

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

GOOD NATURED PRODUCTS INC.

Six months ended June 30, 2018 and Six months ended May 31, 2017

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, 2018 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, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 3,982,424	\$ 691,383
Restricted cash (note 5 (c))	106,500	106,500
Trade and other receivables	750,846	2,136,280
Inventory	231,189	250,742
Prepaid expenses	70,197	105,039
	<u>5,141,156</u>	<u>3,289,944</u>
Non-current assets:		
Equipment, net	61,516	51,760
Intangible assets (note 4)	767,226	1,004,771
	<u>\$ 5,969,898</u>	<u>\$ 4,346,475</u>

Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,492,442	\$ 3,139,124
Credit facility (note 5 (c))	325,000	325,000
Current portion of Loans (note 5 (b))	362,268	211,323
	<u>2,179,710</u>	<u>3,675,447</u>
Loans (note 5 (a,b))	5,033,124	1,067,360
Shareholders' Equity (deficiency):		
Common share capital (note 6 (a))	12,326,910	12,305,160
Shares issuable (note 6)	591,500	591,500
Contributed surplus (note 6 (b,c))	3,764,523	2,990,474
Deficit	(17,925,869)	(16,283,466)
	<u>(1,242,936)</u>	<u>(396,332)</u>
	<u>\$ 5,969,898</u>	<u>\$ 4,346,475</u>

Nature of operations (note 1)

See accompanying notes to unaudited 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, 2018	May 31, 2017	June 30, 2018	May 31, 2017
Revenues:				
Product revenue	\$ 1,064,589	\$ 670,532	\$ 2,183,076	\$ 1,360,613
Cost of product revenue	(703,246)	(437,612)	(1,450,900)	(926,884)
Gross profit	361,343	232,920	732,176	433,729
Expenses:				
Research and development	(79,555)	(73,458)	(158,440)	(158,838)
Selling, general, and administrative (note 7)	(772,463)	(718,114)	(1,551,414)	(1,620,342)
Share-based compensation (note 6 (b))	(42,258)	(27,071)	(101,927)	(88,975)
Depreciation and amortization	(124,210)	(147,180)	(248,419)	(269,972)
Financing costs	(220,767)	(21,757)	(314,379)	(45,049)
Loss before other items	(877,910)	(754,660)	(1,642,403)	(1,749,447)
Other items:				
Gain on interest free loan (note 5 (b))	-	-	-	22,278
Net loss and comprehensive loss for the period	\$ (877,910)	\$ (754,660)	\$ (1,642,403)	\$ (1,727,169)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average and diluted share #	93,463,604	73,511,110	93,457,948	73,511,110

See accompanying notes to unaudited 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	Contributed surplus- stock options	Deficit	Equity/ (Deficiency)
Balance at February 28, 2017	72,914,657	\$ 11,261,020	\$ 591,500	\$ 1,217,223	\$ 729,754	\$ (13,351,397)	\$ 448,100
Issuance of common shares, net (note 6 (a))	1,892,197	168,503	-	101,249	-	-	269,752
Share based compensation	-	-	-	-	27,071	-	27,071
Net loss	-	-	-	-	-	(754,660)	(754,660)
Balance at May 31, 2017	74,806,854	\$ 11,429,523	\$ 591,500	\$ 1,318,472	\$ 756,825	\$ (14,106,057)	\$ (9,737)
Issuance of common shares, net (note 6 (a))	17,154,000	765,187	-	771,108	-	-	1,536,295
Shares issued for debt settlement (note 6 (a))	1,104,500	110,450	-	-	-	-	110,450
Share based compensation	-	-	-	-	144,069	-	144,069
Net loss	-	-	-	-	-	(2,177,409)	(2,177,409)
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
Warrants issued with convertible debenture (note 5 (a))	-	-	-	672,122	-	-	672,122
Share based compensation	-	-	-	-	101,927	-	101,927
Net loss	-	-	-	-	-	(1,642,403)	(1,642,403)
Balance at June 30, 2018	93,804,854	\$ 12,326,910	\$ 591,500	\$ 2,761,702	\$ 1,002,821	\$ (17,925,869)	\$ (1,242,936)

See accompanying notes to unaudited condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Six months ended	
	June 30, 2018	May 31, 2017
Cash provided by (used in):		
Operations:		
Net loss	\$ (1,642,403)	\$ (1,727,169)
Items not involving cash:		
Depreciation and amortization	248,419	269,972
Share based compensation (note 6 (b))	101,927	88,975
Gain on disposal of property and equipment	(9,946)	-
Gain on interest free loan (note 5 (b))	-	(22,278)
Accretion on loans (note 5 (a,b))	89,398	32,916
Deferred finance cost amortization (note 5 (a))	29,036	-
	(1,183,569)	(1,357,584)
Changes in non-cash operating working capital:		
Trade and other receivables	1,385,434	(1,328,989)
Inventory	19,553	(173,088)
Prepaid expenses	34,842	(46,501)
Accounts payable and accrued liabilities	(1,624,932)	1,613,967
Cash used in operating activities	(1,368,672)	(1,292,195)
Financing:		
Issuance of common shares and warrants (note 6 (a))	-	1,426,367
Net proceeds from loans (note 5 (a,b))	4,700,586	96,646
Repayment of loan (note 5 (b))	(30,189)	-
Repayment of credit facility (note 5 (c))	-	(150,000)
Cash provided by financing activities	4,670,397	1,373,013
Investments:		
Purchase of equipment, net	(34,556)	-
Proceeds on disposal of property and equipment	23,872	-
Restricted cash	-	-
Cash provided by financing activities	(10,684)	-
Increase in cash	3,291,041	80,818
Cash, beginning of period	691,383	555,201
Cash, end of period	\$ 3,982,424	\$ 636,019

Supplementary disclosure with respect to cash flows (note 9).

See accompanying notes to unaudited condensed consolidated interim financial statements.

GOOD NATURED PRODUCTS INC.

Notes to Condensed Consolidated Interim Financial Statements
Six months ended June 30, 2018 and six months ended May 31, 2017
(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 Solegear Bioplastics (US) Inc., is principally engaged in the design, production and distribution of high-performance bioplastics for use in packaging and durable product applications. Effective October 31, 2017, the Company changed its name and that of its Canadian subsidiary from Solegear Bioplastic Technologies Inc. and Solegear Bioplastics Inc. respectively. The Company has not yet realized profitable operations and has relied on external sources of debt and equity to fund growth to date. The Company intends to continue to focus on growth in revenue as well as seek near-term profitability.

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 ten months ended December 31, 2017 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 ten months ended December 31, 2017.

These consolidated financial statements were authorized for issue by the Board of Directors on August 27, 2018.

(b) Basis of measurement:

These 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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Six months ended June 30, 2018 and six months ended May 31, 2017
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2. Basis of presentation (continued):

(c) Use of estimates, assumptions and judgments:

The directors have applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the six months ended June 30, 2018. Management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. As a result of the assessment and as described in note 1, management concluded the going concern basis of accounting is appropriate.

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 IAS 39, *Financial Instruments: Recognition and Measurement*. 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.

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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.

(d) Change in year-end:

Effective in 2017, the Company changed its financial year-end from February 28 to December 31 to align with the financial reporting of most public issuers. The change in year-end resulted in the Company filing a one-time, ten-month transition year covering the period of March 1, 2017 to December 31, 2017. Subsequent to the transition year, the Company's financial year will cover the period January 1 to December 31.

The information presented in these consolidated financial statements includes the six months ending June 30, 2018 as compared to the six months ending May 31, 2017. As a result, the information contained in these condensed consolidated interim financial statements may not be comparable to previously reported periods.

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, 2018.

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)

Solegear Bioplastics (US) Inc. (100% owned)

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3. Significant accounting policies (continued):

(b) Revenue recognition:

The Company generates revenue from product sales and product development agreements.

Revenue from product sales is recognized when the product has been shipped, when the sales price is fixed and when management determines that collectability is reasonably assured.

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.

4. Intangible assets:

	Cost	Accumulated Amortization	Net Book Value
February 28, 2017	\$ 1,740,750	\$ (313,779)	\$ 1,426,971
Accretion	-	(422,200)	(422,200)
December 31, 2017	\$ 1,740,750	\$ (735,979)	\$ 1,004,771
Accretion	-	(237,545)	(237,545)
June 30, 2018	\$ 1,740,750	\$ (973,524)	\$ 767,226

On May 26, 2016, the Company completed the strategic acquisition of the bioplastics division of Ex-Tech Plastics, Inc. ("Ex-Tech"), an Illinois-based manufacturer of extruded plastic sheets. Ex-Tech received 6,650,000 common shares of the Company with a value of \$1,130,500 as consideration. The Company also pays Ex-Tech a variable outsourced supply chain and fulfillment fee for operational, marketing, production and back office services, which is a variable expense associated to Company's business volumes.

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. Lindar will receive 4,225,000 common shares with a value of \$591,500 as consideration which has been reflected within shares issuable as at February 28, 2017. The Shares will be issued from treasury and subject to a 24-month hold from the signing date of the outsourcing agreement.

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

(a) Convertible Debentures:

	Debenture	Discount	Deferred Finance Cost	Net Book Value
December 31, 2017	\$ -	\$ -	\$ -	\$ -
Issuance	5,049,000	(672,122)	(348,414)	4,028,464
Accretion / Amortization	-	56,164	29,036	85,200
June 30, 2018	\$ 5,049,000	\$ (615,958)	\$ (319,378)	\$ 4,113,664

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 being assigned to the equity components. The Company used an effective interest rate of 13.2% resulting in \$672,122 assigned to the 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.

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 (subject to adjustment in certain circumstances).

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.

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5. Loans and financing (continued):

(a) Convertible Debentures (continued):

The interest on the Debentures is payable in cash on a semi-annual basis in arrears (February 28 and August 31). An amount sufficient to satisfy the interest payments for the first year has been set aside and held in escrow by the Company from the proceeds raised.

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.

(b) Western Innovation Initiative loan:

		Loan	Discount	Net Book Value
February 28, 2017	\$	1,600,000	\$ (376,707)	\$ 1,223,293
Accretion		-	55,390	55,390
December 31, 2017	\$	1,600,000	\$ (321,317)	\$ 1,278,683
Repayment		(30,189)	-	(30,189)
Accretion		-	33,234	33,234
June 30, 2018	\$	1,569,811	\$ (288,083)	\$ 1,281,728

On June 20, 2014, the Company entered into a Western Innovation Initiative Agreement with Western Economic Diversification Canada (the "WINN" agreement). The WINN agreement provides the Company with an interest-free, repayable contribution from the government not to exceed \$1,600,000. Funds provide matching financial contribution towards the Company's development and commercialization of its bioplastic products. Such funds were 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.

As the funds were advanced, the Company recognized a gain and discounted the WINN loan by \$376,707 as a result of the imputed interest benefit received from the interest-free WINN loan.

The total amount of undiscounted future cash flows required to settle the WINN obligation at June 30, 2018 was \$1,569,811 (December 31, 2017 - \$1,600,000). The future cash flows have been discounted using a rate of 8.20%.

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5. Loans and financing (continued):

(c) Comerica credit facility:

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 CDN\$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, beginning on October 1, 2016, 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%. Once repaid, amounts advanced under the Term Loan may not be re-borrowed. The Company could prepay any portion of the Term Loan without penalty or premium.

On June 28, 2017, the two parties entered into a Third Supplemental Loan Agreement which permitted a 5-month deferment of principal payments to December 1, 2017. At such time, the Company will repay the remaining outstanding balance of the loan in equal monthly principal installments of \$40,615 per month until term. The Company received a further deferment of the principal amount through May 1, 2018 as it is in negotiations with Comerica to convert the Term Loan into a revolving line of credit with appropriate increases to fund operational growth.

During the six months ended June 30, 2018, no repayments of the Term Loan were made (Ten months fiscal year ending December 31, 2017, \$100,000). During the six months ended June 30, 2018, the Company incurred interest expense of \$10,924 (Ten month fiscal year ending December 31, 2017 - \$15,444).

The Supplemental Loan Agreement amongst other things also requires that the Company maintain \$100,000 in a restricted cash account at all times, and that it maintains all of its depository and operating accounts and its primary investment accounts with Comerica. As at June 30, 2018, the Company was in compliance with all covenants under the Facility and Supplemental Loan Agreement.

Subsequent to the quarter ended, the Company entered into a Fourth Supplemental Loan Agreement with Comerica to continue interest only payments on the outstanding term loan through June 3, 2019 when the loan becomes fully due and payable. The Company has pledged \$325,000 in cash collateral for the remaining term of the loan.

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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, 2018, 93,654,854 common shares were issued and outstanding (December 31, 2017– 93,452,354).

Private placements:

From July 31, 2017 to November 20, 2017, the Company completed four tranches of a private placement totaling 17,541,000 units at a price of \$0.10 per unit for gross proceeds of \$1,754,100. Related party participation in the private placement totaled 1,699,500 units. Each unit is comprised of one common share and one common share warrant of the Company. Each warrant entitles its holder to acquire one share of the Company at a price of \$0.15 per share within the 24-month period following the closing of the respective tranche. The Company paid cash commission, legal and other related fees totaling \$217,805 and also granted 1,094,670 non-transferable two-year broker warrants to acquire 1,094,670 units of the Company at a price of \$0.10 per unit. The fair value at grant date of the broker warrants issued was \$44,010 based on the Black-Scholes pricing model and was recorded as a share issuance cost. Expected volatility was determined based on comparable publicly listed companies. The expiry date of the Warrants is subject to an acceleration right in favour of the Company that is exercisable if the Shares trade at or above a volume-weighted average trading price of \$0.20 on the TSX-Venture Exchange on any 20 non-consecutive trading days. If the acceleration right is exercised by the Company, the Warrants will expire on the 20th business day following the date that notice of acceleration is sent to the Warrant holders.

On May 5, 2017, the Company completed a private placement totaling 1,892,197 units at a price of \$0.15 per unit for gross proceeds of \$283,830. Each unit is comprised of one common share and one common share warrant of the Company. Each warrant entitles its holder to acquire one share of the Company at a price of \$0.20 per share within the 24-month period following the closing of the private placement. The Company paid commission and other fees recorded as share issue costs of \$14,078 and also granted 44,000 non-transferable two-year broker warrants to acquire 44,000 units of the Company at a price of \$0.15 per unit. The fair value at grant date of the broker warrants issued was \$2,777 based on the Black-Scholes pricing model and was recorded as a share issuance cost. Expected volatility was determined based on comparable publicly listed companies.

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

(a) Common and preferred share capital (continued):

The inputs used in the measurement of the fair value of the warrants issued which included the broker warrants were as follows:

	Six months ending June 30, 2018	Ten months ending December 31, 2017
Risk-free interest rate	1.25%	1.2 to 1.5%
Dividend yield	0.0%	0.0%
Expected life (years)	3 to 4	2
Volatility	106%	106.2 to 108.9%
Forfeiture rate	0.0%	0.0%
Share price at grant date	\$0.10	\$0.09 to \$0.14

Shares for debt settlement:

During the six months ended June 30, 2018, the Company issued 202,500 shares at a price of \$0.11 per share to settle outstanding indebtedness of \$21,750.

During the ten months ended December 31, 2017, the Company issued 1,104,500 shares at a price of \$0.10 per share to settle outstanding indebtedness of \$110,450.

(b) Share options:

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

	Options	Weighted average exercise price
Outstanding as at February 28, 2017	3,652,131	\$ 0.21
Issuance of options	3,536,663	0.15
Outstanding as at December 31, 2017	7,188,794	\$ 0.18
Forfeiture of options	(50,000)	0.15
Outstanding as at June 30, 2018	7,138,794	\$ 0.18
Exercisable as at June 30, 2018	4,304,682	\$ 0.20

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

(b) Share options (continued):

Information about the Company's stock options outstanding and exercisable as at June 30, 2018 is as follows:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Weighted average contractual life remaining (in years)
April 2, 2020	500,000	500,000	\$ 0.25	1.76
January 1, 2023	46,630	46,630	0.25	4.51
October 11, 2023	11,658	11,658	0.25	5.28
September 2, 2024	29,144	27,312	0.25	6.18
September 17, 2024	142,857	142,857	0.18	6.22
April 2, 2025	104,918	104,918	0.25	6.76
April 20, 2025	61,924	49,022	0.28	6.81
July 16, 2025	1,100,000	937,546	0.20	7.05
August 3, 2025	350,000	350,000	0.19	7.10
February 25, 2026	1,305,000	1,190,430	0.20	7.66
May 5, 2027	3,486,663	944,309	0.15	8.85
	7,138,794	4,304,682	\$ 0.20	7.61

The fair values of options granted during the ten months ended December 31, 2017 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 were as follows:

	Ten months ending December 31, 2017
Risk-free interest rate	1.5%
Dividend yield	0.0%
Expected life (years)	10
Volatility	72.3%
Forfeiture rate	0.0%
Share price at grant date	\$0.14

(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(a)).

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 (subject to adjustment in certain circumstances).

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

(c) Share purchase warrants (continued):

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.

From July 31, 2017 to November 20, 2017, the Company completed four tranches of a private placement totaling 17,541,000 units at a price of \$0.10 per unit for gross proceeds of \$1,754,100. Each unit is comprised of one common share and one common share purchase warrant of the Company. Each warrant entitles its holder to acquire one additional share of the Company at a price of \$0.15 per share within the 24-month period following the closing of the respective tranche. Related to the placements, the Company granted 1,094,670 non-transferable two-year broker warrants to acquire 1,094,670 units of the Company at a price of \$0.10 per unit. The total fair value at grant date of the broker warrants issued was \$29,688.

On May 5, 2017, the Company completed a private placement totaling 1,892,197 units at a price of \$0.15 per unit for gross proceeds of \$283,830. Each unit is comprised of one common share and one common share purchase warrant of the Company. Each Warrant entitles its holder to acquire one additional Share of the Company at a price of \$0.20 per Share. Related to the placement, the Company granted 44,000 non-transferable two-year broker warrants to acquire 44,000 units of the Company at a price of \$0.15 per unit. The total fair value at grant date of the broker warrants issued was \$1,815.

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

	Warrants	Weighted average exercise price
Outstanding as at February 28, 2017	26,388,362	\$ 0.25
Issuance of warrants	19,433,197	0.15
Issuance of warrants to brokers	1,138,670	0.10
Expiry of warrants	(625,008)	0.25
Outstanding as 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
Expiry of warrants	(9,491,441)	0.34
Outstanding as at June 30, 2018	46,657,147	\$ 0.16

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

(c) Share purchase warrants (continued):

Expiry Date	Warrants Outstanding	Exercise Price	Weighted average remaining contractual life (in years)
October 20, 2021	52,231	\$ 0.19	3.41
November 10, 2018	6,382,154	0.20	0.46
November 10, 2018	181,329	0.15	0.46
December 21, 2018	8,961,616	0.20	0.47
December 21, 2018	694,583	0.15	0.47
May 5, 2019	1,892,197	0.20	0.84
May 5, 2019	44,000	0.15	0.84
July 31, 2019	5,000,000	0.15	1.08
July 31, 2019	316,400	0.10	1.08
August 28, 2019	10,538,500	0.15	1.16
August 28, 2019	638,195	0.10	1.16
October 5, 2019	372,500	0.15	1.26
October 5, 2019	26,075	0.10	1.26
November 20, 2019	1,630,000	0.15	1.39
November 20, 2019	114,000	0.10	1.39
February 28, 2022	7,573,500	0.10	3.67
February 28, 2023	2,239,867	0.15	2.67
	47,483,937	\$ 0.16	1.38

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 dates were as follows:

	Six months ending June 30, 2018	Ten months ending December 31, 2017
Risk-free interest rate	1.25%	1.2 to 1.5%
Dividend yield	0.0%	0.0%
Expected life (years)	3 to 4	2
Volatility	106%	106.2 to 108.9%
Forfeiture rate	0.0%	0.0%
Share price at grant date	\$0.10	\$0.09 to \$0.14

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7. Selling, general, and administrative:

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

	Six months ended	
	June 30, 2018	May 31, 2017
Salaries	\$ 551,160	\$ 534,322
Selling and G&A costs	510,921	645,520
Outsource supply chain and fulfilment	489,333	440,500
	<u>\$ 1,551,414</u>	<u>\$ 1,620,342</u>

8. Segmented Information:

The Company carries on business in the plant-based packaging and consumer house hold product industry and all sales and costs are made in this segment. The vast majority of the Company's operations are performed within United States & Canada.

Sales in the six months ended June 30, 2018 from the top five customers amounted to \$1,914,314 which represented 88% of total revenue. In April 2018, the Company announced the completion of a 3+ year agreement to supply a US industry leader in thermoformed packaging which has caused the concentration of sales.

9. Supplementary cash flow information:

	Six months ended	
	June 30, 2018	May 31, 2017
Non-cash financing activities		
Shares issued for settlement of accounts payable	\$ 21,750	\$ -