

Consolidated Financial Statements
(Expressed in Canadian dollars)

GOOD NATURED PRODUCTS INC.

Years ended December 31, 2021 and 2020

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of good natured Products 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 policies 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 policies 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. The 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.



Independent Auditor's Report

To the Shareholders and the Board of Directors of
good natured Products Inc.

Opinion

We have audited the consolidated financial statements of good natured Products Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flow for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical 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.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do 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, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's 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 this auditor's report. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for

the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Cameron Walls.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
May 2, 2022

GOOD NATURED PRODUCTS INC.

Consolidated Statements of Financial Position
(In thousands)

	31-Dec 2021	31-Dec 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,655	\$ 8,114
Trade and other receivables (note 17 (e))	13,689	5,557
Inventory (Note 5)	16,036	6,294
Prepaid expenses	987	671
	<u>41,367</u>	<u>20,636</u>
Non-current assets:		
Property and equipment (note 6)	30,463	15,416
Right-of-use assets (note 7)	2,165	644
Customer relationships (note 8)	5,725	5,709
Intangible and other assets (note 8)	3,125	2,745
Goodwill (note 8)	7,684	6,824
	<u>\$ 90,529</u>	<u>\$ 51,974</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,699	\$ 8,882
Credit line (note 9)	-	3,073
Current portion of long-term debt (note 10)	3,050	3,129
	<u>20,749</u>	<u>15,084</u>
Non-Current liabilities:		
Long-term debt (note 10)	43,305	29,702
Contingent consideration liability (note 4)	1,890	1,756
Deferred income tax liabilities (note 13)	3,493	3,620
	<u>48,688</u>	<u>35,078</u>
Shareholders' Equity:		
Common share capital	57,083	28,883
Contributed surplus	5,883	2,736
Foreign currency translation reserve	872	244
Deficit	(42,746)	(30,051)
	<u>21,092</u>	<u>1,812</u>
Total Liabilities and Shareholders' Equity	<u>\$ 90,529</u>	<u>\$ 51,974</u>

Subsequent events (note 20)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Jim Zadra" Director

"Michael Thomson" Director

GOOD NATURED PRODUCTS INC.

Consolidated Statements of Net Loss and Comprehensive Loss
(In thousands except per share amounts)

	Year ended December 31	
	2021	2020
Product revenue	\$ 61,132	\$ 16,713
Cost of product revenue (note 14)	(45,495)	(10,477)
Gross profit	15,637	6,236
Other (Expenses) Income:		
Selling, general, and administrative (note 15)	(12,821)	(5,651)
Fulfilment and logistics	(6,382)	(3,454)
Share-based compensation (note 11 (b))	(2,254)	(262)
Depreciation and amortization	(1,071)	(484)
Financing costs	(4,552)	(3,440)
Foreign exchange gain (loss)	(315)	118
Loss on debt repayment and conversion (note 11 (b))	(1,148)	(413)
Gain on interest free loan (note 10 (f))	85	83
Net loss before taxes	(12,821)	(7,267)
Deferred income tax recovery (note 13)	126	80
Net loss for the year	\$ (12,695)	\$ (7,187)
Other comprehensive gain (loss), net of tax		
Items that may be reclassified subsequently to profit or loss:		
Unrealized currency gain on translation of foreign operations	628	262
Other comprehensive loss for the year	\$ (12,067)	\$ (6,925)
Basic and diluted loss per share	\$ (0.06)	\$ (0.06)
Weighted average shares outstanding – basic and diluted	210,831	124,700

See accompanying notes to consolidated financial statements.

GOOD NATURED PRODUCTS INC

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(In thousands)

	Number of common shares	Common share capital	Contributed surplus- warrants and conversion features	Contributed surplus- stock options	Foreign currency translation reserve	Deficit	Equity/ (Deficiency)
Balance at December 31, 2019	105,798	\$ 13,966	\$ 3,147	\$ 1,127	\$ (18)	\$ (22,864)	\$ (4,642)
Issuance of common shares, net (note 11)	32,542	6,195	428	-	-	-	6,623
Shares issued upon warrant exercise	20,263	4,118	(1,667)	-	-	-	2,451
Share issued upon debenture conversion (note 11(a))	8,106	1,739	(327)	-	-	-	1,412
Shares issued upon option exercise (note 11(a))	1,110	369	-	(150)	-	-	219
Conversion feature and warrants of convertible debenture (note 10 (b))	-	-	298	-	-	-	298
Convertible debenture redemption (note 10(b))	-	-	(273)	-	-	-	(273)
Share issued upon debt conversion (note 10(a))	6,666	1,000	(29)	-	-	-	971
Share issued upon mortgage funding (note 11(b))	3,000	450	-	-	-	-	450
Share issued as acquisition consideration (note 11(a))	1,773	1,046	-	-	-	-	1,046
Share based compensation	-	-	-	262	-	-	262
Deferred tax arising from convertible debenture issuance	-	-	(80)	-	-	-	(80)
Net comprehensive loss	-	-	-	-	262	(7,187)	(6,925)
Balance at December 31, 2020	179,258	\$ 28,883	\$ 1,497	\$ 1,239	\$ 244	\$ (30,051)	\$ 1,812
Issuance of common shares, net (note 11)	19,263	20,155	612	-	-	-	20,767
Shares issued upon warrant exercise	12,762	2,849	(413)	-	-	-	2,436
Shares issued upon debenture conversion (note 11(a))	4,613	1,061	(199)	-	-	-	862
Conversion feature and warrants of convertible debenture (note 10 (c))	-	-	1,880	-	-	-	1,880
Shares issued upon option exercise (note 11(a))	1,174	239	-	(72)	-	-	167
Shares issued upon debt conversion (note 10(a))	2,720	3,239	(67)	-	-	-	3,172
Share based compensation (note 11(b,d))	-	-	-	2,254	-	-	2,254
Vested RSU & PSU incentive issuance (note 11(d))	893	657	-	(848)	-	-	(191)
Net comprehensive loss	-	-	-	-	628	(12,695)	(12,067)
Balance at December 31, 2021	220,683	\$ 57,083	\$ 3,310	\$ 2,573	\$ 872	\$ (42,746)	\$ 21,092

See accompanying notes to consolidated financial statements.

GOOD NATURED PRODUCTS INC.

Consolidated Statements of Cash Flow

(In thousands)

	Year ended December 31	
	2021	2020
Cash provided by (used in):		
Operations:		
Net loss	\$ (12,695)	\$ (7,187)
Items not involving cash:		
Depreciation and amortization	1,545	516
Unrealized foreign exchange loss	690	(112)
Amortization of right of use assets	396	61
Share based compensation (note 11(b))	2,063	262
Loss on debt repayment and conversion (note 11 (b))	1,148	413
Gain on interest free loan (note 10 (f))	(85)	(83)
Financing costs	4,552	3,440
Deferred income tax	(126)	(80)
	(2,512)	(2,770)
Changes in non-cash operating working capital:		
Trade and other receivables	(3,304)	(1,213)
Inventory	(7,302)	(3,458)
Prepaid expenses	(231)	39
Accounts payable and accrued liabilities	3,678	3,433
	(7,159)	(1,199)
Finance costs paid	(3,990)	(2,707)
Cash used in operating activities	(13,661)	(6,676)
Financing:		
Issuance of common shares, net of issuance costs (note 11)	20,767	6,623
Exercise of warrants for common shares	2,436	2,451
Exercise of options for common shares	167	218
Credit line advance, net of repayments (note 9)	(3,073)	2,424
Proceeds from convertible debenture, net of issuance costs (note 10(b))	16,228	-
Proceeds from long-term debt, net of issuance costs (note 10(b,c))	29,358	21,021
Repayment of other long-term debt (note 10(a))	(29,496)	(4,543)
Cash provided by financing activities	36,387	28,194
Investments:		
Business acquisitions exclude cash acquired (note 4)	(15,470)	(21,076)
Purchase of equipment	(4,264)	(726)
Purchase of other assets	(517)	(204)
Cash used in investing activities	(20,251)	(22,006)
Effect of foreign exchange rate changes on cash	66	147
Increase (decrease) in cash	2,541	(341)
Cash and cash equivalents, beginning of year	8,114	8,455
Cash and cash equivalents, end of year	10,655	8,114

Supplementary disclosure with respect to cash flows (note 19).

See accompanying notes to consolidated financial statements.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
Year ended December 31, 2021 and 2020
(In thousands)

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 is principally engaged in the design, production, and distribution of high-performance bioplastics for use in packaging and durable product applications.

The COVID-19 pandemic significantly impacted the global economy. The Company’s operations have been deemed an essential business as defined by the US Department of Homeland Security and the Canadian provinces where it manufactures food packaging. The Company’s packaging manufacturers have maintained operations since the start of the pandemic in fiscal 2020 and have implemented enhanced safety protocols to ensure their ability to continue to produce and deliver products.

None of the Company’s supply chain partners have experienced any material shutdowns or disruptions to their work. The Company’s supply chain is global, however, the majority of supply chain partners are substantially North American based. Thus far, there have been no disruptions to raw material or other related products/services. In 2021, The Company invested in expanding production capacity to reduce its reliance on external supply chain. The Company monitors its relationships closely and continues to look for alternate supply should issues arise in the future.

There can be no assurance that the Company’s packaging manufacturers will continue to remain operational for the duration of the COVID-19 pandemic.

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 May 2, 2022.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for items that are measured at fair value consisting of the contingent consideration liability (note 4).

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
Year ended December 31, 2021 and 2020
(In thousands)

2. Basis of presentation (continued):

(c) Use of estimates, assumptions and judgments:

(i) Significant estimates:

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 during which the estimates are revised and in any future periods affected. Significant areas having estimation uncertainty include the following:

Fair value estimates associated with business combinations (note 4)

In business combinations, the fair value of the assets acquired, and liabilities assumed, the fair value of consideration transferred including contingent consideration and the resulting goodwill, if any, requires that management make certain judgments and estimates taking into account information available at the time of acquisition about future events, it generally requires time to obtain the information necessary to identify and measure these items as of the acquisition date:

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete.

During the allowable measurement period, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. The Company may also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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2. Basis of presentation (continued):

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

(i) Significant estimates (continued):

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.

Depreciation and amortization rates for intangible assets, property, and equipment:

Depreciation and amortization expenses are allocated based on estimated asset lives and associated depreciation and amortization rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the consolidated statement of net loss and comprehensive loss prospectively.

Share based payments and warrants:

The critical estimates and assumptions underlying the measurement of share-based payments and warrants are set out in notes 11 (b), 11 (c) and 11(d) respectively.

(ii) Significant judgments:

Determination of a business

Determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders.

In the years ended December 31, 2021 and 2020, the Company concluded that Ex-Tech Plastics Inc. ("Ex-Tech"), Shepherd Thermoforming and Packaging Inc. ("Shepherd") and IPF Holdings Inc. ("IPF") met the definition of a business and, accordingly, the acquisitions were accounted for as a business combination (note 4).

Functional currency

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency is the Canadian dollar and that of its subsidiaries is the Canadian dollar with the exception of good natured Products (CAD) Inc., good natured Products (US) Inc., and Ex-Tech, which is the United States dollar. The determination of functional currency may require certain judgements to determine the primary economic environment and is

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
Year ended December 31, 2021 and 2020
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2. Basis of presentation (continued):

determined based on the currency that mainly influences sales prices, labour, materials, other costs of sales and in which financing is raised. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.

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 December 31, 2021. All subsidiaries are 100% owned.

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
Shepherd Thermoforming & Packaging Inc. ²	100% owned
Good Natured Real Estate Holdings (Ontario) Inc. ²	100% owned
Integrated Packaging Films GP Inc. ²	100% owned
Mechar Amco Ltd. ²	100% owned
IPF Holdings Inc. ²	100% owned
1306187 BC Ltd. ¹	100% owned
good natured Products Real Estate U.S. LLC ¹	100% owned
good natured Products (Illinois) LLC ¹	100% owned

¹ Acquired or incorporated during the year ended December 31, 2021.

² Acquired or incorporated during the year ended December 31, 2020.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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3. Significant accounting policies (continued):

(b) Foreign currency translation:

The functional currency of each of the Company's entities is determined using the currency of the primary economic environment in which that entity operates. The presentation currency of these financial statements is the Canadian dollar.

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

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

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs incurred for the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

Contingent consideration is measured for fair value at its acquisition date and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 *Financial Instruments* with the corresponding gain or loss recognized in profit or loss.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the acquisition over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in earnings or loss immediately. Goodwill may also arise as a result of the requirement under IFRS to record a deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill.

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3. Significant accounting policies (continued):

(d) 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. Cash and cash equivalents at December 31, 2021 were \$10,655 (December 31, 2020 – \$8,114). Included in the \$10,655 of cash and cash equivalents at December 31, 2021 was \$444 of cash equivalents or restricted cash (December 31, 2020 - \$318).

(e) Inventory:

Inventory is carried at the lower end of cost and net realizable value. Inventory cost is determined on the basis of first-in, first-out (“FIFO”) for finished goods and weighted average for raw material. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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”).

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Notes to Consolidated Financial Statements
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(In thousands)

3. Significant accounting policies (continued):

(f) Impairment:

(ii) Non-financial assets (continued):

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. Impairment losses on goodwill are not subsequently reversed

(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
Building	Straight line	30 years
Manufacturing equipment	Straight line	5-20 years
Furniture and office equipment	Straight line	3-5 years

(h) Right of use assets

The right-of-use assets are comprised of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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3. Significant accounting policies (continued):

(i) 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, brand acquired, proprietary formulas and formulations acquired, capitalized development costs and other intangibles. Amortization is recognized in profit or loss on finite life intangible assets using the following methods and rates:

Intangible asset	Basis	Rate
Customer relationship	Straight line	12 years
Proprietary formulas and formulations	Straight line	10 years
Other intangibles	Straight line	3-5 years

Brand, an indefinite life intangible asset, and goodwill are not amortized (note 8).

(j) Product 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 to produce 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, 2021, \$409 of development costs have been capitalized (Year ended December 31, 2020 - \$135).

(k) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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3. Significant accounting policies (continued):

(l) Impairment of intangible assets and goodwill

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually at year-end, and whenever events or circumstances indicate an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested whenever there is an indication of impairment.

Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is tested for impairment based on the level at which it is monitored by management, and not at a level higher than an operating segment. At the date of acquisition, goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is tested at least annually for impairment at the CGU level and is carried at cost less accumulated impairment losses. These CGU's represents the lowest level at which management monitors goodwill (note 4). The allocation of goodwill to the CGUs requires the use of judgment.

(m) Share-based payment transactions:

Share-based compensation arrangements are measured at fair value 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 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. 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.

GOOD NATURED PRODUCTS INC.

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3. Significant accounting policies (continued):

(m) Share-based payment transactions (continued):

Management uses judgment to determine the inputs to the fair value estimates. 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 a 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.

(n) 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.

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.

(o) 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.

GOOD NATURED PRODUCTS INC.

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3. Significant accounting policies (continued):

(p) 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 and cash equivalents, 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.

(q) Lease liabilities:

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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3. Significant accounting policies (continued):

(q) Leases (continued):

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

(r) Future Changes in Accounting Policies Not Yet Effective as at December 31, 2021:

Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted.

Presentation of Financial Statements (Amendment to IAS 1)

The amendments to IAS 1, clarify the presentation of liabilities. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is affected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendment also introduces a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the impact of the amendment on its financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendment clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Early application is permitted. This amendment is not expected to have a material impact on the Company.

Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)

The amendment will prohibit the Company from deducting net proceeds from selling any items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in a manner intended by management. The amendment requires retrospective application and effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. This amendment is not expected to have a material impact on the Company upon adoption; however, the amendment may have impacts in future periods.

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Notes to Consolidated Financial Statements
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3. Significant accounting policies (continued):

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the impact of the amendment on its financial statements.

4. Acquisition:

Ex-Tech Plastics Inc.

On May 28, 2021, the Company completed the acquisition of all the operating assets of Ex-Tech a manufacturer of high quality, rigid plastic sheets, and real estate assets owned by a related company ETP Inc. for cash consideration of \$15,337. Founded in 1982, Ex-Tech is located 90 minutes from Chicago in Richmond, Illinois. Ex-Tech operates seven different extrusion lines in a dedicated 75,000 square foot facility on 9.5 acres of land. The acquisition increased the Company's product offerings and production capabilities. The purchase price was financed through a combination of a \$6,067 term loan, a \$3,427 mortgage and the balance funded by the Company's treasury.

Financial and operating results of Ex-Tech are included in the Company's consolidated financial statements effective May 28, 2021. For the period of May 28th, 2021 to December 31, 2021, Ex-Tech revenues equaled \$23,958 with \$381 in net loss before taxes.

The following table summarizes the consideration paid to the former owners of Ex-Tech as part of the purchase price:

Cash funded via term loan (note 10(a))	\$	6,067
Cash funded via mortgage (note 10(f))		3,427
Cash funded via treasury		5,875
Total Purchase Price	\$	15,369

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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4. Acquisition (continued):

Ex-Tech Plastics Inc. (continued)

The following table summarizes the allocation of the purchase price:

Accounts receivable	\$	4,828
Inventory		2,469
Prepaid expenses		104
Manufacturing and other equipment		6,592
Land and building		5,163
Customer relationships		594
Goodwill		758
Current liabilities		(5,139)
Net assets acquired	\$	15,369

Accounts receivable are acquired at full contract value. The goodwill is calculated as the difference between the purchase price and the fair value of the assets acquired and liabilities assumed and is attributable to expected synergies between Ex-Tech and the Company's existing operations including the ability to convert Ex-Tech customers to the Company's sustainable plastic offerings. The Company considers the Ex-Tech operations as a CGU and as such the goodwill generated from this acquisition has been allocated to this CGU.

Shepherd Thermoforming & Packaging Inc.

On May 12, 2020, the Company completed the acquisition of 100% of Shepherd, a leading thermoformer with over 35 years' experience and all its real estate assets for \$9.5 million in cash. The assets include machinery, molds and a 42,000 square foot manufacturing facility, all located on 2.31 acres of land in the Greater Toronto Area of Brampton, Ontario. The acquisition increased the Company's product offerings and production capabilities. Although the acquisition legally completed on May 12, 2020, the effective date the Company took control of Shepherd per the agreement was April 30, 2020. In addition to the \$9,566 payable in cash at closing, the purchase contemplates a contingent consideration payment of \$2,250 which is payable at some point between 42 and 60 months post-closing, upon satisfaction of a condition relating to increase in the value of the real estate purchased as part of the transaction. The purchase price was financed through a combination of a \$6,000 BDC mortgage loan, a \$1,350 vendor promissory note and the balance funded by a drawdown of the Company's BDC credit facility (note 10).

Financial and operating results of the Shepherd acquisition are included in the Company's consolidated financial statements effective April 30, 2020. For the period from April 30, 2020 to December 31, 2021 Shepherd contributed revenues of \$5,045 and net earnings before taxes of \$755.

In conjunction with the completed acquisition of Shepherd, the Company completed the conversion of \$1,000 of its existing long term credit facility with BDC (note 9(d)) by issuing 6,666,667 common shares to BDC at a fair value price of \$0.15 per Share, and also issued 3,000,000 common shares to BDC at a fair value price of \$0.15 per Share as a loan bonus for BDC providing the mortgage as part of the financing.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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4. Acquisition (continued):

Shepherd Thermoforming & Packaging Inc. (continued):

The following table summarizes the consideration paid to the former owners of Shepherd as part of the purchase price:

Cash funded via Mortgage, net (note 10(a))	\$	5,910
Vendor loan (note 10(f))		1,350
Cash funded via BDC credit facility (note 10(a))		2,306
Contingent consideration liability (see below)		1,674
Total Purchase Price	\$	11,240

The following table summarizes the allocation of the purchase price:

Current assets	\$	1,367
Manufacturing and other equipment		1,423
Land and building		9,000
Goodwill		850
Current liabilities		(550)
Deferred income tax liabilities		(850)
Net assets acquired	\$	11,240

Accounts receivable acquired are at full contract value. The goodwill is calculated as the difference between the purchase price and the fair value of the assets acquired and liabilities assumed and is attributable to the recognition of deferred income tax liabilities as required by IFRS. The Company considers the Shepherd operations as a CGU and as such the goodwill generated from this acquisition has been allocated to this CGU.

Contingent Consideration Liability:

If the appraised value of the owned real estate is greater than or equal to \$9,500 at a date between the May 12, 2023 and May 12, 2025, the Company shall pay to the vendors an additional \$2,250 as early as May 12, 2024 or at the latest November 12, 2025 subject to the timing of the appraisal. If the appraised value is not greater than or equal to \$9,500 at a date between the May 12, 2023 and May 12, 2025, then the contingent earnout amount will be reduced to zero. The Company has recognized the contingent earnout at a fair value of \$1,674 using a discount rate of 7.4% and a payout date of May 12, 2024. The contingent consideration liability is \$1,855 at December 31, 2021 (December 31, 2020 - \$1,756).

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4. Acquisition (continued):

IPF Holdings Inc. dba Integrated Packaging Films

On December 22, 2020, the Company completed the acquisition of 100% of IPF Holdings Inc. dba, a leading rollstock sheet extruder with over 20 years' experience, located in Ayr, Ontario. IPF increases the Company's product offerings and production capabilities. Although the acquisition legally completed on December 22, 2020, the effective date the Company took control of IPF per the agreement was November 30, 2020. The closing consideration was satisfied by payment of \$12,639 in cash, the issuance of 1,773,334 common shares at a fair value of \$0.59 per Common Share, the issuance of a \$3,334 vendor take-back note and a \$320 short-term note payable. The cash portion of the purchase price was largely financed through a combination of a \$7,600 million reducing term loan with the Royal Bank of Canada with 6-year amortization at market rates; and a \$3,222 drawdown of the Company's BDC credit facility (note 10).

Financial and operating results of IPF are included in the Company's consolidated financial statements effective November 30, 2020. For the period from November 30, 2020 to December 31, 2020, IPF contributed revenues of \$877 and net earnings before taxes of \$17. For the fiscal year 2021 IPF's operations are now fully integrated.

The following table summarizes the fair value of the consideration paid to the former owners of IPF as part of the purchase price:

Cash funded via RBC Loan Facility (note 10(a))	\$	7,600
Vendor loan (note (10(e)))		3,334
Cash funded via BDC credit facility (note 10(a))		3,222
Note payable		320
Common shares of the Company		1,046
Cash		1,818
Total Purchase Price	\$	17,340

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Notes to Consolidated Financial Statements
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4. Acquisition (continued):

The following table summarizes the allocation of the purchase price:

Current assets	\$ 3,409
Manufacturing and other equipment	4,296
Customer relationships	5,600
Intangible and other assets	2,590
Right of use asset	326
Goodwill	6,074
Current liabilities	(1,860)
Lease liability	(325)
Deferred income tax liabilities	(2,770)
Net assets acquired	\$ 17,340

Accounts receivable acquired are at full contract value. Goodwill is calculated as the difference between the purchase price and the fair value of the assets acquired and liabilities assumed and is attributable to expected synergies between IPF and the Company's existing operations including the ability to convert IPF customers to the Company's sustainable plastic offerings and the recognition of deferred income tax liabilities as required by IFRS. The Company considers the IPF operations as a CGU and as such the goodwill generated from this acquisition has been allocated to this CGU.

5. Inventory

	December 31, 2021	December 31, 2020
Raw materials	\$ 11,817	\$ 4,051
Finished goods	\$ 4,219	\$ 2,243
Total	\$ 16,036	\$ 6,294

6. Property and equipment, net:

	Land	Building	Manufacturing Equipment	Other Equip.	Accumulated Depreciation	Total
Dec. 31, 2019	\$ -	\$ -	\$ 406	\$ 64	\$ (97)	\$ 373
Additions	4,943	4,320	6,131	18	(369)	15,043
Dec. 31, 2020	\$ 4,943	\$ 4,320	\$ 6,537	\$ 82	\$ (466)	\$ 15,416
Additions	413	5,211	10,244	115	(936)	15,047
Dec. 31, 2021	\$ 5,356	\$ 9,531	\$ 16,781	\$ 197	\$ (1,402)	\$ 30,463

Land is not subject to depreciation.

GOOD NATURED PRODUCTS INC.

Notes to Consolidated Financial Statements
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7. Right of use assets

The company entered into leases for building and office space for its operations. The Company is required to recognize right of use assets representing its right to use these underlying assets of their term.

These right of use assets are initially measured at cost less, equivalent to the fair value of the lease liability, and subsequently amortized on a straight-line basis over the shorter of the lease term and useful life of the underlying asset.

	Cost	Accumulated amortization	Net Book Value
December 31, 2019	\$ 138	\$ (46)	\$ 92
Additions	613	(61)	552
December 31, 2020	751	(107)	644
Additions	1,947	(426)	1,521
December 30, 2021	\$ 2,698	\$ (533)	\$ 2,165

8. Customer relationships, other intangible assets and goodwill:

	Customer Lists	Accumulated Amortization	Net Book Value
December 31, 2019	\$ 1,741	\$ (1,514)	\$ 227
Additions	5,600	(119)	5,481
December 31, 2020	\$ 7,341	\$ (1,633)	\$ 5,708
Additions	621	(604)	17
December 31, 2021	\$ 7,962	\$ (2,237)	\$ 5,725

	Brand and Formulas	Other Assets	Accumulated Amortization	Net Book Value
December 31, 2019	\$ -	\$ 395	\$ -	\$ 395
Additions	2,200	175	(25)	2,350
December 31, 2020	\$ 2,200	\$ 570	\$ (25)	\$ 2,745
Additions	-	409	(29)	380
December 31, 2021	\$ 2,200	\$ 979	\$ (54)	\$ 3,125

GOOD NATURED PRODUCTS INC.

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8. Customer relationships, other intangible assets and goodwill (continued):

Included in Brand and Formulas is \$1,400 of brand which is an indefinite life intangible asset and not subject to amortization. Other assets consist of capitalized development costs, right-of-use assets and other intangibles.

	Goodwill	Accumulated Impairment	Net Book Value
December 31, 2019	\$ -	\$ -	\$ -
Additions	6,824	-	6,824
December 31, 2020	6,824	-	6,824
Additions	860	-	860
December 30, 2021	\$ 7,684	\$ -	\$ 7,684

Goodwill was generated by the acquisitions of Shepherd, IPF and Ex-Tech (note 4) and is allocated to the plastics and packaging manufacturing and distribution group of cash generating units.

The Entity performs goodwill impairment testing annually or at any time if an indicator of impairment exists. In determining the recoverable amount of its CGUs, the Entity uses the value in use, which is determined using a discounted cash flow model. As of December 31, 2021, no impairment charges were recorded during the years ended December 31, 2021 or 2020.

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9. Credit Line

	Comerica		RBC		Total
December 31, 2019	\$	650	\$	-	\$ 650
Issue		2,423		-	2,423
Repayment		-		-	-
December 31, 2020	\$	3,073	\$	-	\$ 3,073
Issue		3,890		2,310	6,200
Repayment		(3,890)		(2,310)	(6,200)
December 31, 2021	\$	-	\$	-	\$ -

(a) Comerica Credit Line

On June 5, 2019, Comerica Bank agreed to provide the Company with a 1 year, \$1,000 USD revolving line of credit with a variable interest rate of prime + 1% secured by all assets of the Company.

The Company fully repaid the balance owed at October 28, 2021

(b) RBC Operating Credit Line

In December 2020, the Company entered into a loan facility with the Royal Bank of Canada ("RBC"). The facility includes a reducing Term Loan of \$7,600 with a six-year amortization, a \$3,000 revolving operating line of credit, a \$400 revolving capital term loan, and a \$400 revolving lease line. The facility is secured by a first ranking general security agreement covering the assets of IPF along with a \$12,700 guarantee from the Company.

The Company fully repaid the balance owed at October 28, 2021.

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10. Long-term debt:

	Retired Debt (a)	Debentures (b)	National Bank (c)	Vendor Notes (d)	Leases (e)	Other debt (f)	Total
Dec. 31, 2019	\$ 5,884	\$ 5,935	-	\$ -	\$ 97	\$ 1,297	\$ 13,273
Proceeds, net	19,293	1,047	-	-	-	148	20,190
Issuance	-	-	-	4,684	608	-	5,292
Repayment	(23)	(4,369)	-	-	(61)	(30)	(4,111)
Conversion	(888)	(1,139)	-	-	-	-	(2,132)
Accretion / Loss	259	638	-	-	-	85	655
Non-cash component	-	(298)	-	-	-	-	-
Foreign Exchange	(335)	-	-	-	-	-	(336)
Dec. 31, 2020	\$ 24,190	\$ 1,815	\$ -	\$ 4,684	\$ 644	\$ 1,499	\$ 32,831
Proceeds, net	6,616	14,349	19,531	-	1,948	3,641	46,084
Repayment	(28,802)	-	-	(300)	(415)	(424)	(29,941)
Conversion	(3,122)	(862)	-	(50)	-	-	(4,034)
Accretion / Loss	1,209	247	2	-	54	97	1,610
Foreign Exchange	(91)	-	(104)	-	-	-	(195)
Dec. 31 2021	\$ -	\$ 15,548	\$ 19,429	\$ 4,334	\$ 2,231	\$ 4,813	\$ 46,355

	December 31 2021	December 31 2020
Current portion	\$ 3,050	\$ 3,129
Non-current portion	43,305	29,702
	\$ 46,355	\$ 32,831

Undiscounted repayment commitment:

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

2022	\$ 3,050
2023	15,492
2024	3,181
2025	1,290
2026 and beyond	27,194
	\$ 50,207

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10. Long-term debt (continued):

(a) Retired Debt

On October 28th 2021, the Company secured gross proceeds totaling \$34,005 through an issuance of publicly tradable convertible debentures (Note 10(b)(ii)) and advances from its Senior Credit Facility with National Bank of Canada (Note 10(c)). The proceeds were used to pay off existing debt in order to consolidate the Company's current debt structure. The following table summarizes the movement in the retired debt facilities:

	RBC Loan Facility	BDC Mortgage	Fiera	BDC Sub-Debt	Total
Dec. 31, 2019	\$ -	\$ -	\$ -	\$ 5,884	\$ 5,884
Proceeds, net	7,600	5,910	-	6,233	19,293
Issuance	-	-	-	-	-
Repayment	-	(23)	-	-	(23)
Conversion	-	-	-	(1,000)	(888)
Accretion / Loss	-	12	-	359	259
Non-cash component	-	(450)	-	-	-
Foreign Exchange	-	-	-	(335)	(335)
Dec. 31, 2020	\$ 7,600	\$ 5,449	\$ -	\$ 11,141	\$ 24,190
Proceeds, net	400	-	5,716	499	6,616
Repayment	(8,000)	(5,977)	(6,067)	(8,758)	(28,802)
Conversion	-	-	-	(3,122)	(3,122)
Accretion / Loss	-	528	351	330	1,209
Foreign Exchange	-	-	-	(91)	(91)
Dec. 31 2021	\$ -	\$ -	\$ -	\$ -	\$ -

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10. Long-term debt (continued):

(b) Convertible Debenture:

	Debenture	Equity component	Issuance Cost	Net Book Value
December 31, 2019	\$ 7,344	\$ (1,017)	\$ (392)	\$ 5,935
Proceeds	1,190	(298)	(143)	749
Redemption	(4,369)	273	162	(3,934)
Conversion	(1,739)	328	166	(1,245)
Amortization	-	226	83	309
December 31, 2020	\$ 2,426	\$ (488)	\$ (124)	\$ 1,814
Proceeds (ii)	17,250	(1,998)	(903)	14,348
Redemption				
Conversion (i)	(1,061)	199	-	(862)
Amortization	-	210	38	248
December 31, 2021	\$ 18,615	\$ (2,077)	\$ (989)	\$ 15,548

(i) 2019 Convertible Debentures:

As at December 31, 2021, the Company has \$1,365 (December 31, 2020 – \$2,426) unsecured 10% convertible debentures outstanding due December 30, 2024 (the “Maturity Date”). 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 set in the issue. The conversion price of the outstanding debenture is \$0.23 per common share. During the nine months ended December 31, 2021, \$1,061 of debentures were converted into 4,613,024 common shares (year ended December 31, 2020 - \$1,504 into 6,539,101 common shares).

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

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 price set in the issue. This right is exercisable if the Company’s common shares trade at or above a volume-weighted average trade price on the TSX Venture Exchange (“TSX-V”) on any 20 consecutive trading

(ii) 2021 Convertible Debentures:

On October 28, 2021, the Company closed the offering of publicly tradable convertible debentures for aggregate gross proceeds of \$17,250 which included an over-allotment option to sell up to an additional \$2,250 principal amount of debentures. The debentures mature on October 31, 2026, and accrue interest at the rate of 7.00%, payable semi-annually in arrears on April 30 and October 31 of each year, commencing April 30, 2022. The debentures are convertible at the holder’s option into fully-paid common shares of the Company (“Shares”)

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10. Long-term debt (continued):

at any time prior to the earlier of October 31, 2026 (the "Maturity Date"), and the business day immediately preceding the date fixed for any redemption. The conversion price is \$1.06 for each common share, subject to adjustment in certain circumstances.

At initial recognition, the \$17,250 proceeds were allocated into its debt and equity components using the residual value method. The fair value of the debt portion was estimated at \$15,252 using a discounted cash flow model method over the 5 year term using an effective interest rate of 10%. The remainder of the net proceeds were allocated to the equity component. The financial liability will be recorded on an amortized cost basis.

Transaction costs of \$903 relate to the issuance of the convertible debentures were allocated to the liability and equity components in proportion of the gross proceeds of the offering. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are amortized over the life of the convertible debenture.

(c) National Bank:

On October 28 2021, the Company secured a Senior Credit Facility with National Bank of Canada under the terms of a credit agreement for upwards of \$35,755 million in additional funding that closed concurrent with the 2021 Convertible Debentures. The Company incurred a total of \$394 transaction costs related to the closing of these Senior Credit Facilities. These transaction costs were proportionately allocated based on the amount drawn and amortized over the respective facility's life. The Senior Credit Facility is comprised of the following:

(i) Revolving Working Capital Facility

\$15,000 revolving working capital facility with a 2-year term and an uncommitted \$10,000 accordion to be made available at the discretion of National Bank. The Company has drawn a total of \$11,170 from the revolving working capital facility, with \$3,380 remaining credit available. The facility is secured by a first ranking general security agreement covering the assets of IPF along with a \$12,700 guarantee from the Company.

(ii) Term A Facility

\$4,000 revolving term credit facility to finance capital expenditures, amortized over 84 months of which The Company has drawn \$2,000 bearing interest at 6.6% annually paid monthly. Annual principal payments are to be paid on the first day of each fiscal quarter at an annual rate of 14.29%.

(iii) Term B Mortgage Facility

\$6,755 non-revolving term credit facility secured by a first mortgage on the Company's Brampton, ON manufacturing facility to replace the existing mortgage on such facility, with a 25 year amortization. The Company drew the full amount on the date of closing, bearing interest of 4.20%. Principal payments are due quarterly on a straight line basis over the 25 year life of the facility.

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10. Long-term debt (continued):

As of December 31, 2021, the Company is in compliance with all covenants under the National Bank facilities.

(d) Vendor Notes:

A Vendor note of \$1,000 bearing interest at 4% per year is payable to the former owners of Shepherd. Under the terms of an agreement with other lending parties to the Shepherd acquisition (note 4), the vendor has a subordinate interest and is secured by a second mortgage on the property. Interest is payable quarterly and started on August 10, 2020. The remaining principal is to be repaid as follows - \$500 on November 12, 2023; and \$500 on November 12, 2024. On January 19, 2021, the lending parties converted \$50 into 63 common shares of the Company at a fair value of \$0.80 per share.

A Vendor note of \$3,334 bearing interest at 3.75% per year is payable to the former owners of IPF. Interest is payable quarterly beginning January 1, 2021. Principal is to be repaid as follows - \$1,111 on December 31, 2022 and \$2,223 on December 31, 2023.

(e) Leases:

	Net Book Value
December 31, 2019	\$ 97
Issuance	608
Repayment	(61)
December 31, 2020	\$ 644
Additions	1,948
Repayment	(415)
Accretion	54
December 31, 2021	\$ 2,231

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease agreement or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease liabilities are subsequently measured at amortized cost.

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10. Long-term debt (continued):

(f) Other Loans:

	WINN Loan (i)	Mortgage (ii)	Other	Total
December 31, 2019	\$ 1,297	\$ -	\$ 60	\$ 1,357
Proceeds	191	-	40	231
Repayment	(30)	-	(62)	(93)
Accretion	85	-	2	87
Non-cash component	(83)	-	-	(83)
December 31, 2020	\$ 1,460	\$ -	\$ 40	\$ 1,499
Proceeds	218	3,507	-	3,725
Repayment	(363)	(61)	-	(424)
Accretion	97	-	-	97
Non-cash component	(84)	-	-	(84)
December 31, 2021	\$ 1,328	\$ 3,445	\$ 40	\$ 4,813

(i) Western Innovation Initiative loan:

On June 20, 2014, the Company entered into a Western Innovation Initiative Agreement with Western Economic Diversification Canada ("WINN"). The WINN agreement provided the Company with an interest-free, repayable loan of \$1,600 from the government.

On August 7, 2018, the Company entered into a second WINN agreement. The second WINN agreement provides the Company with an interest-free, repayable contribution from the government not to exceed \$850 towards total project cost estimated at \$1,750. The project funds are directed at the Company's development and commercialization of its new non-toxic high-heat bioplastic food containers for the grocery, take-out, and consumer markets. Such funds are to be repaid monthly over five years commencing October 1, 2021. The claim period for shared project costs commenced April 1, 2018.

During 2020, the Company accepted WINN's offer to temporarily defer monthly loan repayments due to COVID-19. Monthly instalments restarted on January 1, 2021 with full repayment to be completed on July 1, 2023 for the first WINN loan via 8 monthly payments of \$15 followed by 23 monthly payments of \$49. Full repayment to be completed on April 1, 2027 for the second WINN loan via 60 monthly payments of \$12. At December 31, 2021, the undiscounted balance of the WINN loan is \$1,572.

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

(ii) Mortgage:

In May 2021, in connection with the Ex-Tech acquisition, the Company's subsidiary entered into a \$2,766 USD (\$3,427) mortgage with a US regional bank bearing interest at 3.65% per year. The mortgage is repaid over five years by 59 monthly blended principal and interest payments of \$15 USD and a balloon payment of \$2,330 USD due on May 28, 2026. The

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10. Long-term debt (continued):

mortgage is secured by the land and building included in the acquisition of Ex-Tech (note 4). The mortgage includes customary covenants such as insurance maintenance, environmental regulatory compliance and limitations on, among other things additional debt, liens, and asset sales. As at December 31, 2021, the Company was in compliance with all covenants under the Mortgage.

11. 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, 2021, 220,683 common shares were issued and outstanding (December 31, 2020 - 179,258).

Shares for acquisition consideration:

On May 12, 2020, in conjunction with the acquisition of Shepherd (note 4), the Company issued 3,000 shares to BDC with a fair value price of \$0.15 per share as a loan bonus for BDC providing the mortgage as part of the financing of the Shepherd acquisition.

On December 22, 2020, the Company completed the acquisition of IPF (note 4) for \$16,700 in consideration. A portion of the consideration was paid through the issuance of 1,773 common shares at a fair value of \$0.59 per share.

Shares for debenture conversion and debt repayment:

During the year ended December 31, 2021, the Company issued 4,613 shares at an average conversion price of \$0.23 per share pursuant to the conversion of \$1,061 of outstanding debentures (Year ended December 31, 2020 – 8,106 shares; \$1,739) (note 10(b)).

On January 19, 2021, the Company converted \$50 of a Vendor Note into 63 common shares of the Company at a fair value of \$0.80 per share (note 10(f)).

On March 3, 2021, the Company completed the conversion of \$3,122 of its long-term credit facility with BDC (note 10(a)) by issuing 2,657 common shares to BDC at a fair value price of \$1.20 per share (Year ended December 31, 2020 – 6,667 shares; \$1,000).

Private Placement:

In September 30, 2020, the Company completed a private placement of 23,851 units at a price of \$0.14 per unit for gross proceeds of \$3,339. Each unit is comprised of one common share and one-half common share warrant of the Company. Each warrant entitles its holder to acquire one share of the Company at a price of \$0.21 per share within the 18-month period following the closing of the respective tranche.

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

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

The Company paid cash commission, legal and other related fees totaling \$312 and also granted 1,624 non-transferable 18-month broker warrants to acquire 1,624 common shares of the Company at a price of \$0.14 per share. The fair value of the broker warrants at grant date issued was \$56 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 \$0.32 on the TSX- Venture Exchange for any 20 consecutive trading days. If the acceleration right is exercised by the Company, the warrants will expire on the 30th day following the date that notice of acceleration is sent to the warrant holders.

The inputs used in the measurement of the fair value of the warrants issued were:

Risk-free interest rate	0.25%
Dividend yield	0.00%
Expected life (years)	1
Volatility	65.93%
Forfeiture rate	0.0%
Common share price at grant date	\$0.14

In December 2020, the Company completed a private placement totaling 8,520 common shares at a price of \$0.47 per share for gross proceeds of \$4,004.

The Company paid a cash commission of \$280 representing 7.0% of the aggregate gross proceeds of the placement; 596,400 broker warrants representing 7.0% of the aggregate number of common shares issued pursuant to the placement; and a corporate finance fee of 170 common shares representing 2.0% of the number of common shares issued pursuant to the placement. Each broker warrant entitles the holder to acquire one common share at the issue price of \$0.47 for a period of 24 months from the issue date.

The fair value at grant date of the broker warrants issued was \$154 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 inputs used in the measurement of the fair value of the warrants issued were:

Risk-free interest rate	0.22%
Dividend yield	0.00%
Expected life (years)	1
Volatility	79.51%
Forfeiture rate	0.0%
Common share price at grant date	\$0.63

Prospectus Offering:

In March 2021, the Company completed a short form prospectus offering that totaled 19,263 common shares at a price of \$1.20 per share for gross proceeds of \$23,115.

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

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

The Company paid a cash commission of \$1,387 representing 6.0% of the aggregate gross proceeds of the placement and 1,156 broker warrants representing 6.0% of the aggregate number of common shares issued pursuant to the placement. Each broker warrant entitles the holder to acquire one common share at the issue price of \$1.20 for a period of 24 months from the issue date.

The fair value at grant date of the broker warrants issued was \$612 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 inputs used in the measurement of the fair value of the warrants issued were:

Risk-free interest rate	0.27%
Dividend yield	0.00%
Expected life (years)	2
Volatility	82.34%
Forfeiture rate	0.0%
Common share price at grant date	\$1.29

(b) Share options:

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

	Options	Weighted average exercise price
Outstanding at December 31, 2019	7,140	\$ 0.18
Issuance of options	3,248	0.20
Exercise of options	(1,110)	0.20
Forfeiture of options	(636)	0.23
Outstanding at December 31, 2020	8,642	\$ 0.18
Issuance of options	822	1.17
Exercise of options	(1,174)	0.14
Forfeiture of options	(258)	0.38
Outstanding at December 31, 2021	8,032	\$ 0.28
Exercisable at December 31, 2021	5,709	\$ 0.17

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

(b) Share options (continued):

Range of Exercise Prices	Number Outstanding	Number exercisable	Weighted average remaining life (in years)
\$0.10 to \$0.15	4,800,437	3,326,744	6.6
\$0.16 to \$0.20	2,097,857	2,097,857	3.7
\$0.21 to \$0.25	192,350	192,350	2.5
\$0.26 to \$1.29	941,455	91,930	6.5
	8,032,099	5,708,881	5.7

The weighted average fair value per option granted in the year ended December 31, 2021 was \$1.17 (year ended December 31, 2020 - \$0.20). The fair value of options granted were measured based on the Black-Scholes pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair values at the modification and grant dates follows:

	Year ended December 31 2021	Year ended December 31 2020
Risk-free interest rate	0.26 – 0.30%	0.22 – 0.73%
Dividend yield	0.00%	0.00%
Expected life (years)	4	2 - 4
Volatility	79.84 - 82.7%	66.2 - 133.1%
Forfeiture rate	0.0%	0.0%
Common share price at grant date	\$1.12- \$1.29	\$0.10 - \$0.85

(c) Share purchase warrants:

	Warrants	Weighted average exercise price
Outstanding at December 31, 2019	20,457	\$ 0.12
Issuance of warrants	13,042	0.18
Issuance of warrants to brokers	2,615	0.20
Exercise of warrants	(20,263)	0.12
Outstanding at December 31, 2020	15,851	\$ 0.20
Issuance of warrants to brokers	1,156	1.20
Exercise of warrants	(12,762)	0.19
Forfeiture of warrants	(52)	0.19
Outstanding at December 31, 2021	4,193	\$ 0.50

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

(c) Share purchase warrants (continued):

Expiry date	Warrants outstanding	Average Exercise price	Weighted average remaining contractual life (in years)
February 2022 ¹	583	0.10	0.16
December 2021 ²	-	0.16	0.00
January 2022 ²	121	0.16	0.06
February 2022	1,503	0.21	0.16
March 2022	116	0.20	0.25
December 2022	597	0.47	0.96
March 2023	1,156	1.20	1.17
	4,076	\$ 0.51	0.56

¹ The \$0.10 warrants expiring February 2022 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 acceleration rights were not exercised prior to expiry.

² The \$0.16 warrants expiring December and January 2022 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 acceleration rights were not exercised prior to expiry.

(d) Other Equity Incentives:

	RSUs	DSUs	PSUs	Total
December 31, 2019	-	-	-	-
Unit Issuance	2,885	-	-	2,885
December 31, 2020	2,885	-	-	2,885
Unit Issuance	1,310	128	1,457	2,895
Forfeiture	(306)	-	(964)	(1,270)
Share Issuance upon vesting	(893)	-	-	(893)
December 31, 2021	2,995	128	493	3,617

Pursuant to the Company's Omnibus Equity Incentive Compensation Plan, the Company issued restricted share units ("RSUs") which vest over a period of two or three years; deferred share units (DSUs) which vest over a period of two years; and, performance share units (PSUs) which vest in accordance with the achievement of certain performance criteria over a period of one or two years.

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

(d) Other Equity Incentives (continued):

Each unit entitles the holder to receive either one Common Share from treasury, the cash equivalent of one Common Share or a combination of cash and Common Shares, as the Board may determine in its sole discretion. The Company intends to settle these units in shares. The average value of the RSUs and DSUs was measured on the date of grant at \$1.28 per unit for a total of \$1,839 which will be amortized over the life of the respective terms (Year ended December 31, 2020 - \$0.15 - \$433).

The Company granted two types of PSUs. The fair value of the first group was estimated on the grant date using a Monte Carlo simulation model, taking into account the fair value of the Company's common shares on the date of grant, potential future dividends accruing to the PSU holder's benefit, volatility of 113%, and encompassing a wide range of possible future market and Company performance conditions. The fair value of the second group was estimated on the grant date using the fair value of the Company's common shares on the date of grant and potential future dividends accruing to the SPSU holder's benefit. The total value for the PSUs of \$1,096 on date of grant will be amortized over the life of the respective terms (Year ended December 31, 2020 - Nil)

12. Related party transactions

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

	Year ended December 31	
	2021	2020
Salaries, management, consulting and director fees	\$ 1,346	\$ 1,302
Share based payments ⁽ⁱ⁾	1,193	205
	<u>\$ 2,539</u>	<u>\$ 1,507</u>

⁽ⁱ⁾ Share-based payments are the fair value of options granted and the amortized value of RSU units granted to directors and key management personnel.

As at December 31, 2021, \$233 (December 31, 2020 - \$262) was due to directors and officers of the Company for accrued bonus, management, consulting, director fees and expense reimbursement.

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13. Income taxes:

The income taxes recognized in profit or loss are as follows:

	Year ended December 31	
	2021	2020
Current tax expense	\$ -	\$ -
Deferred tax recovery	(126)	(80)
	\$ (126)	\$ (80)

The provision for income taxes reported differs from the amounts computed by applying statutory Canadian federal and provincial tax rates to the loss before tax due to the following:

	Year ended December 31	
	2021	2020
Loss before income taxes	\$ (12,821)	\$ (7,267)
Expected income tax recovery at 27.0% (2020 - 27.0%)	(3,462)	(1,962)
Permanent adjustments and other	522	1,314
Differing effective tax rates in other jurisdictions	75	9
Change in unrecognized deferred tax assets	2,739	559
Total income tax (recovery) expense	\$ (126)	\$ (80)

The approximate tax effect of each item that gives rise to the Company's recognized deferred tax assets and liabilities as December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Net operating loss carry forwards	\$ 671	\$ 533
Deferred tax liabilities:		
Intangible assets	(1,662)	(1,791)
Property, plant and equipment	(2,270)	(1,924)
Long-term debt and other	(232)	(438)
	\$ (3,493)	\$ (3,620)

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13. Income taxes (continued):

The Company's movement of net deferred tax liabilities is described below:

	Year ended December 31	
	2021	2020
At January 1	\$ (3,620)	\$ -
Deferred income tax (expense) recovery	120	80
Deferred income tax from purchase of Shepherd	-	(850)
Deferred income tax from purchase of IPF	-	(2,770)
Equity	1	(80)
At December 31	\$ (3,493)	\$ (3,620)

The Company has the following deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized:

	December 31, 2021	December 31, 2020
Non-capital losses	\$ 29,458	\$ 21,025
Property and equipment	183	-
Intangible assets	2,518	2,253
Financing fees	3,187	1,579
Other	1,948	965
	\$ 37,294	\$ 25,822

At December 31, 2021 the Company has non-capital loss carried forward in Canada aggregating \$30,782 (December 31, 2020: \$23,047) which expires over the period between 2035 and 2041, available to offset future taxable income in Canada.

Tax attributes are subject to review, and potential adjustment, by a competent authority.

In addition, the Company has \$633 (December 31, 2020 - \$633) of SR&ED expenditure pool which is available to reduce future taxable income. This amount carries forward indefinitely.

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14. Cost of product revenue:

The following is a breakdown of the Company's cost of product revenue.

	Year ended December 31	
	2021	2020
Variable cost of product	\$ 41,462	\$ 10,298
Fixed factory overhead	3,182	147
Depreciation	851	32
	<u>\$ 45,495</u>	<u>\$ 10,477</u>

Variable cost of product includes direct material, labour and inbound freight.

Fixed factory overhead includes allocated costs such as utilities, insurance, maintenance and property taxes.

15. Selling, general, and administrative (SG&A):

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

	Year ended December 31	
	2021	2020
SG&A wages	\$ 5,700	\$ 2,291
SG&A other	4,030	1,611
Product development	519	434
Acquisition related activity & One-Time Charges	2,572	1,315
	<u>\$ 12,821</u>	<u>\$ 5,651</u>

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16. Management of capital:

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to 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 debt and equity funding and when necessary, raises capital through issuance of equity instruments. The Company manages its capital structure and adjusts 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 and long-term debt. Along with customary covenants such as limitations on, among other things, additional debt, liens, investments, acquisitions and capital expenditures, future dividends and asset sales, the loans require maintenance of minimum coverage ratio, maximum debt to EBITDA ratio and earning levels. Other than these required covenants, the Company is not subject to any externally imposed capital requirements.

17. 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 growth objectives. 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.

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

(c) Currency risk:

(i) Exposure to currency risk:

The Company is exposed to financial risks because of exchange rate fluctuations and the volatility of these rates. At December 31, 2021, total assets include cash of US\$4,947 (December 31, 2020 - US\$1,205) and receivables of US\$9,067 (December 31, 2020 - US\$2,767); total liabilities include payables and accruals of US\$10,448 (December 31, 2020 - US\$4,055), credit line of US\$2,500 (December 31, 2020 - US\$1,000) and undiscounted long-term debt of US\$2,718 (December 31, 2020 - US\$9,191).

(ii) Sensitivity analysis:

A change of the US dollar against the Canadian dollar as at December 31, 2021 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	\$ 165

(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. Most of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days.

The following are the contractual maturities of financial liabilities.

	Carrying amount	Contractual cash flows	Less than 1 year	Year 2	Years 3-5	More than 5 years
Non-derivative financial liabilities:						
Trade and other payables and accrued liabilities	\$ 17,699	\$ 17,699	\$ 17,699	\$ -	\$ -	-
Credit line	11,170	11,170	11,170	-	-	-
Loans payable	35,185	47,453	4,730	5,998	36,725	-
	\$ 64,054	\$ 76,323	\$ 33,599	\$ 5,998	\$ 36,725	-

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

As at December 31, 2021, the Company had issued letters of credit to key suppliers totaling US\$2,200 (December 31, 2020 – US\$850).

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

(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. At December 31, 2021, trade and other receivables total \$13,689 (December 31, 2020, \$5,557). There is allowance for doubtful accounts of \$190 included in this balance (December 31, 2020 - \$85), 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.

The carrying value of 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 long term debt, approximates their fair values as the interest rate environment has not changed significantly since the date of issue.

The Company has no financial instruments which are measured at fair value at December 31, 2021 with the exception of cash and cash equivalents and contingent consideration (note 4) which are considered Level 2.

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18. Segmented information:

All of the Company's operations are within the packaging and manufacturing industry, and its major products are broken out into separate business groups: Industrial, Packaging, General Merchandise, Commercial Business Supplies, and Services. The majority of the Company's operations are performed within the United States and Canada, with 80% of total revenue coming from customers in the United States and 20% in Canada.

A reporting segment is defined as a component of the Company that:

- Engages in business activities from which it may earn revenues and incur expenses;
- Whose operating results are reviewed regularly by management; and
- In which discrete financial information is available.

For the year ended December 31, 2021, the Company's significant reportable segments aggregates its subsidiaries operating performance into 5 main business groups. The Company's chief operating decision maker evaluates segment performance based on segment revenue and operating earnings defined as "net income before corp. costs". Net income before corp. costs is comprised of each segments discrete revenues, cost of product revenue, logistics and fulfillment, and SG&A. The following table summarizes segment performance:

	Total	Industrial	Packaging	General Merchandise	Commercial Supplies	Services
Dec. 31, 2021						
Revenue	\$ 61,132	\$ 47,198	\$ 12,227	\$ 943	\$ 29	\$ 735
Net income, before corp. costs	2,859	2,581	264	(27)	(3)	44
Depreciation and Amortization	1,071	825	246	-	-	-
Capital Expenditures	15,983	15,373	610	-	-	-
Reportable segments assets	83,596	59,888	23,681			
Dec. 31, 2020						
Revenue	\$ 16,713	\$ 8,143	\$ 7,397	\$ 878	\$ -	\$ 295
Net income, before corp. costs	1,018	395	611	(39)	-	51
Depreciation and Amortization	484	60	424	-	-	-
Capital expenditures	15,412	4,559	10,853	-	-	-
Reportable segments assets	48,883	28,296	20,587	-	-	-

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18. Segmented information (continued):

	2021	2020
Reportable segment net income, before corp. costs	\$ 2,859	\$ 1,018
Parent company costs (unallocated)	(3,853)	(2,571)
SG&A (unallocated)	(2,572)	(1,316)
<i>Adjustments to reconcile to net loss before taxes</i>		
Share based compensation	(2,254)	(262)
Depreciation and amortization	(1,071)	(484)
Financing costs	(4,552)	(3,440)
Foreign exchange gain (loss)	(315)	118
Loss on debt repayment and conversion	(1,148)	(413)
Gain on interest free loan	85	83
Net loss before taxes	(12,821)	(7,267)

19. Supplementary cash flow information:

	Year ended December 31	
	2021	2020
Non-cash investing activities:		
Business acquisition funded by vendor loans and Vendor notes, common shares and contingent consideration liability (note 4)	\$ -	\$ 7,511
Office and plant lease capitalized asset	\$ 1,948	\$ 608
Non-cash financing activities:		
Vendor loan and notes (note 4)	\$ -	\$ 5,004
Contingent liability (note 4)	\$ -	\$ 1,674
Capitalized office and plant lease liability	\$ 1,948	\$ 608
Shares as acquisition consideration (note 4)	\$ -	\$ 1,046
Shares issued for conversion of debentures (note 10(b))	\$ 1,061	\$ 1,739
Shares issued for conversion of BDC loan (note 10(a))	\$ 3,122	\$ 1,000
Shares issued for conversion of other debt (note 10(a))	\$ 50	\$ -
Shares issued upon mortgage funding (note 10(a))	\$ -	\$ 450

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20. Subsequent events:

- a) On January 17, 2022 the Corporation entered into an equipment lease agreement with HSBC Bank of Canada to provide US\$1.65 million to fund the cost of the previously announced high speed extrusion line. The lease is amortized over a period of 72 months at an annual rate of 3.65%.
- b) On January 19, 2022, the Company filed a final short form base shelf prospectus (the "Shelf Prospectus"). The Shelf Prospectus will enable the Company to issue common shares, preferred shares, debt securities, warrants, subscription receipts, or any combination thereof, for an aggregate offering price of up to \$200,000,000 at any time during the 25-month period that the Shelf Prospectus is effective.
- c) On February 25, 2022, the Company announced that pursuant to the Company's Omnibus Equity Incentive Compensation Plan, it was granting stock options ("Options"), performance share units ("PSUs") and restricted share units ("RSUs") to certain employees, officers, and directors of the Company. Options to purchase 689,875 common shares were granted, with an exercise price of \$0.66 per common share. Twenty-five percent (25%) of each grant vests on February 21, 2023 with the balance vesting in equal monthly increments over the following three years. Each option is exercisable, once vested, for a period of seven years from the date of the grant.

The Company also granted an aggregate of:

- 1,720,367 PSUs, vesting in accordance with certain performance criteria to be set by the Board of Directors of the Company with respect to senior management and/ or by the Chief Executive Officer for the other employees prior to entering into any specific PSU award agreement; and
 - 1,828,277 RSUs vesting 1/3 per year on each of February 21, 2023, February 21, 2024 and February 21, 2025.
- d) On April 6, 2022 the Corporation finalized an agreement with Export Development Canada ("EDC") whereby EDC will provide US\$2 million in financing to support tooling manufacturing costs for customers and other inline products. The facility will be amortized over a 42 month period from initial drawdown of funds at an annual rate of US Prime plus 3%.