidays. With the change in customer behaviors from post COVID-19 effects and the current economic conditions, net sales decreased in the third quarter of Fiscal 2022. Fourth quarter net sales were impacted by the expected seasonal slowdown associated with the summer months as well as the weakening macro-economic environment driven in part by on-going high inflation rates.

Net loss for the first two quarters of Fiscal 2021 was negatively impacted by higher depreciation and amortization expense associated with the recognition of right-of-use assets from new and amended facility lease agreements and related additions of leasehold improvements as well as increased share-based payments expense. Net loss for the third and fourth quarter of Fiscal 2021 was negatively impacted by higher wages and salaries and higher marketing spend as the Company continued to grow and expand its operations and product offerings across Canada. In addition, for the fourth quarter of Fiscal 2021, net loss was impacted by the decrease in net sales. Net loss improved in the first and second quarter of Fiscal 2022 compared to the last quarter of Fiscal 2021 beginning with a progressively stronger gross margin throughout the quarter and cost efficiencies with selling, general and administration expenses partially offset by lower net sales. Net loss increased in the third quarter of Fiscal 2022 mainly due to higher depreciation and amortization and reorganization and related costs. Lastly net loss increased in the fourth quarter of Fiscal 2022 was due to the charges regarding the impairment of non-financial assets and the discontinuance of products related to on-demand offering.

For Fiscal 2021, the first quarter saw a decrease in quarterly adjusted EBITDA and adjusted EBITDA margin due to higher wages and salaries and higher marketing spend as the Company continued to grow and expand its operations and product offerings across Canada. The second and third quarter of the year saw a sequential increase in adjusted EBITDA and adjusted EBITDA margin driven primarily by rising quarterly net sales. The fourth quarter of Fiscal 2021, adjusted EBITDA and adjusted EBITDA margin was impacted by the decrease in net sales and the operating deleverage it created across both gross profit and selling, general and administrative expenses. Adjusted EBITDA and adjusted EBITDA margin improved in the first and second quarter of Fiscal 2022 compared to the last quarter of Fiscal 2021, beginning with a progressively stronger gross margin throughout the quarter and cost efficiencies with selling, general and administration expenses partially offset by lower net sales. As the Company continues to focus on improving profitability through its reorganization initiatives including Project Blue Ocean, adjusted EBITDA and adjusted EBITDA margin the third quarter of Fiscal 2022 continues to improve mainly driven by stronger gross margin in the quarter and continued cost efficiencies with selling, general and administration expenses partially offset by lower net sales. The fourth quarter of Fiscal 2022 saw a significant sequential improvement in the Adjusted EBITDA and Adjusted EBITDA margin, driven by both adjusted gross margin improvement as well as a reduction in the selling, general and administrative expenses required to support the business driven from the implementation of Blue Ocean initiatives, partly offset by a decline in net sales.

TRENDS AND SEASONALITY

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

FINANCIAL RISK MANAGEMENT

CREDIT RISK

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

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's long-term debt and revolving facility bear interest at variable rates which are determined by a base rate set by the lender plus a margin. As a result, the Company is exposed to interest rate cash flow risk due to fluctuations in lenders' base rates. The Company managed its interest rate risk by using a variable-to-fixed interest rate swap which matured in November 2021. To date, the Company did not enter into a new interest rate swap. Refer to the "Liquidity and Capital Resources" section of this MD&A. As interest rates on Debentures are fixed, the Company is not exposed to interest rate risk on those instruments.

LIQUIDITY RISK

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

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

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

BUSINESS RISK

For a detailed discussion of business risk factors, please refer to the Company's Annual Information Form for the 52-weeks ended September 3, 2022 and the Company's final short-form prospectus dated February 4, 2022, both documents available on SEDAR at www.sedar.com.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following are amounts due on contractual maturities of financial liabilities, including estimated interest payments as at 52-weeks ended:

	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 27,104	$ 27,104	$ 27,104	$ –	$ –
Long-term debt, including current portion	11,743	12,086	12,086	–	–
Debentures, liability component	27,469	45,220	2,282	42,938	–
Lease obligations, including current portion	69,209	79,773	11,024	40,807	27,942
Purchase and service contract obligations	–	9,626	9,236	390	–
	$ 135,525	**$ 173,809**	**$ 61,732**	**$ 84,135**	**$ 27,942**

As at September 3, 2022, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in net sales or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material.

FINANCIAL INSTRUMENTS

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

INVESTMENT POLICY

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

FINANCIAL COVENANTS

As discussed in the "Liquidity and Capital Resources" section of the MD&A, the Company's secured a credit facility that includes financial covenants which may restrict the Company's ability to pursue future transactions or opportunities. As at the end of the fourth quarter of Fiscal 2022, the Company was in not in compliance with these financial covenants. Refer to the "Liquidity and Capital Resources" section of the MD&A for further discussion on the covenant breaches.

RELATED PARTIES

KEY MANAGEMENT PERSONNEL

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

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

(In thousands of Canadian dollars)

For the 52-weeks ended,	September 3, 2022	August 31, 2021
Salaries, fees and other short-term employee benefits	**$ 1,983**	$ 2,661
Share-based payments expense	**2,931**	1,594

RELATED PARTY TRANSACTIONS

Related parties of the Company include Directors and key management personnel, their family members, and companies over which they have significant influence or control.

In connection with the issuance of the 2022 Debentures, 415 Debentures were purchased by Board members and key management personnel at a price of $1,000 per Debenture. These transactions were recorded at the amount of consideration paid as established and agreed to by the related parties.

SHARE-BASED PAYMENTS

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

A restricted share unit plan (the "RSU Plan") was established by the Company to attract and retain employees, officers and directors. The RSU Plan provides for a maximum number of common shares available and reserved for issuance to 10% of the Company's issued and outstanding common shares, less any shares reserved for issuance under the Stock Option Plan. Under the plan, RSUs generally vest over a period of three years.

OUTSTANDING SHARE DATA

As at	December 1, 2022	September 3, 2022	August 31, 2021
Common shares outstanding (1)	**75,474,962**	**75,233,027**	74,718,045
Debentures outstanding (2)	**7,505,957**	**7,550,638**	1,457,872
Stock options outstanding	**3,058,789**	**3,262,799**	3,174,309
Stock options exercisable	**1,973,515**	**1,865,747**	1,112,432
Restricted share units outstanding	**1,641,141**	**2,000,716**	625,491

(1) As at December 1, 2022 and September 3, 2022, 227,765 and 171,829 common shares held in trust through the employee share purchase plan (August 31, 2021 – 70,498 common shares) were included in the common shares outstanding.

(2) As at December 1, 2022 and September 3, 2022, 35,278 and 35,488 Debentures (August 31, 2021 – 6,852 Debentures) were outstanding which are convertible into 7,501,584 and 7,547,236 common shares of the Company, respectively, at a conversion price of $4.70. Please refer to the "Debt" subsection of the "Liquidity and Capital Resources" section of this MD&A.

USE OF PROCEEDS FROM PUBLIC OFFERINGS

FEBRUARY 2021 PUBLIC OFFERING

On February 24, 2021, the Company completed a public offering and issued 4,800,000 common shares for net proceeds of $57.2 million.

The following table compares the estimated use of proceeds presented in the Company's final short-form prospectus dated February 17, 2021 with the actual use of proceeds as at September 3, 2022:

(In thousands of Canadian dollars)

	Actual use of proceeds	Estimated use of proceeds	Variance
Capital expenditures to build out same-day delivery capabilities (including fulfillment technology and automation equipment)	$ 35,166	$ 40,000	$ (4,834)
General corporate purposes	22,033	17,305	4,728
Remaining as at September 3, 2022	–	N/A	–
Total net proceeds	57,199	57,305	(106)
Share issuance costs	2,801	2,695	106
Gross proceeds	$ 60,000	$ 60,000	$ –

(1) Capital projects includes leasehold improvements, furniture and fixtures, machinery and equipment as well as lease payments for new right-of-use assets and costs related to our cloud computing arrangements.

FEBRUARY 2022 CONVERTIBLE DEBENTURES PUBLIC OFFERING

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

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

(In thousands of Canadian dollars)

	Actual use of proceeds	Estimated use of proceeds	Variance
Micro-Fulfillment Related Capital Expenditures	$ 1,049	$ 9,500	$ (8,451)
Micro-Fulfillment Centres Start-Up Costs Including Leases [1]	2,830	9,500	(6,670)
General corporate purposes	5,760	9,223	(3,463)
Remaining as at September 3, 2022	18,423	N/A	18,423
Total net proceeds	28,062	28,223	(161)
Debentures issuance costs	1,938	1,777	161
Gross proceeds	$ 30,000	$ 30,000	$ –

(1) Start-up costs includes costs incurred before the launch of a micro-fulfillment centre as well as expenses related to opening and ramping up the micro-fulfillment centre.

SEGMENT REPORTING

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

DIVIDEND POLICY

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

1 ECONOMIC CONDITIONS AND UNCERTAINTIES

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations and has resulted in different levels of restrictions by government authorities. As an essential service in Canada, Goodfood has been operating throughout the pandemic and implemented increased safety protocols at its locations to ensure the safety of its employees. The Company experienced an acceleration of growth in demand during the pandemic which has stabilized since the last quarters of Fiscal 2021. 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 and actual economic conditions are difficult to predict and could affect the significant estimates and judgements used in the preparation of the Company's consolidated financial statements.

2 CRITICAL JUDGEMENTS

Impairments of non-current assets

At each reporting date, management determines whether fixed assets, right-of-use assets and intangible assets present indicators of impairment. For the purposes of its analysis, management uses its judgement considering factors such as the economic environment and the market in which the Company operates, budget, forecasts and physical obsolescence.

Leases term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will exercise renewal options at the end of the lease term. The renewal options are only included in the lease term if management is reasonably certain to renew. This significant judgement could affect the Company's financial position if the lease term of the leases is reassessed differently.

3 KEY SOURCES OF ESTIMATES AND ASSUMPTIONS

Impairments of non-financial assets

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

Measurement of net sales

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

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.

Leases

Discount rate

In determining the carrying amount of the right-of-use assets and lease obligations, the Company generally uses its incremental borrowing rate ("IBR"), since the implicit rates are often not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The IBR for each lease was determined on the commencement date of the lease.

CHANGES IN ACCOUNTING POLICIES

No changes in accounting policies were adopted during the 52-weeks ended September 3, 2022.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements to clarify the classification of liabilities as current or non-current (the "2020 amendments"). For the purposes of non-current classification, the amendment removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The 2020 amendment is effective for annual periods beginning on or after September 3, 2023. The 2020 amendments are subject to future developments and in November 2021 the IASB proposed to defer the effective date to no earlier than January 2024. The Company is currently evaluating the impact of the amendment on its 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 ("ICFR").

DISCLOSURE CONTROLS AND PROCEDURES

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

Management, under the supervision of the Certifying Officers, has evaluated the effectiveness of the DC&P and based on that evaluation, the Certifying Officers have concluded that the DC&P were effective as at September 3, 2022.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management, under the supervision of the Certifying Officers, has evaluated the effectiveness of ICFR and based on that evaluation, the Certifying Officers have concluded that the Company's ICFR was effective as at September 3, 2022.

No changes were made during the Fiscal 2022 to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

goodfood

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 3, 2022 AND AUGUST 31, 2021

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 September 3, 2022 and August 31, 2021;
- the consolidated statements of loss and comprehensive loss for the 52-weeks then ended;
- the consolidated statements of changes in equity for the 52-weeks then ended;
- the consolidated statements of cash flows for the 52-weeks then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at September 3, 2022 and August 31, 2021, and its consolidated financial performance and its consolidated cash flows for the 52-weeks 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.2 in the financial statements, which indicates that the Entity has incurred net losses and negative cash flows from operating activities for the 52-weeks ended September 3, 2022, has a deficit as at September 3, 2022, that it was in breach of certain of its financial covenants which resulted in the related debt being classified as a current liability at September 3, 2022, and that its operations are dependent on generating positive cash flow from operations, the continued financial support of its shareholders and lenders, and/or raising additional funds to finance operations within and beyond the next twelve months.

As stated in Note 2.2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2.2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the 52-weeks ended September 3, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "Material Uncertainty related to Going Concern" section of the auditor’s report, we have determined the matters described below to be the key audit matters to be communicated in our auditor’s report.

Evaluation of the impairment of the individual assets and of the leased facilities cash generating units following the reorganization

Description of the matter

We draw attention to Notes 6, 13 and 14 to the financial statements. The Entity has fixed assets of $18,408 thousand, right-of-use assets of $55,419 thousand and assets held for sale of $3,654 thousand. As a result of the Entity’s reorganization plan and the breach of certain financial covenants, the Entity has decided to close several facilities as well as shut-down its on-demand grocery product offering. This resulted, amongst other, in the following cash generating unit ("CGU"). CGUs being identified 1) at the individual asset level and 2) at the leased facility level (including right-of-use asset and fixed assets pertaining to the leased premises). Consequently, the Entity performed an impairment test of its non-financial assets since it had reason to believe that the carrying amount of the CGUs might not be recoverable. The Entity has recorded an impairment charge of $9,022 thousand at the individual assets level and of $37,063 thousand at the leased facilities level.

The Entity reviews the carrying amount of its non-financial assets, which include fixed assets and right-of-use assets, on each reporting date, in order to determine if specific events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated. For impairment testing purposes, assets that cannot be tested individually are aggregated into a CGU. An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or a CGU’s) fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU. Impairment losses are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis and are recognized in the consolidated statements of loss.

For individual assets subsequently classified as assets held for sale, the Entity's significant assumptions in determining FVLCD include:

- expected price the Entity would be able to sell the asset on a secondary market.

For the leased facilities CGUs, the Entity used a discounted cash flow model to determine VIU in which the Entity's significant assumptions include:

- length of time the Entity would expect to find a market participant to take over the lease and market rental rates;
- the discount rate employed for each cash flow projection based on capitalization rates according to the market in which the facilities are located.

Why the matter is a key audit matter

We identified the evaluation of the impairment of the individual assets and of the leased facilities CGUs following the reorganization as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of fixed assets, right-of-use assets and assets held for sale, and the high degree of estimation uncertainty in determining the recoverable amounts of the individual assets and the leased facilities CGUs. In addition, significant auditor judgement and specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the recoverable amounts determined by the Entity to minor changes in significant assumptions.

How the matter was addressed in the audit

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

We compared the lease information inputs used in the determination of the recoverable amount of the leased facilities CGUs, such as contractual rental rates, lease period and additional rent to the lease agreements.

For a selection of individual assets subsequently classified as assets held for sale, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of:

- the inputs on the expected price the Entity would be able to sell the asset on a secondary market, used by the Entity in determining FVLCD, by comparing them to comparable market data and inquiring of used equipment dealers and vendors.

For a selection of leased facilities CGUs, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of:

- the inputs on the length of time the Entity would expect to find a market participant to take over the lease and market rental rates used by the Entity in determining VIU by comparing to external information such as industry reports and commercial real estate property listings and transactions;

- the discount rate used for each cash flow projection based on capitalization rates according to the market in which the facilities are located used by the Entity in determining VIU by comparing them to a discount rate range that was independently developed using publicly available market data for comparable properties.

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 auditor's 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP*

Montréal, Canada

December 1, 2022

*CPA auditor, public accountancy permit No. A115894

GOODFOOD MARKET CORP.

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

For the 52-weeks ended	Notes	September 3, 2022	August 31, 2021
Net sales		**$ 268,586**	$ 379,234
Cost of goods sold		**200,531**	263,140
Gross profit		**68,055**	116,094
Selling, general and administrative expenses		**115,956**	136,396
Depreciation and amortization	13,14,15, 23	**17,295**	8,820
Impairment of non-financial assets	6, 13,14,15	**46,085**	–
Reorganization and other related costs	6	**6,742**	–
Operating loss		**(118,023)**	(29,122)
Net finance costs	7	**5,233**	2,170
Loss before income taxes		**(123,256)**	(31,292)
Deferred income tax (recovery) expense	8	**(1,495)**	500
Net loss, being comprehensive loss		**$ (121,761)**	$ (31,792)
Basic and diluted loss per share		**$ (1.62)**	$ (0.45)
Basic and diluted weighted average number of common shares outstanding	21	**74,982,435**	70,742, 923

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

GOODFOOD MARKET CORP.

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

As at	Notes		September 3, 2022		August 31, 2021
Assets					
Current assets:					
Cash and cash equivalents		**$**	**36,885**	$	125,535
Accounts and other receivables	10		**3,596**		5,968
Inventories	11		**6,884**		14,318
Assets held for sale	6		**3,654**		–
Other current assets	12		**1,178**		709
			52,197		146,530
Non-current assets:					
Fixed assets	6, 13		**18,408**		33,367
Right-of-use assets	6, 14		**55,419**		69,157
Intangible assets	6, 15		**3,174**		2,082
Other non-current assets	16		**650**		4,126
Total assets		**$**	**129,848**	$	255,262
Liabilities and Shareholders' (Deficiency) Equity					
Current liabilities:					
Accounts payable and accrued liabilities	17	**$**	**27,104**	$	52,207
Deferred revenues			**5,501**		5,095
Current portion of long-term debt	18		**11,743**		651
Current portion of lease obligations	20		**8,468**		5,443
			52,816		63,396
Non-current liabilities:					
Long-term debt	18		**–**		20,700
Convertible debentures	19		**27,469**		5,623
Lease obligations	20		**60,741**		67,668
Total liabilities			**141,026**		157,387
Shareholders' (deficiency) equity:					
Common shares	21		**173,788**		170,094
Contributed surplus	22		**10,584**		5,901
Convertible debentures	19		**5,174**		843
Deficit			**(200,724)**		(78,963)
Total shareholders' (deficiency) equity			**(11,178)**		97,875
Total liabilities and shareholders' (deficiency) equity		**$**	**129,848**	$	255,262

The accompanying notes are an integral part of these consolidated financial statements.
Approved on behalf of Goodfood Market Corp. by:

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

(s) Donald Olds
Donald Olds, Director and Chair of the Audit Committee

GOODFOOD MARKET CORP.

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

For the 52-weeks ended

						August 31, 2021
	Notes	**Common Shares**	**Contributed Surplus**	**Convertible Debentures**	**Deficit**	**Total**
Balance as at August 31, 2020		$ 97,801	$ 3,208	$ 2,231	$ (47,171)	$ 56,069
Net loss		–	–	–	(31,792)	(31,792)
Share-based payments expense	22	–	4,230	–	–	4,230
Stock options exercised	22	4,623	(1,537)	–	–	3,086
Employee share purchase plan	22	(427)	–	–	–	(427)
Net share issuance	21	57,199	–	–	–	57,199
Net convertible debentures conversions [3]	19	10,898	–	(1,388)	–	9,510
Balance as at August 31, 2021		$ 170,094	$ 5,901	$ 843	$ (78,963)	$ 97,875
						September 3, 2022
Balance as at August 31, 2021		$ 170,094	$ 5,901	$ 843	$ (78,963)	$ 97,875
Net loss		–	–	–	(121,761)	(121,761)
Share-based payments expense [1]	22	–	6,945	–	–	6,945
Net convertible debenture issuance [2]	19	–	–	4,452	–	4,452
Net convertible debenture conversions [3]	19	1,291	–	(121)	–	1,170
Stock options exercised	22	726	(216)	–	–	510
Restricted share units vested	22	2,032	(2,032)	–	–	–
Employee share purchase plan	22	(355)	(14)	–	–	(369)
Balance as at September 3, 2022		**$ 173,788**	**$ 10,584**	**$ 5,174**	**$ (200,724)**	**$ (11,178)**

(1) Share based payments expense includes $1.1 million related to grants awarded to settle short-term incentive compensation for certain employees (2021 – nil).
(2) The equity component of the convertible debentures presented above is net of income taxes of $1.6 million and $0.4 million related issue costs.
(3) The conversions of the convertible debentures presented above is net of income taxes of $0.1 million (2021 – $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 52-weeks ended	Notes	September 3, 2022	August 31, 2021
Operating:			
Net loss		**$ (121,761)**	$ (31,792)
Adjustments for:			
Depreciation and amortization	13,14,15, 23	**17,295**	8,820
Impairment of non-financial assets	6, 13,14,15	**46,085**	–
Share-based payments expense	22	**5,876**	4,230
Net finance costs	7	**5,233**	2,170
Deferred income tax (recovery) expense	8	**(1,495)**	500
Change in non-cash operating working capital	23	**(11,108)**	(14)
Other		**894**	(272)
Net cash used in operating activities		**(58,981)**	(16,358)
Investing:			
Additions and deposits to fixed assets	13,16	**(35,880)**	(16,651)
Additions to intangible assets	15	**(2,561)**	(2,102)
Interest received		**770**	741
Net cash used in investing activities		**(37,671)**	(18,012)
Financing:			
Net repayment under line of credit	18	**–**	(9,063)
Proceeds from drawdown of revolving facility	18	**–**	9,063
Repayment of revolving facility	18	**(9,063)**	–
Net proceeds from issuance of convertible debentures	19	**28,061**	–
Net proceeds from issuance of common shares	21	**–**	57,364
Net payments of lease obligations	20	**(6,215)**	(3,553)
Net proceeds from issuance of long-term debt	18	**–**	12,193
Repayment of long-term debt	18	**(625)**	(12,500)
Interest paid		**(4,417)**	(3,160)
Proceeds from exercise of stock options	22	**510**	3,086
Shares purchased under employee share purchase plan	22	**(369)**	(427)
Change in restricted cash	18	**–**	2,500
Other		**120**	–
Net cash provided by financing activities		**8,002**	55,503
Increase in cash and cash equivalents		**(88,650)**	21,133
Cash and cash equivalents, beginning of year		**125,535**	104,402
Cash and cash equivalents, end of year		**$ 36,885**	$ 125,535
Supplemental disclosure of cash flow information	23		

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

1. REPORTING ENTITY

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

These financial statements are prepared on a consolidated basis and include its wholly owned subsidiaries which do not currently conduct any activities.

Goodfood Market Corp. is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange ("TSX") under the symbol "FOOD". The Company has its main production facility and administrative offices based in Montréal, Québec, with additional facilities in Québec, Ontario, Alberta, and other non-operational facilities in Quebec, Ontario and British Columbia (Refer to Note 6).

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Details of the Company's accounting policies are included in Note 3.

The consolidated financial statements of the Company for the 52-weeks ended September 3, 2022 and August 31, 2021 were authorized by the Board of Directors ("Board") on December 1, 2022 for publication on December 2, 2022.

2.2 GOING CONCERN

These financial statements have been prepared on the basis that the Company will continue as a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

During the 52-weeks ended September 3, 2022, the Company recorded a net loss of $121.8 million as well as had cash used in operating activities of $58.9 million. As at September 3, 2022, current liabilities exceed current assets by $0.6 million and the Company has an accumulated deficit of $200.7 million. In addition, as at September 3, 2022, the Company was in breach of certain of its financial covenants which resulted in the related debt being classified as a current liability at that date. The Company entered into a tolerance letter with its lenders pursuant to which the lenders agreed under certain conditions which include restricting Goodfood from using the revolver portion of the facility, under which no amount is currently outstanding other than letters of credit. As of the date of issuance of these consolidated financial statements, Goodfood is in the process of negotiating the terms of a revised credit facility arrangement. In the event that a new credit facility is not in place in the near term, the Company would expect to have in place a further extension of the current tolerance letter. There can be no assurance as to a credit facility arrangement being put in place in a timely manner, the terms of such an arrangement or obtaining a further extension of the current tolerance letter.

The Company has relied upon external financing to fund its operations in the past, primarily through the issuance of debt and equity. The Company's business plan is dependent upon generating positive cash flows, the continued financial support of its shareholders and lenders and/or raising additional funds to finance operations within and beyond the next twelve months. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company's control, and as such there is no assurance that it will be able to do so in the future. If the Company is unable to realize its projected revenues and generate positive cash flows from operations and/or obtain sufficient additional financing, it may have to curtail operations and development activities, any of which could harm the business, financial condition and results of operations.

Due to the factors described above, management has concluded that a material uncertainty exists that may cast significant doubt about the Company's ability to continue operating as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business. The financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to achieve its plan and continue in business. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the classification of items in the consolidated statements of financial position. Such adjustments could be material.

2.3 BASIS OF MEASUREMENT

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

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

2.4 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.5 CHANGE IN FISCAL YEAR-END

In September 2021, the Company changed its fiscal year-end from a fixed year-end ending August 31 of each year to a floating year-end ending on the first Saturday of September of each year in order to align with comparative companies who are using floating year-ends. As a result, the Company is following a 52-week reporting cycle but will include a 53rd week every five to six years. For Fiscal 2022, the 52-weeks ended September 3, 2022 is comprised of 3 additional days compared to Fiscal 2021. For simplicity, in this transition year, we refer to 52-weeks ended August 31, 2021 which is 52 weeks and one day and we refer to 52-weeks ended September 3, 2022 even though it is 52-weeks and four days.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and of its wholly owned subsidiaries.

Subsidiaries

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of these returns. The Company reassesses whether it controls an entity if facts and circumstances indicate that one or more of the aforementioned points have changed. A subsidiary is consolidated from the date the Company obtains control and continues to be consolidated until the date that such control ceases.

3.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from the sale of goods is measured at the fair value of consideration received, net of refunds, sales incentives and credits. Revenue is recognized at a point in time, which is upon delivery of meal solutions, as it meets the criteria to satisfy the performance obligation. Sales and referral credits are recognized as revenue upon redemption and when the Company fulfills its obligation. Deferred revenue is recognized for consideration received in advance of the related revenue. Sales and referral credits are also included in deferred revenue and are measured based on the fair value of the sales and referral credits granted, taking into consideration the estimated redemption percentage.

3.3 TAXES

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

Current income tax

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

Deferred income tax

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

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

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

3.4 FINANCE INCOME AND FINANCE COSTS

Finance income comprises of interest income and foreign exchange gains. Finance costs comprise of 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.

3.5 CASH AND CASH EQUIVALENTS

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

3.6 INVENTORIES

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined using the first-in, first-out method. Cost includes acquisition costs net of discounts, and other costs incurred to bring inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

3.7 ASSETS HELD FOR SALE

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

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

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

3.8 FIXED ASSETS

3.8.1 RECOGNITION AND MEASUREMENT

Fixed assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use, as well as directly attributable payroll and consulting costs.

When components of a fixed asset have materially different useful lives, they are accounted for separately.

Gains and losses on disposal of a fixed asset are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the consolidated statements of loss.

3.8.2 SUBSEQUENT EXPENDITURE

The cost of replacing a fixed asset 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 fixed assets are recognized in the consolidated statements of loss as incurred.

3.8.3 DEPRECIATION

Depreciation is calculated over the cost of the asset less its residual value and is recognized in the consolidated statements of loss on a straight-line basis over the estimated useful lives of each part of a fixed asset, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated and reflect the cost of fixed assets, which are not yet available for their intended use. Assets under construction will start to be depreciated when they are available for their intended use. Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

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

Asset	**Period**
Furniture and fixtures	3 to 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

3.9 LEASES

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

Right-of-use asset

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

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. Lease terms, including options to renew for which the Company is reasonably certain to exercise, range from 0 to 11 years for facilities, automotive equipment and other equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

Lease obligation

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

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

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

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

3.10 INTANGIBLE ASSETS

3.10.1 RECOGNITION AND MEASUREMENT

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

3.10.2 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 the consolidated statements of loss as incurred.

3.10.3 AMORTIZATION

Amortization is recognized in the consolidated statements of loss on a straight-line basis over the estimated useful lives of the finite life of intangible assets. Intangible assets in development are not amortized and reflect the cost of developing the intangible asset, which are not yet available for their intended use. Intangible assets in development will start to be amortized when they are available for their intended use.

The estimated useful lives for the current year and comparative periods are as follows:

Asset	Period
Software	3 to 5 years
Intellectual property	5 years

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

3.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

3.12 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 statements of financial position as a deduction from the carrying amount of the related asset. They are then recognized in the consolidated statements of 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 the consolidated statements of loss as a deduction from the related expenses.

3.13 FINANCIAL INSTRUMENTS

3.13.1 RECOGNITION AND INITIAL MEASUREMENT

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

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issuance.

3.13.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial assets

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.

Amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- 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:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investment

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in Other Comprehensive Loss. This election is done on an investment by investment basis.

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 the consolidated statements of loss. Any gain or loss on derecognition is recognized in the consolidated statements of loss.

Financial liabilities

Financial liabilities are classified and measured as amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses are recognized in the consolidated statements of loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Finance expense is recognized in the consolidated statements of loss.

3.13.3 DERECOGNITION

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of the consideration received or receivable is recognized in the consolidated statements of loss.

Financial liabilities

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

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

3.13.4 OFFSETTING

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

3.13.5 IMPAIRMENT

The Company recognizes expected credit losses and changes in such losses at each reporting date to reflect changes in credit risk since the initial recognition of the financial assets. The expected credit losses identified were not significant.

3.13.6 FAIR VALUE MEASUREMENT

In establishing the fair value, the Company uses a fair value hierarchy based on levels as defined below:

Level 1: defined as observable inputs such as quoted prices in active markets.

Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

3.13.7 INTEREST RATE SWAP AGREEMENTS

The Company's swap agreement is measured at fair value with gains and losses in fair value presented in net finance costs in the Company's consolidated statements of loss.

3.13.8 CONVERTIBLE DEBENTURES

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

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

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

3.14 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 costs.

<u>Contingent liability</u>

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.

3.15 SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.16 SHARE-BASED PAYMENTS

The Company's share-based payment plans consist of a stock option plan, a restricted share unit plan and an employee share purchase plan. Employees, consultants, officers and directors of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of the Company's stock option plan is determined by the fair value at the date when the grant is made using the Black-Scholes option pricing model. The cost of the Company's restricted share unit plan is determined based on the volume weighted average trading price of the common shares for the five days immediately preceding the grant date. The costs are recognized as a share-based payment expense, together with a corresponding increase in equity (contributed surplus), over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired. The expense or credit in the statements of loss for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

3.17 EMPLOYEE SHARE PURCHASE PLAN

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

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

3.18 FOREIGN CURRENCY

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

3.19 LOSS PER SHARE

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

3.20 SEGMENT REPORTING

The Company determined that it operated a single operating segment for Fiscal 2022 and 2021.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

4.1 ECONOMIC CONDITIONS AND UNCERTAINTIES

The COVID-19 pandemic has had an impact on Goodfood's overall business and operations and has resulted in different levels of restrictions by government authorities. As an essential service in Canada, Goodfood has been operating throughout the pandemic and implemented increased safety protocols at its locations to ensure the safety of its employees. The Company experienced an acceleration of growth in demand during the pandemic which has stabilized since the last quarters of Fiscal 2021. 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 and actual economic conditions are difficult to predict and could affect the significant estimates and judgements used in the preparation of the Company's consolidated financial statements.

4.2 CRITICAL JUDGEMENTS

<u>Impairments of non-current assets</u>

At each reporting date, management determines whether fixed assets, right-of-use assets and intangible assets present indicators of impairment. For the purposes of its analysis, management uses its judgement considering factors such as the economic environment and the market in which the Company operates, budget, forecasts and physical obsolescence.

Lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will exercise renewal options at the end of the lease term. The renewal options are only included in the lease term if management is reasonably certain to renew. This significant judgement could affect the Company's financial position if the lease term of the leases is reassessed differently.

4.3 KEY SOURCES OF ESTIMATES AND ASSUMPTIONS

Impairments of non-financial assets

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

Measurement of net sales

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

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.

Leases

Discount rate

In determining the carrying amount of the right-of-use assets and lease obligations, the Company generally uses its incremental borrowing rate ("IBR"), since the implicit rates are often not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The IBR for each lease was determined on the commencement date of the lease.

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

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements to clarify the classification of liabilities as current or non-current (the "2020 amendments"). For the purposes of non-current classification, the amendment removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The 2020 amendment is effective for annual periods beginning on or after September 3, 2023. The 2020 amendments are subject to future developments and in November 2021 the IASB proposed to defer the effective date to no earlier than January 2024. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

6. REORGANIZATION AND OTHER RELATED COSTS

6.1 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

During the year ended September 3, 2022, the Company recorded an impairment charge of $37.9 million on fixed assets, $7.7 million on right-of-use assets and $0.5 million on intangible assets from the following CGUs:

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

When determining the FVLCD of its individual assets, the Company used market inputs based on the expected price the Company would be able to sell the asset for on a secondary market. Subsequent to the impairment test, the individual assets were reclassified as assets held for sale as they met the condition to be classified as such as at September 3, 2022.

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

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

6.2 REORGANIZATION AND OTHER RELATED COSTS

The following table summarized the reorganization and other related costs:

		2022		2021
Employee termination and benefit costs	$	**4,321**	$	–
External advisor fees [1]		**2,440**		–
Other		**(19)**		–
	$	**6,742**	$	–

[1] External advisor fees consist of fees related to the Company's reorganization initiatives and the debt covenant breach.

7. NET FINANCE COSTS

		2022		2021
Interest expense on debt	$	**1,093**	$	986
Interest expense on lease obligations		**2,572**		1,208
Interest expense on debentures, including accretion interest		**2,216**		1,092
Interest income		**(736)**		(870)
Foreign exchange loss (gain)		**8**		(126)
Fair value gain on interest rate swaps		**(26)**		(120)
Other finance costs		**106**		–
	$	**5,233**	$	2,170

8. INCOME TAXES

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

		2022		2021
Loss before income taxes	$	**(123,256)**	$	(31,292)
Canadian statutory rates		**26.15%**		25.90%
Income tax benefit at the combined Canadian statutory rate	$	**(32,231)**	$	(8,105)
Decrease resulting from:				
Change in unrecognized deferred income tax assets		**29,210**		7,503
Permanent differences		**1,525**		1,236
Change in tax rates		**145**		244
Other		**(144)**		(378)
Total income tax (recovery) expense	$	**(1,495)**	$	500

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

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

	Lease obligations	Net operating losses	Debentures	Fixed assets and Right-of-use assets	Deferred income tax assets (liabilities)
As at August 31, 2020	$ 4,937	$ 1,044	$ (1,044)	$ (4,937)	**$ –**
Recognized in net loss	12,188	(726)	226	(12,188)	(500)
Recognized in equity	–	–	500	–	500
As at August 31, 2021	$ 17,125	$ 318	$ (318)	$ (17,125)	$ –
Recognized in net loss	(12,045)	1,779	(284)	12,045	1,495
Recognized in equity	–	–	(1,495)	–	(1,495)
As at September 3, 2022	**$ 5,080**	**$ 2,097**	**$ (2,097)**	**$ (5,080)**	**$ –**

The Company had unrecognized deferred income tax assets as follows:

As at	**September 3, 2022**	August 31, 2021
Net operating losses carry forwards	**$ 30,456**	$ 14,500
Fixed assets and right-of-use assets	**13,018**	1,810
Shares and debt issuance costs	**1,334**	1,433
Intangible assets	**3,140**	1,155
Other	**343**	117
Unrecognized deferred income tax assets	**$ 48,291**	$ 19,015

The Company has federal operating tax losses carried forward of $118.1 million (2021 – $53.8 million) which are partially recognized for an amount of $8.0 million (2021 – $1.2 million), and unrecognized deductible temporary differences of $66.0 million (2021 – $18.8 million) that are available to reduce taxable income. Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can realize the benefits therefrom. As at September 3, 2022, the amounts and expiry dates of the federal tax losses carried forward were as follows:

2035	**$ 49**
2036	**712**
2037	**3,547**
2038	**8,516**
2039	**18,089**
2040	**812**
2041	**22,625**
2042	**63,739**
	$ 118,089

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

9. SUPPLEMENTAL STATEMENT OF LOSS AND COMPREHENSIVE LOSS INFORMATION

	2022	2021
Expense related to variable lease payments not included in the lease obligations	**$ 2,477**	$ 819
Salaries, fees and other short-term employee benefits	**99,017**	121,350

10. ACCOUNTS AND OTHER RECEIVABLES

As at	**September 3, 2022**	August 31, 2021
Sales taxes receivable	**$ 2,357**	$ 4,633
Rewards program receivable	**504**	1,034
Volume discounts receivable	**97**	147
Other receivables	**638**	154
	$ 3,596	$ 5,968

11. INVENTORIES

As at	**September 3, 2022**	August 31, 2021
Food	**$ 4,953**	$ 11,814
Packaging supplies	**1,611**	1,742
Work in process	**320**	762
	$ 6,884	$ 14,318

The cost of inventories recognized as an expense within cost of goods sold during the 52-weeks ended September 3, 2022 was $174.3 million (2021 – $236.5 million).

The Company recorded an expense within cost of goods sold during the 52-weeks ended September 3, 2022 of $1.6 million (2021 – $0.1 million) for the write-down of inventories. Included in this amount is $1.2 million (2021 – nil) related to the discontinuance of products related to on-demand grocery.

12. OTHER CURRENT ASSETS

As at	**September 3, 2022**	August 31, 2021
Prepaid expenses	**$ 921**	$ 426
Deposits and other	**257**	283
	$ 1,178	$ 709

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

13. FIXED ASSETS

	Furniture and fixtures	Machinery and equipment	Computer hardware and other	Leasehold improvements	Assets under construction (1)	Total
Cost:						
As at August 31, 2020	$ 1,506	$ 8,529	$ 1,410	$ 11,771	$ 51	$ 23,267
Additions	2,571	1,485	2,169	1,511	10,371	18,107
As at August 31, 2021	$ 4,077	$ 10,014	$ 3,579	$ 13,282	$ 10,422	$ 41,374
Additions	2,185	9,239	2,550	4,887	16,555	35,416
Transfers	61	6,962	304	18,211	(25,538)	–
Transfers to assets held for sale	(152)	(3,830)	(116)	(134)	(115)	(4,347)
Write-offs	–	–	–	–	(741)	(741)
As at September 3, 2022	**$ 6,171**	**$ 22,385**	**$ 6,317**	**$ 36,246**	**$ 583**	**$ 71,702**
Accumulated depreciation, impairment loss and write-offs:						
As at August 31, 2020	$ 335	$ 1,398	$ 508	$ 1,835	$ –	$ 4,076
Depreciation	510	1,207	759	1,455	–	3,931
As at August 31, 2021	$ 845	$ 2,605	$ 1,267	$ 3,290	$ –	$ 8,007
Depreciation	1,086	2,236	1,526	3,155	–	8,003
Impairment loss (Note 6)	2,824	11,554	941	22,056	497	37,872
Write-offs	13	13	76	–	–	102
Transfers to assets held for sale	(61)	(541)	(57)	(31)	–	(690)
As at September 3, 2022	**$ 4,707**	**$ 15,867**	**$ 3,753**	**$ 28,470**	**$ 497**	**$ 53,294**
Net carrying amounts:						
As at August 31, 2021	$ 3,232	$ 7,409	$ 2,312	$ 9,992	$ 10,422	$ 33,367
As at September 3, 2022	**1,464**	**6,518**	**2,564**	**7,776**	**86**	**18,408**

(1) Additions of assets under construction include $1.6 million (2021 – $0.9 million) related to capitalized depreciation of right-of-use assets.

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

14. RIGHT-OF-USE ASSETS

	Facilities	Automotive equipment	Other equipment	Total
As at August 31, 2020	$ 20,178	$ 448	$ 504	$ 21,130
Additions and lease modifications	52,609	150	757	53,516
Depreciation	(4,616)	(171)	(702)	(5,489)
As at August 31, 2021	$ 68,171	$ 427	$ 559	$ 69,157
Additions and lease modifications	24,476	281	42	24,799
Derecognition [(1)]	(20,875)	(38)	–	(20,913)
Impairment loss (Note 6)	(7,675)	–	–	(7,675)
Depreciation	(9,570)	(195)	(184)	(9,949)
As at September 3, 2022	**$ 54,527**	**$ 475**	**$ 417**	**$ 55,419**

(1) Includes a termination of a leased facility as well as a change in assumptions relating to the lease term of a facility.

The Company recorded sublease revenue of $1.1 million (2021 – nil) within net sales during the 52-weeks ended September 3, 2022.

15. INTANGIBLE ASSETS

	Software [(1)]	Intellectual property	Total
Cost:			
As at August 31, 2020	$ 770	$ 74	$ 844
Additions	1,657	–	1,657
As at August 31, 2021	$ 2,427	$ 74	$ 2,501
Additions	2,561	–	2,561
As at September 3, 2022	**$ 4,988**	**$ 74**	**$ 5,062**
Accumulated amortization and impairment loss:			
As at August 31, 2020	$ 115	15	$ 130
Amortization	274	15	289
As at August 31, 2021	$ 389	$ 30	$ 419
Amortization	916	15	931
Impairment loss (Note 6)	538	–	538
As at September 3, 2022	**$ 1,843**	**$ 45**	**$ 1,888**
Net carrying amounts:			
As at August 31, 2021	$ 2,038	$ 44	$ 2,082
As at September 3, 2022	**3,145**	**29**	**3,174**

(1) For the 52-weeks ended September 3, 2022, the net carrying amount of software under development amounted to $0.4 million (2021 – $1.1 million).

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

16. OTHER NON-CURRENT ASSETS

As at	September 3, 2022	August 31, 2021
Security deposits and prepaid rent	**$ 650**	$ 1,054
Deposits on fixed assets	–	3,072
	$ 650	$ 4,126

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	September 3, 2022	August 31, 2021
Accounts payable	**$ 16,810**	$ 30,078
Accrued liabilities	**10,294**	22,129
	$ 27,104	$ 52,207

18. DEBT

As at	September 3, 2022	August 31, 2021
Interest-bearing financing:		
Secured revolving facility, variable interest at BA(1) plus 2.50%, maturing in November 2023	**$ –**	$ 9,063
Secured term loan, variable interest at BA(1) plus 2.50%, maturing in November 2023	**11,875**	12,500
	$ 11,875	$ 21,563
Interest rate swap	**–**	26
Unamortized financing costs	**(132)**	(238)
	$ 11,743	$ 21,351
Current portion of long-term debt	**(11,743)**	(651)
	$ –	$ 20,700

(1) BA is defined as the Canadian Banker's Acceptance Rate.

CREDIT FACILITY 2021

During the first quarter ended November 30, 2020, the Company entered into a syndicated credit agreement totaling $46 million, including a term loan of $12.5 million, a revolving facility of $27.5 million and $6 million in other short-term financing ("Credit Facility 2021"). During the second quarter ended February 28, 2021, the Company increased the revolving facility by $15 million for a total of $42.5 million, and the other short-term financing by an amount not to exceed $15 million, and an additional lender was added to the syndicate. This increase brought the total available financing to $70 million. The Credit Facility 2021 is secured by a first-ranking hypothec on all of the Company's movable and immovable assets. The facilities bear variable interest rates of BA plus 2.50% and mature in November 2023. The term loan is repayable in four quarterly installments of $156 thousand beginning on November 30, 2021 and increasing to four quarterly installments of $313 thousand on November 30, 2022 with a bullet repayment of the balance of $10.6 million at the end of the term in November 2023.

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

During the fourth quarter of Fiscal 2022, the Company did not meet all the financial covenants under its credit facility resulting in an event of default as at September 3, 2022. The Company received a tolerance letter from its lenders pursuant to which the lenders agreed, subject to certain terms and conditions, to refrain from enforcing their rights, remedies and resources under the Credit Facility agreement as well as restrict Goodfood from using the revolver portion of the facility, under which no amount is currently outstanding or available other than letters of credit. In addition, the other short-term financing available to the Company was reduced to $7.3 million and an additional 1.00% was added to the interest calculation. Goodfood is in the process of negotiating the terms of a revised credit facility arrangement. In the event that a new credit facility is not in place in the near term, the Company would expect to have in place a further extension of the current tolerance letter. The Company cannot provide assurance as to a credit facility arrangement being put in place in a timely manner, the terms of such an arrangement or obtaining a further extension of the current tolerance letter. As a result, the outstanding loan on the credit facility is recognized in the Company's current liabilities due to the lenders' ability to demand full repayment after the expiry of the tolerance letter, unless otherwise extended.

As at August 31, 2021, $9.1 million of the revolving facility was drawn, a balance of $33.4 million was undrawn and $32.2 million was available.

As at September 3, 2022, Goodfood had outstanding letters of credit totalling $0.7 million (2021 – $1.2 million) which reduced the availability on the revolving facility.

As at September 3, 2022, the Company allocated $7.3 million (2021 – $14.6 million) to corporate credit cards to be used for business purposes of the other short-term financing amount. Amounts owing with respect to credit cards are included in accounts payable and accrued liabilities.

INTEREST RATE SWAP

Goodfood had one swap agreement in place whereby the Company fixed the interest rate on a notional amount of $10.9 million until November 2021. Since November 2021, the Company has not entered into a new interest rate swap. As at August 31, 2021, the Company's interest rate swap was classified as a derivative financial liability and was not designated as a hedging instrument.

For the 52-weeks ended September 3, 2022, a gain in fair value of $26 thousand was presented in net finance costs (2021 - $0.1 million).

PRINCIPAL PAYMENTS

Had there been no breach in financial covenants and the debt was classified as a long-term debt, the principal payments due in each of the following fiscal years as per the long-term debt terms are as follows:

	Principal payments
2023	**1,250**
2024	**10,625**

19. CONVERTIBLE DEBENTURES

2022 Debentures

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

The 2022 Debentures are convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the Maturity Date and the last business day immediately preceding the date specified for redemption by the Company at a price of $4.60 (the "Conversion Price") per common share.

On or after March 31, 2025, and prior to March 31, 2026, provided that the volume weighted average trading price of the Company's common shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price, the 2022 Debentures may be redeemed in whole or in part at the option of the Company at a price equal to the principal amount thereof plus accrued and unpaid interest. On or after March 31, 2026, and prior to the Maturity Date, the 2022 Debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

In the event of a change in control, the Company will be required to make a payment to the holders of the 2022 Debentures in accordance with the make-whole premium provisions set forth by the indenture of the 2022 Debentures.

The conversion option, net of related issuance costs and deferred income taxes, has been recorded in shareholders' equity for an amount of $4.5 million. Factoring in the 2022 Debentures issuance costs, the effective interest rate on the Debentures is 12.6%.

2020 Debentures

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

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

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

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

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

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

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

	September 3, 2022	August 31, 2021
Convertible debentures, liability component balance, beginning of year	**$ 5,623**	$ 14,194
Net proceeds from issuance of the Debentures [1]	**22,048**	–
Accretion interest	**901**	439
Conversion of the Debentures	**(1,103)**	(9,010)
Convertible debentures, liability component balance, end of year	**$ 27,469**	$ 5,623

(1) Issuance costs attributable to the liability component amounts to $1.5 million. Net proceeds of $4.5 million, including $0.4 million of issuance costs and $1.6 million of deferred income taxes, were recorded as the equity component.

During the 52-weeks ended September 3, 2022, 1,364 Debentures (2021 – 11,284) were converted into common shares of the Company, resulting in the issuance of 293,647 (2021 – 2,400,819) common shares and the Company reclassified $1.1 million (2021 – $9.0 million) and $0.2 million (2021 – $1.9 million), respectively (Refer to Note 21) from the convertible debentures liability to common shares and from the equity component of the convertible debentures to common shares. A deferred income tax recovery of $1.6 million (2021 – nil) was recognized upon issuance of the 2022 Debentures for the 52-weeks ended September 3, 2022. A deferred income tax expense of $0.1 million (2021 – $0.5 million) was recognized upon conversion of the Debentures for the 52-weeks ended September 3, 2022. As at September 3, 2022, 35,488 Debentures (2021 – 6,852 Debentures) were outstanding.

20. LEASE OBLIGATIONS

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

	September 3, 2022	August 31, 2021
Balance, beginning of year	**$ 73,111**	$ 23,348
Additions and lease modifications	**24,615**	53,905
Derecognition (Note 14)	**(22,302)**	–
Payment of lease obligations [1]	**(9,259)**	(5,534)
Interest expense on lease obligations [2]	**3,044**	1,392
Balance, end of year	**$ 69,209**	$ 73,111

(1) In Fiscal 2022, payment of lease obligations includes $1.0 million repayment received for leasehold incentives from a landlord.

(2) Interest expense on lease obligations includes $0.5 million (2021 – $0.2 million) capitalized in assets under construction.

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

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

As at		September 3, 2022		August 31, 2021
Less than one year	$	**11,024**	$	8,566
One to five years		**40,807**		37,943
More than 5 years [1]		**27,942**		40,864
Total undiscounted lease obligations	$	**79,773**	$	87,373
Lease obligations balance, end of year	$	**69,209**	$	73,111
Current portion	$	**8,468**	$	5,443
Non-current portion	$	**60,741**	$	67,668

[1] As at September 3, 2022, future lease payments of $5.6 million (2021 – $10.9 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 (2021 – $12.1 million) of undiscounted cash outflows.

21. SHAREHOLDERS' EQUITY

COMMON SHARES

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

The movements in common shares were as follows for the 52-weeks ended:

			September 3, 2022			August 31, 2021
	Number of shares		**Carrying amount**	Number of shares		Carrying amount
Balance, beginning of year	**74,647,547**	$	**170,094**	66,311,121	$	97,801
Net share issuance through a bought deal offering	**–**		**–**	4,800,000		57,199
Debenture conversions (Note 19)	**293,647**		**1,291**	2,400,819		10,898
Exercise of stock options (Note 22)	**161,707**		**726**	1,182,693		4,623
Restricted share units vested	**231,453**		**2,032**	–		–
Employee share purchase units vested	**8,900**		**14**	–		–
Purchased and held in trust through employee share purchase plan (Note 22)	**(110,231)**		**(369)**	(47,086)		(427)
Balance, end of year	**75,233,023**	$	**173,788**	74,647,547	$	170,094

During the 52-weeks ended August 31, 2021, the Company issued 4,800,000 common shares at a price of $12.50 per common share for gross proceeds of $60 million, less share issuance costs of $2.8 million, in connection with a public offering.

As at September 3, 2022, the number of common shares issued and fully paid was 75,404,854 (2021 – 74,718,045).

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

LOSS PER SHARE

As at	September 3, 2022	August 31, 2021
Basic and diluted weighted average number of common shares outstanding	**74,982,435**	70,742, 923

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

For the year ended September 3, 2022 and the year ended August 31, 2021, the diluted loss per share calculation did not take into consideration the potential dilutive effect of stock options, restricted share units and employee share purchase plan units as they are anti-dilutive.

22. SHARE-BASED PAYMENTS

The Company's share-based payment plans consist of a stock option plan, a restricted share unit plan and an employee share purchase plan.

STOCK OPTION PLAN

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

The following table summarizes the continuity of the stock options during the 52-weeks ended:

		September 3, 2022		August 31, 2021
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**3,174,309**	**$ 4.47**	4,751,695	$ 3.51
Granted	**979,912**	**4.72**	647,434	8.17
Exercised	**(161,707)**	**3.03**	(1,182,693)	2.61
Forfeited	**(541,301)**	**5.48**	(1,042,127)	4.53
Expired	**(188,414)**	**4.61**	–	–
Outstanding, end of year	**3,262,799**	**4.44**	3,174,309	4.47
Exercisable, end of year	**1,865,747**	**$ 4.04**	1,112,432	$ 3.45

For the 52-weeks ended September 3, 2022, the weighted average share market price of the Company's common shares upon the exercise date of stock options was $7.79 (2021 – $10.09).

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

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

		2022		2021
Exercise Price	**Number of options outstanding**	**Weighted average remaining life**	Number of options outstanding	Weighted average remaining life
Less than $2.99	**712,491**	**4.0**	843,819	5.1
$ 3.00 – 5.99	**1,821,368**	**6.2**	1,218,846	6.1
$ 6.00 – 8.99	**728,940**	**6.2**	1,111,644	7.1
Outstanding, end of year	**3,262,799**	**5.7**	3,174,309	6.2
Exercisable, end of year	**1,865,747**	**5.0**	1,112,432	5.8

Stock options granted during the 52-weeks ended September 3, 2022 had a weighted average fair value of $2.33 per option (2021 – $3.87), using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2022	2021
Expected volatility	**58%**	57%
Risk-free interest rate	**1.54%**	0.59%
Expected life of options	**4.8 years**	4.8 years
Common share value at grant date	**$ 4.72**	$ 8.17
Weighted average exercise price	**$ 4.72**	$ 8.17

During the 52-weeks ended September 3, 2022, an expense of $1.9 million (2021 – $2.8 million), including fringe benefits related to stock options exercised of $0.1 million (2021 – $0.6 million), was recorded in the consolidated statements of loss in relation to the Stock Option Plan.

RESTRICTED SHARE UNIT PLAN

In September 2020, the Company adopted a restricted share unit plan (the "RSU Plan") to reward certain employees, officers and directors of the Company (the "Participants"). The RSU Plan was approved in January 2021. Following the implementation of the RSU Plan, the Company granted to Participants a number of restricted share units ("RSUs") based on the volume weighted average trading price of the common shares for the five days immediately preceding the grant date. The expense in relation to the RSU Plan is measured at the fair value of the underlying RSU at the grant date and is expensed over the award's vesting period. The RSU Plan provides for a maximum number of common shares available and reserved for issuance to 10% of the Company's issued and outstanding common shares, less any shares reserved for issuance under the Stock Option Plan. The RSUs are time-based awards and one third of the amount of RSUs granted will vest upon the continuous employment of the Participants on each of the anniversaries of the RSU grant, over a period of three years starting from the date of the grant or such other period not exceeding three years as determined by the Board.

Pursuant to the terms of the RSU Plan, Participants will receive, upon vesting of the RSUs, common shares of the Company issued from treasury.

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

The following table summarizes the continuity of the RSUs during the 52-weeks ended:

	September 3, 2022	August 31, 2021
Outstanding, beginning of year	**625,491**	–
Granted	**2,651,498**	707,823
Vested	**(231,453)**	–
Forfeited	**(1,044,820)**	(82,332)
Outstanding, end of year	**2,000,716**	625,491

During the 52-weeks ended September 3, 2022, an expense of $3.9 million (2021 – $2.0 million) was recorded in the consolidated statements of loss in relation to the RSU Plan.

As at September 3, 2022, 2,276,970 stock options and RSUs (2021 – 3,672,004) were available for issuance.

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 continuity of the ESPP during the 52-weeks ended:

	September 3, 2022			August 31, 2021		
	Number of shares		**Amount**	Number of shares		Amount
Unvested contributions, beginning of year	**70,498**	**$**	**523**	23,412	$	96
Contributions	**110,231**		**369**	47,086		427
Vested	**(8,900)**		**(14)**	–		–
Unvested contributions, end of year	**171,829**	**$**	**878**	70,498	$	523

During the 52-weeks ended September 3, 2022, an expense of $0.1 million (2021 – $0.1 million) was recorded in the consolidated statements of loss in relation to the employee share purchase plan.

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

23. SUPPLEMENTAL CASH FLOW INFORMATION

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

As at	September 3, 2022	August 31, 2021
Accounts and other receivables	$ **2,761**	$ (1,375)
Inventories	**7,434**	(7,356)
Other current assets	**(224)**	(29)
Accounts payable and accrued liabilities	**(21,485)**	9,041
Deferred revenues	**406**	(295)
	$ **(11,108)**	$ (14)

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

As at	September 3, 2022	August 31, 2021
Investing activities		
Unpaid fixed assets additions	$ **184**	$ 3,800
Unpaid intangible assets additions	**24**	–
Capitalized depreciation on right-of-use assets and interest expense on lease obligations included in assets under construction additions	**2,061**	1,073
Financing activities		
Unpaid share issuance costs	$ –	$ 20

24. COMMITMENTS

Goodfood had commitments under purchase and service contract obligations for both operating and capital expenditures.

The following summarizes the commitments that are not recognized as liabilities:

As at	September 3, 2022	August 31, 2021
Less than 1 year	$ **9,236**	$ 24,233
Between 1 and 5 years	**390**	75
More than 5 years	–	–
	$ **9,626**	$ 24,308

25. FINANCIAL INSTRUMENTS

Goodfood has determined that the fair value of cash and cash equivalents, accounts and other receivables, and accounts payable and accrued liabilities approximate their respective carrying amounts at the consolidated statements of financial position date, due to the short-term maturity of those instruments.

Goodfood determined that the fair value of its long-term debt approximates its carrying amount as it bears a variable interest rate at BA plus 2.50% which is a similar market interest rate for financial instruments with similar terms and risks.

The Company determined the valuation of its Debentures at issuance using Level 3 inputs. As at September 3, 2022, the Company determined that the fair value of its Debentures approximates $7.0 million which was determined based on market trading value.

26. FINANCIAL RISKS

Credit risk:

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

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company’s long-term debt and revolving facility bear interest at variable rates which are determined by a base rate set by the lender plus a margin. As a result, the Company is exposed to interest rate cash flow risk due to fluctuations in lenders’ base rates. The Company managed its interest rate risk by using a variable-to-fixed interest rate swap which matured in November 2021. As interest rates on Debentures are fixed, the Company is not exposed to interest rate risk on those instruments.

Sensitivity analysis for interest rate risk

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

Liquidity risk:

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

The Company monitors its risk of shortage of funds by monitoring forecasted and actual cash flows and maturity dates of existing financial liabilities and commitments and is actively managing its capital to ensure a sufficient liquidity position to finance its general and administrative, working capital and overall capital expenditures. However, the Company concluded that material uncertainty exists with respect to the Company’s ability to continue as a going-concern for at least the next twelve months to realize its assets and satisfy its liabilities in the normal course of operations as they come due (Refer to Note 2.2 on going concern).

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

In order to address these uncertainties, the Company will rely on its reorganization initiatives, a review of its operations and overall business to drive efficiencies to form the basis for positive cash flow and long-term profitable growth as well as actively negotiating the terms of a revised credit facility arrangement with its lenders. There can be no assurance that the Company will be successful in achieving positive results.

Capital management

The Company's objective in managing its capital structure is to ensure a sufficient liquidity position to finance its operations and growth and to deliver competitive returns on invested capital. To fund its activities, the Company has relied on public and private placements of equity securities, convertible debentures, as well as short-term or long-term debt. As of the end of its fourth quarter of Fiscal 2022, the Company had $36.9 million in cash on its consolidated statement of financial position benefiting from a term loan of $11.7 million outstanding which is currently classified as a current liability. For more information on the debt covenant, refer to Note 18.

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

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

					August 31, 2021
	Total carrying amount	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 52,207	$ 52,207	$ 52,207	$ –	$ –
Long-term debt, including current portion [1]	21,351	22,958	1,279	21,679	–
Debentures, liability component	5,623	8,433	399	8,034	–
Lease obligations, including current portion	73,111	87,373	8,566	37,943	40,864
	$ 152,292	$ 170,971	$ 62,451	$ 67,656	$ 40,864

[1] As at September 3, 2022, an interest rate of 5.34% (2021 – 2.92%) was used to determine the estimated interest payments on the variable-rate portion of the Company's long-term debt. In addition, in Fiscal 2021 the fixed interest rate pursuant to the swap agreement mentioned in Note 18 was used to determine the interest payments on the fixed-rate portion of the Company's long-term debt.

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

27. RELATED PARTIES

KEY MANAGEMENT PERSONNEL

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

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

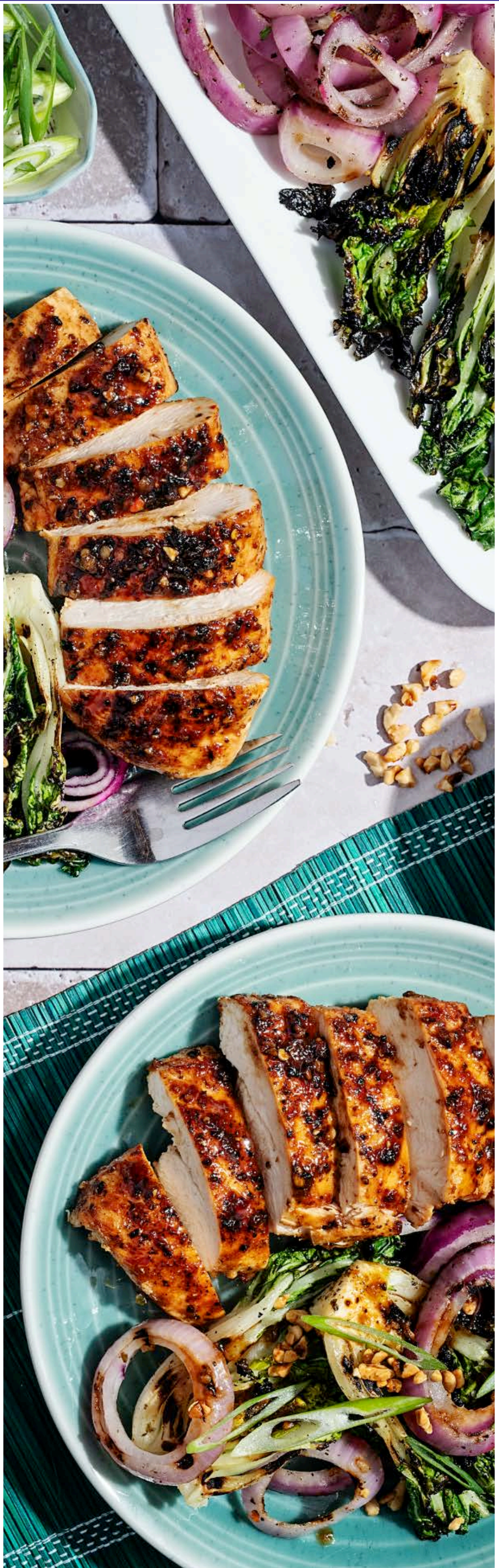
	For the 52-weeks ended	
	September 3, 2022	August 31, 2021
Salaries, fees and other short-term employee benefits	**$ 1,983**	$ 2,661
Share-based payments expense	**2,931**	1,594

RELATED PARTY TRANSACTIONS

Related parties of the Company include Directors and key management personnel, their family members, and companies over which they have significant influence or control.

In connection with the issuance of the 2022 Debentures, 415 Debentures were purchased by Board members and key management personnel at a price of $1,000 per Debenture. These transactions were recorded at the amount of consideration paid as established and agreed to by the related parties.

CORPORATE INFORMATION



STOCK INFORMATION

Shares listed: **Toronto Stock Exchange**
Ticker symbol: **FOOD**
Initial public offering: **2017**
52-week high/low (Sept. 1, 2020 – Sep. 3, 2022): **$10.09 - $1.02** Share price as at November 28, 2022 : **$0.32**
Common shares outstanding as at September 3, 2022: **75,233,027**

TRANSFER AGENT AND REGISTRAR

TSX Trust

AUDITORS

KPMG LLP

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP

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ANNUAL MEETING OF SHAREHOLDERS

Tuesday, January 17, 2023
Virtual Meeting - Details to Come

goodfood

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