

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

GOOD NATURED PRODUCTS INC.

Three months ended March 31, 2020 and 2019

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 nine-month period ended September 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)

	March 31 2020	December 31 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,642,364	\$ 8,454,882
Trade and other receivables	2,321,489	682,622
Inventory (note 4)	2,851,250	1,922,955
Prepaid expenses	74,200	172,141
	<u>9,889,303</u>	<u>11,232,600</u>
Non-current assets:		
Property and equipment, net	419,472	373,145
Other assets, net	760,163	714,019
	<u>\$ 11,068,938</u>	<u>\$ 12,319,764</u>

Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,819,331	\$ 3,039,288
Credit line (note 5)	1,276,830	649,500
Current portion of long-term debt (note 6)	253,101	196,341
	<u>5,349,262</u>	<u>3,885,129</u>
Long-term debt (note 6)	11,581,056	13,076,211
Shareholders' Equity (deficiency):		
Common share capital	14,308,090	13,932,452
Contributed surplus	4,212,889	4,307,870
Foreign currency translation reserve	(712,421)	(18,285)
Deficit	(23,669,938)	(22,863,613)
	<u>(5,861,380)</u>	<u>(4,641,576)</u>
	<u>\$ 11,068,938</u>	<u>\$ 12,319,764</u>

Subsequent events (note 11)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

“Jim Zadra” Director

“Michael Thomson” Director

GOOD NATURED PRODUCTS INC.

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

	Three months ended March 31	
	2020	2019
Product revenue	\$ 3,052,087	\$ 2,056,014
Cost of product revenue	(1,943,847)	(1,283,469)
Gross profit	1,108,240	772,545
Other (Expenses) Income:		
Product development	(121,196)	(120,258)
Selling, general, and administrative (note 9)	(1,456,114)	(995,183)
Share-based compensation (note 7 (b))	(10,212)	(19,998)
Depreciation and amortization	(42,171)	(134,383)
Financing costs	(918,161)	(216,122)
Foreign exchange gain	639,107	-
Loss on convertible debenture redemption	(131,782)	-
Gain on interest free loan (note 6 (a))	45,504	13,825
Net loss before taxes	(886,785)	(699,574)
Deferred income taxes (recovery)	80,460	(20,787)
Net loss for the period	\$ (806,325)	\$ (720,361)
Other comprehensive loss, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Unrealized currency loss on translation of foreign operations	(694,136)	-
Other comprehensive loss for the period	\$ (1,500,461)	\$ (720,361)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding – basic and diluted	105,797,873	94,350,686

See accompanying notes to condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC

Condensed Consolidated Interim 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	Foreign currency translation reserve	Deficit	Equity/ (Deficiency)
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)
Share based compensation	-	-	-	-	19,998	-	-	19,998
Deferred tax arising from convertible debenture issuance	-	-	-	20,787	-	-	-	20,787
Net comprehensive loss	-	-	-	-	-	-	(720,361)	(720,361)
Balance at March 31, 2019	94,350,686	\$ 12,441,108	\$ 591,500	\$ 2,560,628	\$ 1,087,378	\$ -	(20,110,153)	\$ (3,429,539)
Shares issued to Lindar (note 7(a))	5,382,000	591,500	(591,500)	-	-	-	-	-
Shares issued upon warrant exercise	3,231,857	508,173	-	(108,347)	-	-	-	399,826
Warrants issued upon amended terms (note 6 (b))	-	-	-	340,154	-	-	-	340,154
Share issued upon debt conversion (note 7 (a))	2,833,330	425,000	-	(33,329)	-	-	-	391,671
Conversion feature and warrants of convertible debenture (note 6 (b))	-	-	-	686,000	-	-	-	686,000
Share based compensation	-	-	-	-	39,906	-	-	39,906
Deferred tax arising from convertible debenture issuance	-	-	-	(297,849)	-	-	-	(297,849)
Net comprehensive loss	-	-	-	-	-	(18,285)	(2,753,460)	(2,771,745)
Balance at December 31, 2019	105,797,873	\$ 13,965,781	\$ -	\$ 3,147,257	\$ 1,127,284	\$ (18,285)	(22,863,613)	\$ (4,641,576)
Shares issued upon warrant exercise	766,665	107,309	-	(41,509)	-	-	-	65,800
Share issued upon debt conversion (note 7 (a))	1,566,661	235,000	-	(16,888)	-	-	-	218,112
Conversion feature and warrants of convertible debenture (note 6 (b))	-	-	-	298,000	-	-	-	298,000
Convertible debenture redemption	-	-	-	(231,007)	-	-	-	(231,007)
Share based compensation	-	-	-	-	10,212	-	-	10,212
Deferred tax arising from convertible debenture issuance	-	-	-	(80,460)	-	-	-	(80,460)
Net comprehensive loss	-	-	-	-	-	(694,136)	(806,325)	(1,500,461)
Balance at March 31, 2020	108,131,199	\$ 14,308,090	\$ -	\$ 3,075,393	\$ 1,137,496	\$ (712,421)	(23,669,938)	\$ (5,861,380)

See accompanying notes to condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC.

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

	Three months ended March 31	
	2020	2019
Cash provided by (used in):		
Operations:		
Net loss	\$ (806,325)	\$ (764,492)
Items not involving cash:		
Depreciation and amortization	42,171	124,209
Unrealized foreign exchange loss	(515,083)	-
Amortization of right of use assets	11,529	11,529
Share based compensation (note 7 (b))	10,212	19,998
Loss on convertible debenture redemption	131,782	-
Gain on interest free loan (note 6 (a))	(45,504)	(13,825)
Accretion on loans (note 6)	170,020	82,808
Deferred income tax	(80,460)	20,787
Changes in non-cash operating working capital:		
Trade and other receivables	(1,638,867)	282,409
Inventory	(873,383)	(17,538)
Prepaid expenses	114,000	(94,311)
Accounts payable and accrued liabilities	780,043	(620,658)
Cash used in operating activities	(2,699,865)	(914,779)
Financing:		
Exercise of warrants for common shares	75,433	-
Credit Line advance (note 5)	531,796	-
Proceeds from convertible debenture, net of of issuance costs (note 6 (b))	1,046,746	-
Convertible debenture redemption	(3,215,000)	-
Proceeds from long-term debt, net of issuance costs (note 6(c))	135,523	-
Repayment of other long-term debt (note 6(a,d))	(41,362)	(46,205)
Advances from other long-term debt (note 6(a,d))	104,030	50,939
Cash provided by financing activities	(1,362,834)	4,734
Investments:		
Purchase of equipment	(23,927)	(68,029)
Other assets	(31,808)	(46,275)
Cash used in investing activities	(55,735)	(114,304)
Effect of foreign exchange rate changes on cash	305,916	-
Decrease in cash	(3,812,518)	(1,024,349)
Cash and cash equivalents, beginning of period	8,454,882	2,903,466
Cash and cash equivalents, end of period	\$ 4,642,364	\$ 1,879,117

Supplementary disclosure with respect to cash flows (note 11).

See accompanying notes to condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2020 and 2019
(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, 2019 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, 2019.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 22, 2020.

(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.

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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 7 (b) and 7 (c) respectively.

(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.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
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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 March 31, 2020.

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) Foreign currency translation:

The functional currency of each of the Company's entities is determined using the currency of the primary economic environment in which that entity operates. The Company's functional currency is the Canadian dollar while the functional currency of Good Natured Products (CAD) Inc. and Good Natured Products (US) Inc. is the US dollar. The presentation currency of these financial statements is the Canadian dollar. Prior to January 1, 2020, the functional currency of Good Natured Products (CAD) Inc. was the Canadian dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the reporting dates and are recognized in profit and loss in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of preparing the consolidated financial statements, the assets and liabilities are first expressed in the entity's respective functional currency and translated into the presentation currency using exchange rates prevailing at the reporting date, while the income and expense items are translated at the average exchange rates for the period. Translation differences are recognized in other comprehensive loss and recorded in the "foreign currency translation reserve" included in equity.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
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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.

4. Inventory:

	March 31, 2020	December 31, 2018
Raw materials and consumables	\$ 2,041,590	\$ 1,204,010
Finished goods	809,660	718,945
	<u>\$ 2,851,250</u>	<u>\$ 1,922,955</u>

On December 1, 2019, the Company assumed responsibility for supply chain management previously covered by an outsourcing agreement resulting in increased inventory on hand. The Company made the change in order to better manage its supply chain and back office efficiency.

5. Credit Line

On June 5, 2019, Comerica Bank agreed to provide the Company with a 1 year, \$1,000,000 USD revolving operating line of credit with a variable interest rate of prime + 1% secured by all assets of the Company. The Company is required to maintain \$1,000,000 CAD of cash in its accounts for the term of the revolving loan. As at March 31, 2020, the Company was in compliance with all covenants. The Company incurred interest expense related to the credit line of \$11,215 for the three months ended March 31, 2020 (year ended December 31, 2019 - \$31,523).

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
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6. Long-term debt:

	WINN loan (a)	Convertible debenture (b)	BDC Capital (c)	Other debt (d)	Total
Dec. 31, 2018	\$ 1,287,000	\$ 4,224,086	\$ -	\$ -	\$ 5,511,086
Proceeds	123,877	1,850,254	5,923,413	198,604	8,096,148
Repayment	(187,050)	-	-	(41,824)	(228,874)
Conversion	-	(391,671)	-	-	(391,671)
Accretion	73,215	252,058	128,862	-	454,135
Foreign exchange	-	-	(168,272)	-	(168,272)
Dec. 31, 2019	\$ 1,297,042	\$ 5,934,727	\$ 5,884,003	\$ 156,780	\$ 13,272,552
Proceeds	57,950	748,747	135,523	554	942,774
Repayment	(30,000)	(2,842,578)	-	(11,341)	(2,883,919)
Conversion	-	(218,112)	-	-	(218,112)
Accretion	19,233	89,954	60,833	-	170,020
Foreign exchange	-	-	550,842	-	550,842
Mar. 31, 2020	\$ 1,344,225	\$ 3,712,738	\$ 6,631,201	\$ 145,993	\$ 11,834,157
As Presented			March 31, 2020	December 31, 2019	
Current portion			\$ 253,101	\$ 196,341	
Non-current portion			11,581,056	13,076,211	
			\$ 11,834,157	\$ 13,272,552	

GOOD NATURED PRODUCTS INC.

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

(a) Western Innovation Initiative loan:

		Loan	Discount	Net Book Value
December 31, 2018	\$	1,573,076	\$ (286,076)	\$ 1,287,000
Proceeds		170,021	(46,144)	123,877
Repayment		(187,050)	-	(187,050)
Amortization		-	73,215	73,215
December 31, 2019	\$	1,556,047	\$ (259,005)	\$ 1,297,042
Proceeds		103,454	(45,504)	57,950
Repayment		(30,000)	-	(30,000)
Amortization		-	19,233	19,233
March 31, 2020	\$	1,629,501	\$ (285,276)	\$ 1,344,225

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. At December 31, 2019, the undiscounted balance of the first WINN loan was \$1,268,194.

As the funds were advanced, the Company recognized a gain and discounted the first WINN loan by \$480,070 as a result of the imputed interest benefit received from the interest-free WINN loan.

On August 7, 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. The claim period for shared project costs commenced April 1, 2018.

The Company received loan proceeds of \$103,454 under the second WINN agreement during the three months ending March 31, 2020 (Year ending December 31, 2019 - \$170,021). The Company recognized a gain and discounted the second WINN loan by \$45,504 as a result of the imputed interest benefit received from the interest-free loan using a discount rate of 15.0%.

The total amount of undiscounted future cash flows required to settle the WINN loans at March 31, 2020 was \$1,629,501 (December 31, 2019 - \$1,556,047).

GOOD NATURED PRODUCTS INC.

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

(b) Convertible debentures:

	Debenture	Equity component	Issuance Cost	Net Book Value
December 31, 2018	\$ 5,029,000	\$ (529,090)	\$ (275,824)	\$ 4,224,086
Proceeds (ii)	2,740,000	(686,000)	(203,746)	1,850,254
Conversion	(425,000)	33,329	-	(391,671)
Amortization	-	164,950	87,108	252,058
December 31, 2019	\$ 7,344,000	\$ (1,016,811)	\$ (392,462)	\$ 5,934,727
Proceeds (ii)	1,190,000	(298,000)	(143,254)	748,746
Conversion	(235,000)	16,888	-	(218,112)
Redemption	(3,215,000)	231,007	141,415	(2,842,578)
Amortization	-	67,125	22,829	89,954
March 31, 2020	\$ 5,084,000	\$ (999,791)	\$ (371,472)	\$ 3,712,737

i) February 2018 Issue

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 initially measured the liability component at fair value, 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 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 three months ending March 31, 2020, \$235,000 of Debentures were converted into 1,566,661 common shares (Year ending December 31, 2019 \$425,000 converted into 2,833,330 common shares).

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.

GOOD NATURED PRODUCTS INC.

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

(b) Convertible debentures (continued):

The Debentures are also subject to a redemption right at the Company's option, to redeem at any time on or after the first anniversary of the issue date any part of the February 2018 Debentures then outstanding at such date at a redemption price equal to 105% of the aggregate Principal Amount of the Debentures to be redeemed together with all interest accrued and remaining unpaid. During the three months ended March 31, 2020, the Company redeemed \$3,215,000 of the February 2018 Debentures resulting in a total payment for principal, redemption premium and accrued interest of \$3,510,584.

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 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 commissions, legal and other related issuance 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. The inputs used in the measurement of the fair value at the grant dates follows: risk-free rate of 1.25%; expected life of 3.0 years; volatility factor of 106%; and fair value of \$0.10 per share at issuance date.

On June 11, 2019, the Company secured a \$10 million USD loan facility from BDC Capital Inc. ("BDC" and the "BDC Financing") (see Note 6(c)). 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 issuance cost. The inputs used in the measurement of the fair value at the grant dates follows: risk-free rate of 1.50%; expected life of 1.4 years; volatility factor of 73.4%; and fair value of \$0.115 per share at issuance date.

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6. Loans and financing (continued):

(b) Convertible debentures (continued):

ii) December 2019 Issue

On December 30, 2019, the Company completed a first tranche of convertible debenture units ("Unit") for gross proceeds of \$2,740,000. On January 23, 2020, the Company closed the final tranche for additional gross proceeds of \$1,190,000. In total, the Company issued 3,930 units at a price of \$1,000 per unit. Each Unit is comprised of one \$1,000 principal amount unsecured 10% convertible debenture ("Debenture") of the Company due December 30, 2024 (the "Maturity Date") and 938 common share purchase warrants. The Company issued a total of 3,686,340 Warrants to the debenture subscribers. Related party participation in the private placement totaled 25 units.

Each debenture is convertible at a conversion price of \$0.23 per common share of the Company. Each warrant entitles its holder to acquire one additional common share at a price of \$0.16 per common share within the 24-month period following their issue date. Proceeds of the debenture placement were used for closing costs and to redeem \$3,215,000 of the Company's existing 10% convertible unsecured debentures due February 2022 (the "2018 Debentures"). The redemption included a 5% premium plus accrued interest.

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 initially measured the liability component at fair value, with the residual amount assigned to the equity components. The Company used an effective interest rate of 15.0% resulting in \$686,000 assigned to the conversion feature and warrants.

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 \$0.23 conversion price. This right is exercisable if the Company's common shares trade at or above a volume-weighted average trade price of \$0.33 on the TSX Venture Exchange ("TSX-V") on any 20 consecutive trading days. If the acceleration right is exercised by the Company, the conversion of the Debentures into common shares will occur upon delivering a notice to the Debenture holder specifying the accelerated conversion date and concurrently issuing a press release to such effect.

The Debentures are also subject to a redemption right, at the Company's option, to redeem at any time on or after the first anniversary of the issue date, but prior to the Maturity Date, the whole or any part of the Debentures then outstanding at such date at a redemption price equal to 105% of the aggregate Principal Amount of the Debentures to be redeemed together with all interest accrued and remaining unpaid.

The interest on the Debentures is payable in cash on a semi-annual basis in arrears (May 31 and November 30).

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6. Loans and financing (continued):

(b) Convertible debentures (continued):

Pursuant to the offering, the Company paid cash commissions, legal and other related issuance costs totaling \$347,000. The Company also issued non-transferable broker warrants to acquire 1,103,737 common shares from treasury at a price of \$0.16 per common share, exercisable at any time within the 24-month period following their issue date.

(c) BDC Capital Inc. Financing:

	Loan	Equity component	Issuance Cost	Net Book Value
December 31, 2018	\$ -	\$ -	\$ -	\$ -
Proceeds	6,965,737	(340,154)	(702,170)	5,923,413
Amortization	-	42,053	86,809	128,862
Foreign exchange restatement to period end spot rate	(168,272)	-	-	(168,272)
December 31, 2019	\$ 6,797,465	\$ (298,101)	\$ (615,361)	\$ 5,884,003
Proceeds	135,523	-	-	135,523
Amortization	-	60,833	-	60,833
Foreign exchange restatement to period end spot rate	550,842	-	-	550,842
March 31, 2020	\$ 7,483,830	\$ (237,268)	\$ (615,361)	\$ 6,631,201

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 maturity date of the loan facility is May 1, 2025.

The loan facility bears interest at BDC Capital's floating base rate plus 6% per year and is payable monthly (7.05% at date of signing; 5.1% at April 1, 2020). 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 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.

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6. Loans and financing (continued):

(c) BDC Capital Inc. Financing (continued):

The loan facility also bears non-compounding interest of 8% per year payable on the maturity date. The 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 December 31, 2019, the Company was in compliance with all covenants under the BDC Financing.

Subsequent to March 31, 2020, the Company completed the acquisition of Shepherd Thermoforming & Packaging Inc. see (Note 11). Pursuant to the financing terms of the acquisition, BDC agreed to convert \$1 million CAD of the loan facility into common shares of the Company at a price per share of \$0.15.

(d) Other Loans:

Other Loans includes capitalized office lease liability and long-term customer financing of custom packaging molds. 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 of 6.45% as at January 1, 2019. Customer financing totaled \$60,255 is repayable over 2 years on a minimum per unit sold basis. In the event that total payments made over the 2 year term do not equal the financed amount, the balance outstanding is due at maturity.

(e) Undiscounted repayment commitment:

The required undiscounted annual repayments of the Company's long-term debt for the twelve months ending March 31 follow:

2021	\$ 253,101
2022	3,262,886
2023	2,065,666
2024	1,674,302
2025 and beyond	4,578,203
	<hr/>
	\$ 11,834,157

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7. 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 March 31, 2020, 108,131,199 common shares were issued and outstanding (December 31, 2019 - 105,797,873).

Shares for acquisition consideration:

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 debenture conversion:

During the three months ended March 31, 2020, the Company issued 1,566,661 shares at a price of \$0.15 per share pursuant to the conversion of \$235,000 of outstanding debentures (December 31, 2019 – 2,833,330 shares; \$425,000) (Note 6 (b)).

(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, 2018	6,903,794	0.18
Issuance of options	281,000	0.13
Forfeiture of options	(45,000)	0.10
Outstanding as at December 31, 2019	7,139,794	\$ 0.18
Issuance of options	75,000	0.10
Outstanding as at March 31, 2020	7,214,794	\$ 0.18
Exercisable as at March 31, 2020	5,952,912	\$ 0.18

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

(b) Share options:

Information about the Company's stock options outstanding and exercisable as at March 31, 2020 follows:

Expiry date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life (in years)
April 2020	500,000	500,000	\$ 0.25	0.00
January 2023	46,630	46,630	0.25	2.76
October 2023	11,658	11,658	0.25	3.53
September 2024	29,144	29,144	0.25	4.43
September 2024	142,857	142,857	0.18	4.47
April 2025	104,918	104,918	0.25	5.01
April 2025	61,924	61,924	0.28	5.06
July 2025	1,100,000	1,100,000	0.20	5.30
August 2025	350,000	350,000	0.19	5.35
February 2026	1,305,000	1,305,000	0.20	5.91
May 2027	2,736,663	1,938,499	0.15	7.10
July 2028	100,000	100,000	0.15	8.28
November 2026	370,000	208,120	0.10	6.67
January 2027	100,000	54,162	0.10	6.75
July 2027	85,000	-	0.15	7.25
September 2027	60,000	-	0.15	7.47
October 2027	36,000	-	0.13	7.59
January 2028	75,000	-	0.10	7.97
	7,214,794	5,952,912	\$ 0.18	5.89

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:

	Three months ended March 31 2020	Year ended December 31 2019
Risk-free interest rate	0.73%	1.53 – 2.16%
Dividend yield	0.00%	0.00%
Expected life (years)	4	2 -4
Volatility	64.7%	61.9 – 126.8%
Forfeiture rate	0.0%	0.0%
Fair value at grant date	\$0.10	\$0.10 - \$0.16

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

(c) Share purchase warrants:

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

	Warrants		Weighted average exercise price
Outstanding at December 31, 2018	29,874,965	\$	0.14
Issuance of warrants	11,139,095		0.11
Issuance of warrants to brokers	708,940		0.16
Exercise of warrants	(3,231,857)		0.13
Expiry of warrants	(18,034,172)		0.15
Outstanding at December 31, 2019	20,456,971	\$	0.12
Issuance of warrants	1,116,220		0.16
Issuance of warrants to brokers	394,797		0.16
Exercise of warrants	(766,665)		0.10
Outstanding at March 31, 2020	21,201,323	\$	0.12

Expiry date	Warrants outstanding	Exercise price	Weighted average remaining contractual life (in years)
October 2021	52,231	\$ 0.19	1.56
February 2021	2,239,867	0.15	0.92
February 2022	14,119,148	0.10	1.92
December 2021	3,279,060	0.16	1.75
January 2022	1,511,017	0.16	1.82
	21,201,323	\$ 0.12	1.78

8. 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 the United States and Canada.

Sales in the three months ended March 31, 2020 from the top four customers amounted to \$2,336,638 or 77% of total revenue. (Year ended December 31, 2019 - \$7,464,472 or 74%).

The Company had two accounts that accounted for greater than ten percent of accounts receivable for a total of \$1,614,090 or 70% at March 31, 2020 (December 31, 2019 – three accounts: \$375,993 or 55%).

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9. Selling, general, and administrative:

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

	Three months ended March 31	
	2020	2019
Salaries	\$ 397,904	\$ 338,327
Other selling, general and administrative expenses	213,915	159,673
Outsourced supply chain, freight costs, and fulfillment	682,952	497,183
Acquisition related activity	161,343	-
	<u>\$ 1,456,114</u>	<u>\$ 995,183</u>

10. Supplementary cash flow information:

	Three months ended March 31	
	2020	2019
Non-cash financing activities:		
Shares issued for conversion of debentures	\$ 235,000	\$ -

11. Subsequent events:

a) Acquisition

On May 12, 2020, the Company completed the acquisition of 100% of Shepherd Thermoforming & Packaging Inc., a leading thermoformer with over 35 years' experience and all its real estate assets for \$9.5 million in cash. The assets include machinery, molds and a 42,000 square foot manufacturing facility, all located on 2.31 acres of land in the Greater Toronto Area of Brampton, Ontario. Although the acquisition completed on May 12, 2020, the effective date per the agreement is midnight on April 30, 2020. In addition to the \$9.5 million payable in cash at closing, the Purchase contemplates an earnout payment of \$2.25 million which may be payable at some point between 42 and 60 months post-closing, upon satisfaction of a condition relating to increase in the value of the real estate purchased as part of the transaction. The purchase price was financed through a combination of a \$6.0 million BDC mortgage loan, \$1.35 million in a vendor-take back promissory note, with the balance funded by drawdown of the Company's BDC credit facility (Note 6(c)).

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11. Subsequent events (continued):

b) Equity Transactions

On April 29, 2020, the Company granted share-based incentive compensation to directors, officers and employees of the Company. Pursuant to the Company's Omnibus Equity Incentive Compensation Plan it has granted (i) stock options exercisable for up to 2,083,389 common shares in the Company ("Company Shares"), (ii) 1,360,000 restricted share units ("RSUs") vesting over a period of 3 years from the date of grant; and (iii) 1,525,000 RSUs vesting over a period of 2 years from the date of grant. The stock options are exercisable at \$0.15 per Company Share, with a 4-year vesting term to be vested 1/48 per month over a 48-month period. Each RSU will entitle the holder to receive either one Company Share from treasury, the cash equivalent of one Company Share or a combination of cash and Company Shares, as the Board may determine in its sole discretion on settlement. The RSUs will vest over a period of 2 or 3 years as applicable, and on or following each annual vesting date the vested portion of the RSUs will be settled.

On May 12, 2020, in conjunction with the completed acquisition of Shepherd Thermoforming & Packaging Inc. (Note 11(a)), the Company completed the conversion of \$1.0 million CAD of its existing long term credit facility with BDC (Note 6(c)) by issuing 6,666,667 common shares to BDC at a deemed price of \$0.15 per Share, and also issued 3,000,000 Shares to BDC with a deemed price of \$0.15 per Share as a loan bonus for BDC providing the mortgage as part of the financing of the Shepherds acquisition.

c) Debt Transactions

On May 12, 2020, the Company entered into a loan agreement, the Sixth Amending Agreement with Comerica Bank to provide a further \$2.8 million CAD in a revolving working capital line of credit. The facility is for a period of one year at a rate of prime plus 0.5%.

d). Novel Coronavirus ("COVID-19") impact

The Company's operations are deemed an essential business as defined by the US Department of Homeland Security and the Canadian provinces where it manufactures food packaging. Our packaging manufacturers are operational and have implemented enhanced sanitary measures to ensure their ability to continue to produce and deliver products.

Effective March 15, 2020 and to the date of these financial statements, the Company's employees have been working from home in accordance with recommendations to safeguard against COVID-19.

Subsequent to quarter's end, the Company for and received the \$40,000 Canadian Emergency Business Account loan from the Government of Canada. The Company continues to evaluate all governmental programs and will be filing for assistance as it deems appropriate and where it qualifies.

The Company has experienced some deferral of orders in its industrial sector as a result of Covid-19. It expects some of these orders to be made up in future quarters, others may be permanently deferred. The Company has also seen an increase in its food packaging business along with new business growth in PPE, testing, and pharmaceutical industry related packaging resulting from

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Covid-19 as well. The Company is in constant contact with all of its customers and continues to monitor for any potential future risks.

Shepherd Thermoforming continues to operate in accordance with Ontario governmental guidelines for essential service businesses and has not experienced any shutdown or other issues pertaining to Covid-19. None of the Company's other supply chain partners have experienced any shutdowns or disruptions to their work. The Company's supply chain is virtually all North American based. Thus far, there have been no disruptions to raw material or other related products/services. The Company monitors all of its relationships closely and continues to look for alternate supply should issues arise in the future.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.