

Consolidated Financial Statements
(Expressed in Canadian dollars)

GOOD NATURED PRODUCTS INC.

Year ended December 31, 2018 and ten months ended
December 31, 2017

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of good natured Products Inc. (formerly Solegear Bioplastic Technologies Inc.) were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The most significant of these accounting principles have been disclosed in the notes to the consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the 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 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 consolidated financial statements and (ii) the 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 consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the 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 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 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.



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of good natured Products Inc.

Opinion

We have audited the consolidated financial statements of good natured Products Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2018 and ten months ended December 31, 2017
- the consolidated statements of changes in shareholders' equity (deficiency) for the year ended December 31, 2018 and ten months ended December 31, 2017
- the consolidated statements of cash flows for the year ended December 31, 2018 and ten months ended December 31, 2017
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2018 and ten months ended December 31, 2017 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.



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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Entity has continued to incur losses from operations.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Jeffrey Welwood.

Vancouver, Canada

April 29, 2019

GOOD NATURED PRODUCTS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 2,903,466	\$ 797,883
Trade and other receivables	915,800	2,136,280
Inventory (note 4)	404,560	250,742
Prepaid expenses	84,806	105,039
	<u>4,308,632</u>	<u>3,289,944</u>
Non-current assets:		
Property and equipment, net (note 5)	164,940	51,760
Intangible assets (note 6)	597,093	1,004,771
	<u>\$ 5,070,665</u>	<u>\$ 4,346,475</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,984,542	\$ 3,139,124
Credit facility (note 7 (a))	325,000	325,000
Current portion of Loans (note 7 (b))	194,100	211,323
	<u>2,503,642</u>	<u>3,675,447</u>
Loans (note 7 (b, c))	5,316,986	1,067,360
Shareholders' Equity (deficiency):		
Common share capital (note 9 (a))	12,441,108	12,305,160
Shares issuable (note 6)	591,500	591,500
Contributed surplus (note 9 (b, c))	3,607,221	2,990,474
Deficit	(19,389,792)	(16,283,466)
	<u>(2,749,963)</u>	<u>(396,332)</u>
	<u>\$ 5,070,665</u>	<u>\$ 4,346,475</u>

Nature of operations (note 1)
Commitments (note 15)
Subsequent events (note 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Jim Zadra" Director

"Salil Munjal" Director

GOOD NATURED PRODUCTS INC.

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

	Year ended December 31, 2018	Ten months ended December 31, 2017
Revenues:		
Product and service revenues	\$ 5,103,347	\$ 2,478,956
Cost of product and service revenues (note 4)	(3,374,215)	(1,716,559)
Gross profit	1,729,132	762,397
Other (Expenses) Income:		
Research and development (note 8)	(219,045)	(246,341)
Selling, general, and administrative (note 16)	(3,383,182)	(2,762,882)
Share-based compensation (note 9 (b))	(166,486)	(171,140)
Depreciation and amortization (note 5, 6)	(523,835)	(429,815)
Financing costs	(756,364)	(84,288)
Gain on interest free loan (note 7 (b))	31,981	-
	(5,016,931)	(3,694,466)
Net loss before taxes	(3,287,799)	(2,932,069)
Deferred income tax recovery (note 11)	(181,473)	-
Net loss and comprehensive loss for the year	\$ (3,106,326)	\$ (2,932,069)
Basic and diluted loss per share	\$ (0.03)	\$ (0.04)
Weighted average and diluted number of shares	93,802,449	82,044,684

See accompanying notes to consolidated financial statements.

GOOD NATURED PRODUCTS INC

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

	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 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 9 (a))	19,433,197	933,690	-	872,357	-	-	1,806,047
Shares issued for debt settlement (note 9 (a))	1,104,500	110,450	-	-	-	-	110,450
Share based compensation	-	-	-	-	171,140	-	171,140
Net loss	-	-	-	-	-	(2,932,069)	(2,932,069)
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 9 (a))	202,500	21,750	-	-	-	-	21,750
Conversion feature and warrants of convertible debenture (note 7 (c))	-	-	-	672,122	-	-	672,122
Shares issued upon debt conversion (note 7 (c))	133,332	17,560	-	-	-	-	17,560
Shares issued upon warrant exercise (note 7 (c))	562,500	96,638	-	(40,388)	-	-	56,250
Share based compensation	-	-	-	-	166,486	-	166,486
Deferred tax arising from convertible debenture issuance (note 11)	-	-	-	(181,473)	-	-	(181,473)
Net loss	-	-	-	-	-	(3,106,326)	(3,106,326)
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)

See accompanying notes to consolidated financial statements.

GOOD NATURED PRODUCTS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2018	Ten months ended December 31, 2017
Cash provided by (used in):		
Operations:		
Net loss	\$ (3,106,326)	\$ (2,932,069)
Items not involving cash:		
Depreciation and amortization (notes 5, 6)	523,835	429,815
Share based compensation (note 9 (b))	166,486	171,140
Gain on interest free loan (note 7 (b))	(31,981)	-
Gain on disposal of property and equipment	(9,946)	-
Accretion on interest free loan and convertible debentures (note 7 (b))	280,404	55,390
Deferred income tax recovery (note 11)	(181,473)	-
	(2,359,001)	(2,275,724)
Changes in non-cash operating working capital:		
Trade and other receivables	1,220,480	(1,000,557)
Inventory	(153,818)	42,397
Prepaid expenses	20,233	(60,428)
Accounts payable and accrued liabilities	(1,132,832)	1,279,367
Cash used in operating activities	(2,404,938)	(2,014,945)
Financing:		
Issuance of common shares and warrants (note 9 (a))	-	1,806,047
Issuance of common shares upon warrant exercise	56,250	-
Net proceeds from loans (note 7)	4,818,418	-
Repayment of loan	(144,756)	-
Repayment of credit facility (note 7)	-	(100,000)
Cash provided by financing activities	4,729,912	1,706,047
Investments:		
Purchase of property and equipment	(149,266)	(33,367)
Capitalized development costs	(93,997)	-
Proceeds on disposal of property and equipment	23,872	-
Cash used in financing activities	(219,391)	(33,367)
Increase (decrease) in cash	2,105,583	(342,265)
Cash, beginning of period	797,883	1,140,148
Cash, end of period	\$ 2,903,466	\$ 797,883

Supplementary disclosure with respect to cash flows (note 17).

See accompanying notes to consolidated financial statements.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

1. Nature of operations:

Good Natured Products Inc. (the “Company”), formerly Solegear Bioplastic Technologies Inc., 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.

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 has signed a letter of offer for a new debt facility to fund ongoing growth of the Company, and the Company is currently satisfying remaining final closing conditions. The Company expects to close this facility in the next 90 days. As the facility is not yet closed, this may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements have been prepared using the going concern assumption, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of business. These consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Directors on April 23, 2019.

(b) Basis of measurement:

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

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

2. Basis of presentation (continued):

(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.

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 9 (b) and 9 (c) respectively.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

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.

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 year ended December 31, 2018. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment and as described in note 1, management concluded the going concern basis of accounting is appropriate.

(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 twelve months of the current fiscal period ending December 31, 2018 as compared to the ten-month fiscal period ending December 31, 2017. As a result, the information contained in these consolidated 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.

Certain prior year comparative figures have been reclassified to comply with current year presentation.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(a) Basis of consolidation:

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 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
Good Natured Products (US) Inc.	100% owned

(b) Foreign currency translation:

Transactions in foreign currencies are translated to the functional currency of the Company and its subsidiaries (Canadian dollars) at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in earnings. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of the transaction.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise cash at banks and short-term deposits with a maturity of three months or less at the date of purchase.

(e) Inventory:

Inventory is carried at the lower of cost and net realizable value. Inventory cost is determined on the basis of first-in, first-out ("FIFO") and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(e) Inventory (continued):

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(f) Impairment:

(i) Financial assets:

The Company applies the simplified approach in determining expected credit losses, which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial assets measured at amortized cost. Credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

(ii) Non-financial assets:

Non-financial assets are reviewed for impairment at each reporting date to determine whether events or changes in circumstances indicate that an asset's carrying amount may be less than its recoverable amount. When there is any indication of impairment, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, non-financial assets that do not generate independent cash flows are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

An impairment loss is recognized if the carrying value of an asset, CGU or group of CGU's exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(g) Property and equipment:

Property and equipment are recorded at cost when acquired. Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment. Depreciation is charged using the following methods and rates:

Asset	Basis	Rate
Manufacturing equipment	Straight line	5 years
Other equipment	Straight line	3-5 years

(h) Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is recorded at its estimated fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are reflected in the income statement in the period in which the expenditure is incurred.

Intangible assets consist of customer relationships acquired and capitalized development costs. Amortization is recognized in profit or loss over the estimated useful lives of 3 to 5 years on a straight-line basis.

(i) 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 year ended December 31, 2018, \$93,997 of development costs have been capitalized (2017- Nil).

(j) Government assistance and investment tax credits:

The Company periodically receives financial assistance under available government incentive programs. Scientific research tax credits and government grants are accrued at the time the related costs are incurred provided that their recovery is reasonably assured. Scientific research tax credits arising from capital expenditures are applied against the cost of the assets. Scientific research tax credits arising from current expenditures and government grants are recorded as a deduction from research and development expenses.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(k) Share-based payment transactions:

Share-based compensation arrangements are measured at fair value using the Black-Scholes option pricing model and the fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For options granted to non-employees, the share-based compensation cost is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. For non-employees if the fair value cannot be estimated reliably, then the Company will measure the fair value by reference to the fair value of the equity instruments granted using the Black-Scholes option pricing model. The share-based compensation is measured at fair value at each vesting date and is recorded when goods or services from non-employees are received.

Management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected lives and underlying share price volatility. Volatility is estimated by comparing to companies with similar operations over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in profit or loss.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

(l) Income taxes:

Income tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are recognized as an expense and included in income or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in equity.

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable income (tax loss) for a period. Current liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(l) Income taxes (continued):

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, the carry-forward of unused tax losses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of these deferred tax assets to be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

(m) 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.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(n) Financial instruments:

(i) Financial assets:

The Company initially recognizes receivables and deposits on the date that they are originated and all other financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset.

Financial assets which include cash, trade and other receivables have fixed or determinable payments and are not quoted in an active market. Such assets are recognized initially at fair value and subsequently at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities:

Financial liabilities comprise the Company's accounts payable and accrued liabilities, credit facility and loans. The financial liabilities are initially recognized on the date they are originated and are derecognized when the contractual obligations are discharged or cancelled or expire. These financial liabilities are recognized initially at fair value and subsequently are measured at amortized cost using the effective interest method, when materially different from the initial amount. Fair value is determined based on the present value of future cash flows, discounted at the market rate of interest.

(iii) Share capital and contributed surplus:

Share capital and contributed surplus are classified as equity. Incremental costs directly attributable to increases in share capital and paid-in capital are recognized as a deduction from equity. When share capital and paid-in capital are reduced, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity.

The Company adopted the new financial instruments standard (IFRS 9 – Financial Instruments) effective January 1, 2018 using the modified retrospective method under which previously presented financial statements are not restated. The cumulative effect of adopting the new financial instrument standard did not have an impact on the measurement of any financial instruments in the Company's consolidated financial statements and related disclosures.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(o) New standards and interpretations not yet applied:

(i) IFRS 16, Leases

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. The Company is currently assessing the impact of the new standard including the optional exemptions available. The recognition of all leases on balance sheet is expected to increase the assets and liabilities on the Consolidated Statement of Financial Position upon adoption. The increase primarily relates to property leases currently accounted for as operating leases (note 15).

4. Inventory:

	December 31, 2018	December 31, 2017
Raw materials and consumables	\$ 134,934	\$ 111,814
Finished goods	269,626	138,928
	<u>\$ 404,560</u>	<u>\$ 250,742</u>

During the year ended December 31, 2018, inventory, held with third parties, valued at \$3,215,224 was expensed as cost of goods sold and reflected within cost of product and service revenues (Ten months ended December 31, 2017 - \$1,627,324).

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

5. Property and equipment, net:

	Manufacturing equipment	Other equipment	Accumulated depreciation	Net Book Value
February 28, 2017	\$ 23,872	\$ 30,175	\$ (28,039)	\$ 26,008
Additions	31,552	1,815	-	33,367
Depreciation	-	-	(7,615)	(7,615)
December 31, 2017	55,424	31,990	(35,654)	51,760
Additions	141,950	7,316	-	149,266
Disposal	(23,872)	-	9,946	(13,926)
Depreciation	-	-	(22,160)	(22,160)
December 31, 2018	\$ 173,502	\$ 39,306	\$ (47,868)	\$ 164,940

6. Intangible assets, net:

	Customer Lists	Capitalized Development	Accumulated depreciation	Net Book Value
February 28, 2017	\$ 1,740,750	\$ -	\$ (313,779)	\$ 1,426,971
Depreciation	-	-	(422,200)	(422,200)
December 31, 2017	1,740,750	-	(735,979)	1,004,771
Additions	-	93,997	-	93,997
Depreciation	-	-	(501,675)	(501,675)
December 31, 2018	\$ 1,740,750	\$ 93,997	\$ (1,237,654)	\$ 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. 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.

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. These shares will be issued in Q2 2019.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

6. Intangible assets, net (continued):

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.

7. Loans and financing:

(a) 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 Company and Comerica Bank entered into a Third Supplemental Loan Agreement which permitted a 5-month deferment of principal payments through December 1, 2017. At such time, the Company was to 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.

During June 2018, 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 is required to maintain \$325,000 of cash in its accounts for the remaining term of the loan.

No repayments of the credit facility were made during the year ended December 31, 2018 (Ten months ended December 31, 2017 - \$100,000). The Company incurred interest expense related to the credit facility of \$19,809 for the year ended December 31, 2018 (Ten months ended December 31, 2017 - \$15,444).

As at December 31, 2018, the Company was in compliance with all covenants under the Facility and Supplemental Loan Agreement.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

7. Loans and financing (continued):

(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
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

On June 20, 2014, the Company entered into a Western Innovation Initiative Agreement with Western Economic Diversification Canada ("WINN" and 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. 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 \$466,245 (including the \$31,981 for the second WINN loan received during the year ended December 31, 2018) as a result of the imputed interest benefit received from the interest-free WINN loans.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

7. Loans and financing (continued):

(b) Western Innovation Initiative loan (continued):

The total amount of undiscounted future cash flows required to settle the WINN loans at December 31, 2018 was \$1,573,076 (December 31, 2017 - \$1,600,000). The future cash flows have been discounted using a rate of 8.20%.

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.

The Company received loan proceeds of \$117,832 under a second WINN agreement during the year ending December 31, 2018. The Company recognized a gain and discounted the second

WINN loan by \$31,981 as a result of the imputed interest benefit received from the interest-free loan. The future cash flows have been discounted using a rate of 8.20%.

(c) Convertible debentures:

	Debtenture	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

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.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

7. Loans and financing (continued):

(c) Convertible debentures (continued):

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.

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 (subject to adjustment in certain circumstances). During the year ending December 31, 2018, the Company issued 562,500 common shares for gross proceeds of \$56,250 pursuant to the exercise of 562,500 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 \$0.15 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). 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. On August 28, 2018, the Company issued semi-annual interest payments totaling \$249,383.

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.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

7. Loans and financing (continued):

(d) Undiscounted repayment commitment:

The required undiscounted repayment of the Company's long-term debt are as follows:

2019	\$	194,100
2020		444,600
2021		450,492
2022		5,424,512
2023 and beyond		88,372
	\$	6,602,076

8. Research and development:

Research and development expenses are as follows:

	Year ended December 31, 2018	Ten months ended December 31, 2017
Research and development expenses	\$ 313,042	\$ 246,341
Capitalized R&D expenses (note 6)	(93,997)	-
	\$ 219,045	\$ 246,341

For the year ended December 31, 2018, research and development costs include \$21,300 (Ten months ended December 31, 2017- \$28,338) of legal costs for advice related to securing the Company's proprietary technologies.

9. 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 December 31, 2018, 94,350,686 common shares were issued and outstanding (December 31, 2017 - 93,452,354).

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

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

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

Private placements:

From July 31, 2017 to November 20, 2017, the Company completed several 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 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. 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 whose measurement was based on the Black-Scholes pricing model and was also recorded as a share issuance cost. Expected volatility was determined based on comparable publicly listed companies. The expiry date of the Warrants will be 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, following the expiry of the 4-month statutory hold period beginning on the closing date of the applicable tranche of the Private Placement. 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 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 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 whose measurement was based on the Black-Scholes pricing model and was also recorded as a share issuance cost. Expected volatility was determined based on comparable publicly listed companies.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

9. 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:

	Year ending December 31, 2018	Ten months ending December 31, 2017
Risk-free interest rate	1.25%	1.26 to 1.54%
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 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.

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
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
Exercisable as at December 31, 2018	4,766,361	\$ 0.19

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

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

(b) Share options (continued):

Information about the Company's stock options outstanding and exercisable as at December 31, 2018 is as 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	1.25
January 1, 2023	46,630	46,630	0.25	4.01
October 11, 2023	11,658	11,658	0.25	4.78
September 2, 2024	29,144	29,144	0.25	5.68
September 17, 2024	142,857	142,857	0.18	5.72
April 2, 2025	104,918	104,918	0.25	6.26
April 20, 2025	61,924	56,762	0.28	6.31
July 16, 2025	1,100,000	1,012,558	0.20	6.55
August 3, 2025	350,000	350,000	0.19	6.59
February 25, 2026	1,305,000	1,224,810	0.20	7.16
May 5, 2027	2,736,663	1,083,274	0.15	8.35
July 11, 2028	100,000	100,000	0.15	9.53
November 29, 2023	415,000	103,750	0.10	4.92
	6,903,794	4,766,361	\$ 0.18	6.89

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 were as follows:

	Year ended December 31, 2018	Ten months ended December 31, 2017
Risk-free interest rate	1.53% – 2.16%	1.53%
Dividend yield	0.00%	0.00%
Expected life (years)	2 -10	10
Volatility	72.3 – 126.8%	72.3%
Forfeiture rate	0.0%	0.0%
Fair value at grant date	\$0.10 - \$0.15	\$0.14

GOOD NATURED PRODUCTS INC.

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(Expressed in Canadian dollars)

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

(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 7(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 (subject to adjustment in certain circumstances). During the year ending December 31, 2018, the Company issued 562,500 common shares for gross proceeds of \$56,250 pursuant to the exercise of 562,500 Warrants.

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 several placements 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.

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Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

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

(c) Share purchase warrants (continued):

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
Exercise of warrants	(562,500)	0.10
Expiry of warrants	(25,711,123)	0.25
Outstanding as at December 31, 2018	29,874,965	\$ 0.14

Expiry date	Warrants outstanding	Exercise price	Weighted average remaining contractual life (in years)
October 20, 2021	52,231	\$ 0.19	2.81
May 5, 2019	1,892,197	0.20	0.34
May 5, 2019	44,000	0.15	0.34
July 31, 2019	5,000,000	0.15	0.58
July 31, 2019	316,400	0.10	0.58
August 28, 2019	10,538,500	0.15	0.66
August 28, 2019	638,195	0.10	0.66
October 5, 2019	372,500	0.15	0.76
October 5, 2019	26,075	0.10	0.76
November 20, 2019	1,630,000	0.15	0.89
November 20, 2019	114,000	0.10	0.89
February 28, 2021	2,239,867	0.15	2.16
February 28, 2022	7,011,000	0.10	3.16
	29,874,965	\$ 0.14	1.34

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Notes to Consolidated Financial Statements

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9. 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 were as follows:

	Year ended December 31, 2018	Ten months ended December 31, 2017
Risk-free interest rate	1.25%	1.26 to 1.54%
Dividend yield	0.0%	0.0%
Expected life (years)	3 to 4	2
Volatility	106%	77.28 to 117.23%
Forfeiture rate	0.0%	0.0%
Share price at grant date	\$0.10	\$0.09 to \$0.14

10. Related party transactions

The following table sets forth the remuneration of directors and key management personnel:

	Year ended December 31, 2018	Ten months ended December 31, 2017
Salaries, management, consulting and director fees	\$ 821,181	\$ 848,364
Share based payments ⁽ⁱ⁾	95,096	99,735
	<u>\$ 916,277</u>	<u>\$ 948,099</u>

⁽ⁱ⁾ Share-based payments are the fair value of options granted to directors and key management personnel on an accrual basis.

As at December 31, 2018, \$177,408 (December 31, 2017 - \$312,690) was due to directors and officers of the Company for accrued management, consulting, director fees and expense reimbursement.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

11. Income taxes:

Income tax recovery (expense) differs from the amount that would result from applying the Canadian federal and provincial tax rate to loss before income taxes as follows:

	Year ended December 31, 2018	Ten months ended December 31, 2017
Loss before income taxes	\$ (3,287,799)	\$ (2,932,069)
Expected income tax recovery at 27.0% (2017 - 27.0%)	(887,706)	(762,338)
Permanent differences and other	48,714	(16,319)
Change in deferred tax assets not recognized	657,519	935,297
Change in future tax rate	-	(156,640)
	\$ (181,473)	\$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company has recognized deferred taxes in respect of the following:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Net operating loss carry forwards	\$ 142,854	\$ -
Deferred tax liabilities:		
Convertible debentures	(142,854)	-
	\$ -	\$ -

The Company did not recognize deferred tax assets for the following deductible temporary differences:

	December 31, 2018	December 31, 2017
Net operating loss carry forwards	\$ 14,199,584	\$ 11,807,493
Other deductible temporary differences	4,121,777	4,078,614
	\$ 18,321,361	\$ 15,886,107

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

11. Income taxes (continued):

The Company has incurred losses of \$14,728,673 (December 31, 2017 - \$11,807,493) for tax purposes which are available to reduce future taxable income. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses will expire as follows:

2028	\$	79,091
2029		175,689
2030		381,900
2031		834,303
2032		1,347,768
2033		2,039,560
2034		274,024
2035		2,622,263
2036		1,882,360
2037		2,408,784
2038		2,682,931
		<hr/>
		\$ 14,728,673

In addition, the Company has \$632,636 (December 31, 2017 - \$874,971) of SR&ED expenditure pool which is available to reduce future taxable income. This amount carries forward indefinitely.

12. Management of capital:

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to fund the research and development of its high-performance bioplastics, for the benefit of its shareholders. In the management of capital, the Company includes loans, share capital and contributed surplus.

In order to maintain its capital structure, the Company, is dependent on equity funding and when necessary, raises capital through issuance of equity instruments. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances. To date, no dividends have been paid to the Company's shareholders and none are planned.

The Company is subject to certain covenants on its credit facility. The covenants include a restriction on the Company's credit card facility and a reserve requirement. Other than the covenants required for the credit facility, the Company is not subject to any externally imposed capital requirements.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

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13. Financial risk management and financial instruments:

(a) Overview:

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

(b) Market risk:

Market risk is the risk that changes in market prices, such as fluctuations in the prices of inputs for materials, foreign exchange rates or interest rates, will affect the Company's income or the value of its financial instruments. The Company does not engage in risk management practices such as hedging or derivatives.

A portion of the Company's operations are performed in US dollars, giving rise to exposure to market risks from foreign exchange rates.

(c) Currency risk:

(i) Exposure to currency risk:

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. At December 31, 2018, total assets include cash of US \$203,063 (December 31, 2017 - US \$40,988) and receivables of US \$658,611 (December 31, 2017 - US \$1,607,669); total liabilities include payables of US \$710,890 (December 31, 2017 - US \$2,298,888).

(ii) Sensitivity analysis:

A change of the US dollar against the Canadian dollar as at December 31, 2018 would have increased or decreased comprehensive loss by the amount shown below. The analysis assumes that all other variables remain constant.

	Profit or loss
10% change of the US dollar	\$ 15,078

(d) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company mitigates liquidity risk by holding sufficient cash and cash equivalents to meet its short-term financial obligations. The Company's growth is primarily financed through the issuance of equity and debt. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

13. Financial risk management and financial instruments (continued):

(d) Liquidity risk (continued):

The following are the contractual maturities of financial liabilities.

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities:						
Trade and other payables and accrued liabilities	\$1,984,542	\$ 1,984,542	\$ 1,984,542	\$ -	\$ -	\$ -
Credit facility	325,000	325,000	325,000	-	-	-
Loan payable	1,287,000	1,573,076	194,100	444,600	869,572	64,804
Convertible debentures	4,224,086	5,029,000	-	-	5,029,000	-
Lease liability	-	152,674	49,526	51,425	51,723	-
	\$7,820,628	\$ 9,064,292	\$ 2,553,168	\$ 496,025	\$5,950,295	\$ 64,804

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(e) Credit risk:

The Company's exposure to credit risk primarily arises from the possibility that its customers may fail to meet their obligations. The Company has credit evaluation, approval and monitoring processes in place which mitigates these potential credit risks. The Company continually evaluates the collectability of accounts receivable and records an allowance for doubtful accounts if required, which reduces the receivables by the amount of any expected credit losses. The failure of a significant customer could have a material adverse effect on the Company. Total accounts receivable as at December 31, 2017 are \$915,800 (December 31, 2017 - \$2,136,280). There is no allowance for doubtful accounts against this balance (December 31, 2017 - nil), which management believes adequately reflects the Company's expected credit losses. The provision for allowance for doubtful accounts is recognized within operating expenses, if any.

(f) Fair values of financial instruments:

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1: Values based upon unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based upon quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based upon prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

13. Financial risk management and financial instruments (continued):

(f) Fair values of financial instruments (continued):

The carrying value of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The carrying value of the credit facility and loans, approximates their fair values as the interest rate environment has not changed significantly since the date of issue.

The Company considers all of the financial assets presented within the balance sheet as Level 3 within the hierarchy, except for cash which is considered Level 1.

14. 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.

During the year ended December 31, 2018, the Corporation recorded revenue from 171 customers (Ten months ended December 31, 2017 - 74 customers). Sales in the year ended December 31, 2018 from the top four customers amounted to \$4,346,755 which represented 85.0% of total revenue. Sales in the ten months ended December 31, 2017 from the top four customers amounted to \$2,136,057 which represented 86.0% of total revenue.

15. Lease commitment:

Future minimum payments at December 31, 2018 for office premises for each of the next three fiscal years ending December 31 are as follows: 2019 - \$49,526; 2020 - \$51,425; and 2021 - \$51,723.

16. Selling, general, and administrative:

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

	Year ended December 31, 2018	Ten months ended December 31, 2017
Salaries	\$ 1,163,962	\$ 1,093,346
Other selling, general and administrative expenses	832,620	961,381
Outsourced supply chain, freight costs, and fulfillment	1,386,600	708,155
	<u>\$ 3,383,182</u>	<u>\$ 2,762,882</u>

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Notes to Consolidated Financial Statements

Year ended December 31, 2018 and Ten months ended December 31, 2017

(Expressed in Canadian dollars)

17. Supplementary cash flow information:

	Year ended December 31, 2018	Ten months ended December 31, 2017
Non-cash financing activities:		
Shares issued for settlement of accounts payable	\$ 21,750	\$ 110,450

18. Subsequent events:

On March 21, 2019, the Company finalized the outsourcing agreement with Lindar (note 6) 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. These shares will be issued in Q2 2019.