Consolidated Financial Statements of

GOODFOOD MARKET CORP.
(formerly Mira VII Acquisition Corp.)

Years ended August 31, 2017 and 2016

GOODFOOD MARKET CORP.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Goodfood Market Corp.

We have audited the accompanying consolidated financial statements of Goodfood Market Corp., which comprise the consolidated statements of financial position as at August 31, 2017 and August 31, 2016, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goodfood Market Corp. as at August 31, 2017 and August 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP*

November 28, 2017

Montréal, Canada

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

GOODFOOD MARKET CORP.

Consolidated Statements of Financial Position

August 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 17,544,583	$ 516,130
Short-term investments	3,834	3,800
Sales tax receivable	773,462	81,248
Inventories (note 6)	382,374	79,200
Prepaid expenses and other current assets (note 7)	152,682	–
	18,856,935	680,378
Non-current assets:		
Other non-current assets (note 8)	82,558	25,616
Fixed assets (note 10)	2,300,147	78,564
Intangible assets (note 11)	70,602	45,322
	$ 21,310,242	$ 829,880
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$ 3,605,817	$ 489,529
Deferred revenue	841,037	23,023
Current portion of long-term debt (note 13)	116,662	32,145
	4,563,516	544,697
Non-current liabilities:		
Convertible notes (note 12)	–	506,368
Long-term debt (note 13)	395,147	228,455
Preferred shares (note 14)	–	800,015
	4,958,663	2,079,535
Shareholders' equity (deficiency):		
Common shares (note 14)	27,144,084	59,000
Contributed surplus	382,197	–
Deficit	(11,174,702)	(1,308,655)
	16,351,579	(1,249,655)
Commitments (note 19)		
Subsequent events (note 24)		
	$ 21,310,242	$ 829,880

See accompanying notes to consolidated financial statements.

On behalf of the Board:

______________________ Director

______________________ Director

GOODFOOD MARKET CORP.

Consolidated Statements of Loss and Comprehensive Loss

Years ended August 31, 2017 and 2016

	2017	2016
Revenue	$ 19,796,240	$ 2,801,660
Cost of goods sold	16,206,503	2,534,420
Gross profit	3,589,737	267,240
Expenses:		
Selling, general and administrative	7,360,829	1,132,721
Depreciation and amortization	54,032	9,741
Loss on disposal of fixed assets	–	8,466
Reverse acquisition of Mira VII (note 5)	1,805,410	–
	9,220,271	1,150,928
Net finance expenses:		
Loss on remeasurement to fair value of convertible notes (note 21)	4,257,944	345,194
Other net finance (income) expenses (note 15)	(22,431)	10,289
	4,235,513	355,483
Net loss, being comprehensive loss for the year	$ (9,866,047)	$ (1,239,171)
Basic and diluted loss per share (note 16)	$ (0.32)	$ (0.05)

See accompanying notes to consolidated financial statements.

GOODFOOD MARKET CORP.

Consolidated Statements of Changes in Equity

Years ended August 31, 2017 and 2016

	Common shares		Contributed		
	Number	Amount	surplus	Deficit	Total
Balance as at August 31, 2015	24,837,978	$ 59,000	$ –	$ (69,484)	$ (10,484)
Net loss	–	–	–	(1,239,171)	(1,239,171)
Balance as at August 31, 2016	24,837,978	59,000	–	(1,308,655)	(1,249,655)
Net loss	–	–	–	(9,866,047)	(9,866,047)
Conversion of preferred shares (note 14)	9,101,106	1,271,565	–	–	1,271,565
Conversion of convertible notes (note 12)	2,645,718	5,291,436	–	–	5,291,436
Private placement (note 14)	10,542,883	21,085,766	–	–	21,085,766
Share issue costs (note 14)	–	(1,725,693)	193,186	–	(1,532,507)
Effect of reverse acquisition of Mira VII (note 4)	562,500	1,125,000	–	–	1,125,000
Share-based payment expense (note 17)	–	–	219,612	–	219,612
Stock options exercised (note 17)	63,647	37,010	(30,601)	–	6,409
Balance as at August 31, 2017	47,753,832	$ 27,144,084	$ 382,197	$ (11,174,702)	$ 16,351,579

See accompanying notes to consolidated financial statements.

GOODFOOD MARKET CORP.

Consolidated Statements of Cash Flows

Years ended August 31, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Operating:		
Net loss	$ (9,866,047)	$ (1,239,171)
Adjustments for:		
Depreciation and amortization	54,032	9,741
Share-based payment expense	219,612	–
Loss on disposal of fixed assets	–	8,466
Loss on remeasurement to fair value of convertible notes	4,257,944	345,194
Other net finance (income) expenses	(22,431)	10,289
Interest paid	(41,271)	(9,016)
Interest received	41,788	395
Consideration transferred for Mira VII in excess of net assets acquired (note 4)	1,262,644	–
Other non-cash items	22,534	13,806
Deposits included in non-current assets	(56,942)	(20,116)
Change in non-cash operating working capital:		
Sales tax receivable	(692,214)	(81,248)
Inventories	(303,174)	(74,276)
Prepaid expenses and other current assets	(131,450)	–
Accounts payable and accrued liabilities	2,551,633	432,682
Deferred revenue	818,014	11,143
	(1,885,328)	(592,111)
Financing:		
Proceeds from issuance of long-term debt	231,865	201,794
Repayment of long-term debt	(24,609)	–
Proceeds from issuance of common shares from private placement	21,085,766	–
Share issuance costs	(1,532,507)	–
Proceeds from exercise of stock options	6,409	–
Proceeds from issuance of convertible notes	1,000,000	161,174
Proceeds from issuance of preferred shares	–	800,015
	20,766,924	1,162,983
Investing:		
Acquisition of fixed assets (note 10)	(1,811,777)	(80,558)
Acquisition of intangible assets	(41,366)	(49,770)
Short-term investments	–	(3,800)
Bank deposits included in other non-current assets	–	(5,500)
	(1,853,143)	(139,628)
Increase in cash and cash equivalents	17,028,453	431,244
Cash and cash equivalents, beginning of year	516,130	84,886
Cash and cash equivalents, end of year	$ 17,544,583	$ 516,130

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Goodfood Market Corp. (the "Company"), formerly Mira VII Acquisition Corp. ("Mira VII") up to the completion of the Amalgamation, as defined below, is incorporated under the *Canada Business Corporations Act* and is domiciled in Ottawa, Ontario. The main activity of the Company is the delivery of meal kits to customers in Canada. The Company operates its distribution facility and head office from Montréal, Québec.

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

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

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

In connection with the Amalgamation, the following transactions occurred:

- On March 31, 2017, Goodfood Market Inc. completed a private placement (the "Private Placement") of 10,542,883 subscription receipts (the "Subscription Receipts") at a price of $2.00 per Subscription Receipt for aggregate gross proceeds of $21,085,766. Each Subscription Receipt was exchangeable for one common share of Goodfood Market Inc. and ultimately entitled the holder thereof to one common share of Goodfood Market Corp., upon completion of the Amalgamation;

- All outstanding Goodfood Market Inc.'s convertible notes were converted in accordance with their contractual provisions into 2,645,718 common shares of Goodfood Market Inc. (from which 1,319,717 common shares were issued to a company controlled by a Board member);

1. Reporting entity (continued):

In connection with the Amalgamation, the following transactions occurred (continued):

- The stock option plans of Goodfood Market Inc. and Mira VII were dissolved and replaced by a plan established by Goodfood Market Corp. Upon dissolution of the Mira VII stock option plan, all outstanding Mira VII stock options were cancelled and, upon dissolution of the Goodfood Market Inc. stock option plan, all outstanding Goodfood Market Inc. stock options were cancelled and exchanged for stock options of Goodfood Market Corp. with comparable terms except for a reduced vesting period; and
- The holders of Goodfood Market Inc.'s common shares (including those investors in the Private Placement following the exchange of the Subscription Receipts for common shares of Goodfood Market Inc.) received one common share of Goodfood Market Corp. in exchange for each outstanding common share of Goodfood Market Inc. Following the share exchange, there were 47,690,185 issued and outstanding common shares of Goodfood Market Corp. of which the common shareholders of the former Goodfood Market Inc. controlled a significant majority.

For accounting purposes, it has been determined that Mira VII was the accounting acquiree and Goodfood Market Inc. was the accounting acquirer as the shareholders of the former Goodfood Market Inc. now control Goodfood Market Corp., based upon the guidance in IFRS 10, *Consolidated Financial Statements*, and IFRS 3, *Business Combinations*, to identify the accounting acquirer (refer to Note 4). Since Goodfood Market Inc. is considered the accounting acquirer, these consolidated financial statements are prepared as a continuation of the financial statements of Goodfood Market Inc., reflecting the equity instruments of Mira VII. As a result, 2016 comparative information included herein is solely the one of Goodfood Market Inc. For simplicity, transactions undertaken by Goodfood Market Inc. are referred to as being undertaken by the Company in these consolidated financial statements.

2. Basis of preparation:

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved for issue by the Company's Board of Directors on November 28, 2017.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for convertible notes (Note 12), which were measured at fair value in the consolidated statement of financial position.

2. Basis of preparation (continued):

Functional and presentation currency

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

Use of estimates and judgments

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

The Company uses judgment in determining the date at which fixed assets are available for their intended use.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3(j): Estimation of the redemption percentage for sales and referral credits included in deferred revenue; and
- Notes 3(k) and 18: Recoverability of deferred income taxes.

3. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, outstanding deposits and short-term deposits, which are highly liquid with original maturities of less than three months.

(b) Short-term investments:

Short-term investments include highly liquid investments with original maturities of greater than three months and less than one year.

(c) Inventories:

Inventories, consisting of packaging and shipping supplies and food, are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in, first-out principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

3. Significant accounting policies (continued):

(d) Fixed assets:

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

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

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

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

Asset	Period
Furniture and fixtures	5 years
Machinery and equipment	3 to 15 years
Computer hardware	3 to 5 years
Leasehold improvements	Shorter of lease term and useful life

3. Significant accounting policies (continued):

(e) Intangible assets:

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

Asset	Period
Software	5 years

The Company's software asset is internally generated.

(f) Impairment of non-financial assets:

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

For impairment testing purposes, assets that cannot be tested individually are aggregated into a cash generating unit ("CGU"). An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment losses are recognized in net loss.

(g) Provisions:

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

3. Significant accounting policies (continued):

(g) Provisions (continued):

Contingent liability

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

(h) Short-term employee benefits:

Short-term employee benefits 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.

(i) Preferred shares:

Preferred shares are classified as a liability as the Company does not have the unconditional right to avoid making payments. On initial recognition, preferred shares are recognized at the amount received from issuance less transaction costs and are subsequently accounted for at amortized cost using the effective interest rate method.

(j) Revenues:

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

(k) Income tax:

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

3. Significant accounting policies (continued):

(k) Income tax (continued):

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 also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

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.

(l) Foreign currency transactions:

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

3. Significant accounting policies (continued):

(m) Leases:

Leases of fixed assets that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's consolidated statements of financial position.

Payments made under operating leases are recognized in net loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Earnings per share:

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

(o) Finance income and finance costs:

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

(p) Financial instruments:

The Company initially recognizes loans and receivables, debt issued and subordinated liabilities on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

3. Significant accounting policies (continued):

(p) Financial instruments (continued):

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets

(i) Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in net loss as incurred. Financial assets at fair value through net loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in net loss. The Company currently has no financial assets classified as fair value through profit or loss.

(ii) Held-to-maturity financial assets:

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

(iii) Loans and receivables:

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The Company currently classifies its cash and cash equivalents, short-term investments and bank deposits included within other non-current assets as loans and receivables.

3. Significant accounting policies (continued):

(p) Financial instruments (continued):

Financial assets (continued)

(iv) Available-for-sale financial assets:

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

Impairment of financial assets

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

Financial liabilities

(i) Financial liabilities at fair value through profit or loss:

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

(ii) Other financial liabilities:

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

3. Significant accounting policies (continued):

(p) Financial instruments (continued):

Determination of fair value

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.

(q) Segment reporting:

The Company determined that it operated a single operating segment for the years ended August 31, 2017 and 2016.

(r) New and amended standards not yet adopted by the Company:

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

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective or early application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on September 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

3. Significant accounting policies (continued):

(r) New and amended standards not yet adopted by the Company (continued):

IFRS 15, *Revenue from Contracts with Customers*

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

IFRS 9, *Financial Instruments*

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

3. Significant accounting policies (continued):

(r) New and amended standards not yet adopted by the Company (continued):

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on September 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Reverse acquisition of Mira VII by Goodfood Market Inc.:

Through the Amalgamation, as described in Note 1, Mira VII acquired legal control of Goodfood Market Inc. by way of an amalgamation between Goodfood Market Inc. and Subco, a wholly-owned subsidiary of Mira VII. However, as the shareholders of Goodfood Market Inc. gained voting control of Mira VII pursuant to the issuance of Mira VII common shares to the shareholders of Goodfood Market Inc., representing a significant majority interest, Goodfood Market Inc. is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Mira VII by Goodfood Market Inc. As Mira VII does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, pursuant to IFRS 2, *Share-based payment*.

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

As the fair value of Mira VII's identifiable net deficiency in assets at the reverse acquisition date was $137,644, the excess of consideration transferred over the net assets acquired of $1,262,644 is reflected as a reverse acquisition of Mira VII expense (note 5) in the consolidated statements of loss and comprehensive loss.

5. Reverse acquisition of Mira VII expenses:

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

Consideration transferred for Mira VII in excess of net assets acquired (note 4)	$ 1,262,644
Professional fees	368,792
Exchange and listing fees	173,974
	$ 1,805,410

6. Inventories:

The cost of inventories recognized as an expense within cost of goods sold during the year ended August 31, 2017 was $13,245,554 (2016 - $2,030,810).

	2017	2016
Packaging and shipping supplies	$ 205,349	$ 65,400
Food	177,025	13,800
	$ 382,374	$ 79,200

7. Prepaid expenses and other current assets:

	2017	2016
Prepaid expenses	$ 101,188	$ –
Other current assets	51,494	–
	$ 152,682	$ –

8. Other non-current assets:

	2017	2016
Security deposit	$ 77,058	$ 20,116
Bank deposits with initial maturity of greater than one year	5,500	5,500
	$ 82,558	$ 25,616

9. Accounts payable and accrued liabilities:

	2017	2016
Accounts payable	$ 2,460,951	$ 376,175
Accrued liabilities	1,144,866	113,354
	$ 3,605,817	$ 489,529

10. Fixed assets:

	Furniture and fixtures	Machinery and equipment	Computer hardware	Leasehold improvements	Assets under construction	Total
Cost:						
Balance as at August 31, 2015	$ 4,124	$ 10,582	$ –	$ –	$ –	$ 14,706
Additions	5,382	69,684	5,492	–	–	80,558
Disposals	–	(10,582)	–	–	–	(10,582)
Balance as at August 31, 2016	9,506	69,684	5,492	–	–	84,682
Additions	46,887	152,480	102,397	7,080	1,950,685	2,259,529
Balance as at August 31, 2017	$ 56,393	$ 222,164	$ 107,889	$ 7,080	$ 1,950,685	$ 2,344,211
Accumulated depreciation:						
Balance as at August 31, 2015	$ 825	$ 2,116	$ –	$ –	$ –	$ 2,941
Depreciation	1,231	3,443	619	–	–	5,293
Disposals	–	(2,116)	–	–	–	(2,116)
Balance as at August 31, 2016	2,056	3,443	619	–	–	6,118
Depreciation	3,600	22,636	11,592	118	–	37,946
Balance as at August 31, 2017	$ 5,656	$ 26,079	$ 12,211	$ 118	$ –	$ 44,064
Net carrying amounts:						
Balance as at August 31, 2016	$ 7,450	$ 66,241	$ 4,873	$ –	$ –	$ 78,564
Balance as at August 31, 2017	50,737	196,085	95,678	6,962	1,950,685	2,300,147

As at August 31, 2017, $426,333 (2016 - nil) of fixed assets additions are included in Accounts payable and accrued liabilities.

11. Intangible assets:

		Software
Cost:		
Balance as at August 31, 2015	$	–
Additions		49,770
Balance as at August 31, 2016		49,770
Additions		41,366
Balance as at August 31, 2017	$	91,136
Accumulated amortization:		
Balance as at August 31, 2015	$	–
Amortization		4,448
Balance as at August 31, 2016		4,448
Amortization		16,086
Balance as at August 31, 2017	$	20,534
Net carrying amounts:		
Balance as at August 31, 2016	$	45,322
Balance as at August 31, 2017		70,602

12. Convertible notes:

Issuances of convertible notes

(i) In September and October 2016, the Company issued one-year convertible notes with a face value of $1,000,000 ($500,000 of which were issued to a company controlled by a Board member). The notes bear interest at 8%, which is capitalized over the term, and were convertible as follows:

- Upon a qualified equity financing of less than $5,000,000 on a pre-money basis, the holder may at its option convert the outstanding principal amount due plus accrued interest into a variable number of equity instruments issued upon the qualified equity financing. The number of equity instruments to be received is determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the product of 80% and the price per share at which equity securities are issued by the Company in the qualified equity financing (calculated on a maximum pre-money equity valuation of $18,750,000).

12. Convertible notes (continued):

Issuances of convertible notes (continued)

(i) (continued):

- Upon a qualified equity financing of more than $5,000,000 on a pre-money basis, automatic conversion into a variable number of equity instruments issued in the financing. The number of equity instruments to be received is determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the product of 80% and the price per share at which equity securities are issued by the Company in the qualified equity financing (calculated on a maximum pre-money equity valuation of $18,750,000).
- Upon a change of control, the holder may at its option convert the outstanding principal amount due plus accrued interest into a variable number of Class A preferred shares. The number of Class A preferred shares to be received is determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the product of 80% of the fully diluted change of control share price (calculated on a maximum valuation of $15,000,000).
- If not converted or repaid prior to maturity, automatic conversion at maturity into a variable number of Class A preferred shares. The number of Class A preferred shares to be received is determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the quotient of $9,000,000, divided by the aggregate number of outstanding common shares of the Company immediately prior to conversion calculated on a fully diluted basis.

In lieu of conversion described above upon change of control, the holder has the option to receive its outstanding principal amount due plus accrued and unpaid interest paid in cash.

(ii) In fiscal 2016, the Company issued three-year convertible notes with a face value of $161,174 ($110,625 of which were issued to a company controlled by a Board member). The notes bear interest at 6%, which is capitalized over the term, and were convertible as follows:

- Prior to the one-year anniversary of the notes, the holder may, at its option, convert the outstanding principal amount due plus accrued and unpaid interest into a variable number of Class A preferred shares. The number of Class A preferred shares to be received is determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the quotient of $5,000,000, divided by the aggregate number of outstanding common shares of the Company immediately prior to conversion calculated on a fully diluted basis.

12. Convertible notes (continued):

Issuances of convertible notes (continued)

(ii) (continued):

- Upon a qualified equity financing, automatic conversion into a variable number of equity instruments issued in the financing determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the product of 80% and the price per share at which equity securities are issued by the Company in the qualified equity financing.
- Upon a change of control, optional conversion into a variable number of Class A preferred shares determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the product of 80% and the change of control transaction share price on a fully diluted basis.
- If not converted or repaid prior to maturity, automatic conversion at maturity into a variable number of Class A preferred shares. The number of Class A preferred shares to be received is determined by dividing the outstanding principal amount due plus accrued and unpaid interest by the quotient of $10,000,000, divided by the aggregate number of outstanding common shares of the Company immediately prior to conversion calculated on a fully diluted basis.

Conversions of convertible notes

In September 2016, three-year convertible notes with a conversion date fair value of $471,550 were converted into 46,419 Class A preferred shares Series 2 (of which $349,015 and 34,306 Class A preferred shares Series 2 were converted by a company controlled by a Board member).

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

12. Convertible notes (continued):

Conversions of convertible notes (continued)

The fair value of the Company's convertible notes at August 31, 2017 and 2016 is as follows:

	2017	2016
Unsecured three-year notes:		
Original maturity of November 25, 2018 with face value of $7,125, plus capitalized interest of $648, converted into 4,843 common shares on June 1, 2017	$ –	$ 22,199
Original maturity of January 15, 2019 with face value of $4,050, plus capitalized interest of $334, converted into 2,733 common shares on June 1, 2017	–	12,619
Original maturity of September 24, 2018, with face value of $110,625 plus capitalized interest of $6,328, converted into 34,306 Class A preferred shares Series 2 on September 6, 2016	–	349,015
Original maturity of December 21, 2018, with face value of $23,585 and capitalized interest of $1,020, converted into 7,217 Class A preferred shares Series 2 on September 9, 2016	–	73,399
Original maturity of December 14, 2018, with face value of $15,789 and capitalized interest of $903, converted into 4,896 Class A preferred shares Series 2 on September 6, 2016	–	49,136
	$ –	$ 506,368

For a roll-forward of convertible notes from August 31, 2015 to August 31, 2017, refer to Note 21.

13. Long-term debt:

	2017	2016
Secured term loan repayable in a first capital payment of $4,030 in October 2017 and in subsequent monthly capital instalments of $3,830, beginning in November 2017 and ending in September 2022, with interest payable monthly at a variable rate of 10.03%	$ 230,000	$ –
Unsecured term loan repayable in a first capital payment of $4,030 in May 2017 and in subsequent monthly capital instalments of $3,830, beginning in June 2017 and ending in April 2022, with interest payable monthly at a fixed rate of 8.78%	214,480	230,000
Unsecured term loan repayable in a first capital payment of $900 in October 2017 and in subsequent monthly capital instalments of $500, beginning in November 2017 and ending in September 2021, with interest payable monthly at a variable rate of 6.05%	24,400	–
Unsecured term loan repayable in monthly capital instalments of $325, beginning in April 2017 and ending in March 2021, with interest payable monthly at a fixed rate of 5.80%	13,975	15,600
Unsecured demand loan repayable in monthly instalments of $313, beginning in September 2016 and ending in August 2020, with interest payable monthly at a variable interest rate of 6.2% (2016 - 5.70%)	11,250	15,000
Obligation under finance lease at an implicit interest rate of 6.28%	17,704	–
	511,809	260,600
Less current portion	116,662	32,145
	$ 395,147	$ 228,455

As at August 31, 2017, accrued liabilities included accrued interest of $2,273 with respect to the Company's long-term debt (2016 - $1,730). Principal repayments due on the long-term debt for the next five fiscal years and thereafter are as follows:

2018	$ 116,662
2019	109,142
2020	104,880
2021	100,195
2022	77,100
Thereafter	3,830
	$ 511,809

14. Share capital:

Common shares

The Company is authorized to issue an unlimited number of no par value common shares. In connection and following the Amalgamation, the following common share transactions were undertaken by the Company:

- On June 1, 2017, in connection with the Amalgamation, all outstanding common shares of Goodfood Market Inc. were exchanged on a one-for-one basis for common shares of the Company;
- During the fourth quarter of fiscal 2017, 63,647 common shares of the Company were issued following the exercise of stock options (refer to Note 17).

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

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

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

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

14. Share capital (continued):

Class A preferred shares

The Company is not authorized to issue preferred shares.

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

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

- In September 2016, convertible notes with a conversion date fair value of $471,550 were converted into 46,419 Class A preferred shares Series 2 (from which 34,306 shares were issued to a company controlled by a Board member);
- On May 31, 2017, following a resolution of the majority holders of preferred shares, all outstanding Class A preferred shares consisting of 320,000 Class A Series 1 preferred shares and 46,419 Class A Series 2 preferred shares were converted (of which 270,306 shares were held by a company controlled by a Board member) into 9,101,106 common shares of Goodfood Market Inc. (of which 6,713,854 common shares were issued to a company controlled by a Board member); and
- On May 31, 2017, following the conversion of all outstanding Class A preferred shares into common shares, Goodfood Market Inc. amended its articles of incorporation as such that its authorized capital consisted solely of an unlimited number of common shares.

14. Share capital (continued):

Class A preferred shares (continued)

	Number of shares		Amount
Balance as at August 31, 2015	–	$	–
Class A preferred shares Series 1 issued for cash	320,000		800,015
Balance as at August 31, 2016	320,000		800,015
Issuance upon conversion of convertible notes	46,419		471,550
Conversion into common shares of Goodfood Market Inc.	(366,419)		(1,271,565)
Balance as at August 31, 2017	–	$	–

15. Other net finance (income) expenses:

		2017		2016
Interest expense on long-term debt	$	42,259	$	10,684
Interest income		(63,054)		(395)
Foreign exchange gain		(1,636)		–
	$	(22,431)	$	10,289

16. Loss per share:

		2017		2016
Net loss	$	(9,866,047)	$	(1,239,171)
Basic weighted average number of common shares		30,625,537		24,837,978
Loss per share - basic and diluted		(0.32)		(0.05)

16. Loss per share (continued):

Basic weighted average number of common shares has been adjusted retrospectively to reflect the Share Split. The conversion of preferred shares and convertible notes into common shares is weighted from the conversion date.

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

17. Stock option plan:

On June 1, 2017, in connection with the Amalgamation, the stock option plans of Goodfood Market Inc. and Mira VII were dissolved and replaced by a plan established by the Company. The plan provides for the granting of options to purchase common shares. Under the plan, options generally vest over a period of four years and expire eight years from the grant date.

Upon dissolution of the Mira VII stock option plan, all outstanding Mira VII stock options were cancelled and, upon dissolution of the Goodfood Market Inc. stock option plan, all outstanding Goodfood Market Inc. stock options were cancelled and exchanged for stock options of the Company with comparable terms except for a reduced vesting period. To reflect the reduced vesting period, the Company accelerated the recognition of compensation cost with respect to these options for the year ended August 31, 2017.

Total share-based compensation costs recognized under the stock option plan amount to $219,612 for the year ended August 31, 2017 (2016 - nil).

The weighted average fair value of stock options granted during the year ended August 31, 2017 was $0.83 (2016 - $0.06) and is estimated at the date on which the options were granted using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2017	2016
Volatility	68%	60%
Risk-free interest rate	1.25%	1.19%
Expected life of options	5.1 years	6 years
Common share value at grant date	$1.26	$0.10
Exercise price	$1.05	$0.10

Following the Amalgamation described in Note 1, all stock options were granted at an exercise price equal to the common shares fair value at the date of grant.

17. Stock option plan (continued):

Information concerning the movement in these stock options is as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	54,644	$ 0.10	–	$ –
Granted	760,584	1.05	54,644	0.10
Exercised	(63,647)	0.10	–	–
Outstanding, end of year	751,581	0.59	54,644	0.10
Exercisable, end of year	214,914	$ 0.60	22,201	$ 0.10

For the year ended August 31, 2017, the weighted average price of the Company's common shares upon the exercise date of stock options was $1.49 (2016 - not applicable).

Summary of options outstanding as at August 31, 2017 and 2016 is as follows:

Exercise price	Number of options outstanding	Weighted average contractual life outstanding	Exercisable options
Balance as at August 31, 2017:			
$0.10	289,053	7.75	158,664
$1.56	346,820	7.98	–
$2.00	114,708	7.75	56,250
$0.59	751,581	7.86	214,914
Balance as at August 31, 2016:			
$0.10	54,644	9.19	22,201

18. Income taxes:

The following table reconciles income taxes computed at the Company's statutory rate of 26.8% (2016 - 18.7%) and the total tax expense for the years ended August 31:

	2017	2016
Loss before income taxes	$ (9,866,047)	$ (1,239,171)
Income tax benefit at the combined Canadian statutory rate	(2,644,101)	(231,725)
Decrease resulting from:		
Permanent differences	1,504,388	65,898
Change in tax status and effect of reverse acquisition	(76,086)	–
Difference between reversal rate and current rate	17,588	1,481
Change in unrecognized deferred income tax assets	1,198,211	164,346
Total income tax expense	$ –	$ –

The statutory rate increased from 18.7% in 2016 to 26.8% in 2017 due to a change in tax status.

As at August 31, 2017 and 2016, the Company had unrecognized deferred income tax assets as follows:

	2017	2016
Deferred income tax assets:		
Net operating loss carry forwards	$ 1,232,747	$ 165,141
Fixed assets	9,886	800
Share issuance costs	334,229	–
Intangible assets	198,906	10,007
Other	22,691	–
Unrecognized deferred income tax assets	$ 1,798,459	$ 175,948

18. Income taxes (continued):

Unrecognized deferred income tax assets

The Company has operating tax losses carried forward of $4,651,876 (2016 - $892,655) and unrecognized deductible temporary differences of $2,134,763 (2016 - $58,424) 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 utilized the benefits therefrom. As at August 31, 2017, the amounts and expiry dates of the tax losses carried forward were as follows:

2035	$ 61,242
2036	831,413
2037	3,759,221
	$ 4,651,876

19. Commitments:

For the year ended August 31, 2017, $161,032 (2016 - $83,816) was recognized as an expense with respect to operating leases. As at August 31, 2017, the Company is committed to minimum annual lease payments under operating leases as follows:

Less than one year	$ 632,752
Between one and five years	2,492,742
	$ 3,125,494

20. Financial risks:

(a) 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, short-term investments and bank deposits included in other non-current assets. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets. Management believes the credit risk is limited because the Company deals with major North American financial institutions.

20. Financial risks (continued):

(b) 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 budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Capital management

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

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

					2017
	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 3,605,817	$ 3,605,817	$ 3,605,817	$ –	$ –
Long-term debt	511,809	624,270	158,637	457,877	7,756

Preferred shares are excluded from the table below as these instruments do not contain contractual maturities. They contain a contingent settlement provision based upon the occurrence of a liquidation event, as defined in the agreement. Convertible notes are excluded from the table below as these are not repayable in cash unless there is a change in control.

					2016
	Total carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 489,529	$ 489,529	$ 489,529	$ –	$ –
Long-term debt	260,600	327,721	53,056	243,017	31,648

20. Financial risks (continued):

(c) Interest rate risk:

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

21. Financial instruments:

The Company has determined that the fair values of cash and cash equivalents, short-term investments, 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. The fair value of the Company's bank deposits included in other non-current assets and long-term debt approximates its carrying value as it bears interest at rates, which approximate current rates that could be obtained for debts with similar terms and credit risk.

Class A preferred shares

As at August 31, 2017, no Class A preferred share was outstanding.

As at August 31, 2016, the estimated fair value of preferred shares of $3,200,000 was determined using Level 3 inputs to an internal model, which applies a multiple to an annual revenue forecast to determine the fair value per preferred share.

Convertible notes

As at August 31, 2017, no convertible note was outstanding.

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

21. Financial instruments (continued):

Convertible notes (continued)

Consolidated statements of financial position reconciliation of convertible notes:

Balance as at August 31, 2015	$	–
Issuance of convertible notes		161,174
Loss on remeasurement to fair value		345,194
Balance as at August 31, 2016		506,368
Issuance of convertible notes		1,000,000
Conversion into Class A preferred shares, Series 2		(471,550)
Loss on remeasurement to fair value		4,257,944
Conversion into common shares		(5,291,436)
Interest entitlement reclassified to Accounts payable and accrued liabilities		(1,326)
Balance as at August 31, 2017	$	–

As at August 31, 2016, the fair value of convertible notes is measured using an internal model, which applies a multiple to an annual revenue forecast to determine the fair value of the equity instruments issuable for each conversion option.

22. Short-term employee benefits:

Short-term employee benefit expense was $5,584,729 for the year ended August 31, 2017 (2016 - $954,552).

23. Related parties:

The chief executive officer ("CEO") and the chief financial officer who also acts as the chief operating officer ("CFO/COO") are controlling shareholders of the Company and are members of the Board of Directors of the Company. The CEO is also Chairman of the Board of Directors.

The Company's related party transactions for the year ended August 31, 2017 are as follows:

- For the year ended August 31, 2017, the Company incurred an expense of $276,533 (2016 - $146,521) with respect to short-term employee benefits paid to key management personnel;
- For the year ended August 31, 2017, the Company incurred share-based payment expense of $80,503 (2016 - nil) with respect to stock option awards granted to key management personnel;

23. Related parties (continued):

The Company's related party transactions for the year ended August 31, 2017 are as follows (continued):

- On June 1, 2017, convertible notes held by a company controlled by a Board member with a carrying value of $2,639,434 were converted into 1,319,717 common shares;
- On May 31, 2017, 34,306 Class A Series 1 preferred shares and 236,000 Class A Series 2 preferred shares held by a company controlled by a Board member with a carrying value of $706,953 were converted into 6,713,854 common shares;
- On September 14, 2016, the Company issued a convertible note with a face value of $500,000 to a company controlled by a Board member; and
- On September 6, 2016, convertible notes held by a company controlled by a Board member with a carrying value of $471,550 were converted into 34,306 Class A Series 2 preferred shares.

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

24. Subsequent events:

Debt financing

In September 2017, the Company secured a commitment from a Canadian chartered bank to provide a five-year term loan of $2,500,000, a $500,000 revolving line of credit and $300,000 in other short-term financing. In October 2017, the term loan was disbursed. The proceeds of the term loan were used to refinance the Company's long-term debt, finance capital expenditures and for general corporate purposes.

Lease for Western Canadian production facility

On November 10, 2017, the Company signed a seven-year lease with renewal options for some further twenty years for a 43,000 square foot production facility located in Western Canada. The lease is classified as an operating lease with a total estimated commitment of approximately $4,500,000 over the seven-year term. The Company secured favorable terms including a tenant allowance that funds a significant portion of the expected capital expenditures to set up the facility, limited rent increases over the lease term and rights to expand into adjacent space to support future growth. Management intends to commence operations at the Western Canadian production facility during the first half of calendar year 2018.