Consolidated Financial Statements of

GOODFOOD MARKET CORP.

52-weeks ended September 3, 2022 and August 31, 2021

GOODFOOD MARKET CORP.

Table of Contents

KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500, Tour KPMG
Montréal (Québec) H3A 0A3
Canada

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

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

	Notes	Common Shares	Contributed Surplus	Convertible Debentures	Deficit	Total
						August 31, 2021
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.

Contingent liability

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

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.