good natured Products Inc.

Management Discussion & Analysis
for the six months ended June 30, 2020

The following management discussion and analysis ("MD&A") of financial condition and results of operations of good natured Products Inc. ("*good natured*®", "GDNP", "the Company", "management", "we", "us" or "our") is prepared as at August 26, 2020 and should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar figures in this MD&A are in Canadian dollars unless otherwise stated.

This MD&A is intended to help the reader understand the Company, our operations, financial performance, current and future business environment and opportunities and risks facing the Company. Certain risks relating to the Company are set out explicitly in Appendix 1 of this MD&A. In addition, certain statements in this report incorporate forward looking information and readers are advised to review the cautionary note regarding such statements in Appendix 2 of this MD&A.

company profile

good natured® is producing and distributing one of North America's widest assortments of better everyday products® made with the highest possible percentage of renewable, plant-based materials and no BPAs, phthalates or other chemicals of concern potentially harmful to human health and the environment.

With a growing assortment of over 385 products and services, *good natured*® creates eco-friendly home and business products, food packaging, restaurant/take-out containers, medical and industrial supplies designed to do good for the planet, good for human health and good for business by driving incremental sales, minimizing waste and reducing environmental impact, all bundled up in a fresh and approachable brand.

Business customers delivering recurring revenue for *good natured*® include retailers, food producers, food packers, consumer product companies, restaurants, packaging manufacturers and other industrial processors across three key customer segments – National, Regional and Small Business – all of which are supported by a combination of inside and outside sales teams. The Company also offers direct purchasing through Amazon and its own e-commerce platforms in the US and Canada.

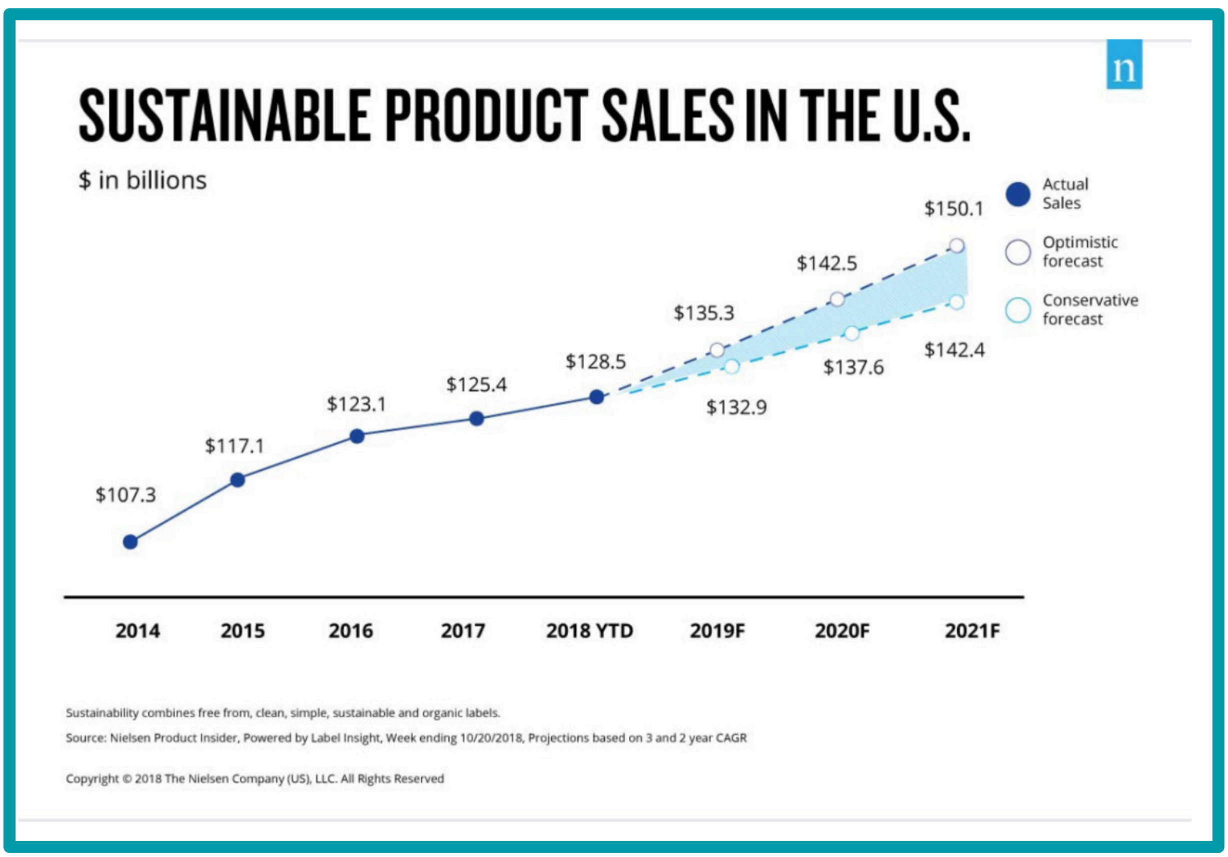
The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol "GDNP".

business overview

The Opportunity

Large addressable market with strong Compound Annual Growth Rate (CAGR)

The sustainable segment of the fast moving consumer goods (FMCG) industry is set to become a US $150 billion market by 2021 at a CAGR of 4x the growth rate for the overall FMCG industry.[1] Per Nielsen, sustainable goods account for over 22% of sales and are estimated to reach 25% by 2021. *good natured®* is positioned to broadly address this market with its own sustainable products, by developing sustainable packaging for consumer goods brands and retailers, as well as by providing bio-based materials to supply chain and logistics companies delivering sustainable consumer goods to store shelves.



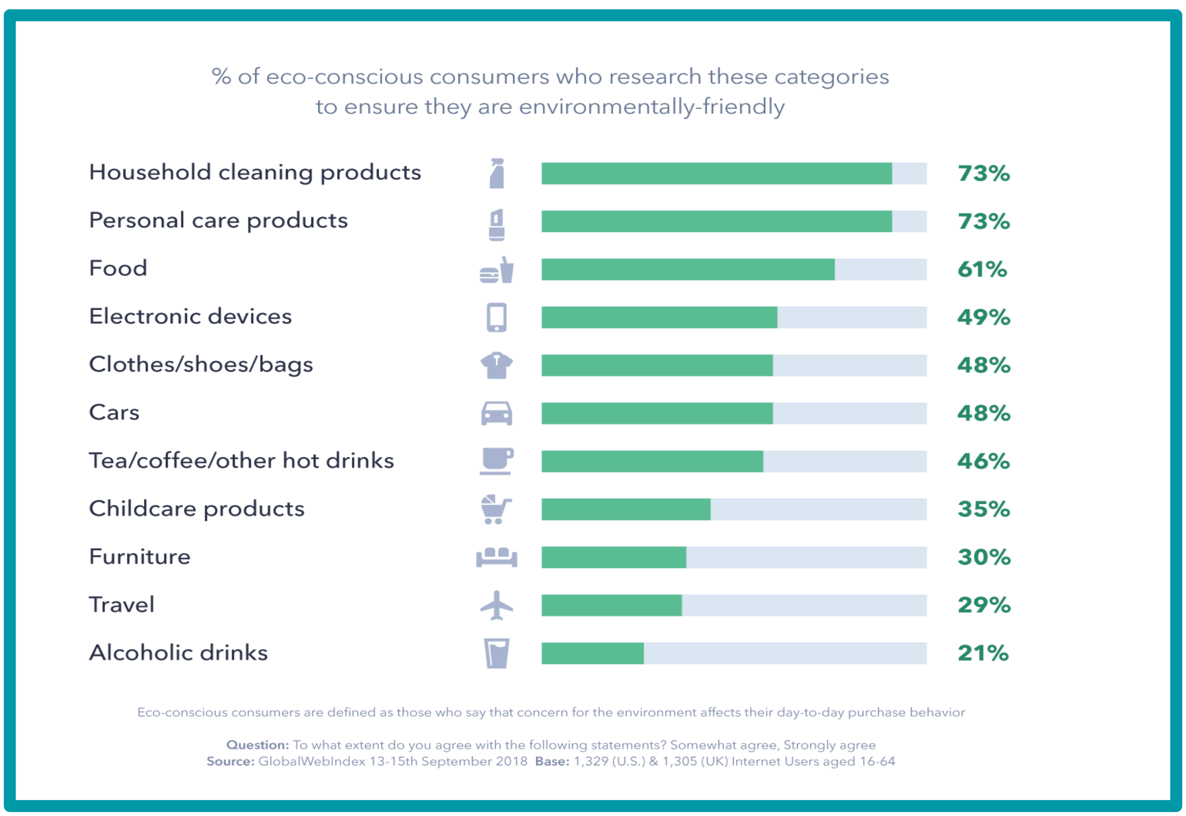
[1] Was 2018 The Year of the Influential Sustainable Consumer? https://www.nielsen.com/us/en/insights/article/2018/was-2018-the-year-of-the-influential-sustainable-consumer/

Rapid growth characterized by fragmentation and consolidation

Emerging industries usually see the entry of multiple new competitors who can grab market share due to rapid market growth and relatively slow response rate of incumbents. The sustainable consumer goods space is currently characterized by two types of competitors: 1. multiple small entrants typically focused on one product line or niche market segment; and 2. established traditional brands seeking out and acquiring new entrants to add sustainable products to their overall assortment. This creates an opportunity for *good natured*® to become the leading pure play eco-friendly products company in North America.

Consumer demand for better everyday products

All age groups, and especially Millennials and Gen Z, are more aware of the negative health and environmental impacts of hazardous chemicals and non-renewable products and packaging. They increasingly expect brands and retailers to be more socially and environmentally responsible. Consumer



packaging goods categories are particularly scrutinized, driving more urgency for change on the part of brands and retailers.[2]

Increasing regulatory pressure

Bans on chemicals of concern, non-renewable materials and single-use disposables are driving change in how everyday products are packaged and sold. For example, the Canadian government previously announced a plan to ban single-use, non-biodegradable plastics as early as 2021.[3] At the same time, more recent pressure for increased health and safety of food and medical supplies due to COVID-19 creates an additional demand for securely packaged one-time-use products that will also do less harm to the environment.

Go-To-Market Strategy

The Company is keenly focused on its North Star.

OUR NORTH STAR

Become North America's leading earth-friendly product company
by developing plant-based products & packaging
and acquiring relevant companies that
expand our assortment, customer base and market reach.

The *good natured*® go-to-market strategy is not dependent on one single product category or a fringe customer segment who values eco-friendly benefits above all else. In order to truly make a difference, *good natured*® recognizes the need to deliver across three core fundamentals, and that the Company's ability to develop its value proposition across three core pillars is what provides *good natured*® with a unique and hard to replicate competitive advantage.

[2] The Rise of Green Consumerism: What do Brands Need to Know? https://blog.globalwebindex.com/chart-of-the-week/green-consumerism/

[3] Canadian Government to ban single-use plastics, June 2019, https://www.cbc.ca/news/politics/government-to-ban-single-use-plastics-by-2021-1.5168386

<u>Ingredients</u>

The *good natured*® product development team looks globally to find the latest and most advanced plant and bio-based materials. Using the principles of Green Chemistry to do no harm, these ingredients are combined to meet specific performance characteristics using the maximum possible annually renewable materials, no chemicals deemed potentially harmful to human health and the environment and a lower CO_2 footprint.

The Company also sources ingredients from bio-refinery companies with plant-based materials with whom it can create meaningful partnerships. This is typically done through unique and exclusive supplier agreements by which *good natured*® sources material and then either converts that material or customizes it to create packaging, products or industrial supplies for its customers and/or uses the material as a key ingredient in its own branded products and packaging.

The Company also works closely with its supply chain partners leveraging their experience, labs and testing capacity. Through these collective relationships, *good natured*® has developed wholly owned, proprietary intellectual property, trade secrets and industry credibility, which have allowed *good natured*® to develop, source and secure plant-based materials that deliver equal or greater performance relative to petroleum-based plastics.

The Company's bio-based ingredients are protected through composite intellectual property, unique supply chain agreements and/or trade secrets across three main ingredients platforms – fiber, bioplastics and biodegradables.

good natured® materials have been specifically designed and sourced to work with standard manufacturing equipment so that no investments in retooling are required, providing a capital efficient and scalable model for both external supply chain partners and the Company's own manufacturing facilities.

Design

The *good natured*® team collaborates directly with brands and retailers to provide products and packaging from within its existing stock assortment or develops custom designs that meet the specific performance, operational, logistics and/or supply chain characteristics required to facilitate the customer's transition from petroleum toward renewable plant-based materials.

The Company secures development agreements and purchase orders directly from customers and delivers orders through its own facilities, outsourced supply chain partner agreements or through the brand or retailer's preferred supply chain partners.

The Company's products, packaging and industrial supplies are designed and sourced without having to invest in specialized, custom-configured equipment or facilities to produce or distribute them. This agile, collaborative approach to engineering, manufacturing and supply chain allows *good natured*® increased flexibility to bring industry-leading products, packaging and industrial supplies to its customers while reducing time and costs for the Company's go-to-market strategy.

Approach

At the core of the approach, *good natured*® allows customers to transact with the Company in a variety of ways, depending on what works for their unique operational requirements. By making the sales and service process easy and accessible, *good natured*® is increasing opportunities for customer acquisition, revenue maximization and retention. This includes deploying an "omni-channel" approach to customer engagement that delivers a modernized, streamlined experience for sales, service and support compared to many incumbents in the industry who still largely transact offline.

In addition to sales channels and product/customer mix, the Company has seen intrinsic value creation and recognition for its engaging and approachable brand names and has secured registered trademarks and/or submitted priority claims for its "good natured" and "better everyday products" brand marks across all relevant categories in Canada, the United States and internationally through the Madrid Protocol, which secures protection in 122 countries.

Product & Customer Segments

The *good natured*® business model is designed to engage a diverse mix of customers across a broad and complementary range of eco-friendly products in order to drive organic growth and frequency, increase cross-selling opportunities for margin enhancement and maximum revenue per customer while also allowing the Company to react quickly to changing market conditions. This responsiveness in the business model has been particularly relevant during the current COVID-19 pandemic.

good natured® acquires customers across four distinct market segments and tailors its sales and service interactions accordingly:

1) National – customers with multiple centers for decision making and operational presence across various states, provinces and regions in North America.
2) Regional – customers with centralized decision making and typically with operations in one region, state or province.

3) Small Business – customers that are owner-operated and/or operating within one key metropolitan area.
4) Direct to Consumer – proprietary and 3rd party e-commerce shopping platforms in the US and Canada.

To serve these customers, the Company currently offers over 385 products and services across 5 key Business Groups as follows:

1) Packaging -
    a. Stock Packaging – Bakery, Deli and Produce food packaging designs available to customers by direct sales, distribution and eCommerce.
    b. Custom Packaging – custom designed packaging for food, general merchandise and medical supplies that meet specific customer requirements and are delivered through exclusive and/or multi-year purchasing agreements.
2) Food Services – a variety of containers, cups, bowls and cutlery to meet the needs of take-out and delivery food establishments.
3) Products – everyday home/business organization and commercial products with high purchase frequency and a focus on removing chemicals of concern in our kitchens, food and medical supply chains, including shields and packing supplies.
4) Industrial – complementary eco-friendly inputs to the retail, restaurant, medical and manufacturing industries, including extruded sheets and biodegradable agents.
5) Services – supplemental service offerings, such as design, prototyping, labelling and mold financing to support customer requirements.

good natured® currently counts over 360 active national, regional and small business recurring customers across 50 states and provinces and over 15,000 annual direct-to-consumer transactions.

market segments	Business Groups				
	Packaging (stock & custom)	**Food Services** (retail & restaurant)	**Products** (home & commercial)	**Industrial** (rollstock & ingredients)	**Services** (design & financing)
Direct to Business	●	●	●	●	●
National	●		●	●	●
Regional	●	●	●	●	●
Small Business	●	●	●	●	●
Direct to Consumer	●	●	●		
eCommerce	●	●	●		
Stores			●		

Competitive Advantage

Although there's a growing number of direct and indirect competitors vying for lucrative "sustainable" dollars, the sustainable products market remains fragmented and without a clear leader. *good natured*® is well-positioned to solidify a leadership position in this high-growth industry based on its unique combination of core competencies, product assortment and customer mix, including:

- a leading assortment of plant-based packaging, products and industrial supplies across multiple industry segments;
- a retail-oriented sales strategy by Business Groups and Market Segments to enhance acquisition, frequency and cross selling;
- unique and defensible ingredient sourcing agreements;
- proprietary, patented and/or patent pending designs;
- processing trade secrets and know how;
- exclusive and highly scalable supply chain agreements;
- competitive product and packaging pricing;
- a flexible mix of outsourced/in-house manufacturing; and
- consumer-oriented, recognizable brand and market positioning.

Growth Strategy

The Company's growth strategy is centered on marketing a leading assortment of plant-based products that generates a diversified customer and product sales mix. The objective is to gain the highest share of each customer's total spend on sustainable products. The Company is driving this growth strategy through a two-pronged approach:

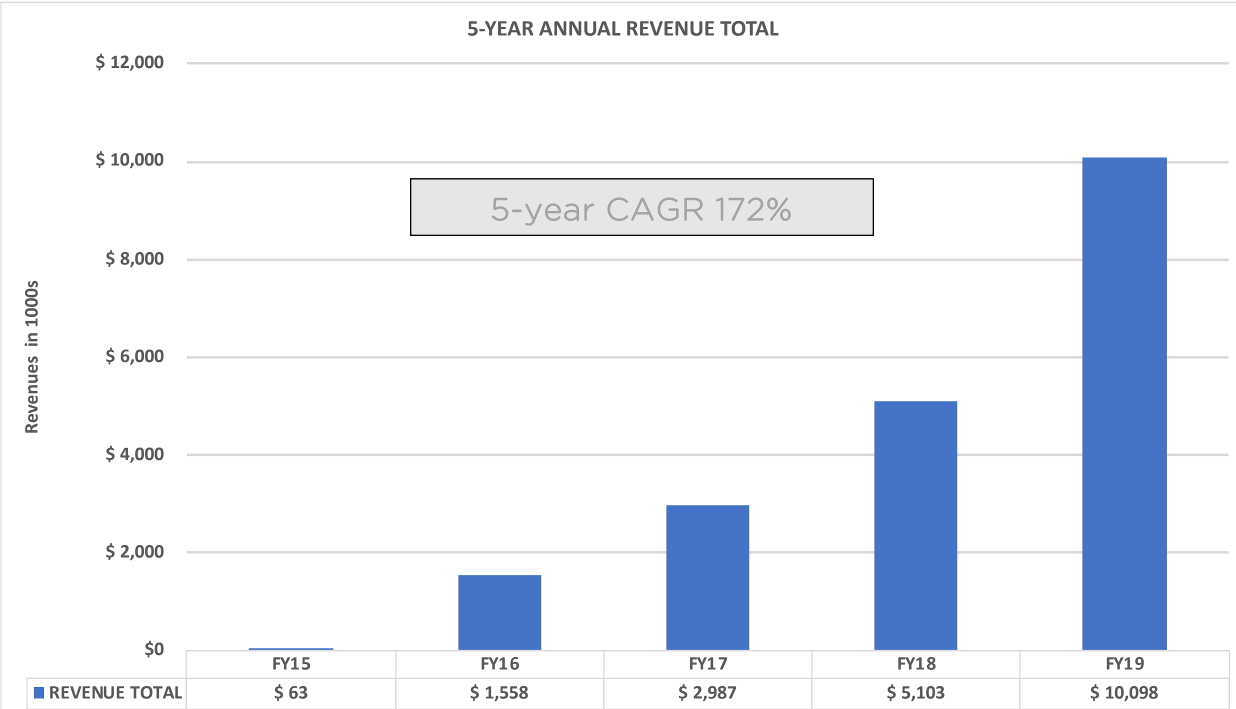
1) **Organic Sales** driven by a "land and expand" sales strategy that includes:
    a. <u>Acquiring New Customers</u> through direct-to-business and direct-to-consumer customer segments.
    b. <u>Cross Selling</u> existing and new products into the existing customer base.
    c. <u>Adding Products</u> that extend the *good natured®* product lines in each Business Group and/or create additional Business Groups with new product offerings that are relevant and complementary to the Company's existing customer base and/or open up the Company to a new segment of potential customers.

    The Company strives to achieve 50% of its organic growth through net new customers and 50% of its growth through cross selling.

2) **Acquisitions** that focus on businesses with a diverse customer base, a large range of product offerings, strong supply chain efficiency, positive EBITDA, and the potential for cross selling and expanding market reach. The targeted business may currently offer petroleum-based products that can be reformulated and re-launched using plant-based materials, or the business may have commercially ready plant-based products that enhance the *good natured®* product assortment.

This growth strategy has been instrumental in delivering 98% revenue growth to $10.1 million for the year ended December 31, 2019, compared to the year ended December 31, 2018 and builds on the Company's 76% revenue growth to $5.1 million for the year ended December 31, 2018 compared to the unaudited revenues for the twelve months ended November 30, 2017.

5-Year Revenue CAGR



Key Acquisitions

On May 12, 2020, the Company completed the acquisition of 100% of Shepherd Thermoforming & Packaging Inc., a leading thermoformer with over 35 years' experience, and all its real estate assets for $9.5 million in cash. The assets include machinery, molds and a 42,000 square foot manufacturing facility, all located on 2.31 acres of land in the Greater Toronto Area of Brampton, Ontario. The Shepherd acquisition further strengthens the Company's custom packaging capability with engineering, mold production and final product manufacturing for both thin gauge and heavy gauge applications. Shepherd generated average annual revenue of over $5.5 million, and average annual adjusted EBITDA of $420,000 over the last 3 years. Its customer base has ranged from 75 to 100 customers over the same period including several Fortune 500 companies located throughout eastern Canada and the northeastern United States. The acquisition of Shepherd also opens up cross selling opportunities across each company's customer base.

On December 23, 2016, *good natured®* acquired the bioplastics division of LINDAR Corporation. This acquisition expanded *good natured®* food packaging assortment with over 100 plant-based stock food packaging applications, custom packaging design capabilities, and a customer base contributing an estimated annual packaging sales of $1.13 million in Fiscal Year 2017. *good natured®* and LINDAR subsequently entered into an outsourcing agreement in which *good natured®* is the exclusive provider of plant-based materials to LINDAR. LINDAR also provides a range of services such as sales, marketing, warehousing, customer services, order management, design, engineering, and other back office support. LINDAR owns an estimated 5,882,000 shares of in the Company. Recognized as Thermoformer of the Year in 2019, LINDAR is a leader in packaging innovations, including unique single-serve and tamper evident designs.

On May 26, 2016, *good natured®* completed the acquisition of Ex-Tech Plastics Inc.'s bioplastics division. The acquisition established the Company's industrial business group that produces FDA-approved and food safe plant-based roll-stock that can be sold to thermoformers who then covert the roll stock into food packaging. In addition, *good natured®* and Ex-Tech entered into an outsource agreement where good natured® is Ex-Tech's exclusive supplier of bio-based materials and additives and Ex-Tech is the Company's exclusive plastics extrusion service provider in North America. Ex-Tech currently owns 6,650,000 shares of good natured® and has been in the plastic extrusion and recycling business since 1982.

Fiscal 2020 Year to Date Achievements

- Achieved revenue of $3.68 million for the quarter ended June 30, 2020 ("Q2 2020") as compared to $2.34 million for Q2 2019, an increase of 57%;
- achieved revenue of $6.73 million for the six months ended June 30, 2020 as compared to $4.39 million for six months ended June 30, 2019, an increase of 53%;
- signed two multi-year commercial agreements with US food producers;

- signed a one-year commercial agreement to supply earth-friendly packaging material to SmartPac Inc., a converter focused on renewable materials for single use disposable biodegradable and compostable packaging products. The Company estimates the one-year agreement will deliver between $0.7 million and $1.3 million revenue with expected gross margins of 25% to 30%;
- announced a definitive agreement to acquire Shepherd Thermoforming & Packaging Inc. ("Shepherd"), a leading thermoformer with over 35 years' experience and completed the acquisition on May 12, 2020. Shepherd designs custom packaging including engineering, mold production and final product manufacturing for both thin gauge and heavy gauge applications.
- announces that it has entered into a Sixth Supplemental Loan Agreement with Comerica Bank, the current senior lender to the Company, under which Comerica Bank will make available to the Company an additional $2.8 million CAD operating line of credit,
- received certification from the Compost Manufacturing Alliance that the majority of the Company's plant-based food packaging has been tested to biodegrade into usable compost within 180 days in a commercial compost facility;
- launched the Foodservices Business Group and added certified compostable and biodegradable cups, bowls, take-out containers, plates and cutlery for grocerant and restaurant take-out and delivery segments. These products use a variety of sustainable materials, including fiber from sugarcane waste, Sustainable Forestry Initiative (SFI) certified paper and polylactic acid (PLA) and also represent expansion for *good natured*® beyond bioplastics into a broader assortment of eco-friendly materials;
- launched enhanced e-commerce capability and optimized branded domains for US and Canadian visitors and expanded online shopping to include products across all Business Groups; and
- completed a brokered private placement of convertible debenture units for aggregate gross proceeds of $3,930,000. For further details see the "Liquidity and Capital Resources" section below.

results of operations

On May 12, 2020, the Company completed the acquisition of Shepherd Thermoforming & Packaging Inc. with an effective date of April 30, 2020. Due to the inclusion of a partial quarter's results for the Shepherd acquisition, the information contained in these consolidated financial statements and management discussion and analysis may not be comparable to previously reported periods.

	Three months ended June 30			Six months ended June 30		
	2020	2019	+/-	2020	2019	+/-
Revenue	$ 3,675,802	$ 2,337,411	57%	$ 6,727,889	$ 4,393,425	53%
Cost of product	(2,047,273)	(1,511,393)	35%	(3,991,120)	(2,794,862)	43%
Gross profit	1,628,529	826,018	97%	2,736,769	1,598,563	71%
Gross profit %	44.3%	35.3%		40.7%	36.4%	
Product development	(99,087)	(102,819)	(4%)	(220,283)	(223,077)	(1%)
Selling, general & administrative	(1,878,538)	(1,090,054)	72%	(3,334,652)	(2,085,237)	60%
Share-based compensation	(62,951)	(15,401)	309%	(73,163)	(35,399)	107%
Depreciation	(108,421)	(106,970)	1%	(150,592)	(241,353)	(38%)
Financing costs	(840,397)	(323,371)	160%	(1,758,558)	(539,493)	226%
Foreign exchange gain (loss)	(174,345)	-	-	464,762	-	-
Loss on convertible debenture redemption	-	-	-	(131,782)	-	-
Gain on interest free loan	20,924	12,293	70%	66,428	26,118	154%
Deferred income taxes recovery	0	(21,024)	(100%)	80,460	(41,811)	(292%)
Net loss for the period	$ (1,514,286)	$ (821,328)	84%	$ (2,320,611)	$ (1,541,689)	51%
EBITDA	$ (40,525)	$ (366,855)	(89%)	$ (348,252)	$ (709,751)	(51%)

Revenue and Gross Profit

Revenue for Q2 2020 increased 57% to $3.68 million as compared to $2.34 million for Q2 2019. Revenue for the 6-months YTD 2020 increased 53% to $6.73 million as compared to $4.39 million for the 6-months YTD 2019. Revenue for Q2 2020 not attributed to the acquisition of Shepherd was $2.80 million and represented a 20% increase compared to revenue of Q2 2019. Not accounting for the revenue contributed by the acquisition of Shepherd, revenue for the 6-months YTD 2020 increased 33% compared to revenue for the 6-months YTD 2019.

While the Company's operations qualified as an essential business in the current COVID-19 environment, the organic revenue growth rate has reduced but remains firm in each of the Company's established business groups: Industrial, Packaging, Products and Services. The Company's broad customer base across different industry sectors has also mitigated revenue risk compared to companies concentrated in a single sector. In particular, strong quarterly sales from the Company's healthcare customer base offset weakened sales from the Industrial product portfolio. The Company is not anticipating changes to its growth strategy of driving organic sales from cross selling, product line extensions and new customer acquisition.

Gross profit as a percentage of sales for Q2 2020 was 44.3% compared to 35.3% for Q2 2019. Gross profit as a percentage of sales for the 6-months YTD 2020 was 40.7% compared to 36.4% for the 6-months YTD 2019. The increase in gross profit percentage is within expected ranges and is due to changes in product, customer mix and the addition of customer mix from completing the Shepherds Acquisition.

Product development ("PD")

The following is a breakdown of the material components of PD expense:

	Three months ended June 30			Six months ended June 30		
	2020	2019	+/-	2020	2019	+/-
Wages	$ 63,955	$ 62,286	3%	$ 125,050	$ 124,572	0%
Other	71,899	87,643	(18%)	164,044	173,930	(6%)
Gross PD expense	$ 135,854	$ 149,929	(9%)	$ 289,094	$ 298,502	(3%)
Capitalized expenditures	(36,767)	(47,110)	(22%)	(68,811)	(75,425)	(9%)
Net PD expense	$ 99,087	$ 102,819	(4%)	$ 220,283	$ 223,077	(1%)

PD expense for Q2 2020 and 6-months YTD 2020 was consistent with the same periods in the prior year. The Company continues to direct its PD efforts in key growth categories to develop new lines of products and/or replace existing lines with enhanced designs, as well as secure additional bio-based raw material supply. *good natured®* currently has three material platforms used to create finished packaging and products – fiber, bioplastics and biodegradables.

Selling, general and administrative ("SGA")

The following is a breakdown of the material components of SGA expenses:

	Three months ended June 30					Six months ended June 30				
		2020		2019	+/-		2020		2019	+/-
Wages	$	552,944	$	340,034	63%	$	950,848	$	678,361	40%
Selling and G&A costs		348,676		179,812	94%		562,591		339,485	66%
Outsource supply chain & fulfilment		668,347		570,208	17%		1,351,299		1,067,391	27%
Acquisition related activity		308,571		-	-		469,914		-	-
SG&A	$	1,878,538	$	1,090,054	72%	$	3,334,652	$	2,085,237	60%
SG&A excluding acquisition activity	$	1,569,967	$	1,090,054	44%	$	2,864,738	$	2,085,237	37%

The increase in SGA is due to variable outsource supply chain & fulfilment expenses rising in correlation with the 6-month revenue increase of 53% and incremental SGA from the Shepherd Thermoforming acquisition as of May 1, 2020. The Company will continue to drive rapid growth in revenue while maintaining its focus on disciplined expense management. The goal is to achieve expense leverage gains by increasing gross margin at a higher rate than SG&A expenses. The spread between the two growth rates will vary as the Company makes investments in staffing and infrastructure in advance of anticipated market share gains and new product launches. In 6-months YTD 2020 compared to 6-months YTD 2019, the Company increased staffing to improve logistics efficiencies, expand geographic sales coverage, drive e-commerce and increase product offerings.

Other items

Financing costs for 6-months YTD 2020 were $1.76 million compared to $0.54 million for the 2019 comparative period, an increase of 226%. In general, the increase is due to higher levels of debt during the comparative periods. At June 30, 2020, the book value of interest-bearing debt was $23.1 million as compared to $12.0 million at June 30, 2019. In addition, financing costs include re-financing fees, a 5% premium paid on the redemption of $3.2 million of convertible debentures and upfront fees for international letters of credit issued to key suppliers.

The Company recorded a loss on redemption of convertible debentures of $0.13 million for Q1 2020. The loss represents the write-off of the pro-rata portion of initial costs incurred for the issuance of the February 2018 convertible debentures.

The Company recorded a foreign exchange loss of $0.17 million for Q2 2020 and a gain of $0.46 million for 6-months YTD 2020. The CAD/USD foreign exchange rate used for translating the Company's US dollar functional operations and monetary items increased from 1.299 at December 31, 2019 to 1.363 at June 30, 2020.

EBITDA and Net Loss

	Three months ended		Six months ended	
	Jun. 2020	Jun. 2019	Jun. 2020	Jun. 2019
Income (loss) for the period:	$ (1,514,286)	$ (821,328)	$ (2,320,611)	$ (1,541,689)
Share-based compensation	62,951	15,401	73,163	35,399
Depreciation and amortization	108,421	106,970	150,592	241,353
Financing costs	840,397	323,371	1,758,558	539,493
Foreign exchange gain	174,345	-	(464,762)	-
Loss on convertible debenture redemption	-	-	131,782	-
Loss (Gain) on interest-free loan	(20,924)	(12,293)	(66,428)	(26,118)
Acquisition related activity	308,571	-	469,914	-
Deferred income taxes	-	21,024	(80,460)	41,811
EBITDA	$ (40,525)	$ (366,855)	$ (348,252)	$ (709,751)

For Q2 2020, the Company incurred an EBITDA loss of $40,525 compared to an EBITDA loss of $366,855 for Q2 2019, an improvement of $326,330 or 89%. For 6-months YTD 2020, the Company incurred an EBITDA loss of $348,252 compared to an EBITDA loss of $709,751 for 6-months YTD 2019, an improvement of $361,499 or 51%. The reduced EBITDA loss is in line with the Company's plan and reflects continued focus on revenue and market share growth while maintaining a disciplined focus on operating cost levels and EBITDA improvement.

The Company has included the non-GAAP performance measure, EBITDA, in the MD&A. The Company employs EBITDA internally to measure its operating and financial performance and to assist in business decision making. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors and other stakeholders also use this non-GAAP measure as information to evaluate the Company's operating and financial performance. As there are no standardized methods of calculating this non-GAAP measure, the Company's methods may differ from those used by others and, therefore, the use of this measure may not be directly comparable to similarly titled measures used by others. Accordingly, this non-GAAP measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

EBITDA provides an indication of the Company's continuing capacity to generate income from operations before considering the Company's financing decisions, share compensation, costs of amortizing capital assets and other items. Accordingly, EBITDA comprises net income (loss) excluding financing costs, foreign exchange gains or losses, share compensation, amortization and depreciation, gains or losses on loans, acquisition related activity and income taxes.

For Q2 2020, the Company incurred a net loss of $1.51 million or $0.01 per common share compared to a net loss of $0.82 million or $0.01 per common share for Q2 2019, an increase of 84%. For 6-months YTD 2020, the Company incurred a net loss of $2.32 million or $0.02 per common share compared to a net loss of $1.54 million or $0.02 per common share for 6-months YTD 2019, an increase of 84%.

Segmented Information

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

Sales in the six months ended June 30, 2020 from the top four customers amounted to $3,809,281 or 57% of total revenue. (Year ended December 31, 2019 - $7,464,472 or 74%).

The Company had two accounts that accounted for greater than ten percent of accounts receivable for a total of $1,142,493 or 37% at June 30, 2020 (December 31, 2019 – three accounts: $375,993 or 55%).

Subsequent Events

On July 8, 2020, the Company announced a best-efforts private placement of 25,000,000 units (the "Units") at a price of $0.14 per Unit for gross proceeds of up to $3,500,000. Each Unit will be comprised of one common share of the Company and one half (1/2) of one common share purchase warrant. Each warrant will entitle the holder to acquire one additional common share at an exercise price of $0.21 per common share for a period of 12 months from the closing of the offering. The closing of the offering is expected to occur on or about August 30, 2020.

The net proceeds from the offering will be used to complete the repayment of the Company's outstanding convertible debentures issued on February 28, 2018 and for general working capital purposes.

liquidity and capital resources

		Jun. 30, 2020		Dec. 31, 2019
Cash	$	3,081,775	$	8,454,882
Trade and Other receivables		3,112,249		682,622
Inventory		4,273,759		1,922,955
Prepaid expenses		185,029		172,141
Accounts payable and accruals		(5,016,691)		(3,039,288)
Credit facility		(1,226,520)		(649,500)
Current portion of loans		(819,727)		(196,341)
Net working capital	$	3,589,874	$	7,347,471

At June 30, 2020, the Company, excluding existing unused credit line of $2,924,000, had net working capital of $3.59 million compared to working capital of $7.35 million at December 31, 2019. Management has funded operations through a mix of sales growth, gross margin improvement, cost management, operating credit lines, support from vendors, government funding, exercised warrants, and long-term debt. The change in Net Working Capital from December 31, 2019 to June 30, 2020 is a result of the following; the Company closed on the first tranche of Its debenture financing on December 30 as noted below, the cash proceeds were received, but the February 2018 debentures had not been paid off yet; acquisition of Shepherds included substantial accounts receivable; as revenues continue to grow, the Company continues to increase its supply chain and inventory requirements.

On December 30, 2019, the Company completed a first tranche of convertible debenture units ("Unit") for gross proceeds of $2.74 million. On January 23, 2020, the Company closed the final tranche for additional gross proceeds of $1.19 million. In total, the Company raised gross proceeds of $3.93 million (total net proceeds of $3.58 million). Proceeds of the debenture placement were used for closing costs and to redeem $3.22 million of the Company's existing 10% convertible unsecured debentures due February 2022. The redemption included a 5% premium plus accrued interest.

On May 12, 2020, the Company financed the purchase of Shepherd Thermoforming through a combination of a $6.0 million BDC mortgage loan, a $1.35 million in a vendor promissory note, and a $2.4 million drawdown of the Company's BDC credit facility.

In conjunction with the completed acquisition of Shepherd, the Company completed the conversion of $1.0 million CAD of its existing long term credit facility with BDC by issuing 6,666,667 common shares to BDC at a deemed price of $0.15 per Share, and also issued 3,000,000 Shares to BDC at a deemed price of $0.15 per Share as a loan bonus for BDC providing the mortgage as part of the financing of the Shepherd acquisition.

Below is a summary of cash flows provided by/used in operating, financing and investing activities:

	Six months ended		Change	
	Jun. 2020	Jun. 2019	$	%
Cash used in operating activities	$ (4,112,740)	$ (1,302,537)	$ (2,810,203)	216
Cash provided by financing activities	10,221,086	6,226,796	3,994,290	64
Cash used by investing activities	(11,688,462)	(192,816)	(11,495,646)	5,962
Effect of foreign exchange rate changes on cash	207,009	-	207,009	-
Net change in cash	$ (5,373,107)	$ 4,731,443	$ (10,104,550)	(214)
Beginning cash	8,454,882	2,903,466	5,551,416	191
Ending cash	$ 3,081,775	$ 7,634,909	$ (4,553,134)	(60)

Cash used in operating activities for 6-months YTD 2020 was $4.11 million compared to $1.30 million for 6-months YTD 2019, an increase of $2.81 million. The majority of the operating cash use is due to the Company's investment in net operating working capital as it increased its responsibility for raw material purchasing, receivables collections and vendor payments for its industrial segment which was previously covered by the outsourcing agreement with Ex-Tech Plastics Inc. The Company made the change in order to better manage the Company's industrial segment raw material forecasting, planning, and back office efficiency.

Cash provided by financing activities for 6-months YTD 2020 was net $10.2 million compared to a source of cash from financing activities of net $6.2 million for 6-months YTD 2019. In 6-months YTD 2020, the Company added $11.4 million of debt for the purchase of Shepherd Thermoforming, received net proceeds of $1.05 million from the issuance of convertible debentures, drew an additional $0.53 million from its $4.16 million revolving credit facility, and received proceeds from warrant exercises of $0.07 million. These were offset by the redemption of $3.22 million of convertible debentures. For the 6-months YTD 2019, the Company received net proceeds of $5.87 million from the first tranche of the BDC loan facility, additional draw of $0.33 million on its revolving credit facility, and warrant exercise proceeds of $0.02 million.

Cash used by investing activities for 6-months YTD 2020 was $11.7 million compared to cash use of $0.19 million for 6-months YTD 2019. On May 12, 2020, the Company invested $11.4 million to complete the acquisition of Shepherd Thermoforming. Other expenditures relate to manufacturing equipment, office computers and development costs related to the Company's microwave and dishwasher safe plant-based food containers.

historical quarterly results

A summary of the Company's results for the previous eight quarters follows:

Three months ended		Jun. 2020		Mar. 2020		Dec. 2019		Sep. 2019
Sales	$	3,675,802	$	2,584,561	$	2,526,755	$	3,178,495
EBITDA	$	(40,525)	$	(154,862)	$	(387,450)	$	(348,899)
Net loss	$	(1,514,286)	$	(1,132,046)	$	(846,747)	$	(1,085,385)
Basic and diluted loss per common share	$	(0.01)	$	(0.01)	$	(0.01)	$	0.01

Three months ended		Jun. 2019		Mar. 2019		Dec. 2018		Sep. 2018
Sales	$	2,337,411	$	2,056,014	$	1,916,909	$	1,003,362
EBITDA	$	(366,855)	$	(342,896)	$	(441,234)	$	(454,183)
Net loss	$	(821,328)	$	(720,361)	$	(641,055)	$	(822,868)
Basic and diluted loss per common share	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

Factors affecting comparability of quarters

Over the last eight quarters the Company's quarterly sales growth for the past year has ranged from 32% to 217%. Factors that affect quarter over quarter growth include, but are not limited to, corporate acquisitions, new product launches, timing of onboarding new customers, timing of onboarding new products being cross sold, customers' inventory transition timelines, product in-stock levels, production lead times, acquisition of new customers, and some customer attrition, delisting of certain products to manage life cycle, company sustainability mandate changes and recent COVID-19 government mandated closures.

capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to develop the business, and drive revenue growth and customer acquisitions, as well as fund the research and development of new product line extensions.

The Company is dependent on debt and equity funding to maintain sufficient capital to execute on its growth objectives and maintain sufficient capital for its operations. When necessary, the Company raises additional capital through issuance of debt and 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, may make changes from time to time 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 and earning levels. Other than these required covenants, the Company is not subject to any externally imposed capital requirements.

financial instruments

The Company's financial instruments as at June 30, 2020 include cash, trade and other receivables, accounts payable and accrued liabilities, credit facility, and loans.

The Company's financial assets and financial liabilities are classified and measured at amortized cost.

Fair values hierarchy

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amount shown on the balance sheet approximates the fair value.

off-balance sheet arrangements

As at June 30, 2020 and the date of this MD&A, the Company did not have any off-balance sheet arrangements.

capital structure

As at August 26, 2020, the Company had:

- 117,797,866 (December 31, 2019 – 105,797,873) common shares outstanding and no preferred shares;
- 8,884,883 (December 31, 2019 – 7,139,794) options outstanding;
- 2,885,000 (December 31, 2019 – nil) restricted share units outstanding; and
- 21,201,323 (December 31, 2019 – 20,456,971) warrants outstanding.

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

Also, on May 12, 2020, the Company entered into a new $2.8 million CAD line of credit facility with Comerica Bank. This new facility is in addition to the Company's existing $1 million USD facility with Comerica.

On December 30, 2019 and January 23, 2020, the Company completed a placement of convertible debenture units (“Unit”) for gross proceeds of $3.93 million. Each Unit is comprised of one $1,000 principal amount unsecured 10% convertible debenture of the Company due December 30, 2024 and 938 common share purchase warrants. The Company issued a total of 3,686,340 Warrants to the debenture holders. Each Warrant entitles the holder thereof to purchase one common share of the Company for a period of 24 months after the issue date at a price of $0.16 per Warrant. The Company also issued non-transferable broker warrants to acquire 1,103,737 common shares from treasury at a price of $0.16 per common share, exercisable at any time within the 24 months following the issue date. Proceeds of the debenture placement were used for closing costs and to redeem $3,214,000 of the Company’s existing 10% convertible unsecured debentures due February 2022. The redemption included a 5% premium plus accrued interest.

On June 11, 2019, the Company secured $10 million USD in growth capital from BDC Capital Inc. (“BDC”) to further accelerate organic growth and, in the longer term, expand the Company’s customer base, product assortment and market reach. Pursuant to the completion of the BDC Financing, the Company agreed to increase the outstanding warrants that were issued as part of a unit with the Debentures by 122.22% resulting in the issuance of 8,568,975 additional warrants at a price of $0.10 per warrant issued to Warrant Holders. The fair value at grant date of the additional warrants issued was $340,154 based on the Black-Scholes pricing model and was recorded as a BDC Financing discount. The Warrants are subject to an acceleration right if on any 20 consecutive or non-consecutive trading days following the closing date, the Company’s common shares trade at greater than a volume-weighted average trading price of $0.20 on the TSX-V.

On March 21, 2019, pursuant to receiving approval from the TSX Venture Exchange to release the common share consideration for the Company’s acquisition on December 23, 2016 of LINDARS's bioplastic book of business, the Company issued 5,382,000 common shares.

critical accounting policies and statements

Use of estimates and assumptions

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the reported amount of assets, liabilities, income and expenses within the next financial year.

Financial instruments

The Company enters into 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 IFRS9, 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.

Share based payments and warrants

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

Inventory provision

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

Significant judgments

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

The directors have applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the three months ended March 31, 2020. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate.

The Company's significant accounting policies are disclosed in Note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2019.

additional information

Additional information relating to good natured Products Inc. is available on SEDAR at www.sedar.com.

APPENDIX 1

risks related to the business

Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

Limited Operating History

The Company has a limited operating history and has limited revenues derived from operations. The Company's operating subsidiary, good natured Products (CAD) Inc. (formerly Solegear Bioplastics Inc.), began its business operations in 2006 and spent five years purely on research and development. Significant time and expenditures have been focused on research and development to create the existing product line. The Company's bioplastics were first introduced commercially in 2014 and the near-term focus has been on actively developing accounts and building sales, marketing and support capabilities. The Company's revenue history is as follows: $nil in FY2012 - 2014, $67,220 in FY2015, $146,036 in FY2016, $2,066,061 in FY2017, $2,478,956 for the ten months ending December 31, 2017, FY2018 $5,103,347, and FY2019 $10,098,675. As a result of these and other factors, the Company may not be able to achieve, sustain or increase year to date profitability on an ongoing basis.

Problems Resulting from Rapid Growth

The Company is pursuing a plan to grow its revenues by delivering its growing catalogue of bioplastic products and packaging to a broader customer base impacted by environmental legislation, chemical toxicity and corporate sustainability mandates and by continuing to grow revenue with existing customers and acquire businesses with an existing customer base, all of which will require capital in order to meet these growth plans. In the emerging bioplastics industry, up-front expenses can be high and customization on a customer-by-customer basis is often required. Besides attracting and maintaining qualified personnel, employees or contractors, the Company expects to require working capital and other financial resources to meet the needs of its planned growth. No assurance exists that its plans will be successful or that these items will be satisfactorily handled, and this may have material adverse consequences on the business of the Company.

Competition

There is significant competition in the bioplastics and high-performance plastics market from a range of players from larger established companies to start-ups. the Company competes with others offering similar products. If the Company's systems and technology fail to achieve or maintain market acceptance, or if new products and/or technologies are introduced by competitors that are more favorably received than the Company's offering, or are more cost-effective or provide legal exclusivity through patents or are otherwise able to render the Company's technology and/or products obsolete, the Company will experience a decline in demand which will result in lower than expected sales performance and associated reductions in expected operating profits, all of which would negatively affect stock prices for the Company.

The Company may also be required to collaborate with third parties to develop its products and may not be able to do so in a timely and cost-effective basis, if at all.

Performance of Material

There are significant technical requirements that customers require the Company’s bioplastic products and packaging to meet before they are accepted. The Company may not be able to meet these technical requirements, or additives may need to be added to the bioplastic formulations to meet these technical requirements, which could drive up the price of the Company’s bioplastic product and packaging to a point where they are not profitable when sold at the intended prices.

Additional Financing Will be Required

The Company anticipates that it will need additional financing in the future to continue its operations. Financing may not be available to the Company on commercially reasonable terms, if at all, when needed. There is no assurance that the Company will be successful in raising additional capital or that the proceeds of any future financings will be sufficient to meet its future capital needs.

Possibility of Significant Fluctuations in Operating Results

The Company’s revenues and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including, but not limited to, access to funds for working capital and market acceptance of its products. Revenues and operating results may also fluctuate based upon the number and extent of potential financing activities in the future. There can be no assurance that the Company will be able to reach profitability on a quarterly or annual basis.

The Company has not arranged for any independent market studies to validate its business plan and no outside party has made available results of market research with respect to the extent to which customers are likely to utilize its products or the probable market demand for its products. Plans of the Company for implementing its business strategy and achieving profitability are based upon the experience, judgment and assumptions of key management personnel, and upon available information concerning the bioplastics industry.

If management's assumptions prove to be incorrect, the Company may not be successful in growing its business.

Investment in Technological Innovation

If the Company fails to invest sufficiently in research and product development, its products could become less attractive to potential customers, which could have a material adverse effect on the results of operations and financial condition of the Company.

Retention or Maintenance of Key Personnel

There is no assurance that the Company can continuously retain or maintain key personnel in a timely manner if the need arises, even though qualified replacements are believed by management to exist. Failure to have adequate personnel may materially harm the ability of the Company to operate.

Contractual Arrangements

The Company is investing time and resources in developing relationships with a few key customers and prospective customers and if such customers or prospective customers were to terminate their relationships with the Company, it could have a material negative impact on the Company's anticipated performance.

Lack of Control in Transactions

Management of the Company intends to retain other companies to perform various services but may not be in a position to control or direct the activities of the parties with whom it transacts business. Success of the Company may be subject to, among other things, the success of such other parties, with each being subject to their own risks.

Reliance on Third Parties

The Company relies on an outsourced supply chain model and as such certain logistics, technology and manufacturing services are provided to it by third parties, and there can be no assurance that these third-party service providers will be available to the Company in the future on acceptable commercial terms or at all. If the Company were to lose one or more of these service providers, it may not be able to replace them in a cost-effective manner, or at all. This could harm the business and results of operations of the Company.

No Guarantee of Success

The Company, as well as those companies with which it intends to transact business, have significant business purchases and operational plans pending and are, therefore, subject to various risks and uncertainties as to the outcome of these plans. No guarantee exists that the Company, or any company with which it transacts business, will be successful.

Proprietary Rights Could Be Subject to Suits or Claims

No assurance exists that the Company or any company with which it transacts business, can or will be successful in pursuing or maintaining protection of proprietary rights such as business names, logos, marks, ideas, patents, inventions, and technology which may be acquired over time. In some cases, governmental registrations may not be available or advisable, considering legalities and expense, and even if registrations are obtained, adverse claims or litigation could occur.

Financial, Political or Economic Conditions

The Company may be subject to additional risks associated with doing business in foreign countries.

The Company expects to do business worldwide. As a result, it may face significant additional risks associated with doing business in other countries. In addition to language barriers, different presentations of financial information, different business practices, and other cultural differences and barriers, ongoing business risks may result from the international political situation, uncertain legal systems and applications of law, prejudice against foreigners, corrupt practices, uncertain economic policies and potential political and economic instability. In doing business in foreign countries, the Company may also be subject to risks including, but not limited to, currency fluctuations, regulatory problems, punitive tariffs, unstable local tax policies, trade embargoes, expropriation, corporate and personal liability for violations of local laws, possible difficulties in collecting accounts receivable, increased costs of doing business in countries with limited infrastructure, risks related to shipment of raw materials and finished goods across national borders and cultural and language differences. The Company also may face competition from local companies which have longer operating histories, greater name recognition, and broader customer relationships and industry alliances in their local markets, and it may be difficult to operate profitably in some markets as a result of such competition. Foreign economies may differ favorably or unfavorably from the United States economy or Canadian economy in growth of gross national product, rate of inflation, market development, rate of savings, and capital investment, resource self-sufficiency and balance of payments positions, and in other respects.

When doing business in foreign countries, the Company may be subject to uncertainties with respect to those countries' legal systems and laws, which may impact its ability to enforce agreements and may expose it to lawsuits.

Legal systems in many foreign countries are new, unclear, and continually evolving. There can be no certainty as to the application of laws and regulations in particular instances. Many foreign countries do not have a comprehensive system of laws, and the existing regional and local laws are often in conflict and subject to inconsistent interpretation, implementation and enforcement. New laws and changes to existing laws may occur quickly and sometimes unpredictably. These factors may limit the Company's ability to enforce agreements with its current and future customers and supply chain partners. Furthermore, it may expose the Company to lawsuits by its customers or supply chain partners in which the Company may not be adequately able to protect itself.

When doing business in foreign countries, the Company may be unable to fully comply with local and regional laws which may expose it to financial risk.

When doing business in foreign countries, the Company may be required to comply with informal laws and trade practices imposed by local and regional government administrators. Local taxes and other charges may be levied depending on the local needs to tax revenues and may not be predictable or evenly applied. These local and regional taxes/charges and governmentally imposed business practices may affect the cost of doing business and may require the Company to modify its business methods to both comply with these local rules and to lessen the financial impact and operational interference of such policies. In addition, it is often extremely burdensome for businesses operating in foreign countries to comply with some of the local and regional laws and regulations. Any failure on the part of the Company to maintain compliance with the local laws may result in fines and fees which may substantially impact its cash flow, cause a substantial decrease in revenues, and may affect its ability to continue operations.

risks related to good natured® intellectual property

Protection of *good natured*® intellectual property

The Company's products utilize a variety of proprietary rights that are important to its competitive position and success. the Company has been protecting its intellectual property through patents that focus on composition of matter, that is, the materials that make up its bioplastics formulations. Because the intellectual property associated with the Company's technology is evolving, current intellectual property rights may not adequately protect the Company and/or it may not be successful in securing or maintaining proprietary or future patent protection for the technology used in its systems or products, and protection that is secured may be challenged and possibly lost. the Company generally enters into confidentiality or license agreements or has confidentiality provisions in agreements with the Company's employees, consultants, strategic partners and clients and controls access to and distribution of its technology, documentation and other proprietary information. The Company's inability to protect its Intellectual Property adequately for these and other reasons could result in weakened demand for its products, which would result in a decline in its revenues and profitability.

Third Party Intellectual Property Rights

The Company could become subject to litigation regarding intellectual property rights that could significantly harm its business. The Company's commercial success will also depend in part on its ability to make and sell its products without infringing on the patents or proprietary rights of third parties. Competitors, many of whom have substantially greater resources than the Company and have made significant investments in competing technologies or products, may seek to apply for and obtain patents that will prevent, limit or interfere with the Company's ability to make or sell its products.

Information Technology, Network and Data Security Risks

The business of the Company faces security risks. Any failure to adequately address these risks could have an adverse effect on the business and reputation of the Company. Computer viruses, break-ins, or other security problems could lead to misappropriation of proprietary information and interruptions or delays in the Company's business.

other risks

Share Price Fluctuation and Speculative Nature of Securities

The market price of the Company's shares could fluctuate substantially, and such shares should be considered speculative securities. In addition, the equity markets in general, and the TSX Venture Exchange in particular, have experienced extreme price and volume fluctuations historically that have often been unrelated or disproportionate to the operating performance of listed companies. These broad market factors may affect the market price of the Company's shares adversely, regardless of its operating performance.

Volatility in the Price of Shares

The market for the Company's shares may be characterized by significant price volatility when compared to seasoned issuers, and management expects that the share price will be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. the Company may in the future be a target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention from day-to-day operations and consume resources, including cash.

Operating results may fluctuate as a result of a number of factors, many of which are outside of the control of the Company. The following factors may affect operating results: ability to compete; ability to attract customers; amount and timing of operating costs and capital expenditures related to the maintenance and expansion of the business, operations and infrastructure; general economic conditions and those economic conditions specific to the bioplastics industry; the success of product line expansion; and ability to attract, motivate and retain top-quality employees.

Dividends

Management intends to retain any future earnings to support the development of the business of the Company and does not anticipate paying cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the board of directors of the Company after taking into account various factors, including but not limited to its financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that the Company may be a party to at the time. Accordingly, investors must rely on sales of the Company's shares after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase the Company's shares.

Dilution

Any additional offerings of securities effected by the Company may result in substantial dilution in the percentage of the Company's shares held by existing shareholders.

Control of the Company Potentially in the Hands of a Small Number of Shareholders

The Company's largest shareholder owns, directly or indirectly, or exercises control or direction over in the aggregate approximately 21% of the Company's shares on a fully diluted basis. Such shareholder may have the ability to determine the outcome of matters submitted to the shareholders of the Company for approval, including the election and removal of directors, amendments to the Company's corporate governing documents and business combinations. The Company's interests and those of such shareholder may at times conflict, and this conflict might be resolved against the Company's interests. The concentration of control in the hands of such shareholder may practically preclude an unsolicited bid for the Company, and this may adversely impact the value and trading price of the Company's shares.

Conflicts of Interest

The Company may contract with affiliated parties, members of management of the Company, or companies owned or controlled by members of management. These persons may obtain compensation and other benefits in transactions relating to the Company. Certain members of management of the Company will have other minor business activities other than the business of the Company, but each member of management intends to devote substantially all of their working hours to *good natured*® unless otherwise agreed to by the Company on a case-by-case basis. Although management intends to act fairly, there can be no assurance that the Company will not possibly enter into arrangements under terms one could argue are less favorable than what could have been obtained had the Company or any other company had been dealing with unrelated persons.

APPENDIX 2

cautionary note regarding forward-looking statements

Certain statements in this MD&A that are not based on historical facts constitute forward-looking information, as defined in securities laws. Forward-looking information is not a promise or guarantee of future performance but is only a prediction that relates to future events, conditions or circumstances or the Company's future results, performance, achievements or developments and is subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause the Company's actual results, performance, achievements or developments in its business or industry to differ materially from those expressed, anticipated or implied by such forward-looking information. Forward-looking statements in this MD&A include all disclosure regarding possible events, conditions, circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. Readers are cautioned not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this MD&A and can be identified by words such as "may", "estimates", "projects", "expects", "intends", "believes", "plans", "anticipates", "continue", "growing", "expanding", or their negatives or other comparable words. Forward-looking statements include statements regarding the outlook for the Company's future operations, plans and timing for the introduction or enhancement of its services and products, statements concerning strategies or developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits, forecasts of future costs and expenditures, and other expectations, intentions and plans that are not historical fact. The forward looking statements in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. Specifically, management has assumed that the Company's performance will meet management's internal projections. While management considers these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. The risk factors and uncertainties that may affect the Company's actual results, performance, achievements or developments are many and include the matters described in Appendix 1. Consequently, all forward-looking statements in this report are qualified by this cautionary statement and the Company cannot assure investors that actual results, performance, achievements or developments that the Company anticipates will be realized. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions and the Company does not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change, except as required by law.