

Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

GOOD NATURED PRODUCTS INC.

Six months ended June 30, 2019 and 2018

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of good natured Products Inc. were prepared by management in accordance with International Accounting Standard 34 Interim Financial Reporting issued by the International Accounting Standards Board. The most significant of these accounting principles have been disclosed in the notes to the unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements. The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders. Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

Under National Instrument 51-102 "Continuous Disclosure Requirements", Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements for the six month period ended June 30, 2019 in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

GOOD NATURED PRODUCTS INC.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

	June 30 2019	December 31 2018
Assets		
Current assets:		
Cash	\$ 7,634,909	\$ 2,903,466
Trade and other receivables	969,949	915,800
Inventory	524,557	404,560
Prepaid expenses	23,841	84,806
	<u>9,153,256</u>	<u>4,308,632</u>
Non-current assets:		
Property and equipment, net	213,500	164,940
Other assets, net (note 4)	615,288	597,093
	<u>\$ 9,982,044</u>	<u>\$ 5,070,665</u>

Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,837,138	\$ 1,984,542
Credit line (note 5 (a))	654,500	325,000
Current portion of loans	388,336	194,100
	<u>2,879,974</u>	<u>2,503,642</u>
Loans (note 5)	10,954,275	5,316,986
Shareholders' Equity (deficiency):		
Common share capital (note 6 (a))	13,066,647	12,441,108
Shares issuable	-	591,500
Contributed surplus (note 6 (b, c))	4,012,629	3,607,221
Deficit	(20,931,481)	(19,389,792)
	<u>(3,852,205)</u>	<u>(2,749,963)</u>
	<u>\$ 9,982,044</u>	<u>\$ 5,070,665</u>

Nature of operations (note 1)

Subsequent events (note 9)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Jim Zadra" Director

"Salil Munjal" Director

GOOD NATURED PRODUCTS INC.

Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited)

	Three months ended		Six months ended	
	June 30 2019	June 30 2018	June 30 2019	June 30 2018
Product and service revenues	\$ 2,337,411	\$ 1,064,589	\$ 4,393,425	\$ 2,183,076
Cost of product and service revenues	(1,511,393)	(703,246)	(2,794,862)	(1,450,900)
Gross profit	826,018	361,343	1,598,563	732,176
Other (Expenses) Income:				
Product development	(102,819)	(79,555)	(223,077)	(158,440)
Selling, general, and administrative (note 8)	(1,090,054)	(772,464)	(2,085,237)	(1,551,414)
Share-based compensation (note 6 (b))	(15,401)	(42,258)	(35,399)	(101,927)
Depreciation and amortization	(106,970)	(124,210)	(241,353)	(248,419)
Financing costs	(323,371)	(220,767)	(539,493)	(314,379)
Gain on interest free loan (note 5 (b))	12,293	-	20,961	-
Net loss before taxes	(800,304)	(877,911)	(1,499,878)	(1,642,403)
Deferred income taxes	21,024	-	41,811	-
Net loss and comprehensive loss for the period	\$ (821,328)	\$ (877,911)	\$ (1,541,689)	\$ (1,642,403)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average and diluted shares	98,049,503	93,463,604	96,210,312	93,457,948

See accompanying notes to unaudited condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
 (Expressed in Canadian dollars)
 (Unaudited)

	Number of common shares	Common share capital	Common shares issuable	Contributed surplus- warrants and conversion features	Contributed surplus- stock options	Deficit	Equity/ (Deficiency)
Balance at December 31, 2017	93,452,354	\$ 12,305,160	\$ 591,500	\$ 2,089,580	\$ 900,894	\$ (16,283,466)	\$ (396,332)
Shares issued for debt settlement (note 6 (a))	202,500	21,750	-	-	-	-	21,750
Conversion feature and warrants of convertible debenture (note 5 (c))	-	-	-	672,122	-	-	672,122
Share based compensation	-	-	-	-	101,927	-	101,927
Net loss	-	-	-	-	-	(1,642,403)	(1,642,403)
Balance at June 30, 2018	93,654,854	12,326,910	591,500	2,761,702	1,002,821	(17,925,869)	(1,242,936)
Shares issued upon debt conversion (note 5 (c))	133,332	17,560	-	-	-	-	17,560
Shares issued upon warrant exercise	562,500	96,638	-	(40,388)	-	-	56,250
Share based compensation	-	-	-	-	64,559	-	64,559
Deferred tax arising from convertible debenture issuance	-	-	-	(181,473)	-	-	(181,473)
Net loss	-	-	-	-	-	(1,463,923)	(1,463,923)
Balance at December 31, 2018	94,350,686	12,441,108	591,500	2,539,841	1,067,380	(19,389,792)	(2,749,963)
Shares issued to Lindar (note 4)	5,382,000	591,500	(591,500)	-	-	-	-
Shares issued upon warrant exercise	220,832	34,039	-	(11,956)	-	-	22,083
Warrants issued upon amended terms (note 5(c))	-	-	-	340,154	-	-	340,154
Share based compensation	-	-	-	-	35,399	-	35,399
Deferred tax arising from convertible debenture issuance	-	-	-	41,811	-	-	41,811
Net loss	-	-	-	-	-	(1,541,689)	(1,541,689)
Balance at June 30, 2019	99,953,518	\$ 13,066,647	\$ -	\$ 2,909,850	\$ 1,102,779	\$ (20,931,481)	\$ (3,852,205)

See accompanying notes to condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

	Six months ended June 30	
	2019	2018
Cash provided by (used in):		
Operations:		
Net loss	\$ (1,541,689)	\$ (1,642,403)
Items not involving cash:		
Depreciation and amortization	241,353	248,419
Capital lease amortization	23,058	-
Share based compensation (note 6 (b))	35,399	101,927
Gain on interest free loan (note 5 (b))	(26,118)	-
Gain on disposal of property and equipment	-	(9,946)
Accretion on interest free loan and convertible debentures	184,234	118,434
Deferred income tax	41,811	-
	(1,041,952)	(1,183,569)
Changes in non-cash operating working capital:		
Trade and other receivables	(51,149)	1,385,434
Inventory	(119,997)	19,553
Prepaid expenses	60,965	34,842
Accounts payable and accrued liabilities	(147,404)	(1,624,932)
Cash used in operating activities	(1,302,537)	(1,368,672)
Financing:		
Exercise of warrants for common shares	22,083	-
Credit Facility draw	329,500	-
Net proceeds from loans (note 5)	5,967,788	4,700,586
Repayment of loans	(92,575)	(30,189)
Cash provided by financing activities	6,226,796	4,670,397
Investments:		
Purchase of office and manufacturing equipment	(72,718)	(34,556)
Other assets	(120,098)	-
Proceeds on disposal of property and equipment	-	23,872
Cash used in financing activities	(192,816)	(10,684)
Increase (decrease) in cash	4,731,443	3,291,041
Cash, beginning of period	2,903,466	797,883
Cash, end of period	\$ 7,634,909	\$ 4,088,924

See accompanying notes to condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
Six months ended June 30, 2019 and 2018
(Expressed in Canadian dollars)
(Unaudited)

1. Nature of operations:

Good Natured Products Inc. (the “Company”) is a Canadian company incorporated under the British Columbia Business Corporations Act and its common shares are listed on the TSX Venture Exchange (“TSX-V”) as a Tier 2 issuer under the symbol “GDNP”. The Company’s head office is located at 814 - 470 Granville Street, Vancouver, British Columbia, Canada. The Company through its wholly owned subsidiaries Good Natured Products (CAD) Inc. and Good Natured Products (US) Inc., is principally engaged in the design, production and distribution of high-performance bioplastics for use in packaging and durable product applications.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended December 31, 2018 and have been prepared in compliance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). Accordingly, these unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2018.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 26, 2019.

(b) Basis of measurement:

These condensed consolidated financial statements have been prepared on the historical cost basis.

(c) Use of estimates, assumptions and judgments:

(i) Use of estimates and assumptions:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. The underlying assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances, and are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained and as the Company’s operating environment changes.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
Six months ended June 30, 2019 and 2018
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2. Basis of presentation (continued):

(c) Use of estimates, assumptions and judgments (continued):

(i) Use of estimates and assumptions (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas having estimation uncertainty include the following:

Financial instruments:

The Company enters financial instrument arrangements which require management to make judgments to determine if such arrangements are derivative instruments in their entirety or contain embedded derivatives, including whether those embedded derivatives meet the criteria to be separated from their host contract, in accordance with IFRS 9, *Financial Instruments*. Key judgments include whether the value of a contract changes in response to a change in an underlying rate, price, index or other variable, and for embedded derivatives, whether the economic risks and characteristics are not closely related to the host contract and a separate instrument with the same terms would meet the definition of a derivative on a standalone basis.

Inventory provision:

In determining the lower of cost and net realizable value of inventory and in establishing the appropriate provision for inventory obsolescence, management estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in technology or design which could make inventory on hand obsolete or recoverable at less than the recorded value. Management performs regular reviews to assess the impact of changes in technology and design, sales trends and other changes on the carrying value of inventory. Where it is determined that such changes have occurred and will have a negative impact on the value of inventory on hand, an appropriate provision is made.

Share based payments and warrants:

The critical estimates and assumptions underlying the measurement of share-based payments and warrants are set out in notes 6 (b) and 6 (c) respectively.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
Six months ended June 30, 2019 and 2018
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2. Basis of presentation (continued):

(c) Use of estimates, assumptions and judgments (continued):

(ii) Significant judgments:

The Company applied judgment in determining the functional currency of the Company and assessing the impairment of accounts receivable, equipment and intangible assets. Functional currency was determined based on the currency that mainly influences sales prices, labour, materials, other costs of sales and in which financing is raised.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation:

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at June 30, 2019.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions have been eliminated on consolidation. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The Company's subsidiaries are as follows:

Good Natured Products (CAD) Inc.	100% owned
Good Natured Products (US) Inc.	100% owned

(b) Research and development:

Research costs are expensed as they are incurred. Product development costs are expensed as incurred except when they meet specific criteria for capitalization. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Capitalized development costs are amortized when commercial production begins. During the six months ended June 30, 2019, \$111,279 of development costs have been capitalized (Year ended December 31, 2018 - \$93,997).

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
Six months ended June 30, 2019 and 2018
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3. Significant accounting policies (continued):

(c) Revenue recognition:

The Company recognizes the amount of revenue to which it expects to be entitled, for the transfer of promised goods or services to customers under a five-step model: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when or as a performance obligation is satisfied.

The Company generates revenue primarily through sale of products to various customers.

Recognition of revenue from product development agreements is based on achieving defined milestones or on the performance of work. The cumulative effect of changes to anticipated revenues and anticipated costs for completing a product development agreement are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on a product development agreement, such loss is recognized in its entirety in the period it becomes known.

The Company adopted the new revenue standard (IFRS 15- Revenue from Contracts with Customers), effective January 1, 2018 using the modified retrospective method under which previously presented financial statements are not restated and the cumulative effect of adopting the new revenue standard on contracts in process is recognized by an adjustment to deficit at the effective date. The adoption of the new revenue standard did not change the Company's recognized revenue in any of its contracts in process.

(d) New standards and interpretations applied:

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

On transition to IFRS 16, the Company recorded the remaining three years of payments for its office space as a lease liability of \$138,350. Right of use asset was measured at an amount equal to the lease liability and will be amortized straight-line over the remaining 36 months of the lease. Lease liability was measured at the present value of the remaining lease payments discounted at the incremental borrowing rate as at January 1, 2019.

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Notes to Condensed Consolidated Interim Financial Statements
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4. Other assets:

	June 30 2019	December 31 20178
Customer lists	\$ 1,740,750	\$ 1,740,750
Capitalized product development	205,276	93,997
Other assets	147,169	-
Accumulated amortization	(1,477,907)	(1,237,654)
Net book value	\$ 615,288	\$ 597,093

On December 23, 2016, the Company completed the acquisition of Lindar Corporation's ("Lindar") bioplastic book of business, which was subject to finalization of an outsourcing agreement and approval from the TSX Venture Exchange. The common shares to be issued to Lindar were recorded with a value of \$591,500 as consideration and reflected as shares issuable.

On March 21, 2019, the Company finalized the outsourcing agreement with Lindar and received approval from the TSX Venture Exchange to release the common share consideration for the acquisition. The Company originally agreed to issue 4,225,000 shares with a value of \$591,500 on December 23, 2016. Pursuant to the agreement finalization and share release approval, the Company agreed to increase the number of shares to 5,382,000. The Shares were issued from treasury and subject to a 24 -month hold from the signing date of the outsourcing agreement.

5. Loans and financing:

(a) Comerica credit line:

On October 1, 2016, the Company and Comerica Bank entered into a supplemental loan agreement (the "Supplemental Loan Agreement") in which both parties agreed to convert an existing US or Canadian dollar secured loan of \$550,000 into a Canadian dollar amortizing term loan (the "Term Loan). The Term Loan is secured by all assets of the Company. Under terms of the Supplemental Loan Agreement, the principal amount was to be paid in 22 equal monthly instalments of \$25,000 plus accrued interest thereon at a rate of Canadian LIBOR plus 2.5%.

Starting on June 28, 2017, the Company and Comerica Bank entered into a series of supplemental loan agreements which permitted the deferral of principal payments. On June 27, 2019, the outstanding loan balance of CAD\$325,000 was fully repaid.

On June 11, 2019, pursuant to the Fifth Supplemental Loan Agreement, Comerica Bank agreed to provide the Company with a \$1,000,000 USD revolving operating line of credit with a variable interest rate of prime + 1% and is secured by all assets of the Company. The Company is required to maintain \$1,000,000 of cash in its accounts for the term of the revolving loan.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
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5. Loans and financing (continued):

(a) Comerica credit line (continued):

The Company incurred interest expense related to the credit line of \$10,220 for the six months ended June 30, 2019 (Year ended December 31, 2018 - \$19,809).

As at June 30, 2019, the Company was in compliance with all covenants under the Line.

(b) Western Innovation Initiative loan:

	Loan	Discount	Net Book Value
December 31, 2017	\$ 1,600,000	\$ (321,317)	\$ 1,278,683
Proceeds	117,832	(31,981)	85,851
Repayment	(144,756)	-	(144,756)
Accretion	-	67,222	67,222
December 31, 2018	\$ 1,573,076	\$ (286,076)	\$ 1,287,000
Proceeds	96,232	(26,118)	70,114
Repayment	(72,000)	-	(72,000)
Accretion	-	35,712	35,712
June 30, 2019	\$ 1,597,308	\$ (276,482)	\$ 1,320,826

On June 20, 2014, the Company entered into a Western Innovation Initiative Agreement with Western Economic Diversification Canada ("WINN"). The WINN agreement provides the Company with an interest-free, repayable loan of \$1,600,000 from the government. The loan was to be repaid monthly over five years commencing November 1, 2017 in 60 consecutive instalments of \$26,667. On October 31, 2017, the Company re-negotiated the repayment term to commence on June 1, 2018 in 53 consecutive monthly instalments of \$30,189. On October 4, 2018, the Company re-negotiated the repayment term of the outstanding balance of \$1,479,244 to 12 consecutive monthly instalments of \$12,000 commencing November 1, 2018, 35 consecutive monthly instalments of \$37,050 commencing November 1, 2019 and one final instalment of \$38,494, due October 1, 2022.

As the funds were advanced, the Company recognized a gain and discounted the WINN loans by \$480,070 (including the \$45,806 for the second WINN loan) as a result of the imputed interest benefit received from the interest-free WINN loans.

During the quarter ending September 30, 2018, the Company entered into a second WINN agreement. The second WINN agreement provides the Company with an interest-free, repayable contribution from the government not to exceed \$850,000 towards total project cost estimated at \$1,750,000. The project funds are directed at the Company's development and commercialization of its new non-toxic high-heat bioplastic food containers for the grocery, take-out and consumer markets. Such funds are to be repaid monthly over five years commencing October 1, 2021 in 59 consecutive instalments of \$14,167 and one final instalment of \$14,147 on September 1, 2026. The claim period for shared project costs commenced April 1, 2018.5.

GOOD NATURED PRODUCTS INC.

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5. Loans and financing (continued):

(b) Western Innovation Initiative loan (continued):

The Company received loan proceeds of \$96,232 under the second WINN agreement during the six months ending June 30, 2019 (Year ending December 31, 2018 - \$117,832). The Company recognized a gain and discounted the second WINN loan by \$26,118 as a result of the imputed interest benefit received from the interest-free loan using a discount rate of 8.2%.

The total amount of undiscounted future cash flows required to settle the WINN loans at June 30, 2019 was \$1,597,308 (December 31, 2018 - \$1,573,076). The future cash flows have been discounted using a rate of 8.20%.

(c) Convertible debentures:

	Debenture	Equity component	Deferred Finance Cost	Net Book Value
December 31, 2017	\$ -	\$ -	\$ -	\$ -
Issuance	5,049,000	(672,122)	(348,414)	4,028,464
Conversion	(20,000)	2,440	-	(17,560)
Accretion / Amortization	-	140,592	72,590	213,182
December 31, 2018	\$ 5,029,000	\$ (529,090)	\$ (275,824)	\$ 4,224,086
Accretion / Amortization	-	82,842	43,554	126,396
June 30, 2019	\$ 5,029,000	\$ (446,248)	\$ (232,270)	\$ 4,350,482

On February 28, 2018, the Company completed a convertible debenture offering of 5,049 units ("Units") for gross proceeds of \$5,049,000. Each Unit is comprised of one \$1,000 principal amount unsecured 10% convertible debenture ("Debenture") of the Company due February 28, 2022 (the "Maturity Date") and 1,500 common share purchase warrants. The Company issued a total of 7,573,500 Warrants to the debenture subscribers. Related party participation in the private placement totaled 209 units.

The convertible debentures are considered to be compound financial instruments in which the host debt instruments have been determined to be financial liabilities with an embedded equity instrument. The Company measured the liability component at amortized cost, with the residual amount assigned to the equity components. The Company used an effective interest rate of 13.2% resulting in \$672,122 assigned to the conversion feature and subscriber and broker warrants.

Each Debenture is convertible, at the option of the holder, at any time prior to the close of business on the last business day immediately preceding the Maturity Date, into that number of common shares computed on the basis of the principal amount of the Debentures divided by the conversion price of \$0.15 per common share. During the year ending December 31, 2018, \$20,000 of Debentures were converted into 133,332 common shares pursuant to the conversion option.

GOOD NATURED PRODUCTS INC.

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5. Loans and financing (continued):

(c) Convertible debentures (continued):

Each Warrant entitles the holder to purchase one common share of the Company for a period of 48 months after February 28, 2018 at a price of \$0.10 per Warrant. The Debentures are subject to an acceleration right exercisable by the Company, which will force the conversion of the Debentures into common shares at the \$0.15 conversion price. This right is exercisable if the Company's common shares trade at or above a volume-weighted average trade price of \$0.15 on the TSX Venture Exchange ("TSX-V") on any 20 consecutive trading days and on cumulative 20-day trading volume of at least 1,000,000 common shares. If the acceleration right is exercised by the Company, the conversion of the Debentures into common shares will occur immediately.

The Warrants are subject to an acceleration right if on any 20 consecutive or non-consecutive trading days following the closing date, the Company's common shares trade at greater than a volume-weighted average trading price of \$0.20 on the TSX-V.

The interest on the Debentures is payable in cash on a semi-annual basis in arrears (February 28 and August 28).

Pursuant to the offering, the Company paid cash commission, legal and other related fees totaling \$348,414. The Company also issued non-transferable broker warrants to acquire 2,239,867 common shares from treasury at a price of \$0.15 per common share, exercisable at any time within the 36-month period following February 28, 2018. The fair value at grant date of the broker warrants issued was \$128,344 based on the Black-Scholes pricing model and was recorded as a Debenture discount. Expected volatility was determined based on comparable publicly listed companies.

On June 11, 2019, the Company secured a \$10 million USD loan facility from BDC Capital Inc. ("BDC" and the "BDC Financing") (see Note 5(d)). Obtaining the BDC Financing required approval of the holders of the Debentures (the "Debenture Holders"). As part of obtaining Debenture Holder consent, the Company agreed to amend the terms of the Debentures and, indirectly, the warrants that were issued as part of a unit with the Debentures.

The amended terms included: (a) in the event of any failure to pay amounts due, or other event of default under the BDC Financing (or any other senior debt facility), the interest payments on the Debentures will be temporarily suspended; (b) the price at which the Debentures can be forced to convert into common shares of the Company is increased to \$0.25 from \$0.15; and (c) each warrant certificate held by a Debenture Holder (to the extent not previously expired or exercised) will be deemed to have been amended, so that the number of common shares that are subject to purchase under the warrant certificate is increased by 122.22%. As a result, 8,568,975 additional warrants at a price of \$0.10 per warrant were issued to Warrant Holders. The fair value at grant date of the additional warrants issued was \$340,154 based on the Black-Scholes pricing model and was recorded as a BDC Financing discount.

GOOD NATURED PRODUCTS INC.

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5. Loans and financing (continued):

(d) BDC Capital Inc. Financing:

	Loan Draw	Financing discount	Deferred Finance Cost	Net Book Value
December 31, 2018	\$ -	\$ -	\$ -	\$ -
Issuance	6,671,650	(340,154)	(702,170)	5,629,326
Payment in Kind accrual	28,726	-	-	28,726
Accretion / Amortization	-	15,856	6,270	22,126
Foreign exchange restatement to period end spot rate	(126,650)	-	-	(126,650)
June 30, 2019	\$ 6,573,726	\$ (324,298)	\$ (695,900)	\$ 5,553,528

On June 11, 2019, the Company secured a \$10 million USD loan facility from BDC Capital Inc. ("BDC" and the "BDC Financing"). The BDC Financing will be drawn down in up to three tranches. The first tranche of \$5 million USD will be used for working capital to further accelerate organic growth. The remaining \$5 million USD may be advanced at a later date for use in funding acquisition opportunities.

The loan facility bears interest at BDC Capital's floating base rate (7.05% at date of signing) plus 6% per year and is payable monthly. Principal repayment of the outstanding loan commences on June 1, 2021 by way of 48 monthly instalments of \$93,750 USD and a balloon payment of \$500,000 USD on May 1, 2025. The maturity date of the loan facility May 1, 2025. The loan facility is secured in a subordinate position on all assets of the Company except for the Company's intellectual property where BDC's security interest shall rank first.

The loan facility also bears a non-compounding Payment in kind interest ("PIK") of 8% per year payable on the maturity date. The PIK rate may be reduced by up to 1% upon achievement of certain milestones.

The loan facility requires maintenance of minimum coverage ratio and earning levels along with other customary covenants such as limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends and asset sales. As at June 30, 2019, the Company was in compliance with all covenants under the BDC Financing.

(e) Lease liability:

On transition to IFRS 16, the Company recorded the remaining three years of lease payments for its office space as a lease liability of \$138,350. Lease liability was measured at the present value of the remaining lease payments discounted at the incremental borrowing rate as at January 1, 2019.

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5. Loans and financing (continued):

(f) Undiscounted repayment commitment:

The required undiscounted annual repayments of the Company's long-term debt for the twelve months ending June 30 follow:

2020	\$ 388,336
2021	615,551
2022	7,003,943
2023	1,665,085
2024 and beyond	3,644,893
	<hr/>
	\$ 13,317,808

6. Share capital and share-based payments:

(a) Common and preferred share capital:

Authorized and issued:

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value, issuable in series.

As at June 30, 2019, 99,953,518 common shares were issued and outstanding (December 31, 2018 - 94,350,686).

Shares for acquisition consideration (Note 4):

On December 23, 2016, the Company completed the acquisition of Lindar Corporation's ("Lindar") bioplastic book of business, which was subject to finalization of an outsourcing agreement and approval from the TSX Venture Exchange. The common shares to be issued to Lindar were recorded with a value of \$591,500 as consideration and reflected as shares issuable.

On March 21, 2019, the Company finalized the outsourcing agreement with Lindar and received approval from the TSX Venture Exchange to release the common share consideration for the acquisition. The Company originally agreed to issue 4,225,000 shares with a value of \$591,500 on December 23, 2016. Pursuant to the agreement finalization and share release approval, the Company agreed to increase the number of shares to 5,382,000.

Shares for debt settlement:

During the year ended December 31, 2018, the Company issued 150,000 shares at a price of \$0.11 per share and 52,500 shares at a price of \$0.10 to settle outstanding indebtedness of \$21,750.

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6. Share capital and share-based payments (continued):

(b) Share options:

The change in the number of the Company's stock options follows:

	Options	Weighted average exercise price
Outstanding as at December 31, 2017	7,188,794	\$ 0.18
Issuance of options	560,000	0.11
Forfeiture of options	(845,000)	0.15
Outstanding as at December 31, 2018	6,903,794	0.18
Issuance of options	100,000	0.10
Outstanding as at June 30, 2019	7,003,794	\$ 0.18
Exercisable as at June 30, 2019	5,051,076	\$ 0.19

Information about the Company's stock options outstanding and exercisable as at June 30, 2019 follows:

Expiry date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life (in years)
April 2, 2020	500,000	500,000	\$ 0.25	0.76
January 1, 2023	46,630	46,630	0.25	3.51
October 11, 2023	11,658	11,658	0.25	4.28
September 2, 2024	29,144	29,144	0.25	5.18
September 17, 2024	142,857	142,857	0.18	5.22
April 2, 2025	104,918	104,918	0.25	5.76
April 20, 2025	61,924	61,924	0.28	5.81
July 16, 2025	1,100,000	1,087,570	0.20	6.05
August 3, 2025	350,000	350,000	0.19	6.10
February 25, 2026	1,305,000	1,259,190	0.20	6.66
May 5, 2027	2,736,663	1,425,364	0.15	7.85
July 11, 2028	100,000	100,000	0.15	9.04
November 29, 2023	415,000	155,626	0.10	4.42
January 10, 2024	100,000	35,415	0.10	4.53
	7,003,794	5,310,296	\$ 0.18	6.37

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6. Share capital and share-based payments (continued):

(b) Share options (continued):

The fair values of options granted were measured based on the Black-Scholes pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair values at the modification and grant dates follows:

	Six months ended June 30 2019	Year ended December 31 2018
Risk-free interest rate	2.16%	1.53% – 2.16%
Dividend yield	0.00%	0.00%
Expected life (years)	2	2 -10
Volatility	126.8%	72.3 – 126.8%
Forfeiture rate	0.0%	0.0%
Fair value at grant date	\$0.10	\$0.10 - \$0.15

(c) Share purchase warrants:

On February 28, 2018, the Company completed a convertible debenture offering of 5,049 units ("Units") for gross proceeds of \$5,049,000. Each Unit is comprised of one \$1,000 principal amount unsecured 10% convertible debenture ("Debenture") of the Company due February 28, 2022 (the "Maturity Date") and 1,500 common share purchase warrants. The Company issued a total of 7,573,500 Warrants to the debenture subscribers (Note 5(c)). Each Warrant entitles the holder thereof to purchase one common share of the Company for a period of 48 months after February 28, 2018 at a price of \$0.10 per Warrant.

Pursuant to the completion of the BDC Financing (Notes 5(c) and 5(d)), the Company agreed to increase the outstanding warrants that were issued as part of a unit with the Debentures by 122.22% resulting in the issuance of 8,568,975 additional warrants at a price of \$0.10 per warrant issued to Warrant Holders. The fair value at grant date of the additional warrants issued was \$340,154 based on the Black-Scholes pricing model and was recorded as a BDC Financing discount.

The Warrants are subject to an acceleration right if on any 20 consecutive or non-consecutive trading days following the closing date, the Company's common shares trade at greater than a volume-weighted average trading price of \$0.20 on the TSX-V.

The Company also issued non-transferable broker warrants to acquire 2,239,867 common shares from treasury at a price of \$0.15 per common share, exercisable at any time within the 36-month period following February 28, 2018. The fair value at grant date of the broker warrants issued was \$128,344 based on the Black-Scholes pricing model and was recorded as a Debenture discount. Expected volatility was determined based on comparable publicly listed companies.

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6. Share capital and share-based payments (continued):

(c) Share purchase warrants (continued):

The following table summarizes information about the Company's share purchase warrants:

	Warrants		Weighted average exercise price
Outstanding at December 31, 2017	46,335,221	\$	0.21
Issuance of warrants	7,573,500		0.10
Issuance of warrants to brokers	2,239,867		0.15
Exercise of warrants	(562,500)		0.10
Expiry of warrants	(25,711,123)		0.25
Outstanding at December 31, 2018	29,874,965	\$	0.14
Issuance of warrants	8,568,975		0.10
Exercise of warrants	(220,832)		0.10
Expiry of warrants	(1,936,197)		0.20
Outstanding at June 30, 2019	36,286,911	\$	0.13

Expiry date	Warrants outstanding	Exercise price	Weighted average remaining contractual life (in years)
October 20, 2021	52,231	\$ 0.19	2.31
July 31, 2019	5,000,000	0.15	0.08
July 31, 2019	316,400	0.10	0.08
August 28, 2019	10,538,500	0.15	0.16
August 28, 2019	638,195	0.10	0.16
October 5, 2019	372,500	0.15	0.27
October 5, 2019	26,075	0.10	0.27
November 20, 2019	1,630,000	0.15	0.39
November 20, 2019	114,000	0.10	0.39
February 28, 2021	2,239,867	0.15	1.67
February 28, 2022	15,359,143	0.10	2.67
	36,286,911	\$ 0.13	1.32

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6. Share capital and share-based payments (continued):

(c) Share purchase warrants (continued):

The fair value of warrants granted was measured based on the Black-Scholes pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair value of the most recent grant follows:

	Six months ended June 30 2019	Year ended December 31 2018
Risk-free interest rate	1.50%	1.25%
Dividend yield	0.00%	0.00%
Expected life (years)	1.4	3 -4
Volatility	62.9%	106%
Forfeiture rate	0.0%	0.0%
Fair value at grant date	\$0.115	\$0.10

7. Segmented information:

The Company carries on business in the plastics and packaging industry and all sales and costs are made in this segment. The vast majority of the Company's operations are performed within Canada.

Sales in the six months ended June 30, 2019 from the top four customers amounted to \$3,294,085 or 75% of total revenue. Sales in the year ended December 31, 2018 from the top four customers amounted to \$4,346,755 or 85% of total revenue.

In addition, the Company commenced sales into the industrial sector during the six months ended June 30, 2019. The Company's initial industry customer accounted for greater than 10% of total revenue in the period. Given the early stage of the Company's entry into this sector, it is uncertain whether this customer will continue to contribute more than 10% of revenues for the remainder of Fiscal 2019.

8. Selling, general, and administrative:

The following is a breakdown of the Company's selling, general and administrative expenses.

	Six months ended June 30	
	2019	2018
Salaries	\$ 678,361	\$ 551,160
Other selling, general and administrative expenses	339,485	408,892
Outsourced supply chain, freight costs, and fulfillment	1,067,391	591,362
	<u>\$ 2,085,237</u>	<u>\$ 1,551,414</u>

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9. Subsequent events:

Subsequent to the period end, the Company issued 2,209,998 common shares upon the exercise of outstanding warrants for gross proceeds of \$315,000.