

# **good natured Products Inc.**

## **Management Discussion & Analysis for the Nine Months Ended September 30, 2018**

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 November 20, 2018 and should be read in conjunction with the Company’s unaudited consolidated condensed interim financial statements and accompanying notes for the nine months ended September 30, 2018 and audited consolidated financial statements and accompanying notes for the ten months ended December 31, 2017 both of 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 *good natured*®, 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

With over 100 plant-based food packaging designs, 10 grades of bioplastic rollstock sheets, 30 home & business organization products and a world class team of scientists, business builders and retailers, *good natured*<sup>®</sup> is producing and distributing one of North America's widest assortments of consumer products and packaging made from the highest possible percentage of renewable, plant-based materials with no BPAs, phthalates or other chemicals of concern.

Our *good natured*<sup>®</sup> customers include retailers, food producers, food packers, consumer product companies, restaurants and thermoforming companies within three key market segments – National, Regional and Small Business – all of which are supported by a combination of inside and outside sales teams.

Committed to doing what's right for the planet and right for business, *good natured*<sup>®</sup> is creating better *everyday products*<sup>®</sup> that combine cutting-edge bioplastic technology and the latest sustainable design features that not only look good, but maximize shelf space, drive incremental sales, enhance logistics and boost environmental benefits.

On October 31, 2017, the Company announced that it changed its name from Solegear Bioplastic Technologies Inc. to *good natured* Products Inc.

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

## **business overview**

### **Macro Trends**

#### **Rapidly growing segments**

Bioplastics is the fastest growing segment within the plastics industry. Compound annual growth rate ("CAGR") for the segment is estimated at up to 30%<sup>1</sup> (5 – 10x overall industry rate<sup>2</sup>). Grocery prepared foods have grown nearly 30% since 2008<sup>3</sup>, all of which require packaging to preserve freshness and protect during transport.

#### **Fragmentation caused by rapid growth**

Production capacity and range of bio-based ingredients are quickly increasing, leading to a rapid pursuit of channel development. The industry is characterized by multiple small entrants.

#### **Increasing regulatory pressure**

Government and corporate policies to protect human and environmental health create pressure to replace fossil fuel-based plastics. Bans on BPAs, phthalates and polystyrene are driving change in how everyday products are formulated, packaged and sold.

#### **Consumer demand for better everyday products**

All age groups, especially Millennials, are more aware of the potentially negative health impacts of chemicals found in petroleum-based plastics and increasingly expect brands and retailers to be more socially and environmentally responsible.

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<sup>1</sup> Global Bioplastics Market 2016-2020, Technavio, June 2016, [https://www.technavio.com/report/global-bio-chemicals-and-bio-materials-bioplastics-market?utm\\_source=T3&utm\\_medium=BW&utm\\_campaign=Media](https://www.technavio.com/report/global-bio-chemicals-and-bio-materials-bioplastics-market?utm_source=T3&utm_medium=BW&utm_campaign=Media)

<sup>2</sup> Bioplastics and Biopolymers Market by Type, by Application, and by Geography - Global Forecast to 2021, GMI Research, June 2017, <https://www.gmi-research.com/report/bioplactic-biopolymers-market.html>

<sup>3</sup> A Generational Study: The Evolution of Eating, NPD, June 2016, <https://www.npd.com/latest-reports/fbc-consumption-evolution-of-eating/>

Traditional industrial business models are not designed to build consumer-oriented, branded products and packaging that meet retailers' needs for unique new items and address consumer demand for healthier living.

### Market Strategy

The *good natured*® go-to-market approach is centered around sourcing and developing proprietary plant-based materials and transforming them into a wide range of products within two key target markets: The Company's product



#### packaging

The global "green" packaging market is projected to grow to **\$274.15 billion** by 2020, of which **54%** was food packaging in 2015.

Global Green Packaging Market 2017-2021, Reportlinker-Infiniti Research Limited, April 2017, Pack Expo, November 2016, PMMI Infographic,

#### home & business products

Home & business organization products is a **\$16 billion** market in the US alone, of which bins, baskets & totes represents \$5.6 billion.

Home Organization Market: Retail and Industry Trends and Analysis, March 2017



assortment of over 100 food packaging products and 30 home & business products has been categorized into **Business Groups** within each of the *good natured*® target markets with the purpose of driving the optimal revenue and margin mix.

# Market Positioning

*good natured*® targets three **Market Segments** and tailors its product assortment and offerings accordingly:

- 1) National - customers with coast-to-coast operations in North America
- 2) Regional - customers with operations in multiple states or provinces in a particular region
- 3) Small Business - customers with operations in one or multiple cities of a state or province.

The Company has over 100 national, regional and small business customers across 20 states and provinces.

		Business Groups								
		Packaging					Home/Business Organization Products			
Market Segments		Categories								
		Bakery	Ready Meals	Produce	Deli/ Butcher	Dairy/ Frozen	Roll Stock	Office	Home	Kitchen
National		●		●			●	●	●	
Regional		●	●	●			●	●	●	●
Small Business		●	●					●		
Direct to Consumer								●	●	

Droplets represent Business Groups and Market Segments where the Company has active customers and product assortments.

# Intellectual Property & Sourcing

The *good natured*® product development (“R&D”) and sourcing teams look globally to find the latest and most advanced plant and bio-based materials. Using the principles of Green Chemistry, these ingredients are combined into unique formulations to meet specific plant-based percentage requirements, material performance requirements, and/or market pricing objectives for our products. The resulting formulations form composite intellectual property

and/or trade secrets that give the Company a unique competitive advantage. *good natured*<sup>®</sup> currently has five material platforms used to create finished packaging and products.

The Company also partners with bio-refinery companies with proprietary plant-based materials. This is typically done through supplier agreements through which *good natured*<sup>®</sup> sources material from the third-parties and then either converts the material into finished packaging and/or uses the material as a key ingredient in its packages or products.

*good natured*<sup>®</sup> conducts all its product development activities through a collaboration process that subcontracts portions of the R&D to several leading Canadian research and development institutions. We also work closely with our supply chain partners leveraging their experience, labs and testing capacity. Through these collective relationships, the Company has developed wholly-owned, proprietary intellectual property and trade secrets, which have allowed *good natured*<sup>®</sup> to develop plant-based materials that deliver equal or greater performance relative to currently available petroleum-based plastics.

The Company has also secured registered trademarks for its “good natured” brand name and “better everyday products” brand across all relevant categories in Canada. Trademark applications for “good natured” and “better everyday products” in the United States have claimed priority based on the Canada applications and are in the final stages of registration.

## **Business Model**

The *good natured*<sup>®</sup> business model has been designed to be “capital light” and enable the Company to develop a leading and highly scalable assortment of plant-based products that can be sold directly to our customers.

The Company’s products, packaging and materials are developed and sourced without having to invest in capital equipment to produce them. This agile, collaborative approach to sourcing and manufacturing allows *good natured*<sup>®</sup> increased flexibility to bring industry-leading products and materials to its

customers while, reducing time and costs for the Company's go-to-market strategy.

The *good natured*<sup>®</sup> team works directly with customers to provide products and packaging from within its existing product assortment or to design and deliver a customized solution. The Company then secures purchase orders directly from the customer and delivers orders through its outsourced supply chain partner agreements or through the brand or retailer's preferred supply chain partners.

*good natured*<sup>®</sup> has developed key supply chain relationships for raw materials and has secured outsourced supply chain agreements to reliably fulfill orders in North America. The Company's materials have been specifically designed to work with standard manufacturing equipment so that no investments in retooling are required, providing a capital efficient and scalable model for both supply chain partners and the Company.

## **Competitive Advantage**

*good natured*<sup>®</sup> is well-positioned to compete in the high-growth bio-based materials industry. Competitive advantages include:

- leading assortment of plant-based packaging and products;
- segmented sales strategy by Business Groups and Market Verticals;
- unique ingredient sourcing agreements;
- proprietary patent-pending bioplastic formulations;
- proprietary, patented, and or patent pending plant-base packaging designs;
- trade secrets and know how;
- exclusive and highly scalable outsourced supply chain agreements;
- competitive product and packaging pricing;
- capital-light business model;
- consumer-oriented, recognizable brand and market positioning; and
- first to market positioning and commercial arrangements directly with retailers and major brands.

## Growth Strategy

The Company is driving increased market share of its packaging and products through three growth levers:

- 1) **Organic Sales**, driven by a “land and expand” sales strategy that includes:
  - a. Acquiring new customers directly
  - b. Cross Selling additional packaging and products into the existing customer base
  - c. Product Line Extensions that extend the *good natured*<sup>®</sup> product offerings in each Business Group and/or create a new Business Group with a new collection of products, which are then sold into the existing customer base
- 2) **Acquisitions**, focusing on existing businesses and/or books of business in which either petroleum-based plastic packaging or products can be reformulated, rebranded and re-launched into the market or the business has commercially ready bio-based products that can be scaled into the *good natured*<sup>®</sup> business model and customer base.

The Company's growth strategy has been instrumental in delivering 47% growth in revenue for the nine months ended September 30, 2018, compared to the nine months ended August 31, 2017.

### Organic Sales

The *good natured*<sup>®</sup> organic sales strategy is executed through 3 stages:

- 1) building a sales funnel with new customers;
- 2) cross selling additional products to existing customers; and
- 3) bringing new products to market with existing and new customers as well as entering new geographic areas.

The Company's current organic sales funnel includes over 100 existing customers and 100 new prospective customers. The Company's sales activities are focused on building multi-year recurring revenue streams with each of its existing customers and gaining new customers.



The Company will continue to pursue acquisitions and other organic and strategic opportunities in calendar 2018 and beyond.

## **Acquisitions**

### Acquired Office Products Book of Business

On December 3, 2015, *good natured*<sup>®</sup> finalized a Supplier and Exclusivity Agreement with Columbia Plastics Ltd. (“Columbia Plastics”) to acquire its TOPS Products Canada book of business for office products. The office products are now being made using *good natured*<sup>®</sup> proprietary plant-based bioplastic and achieved approximately 20,000 units of sales for *good natured*<sup>®</sup> in the period ending December 31, 2017. As part of this agreement, *good natured*<sup>®</sup> also acquired the exclusive right to produce and distribute these products in Canada and the United States.

### Breakthrough Packaging Acquisitions

On May 26, 2016, *good natured*<sup>®</sup> completed the acquisition of Ex-Tech Plastics Inc.’s (“Ex-Tech”) bioplastics division. Ex-Tech received 6,650,000 common shares *good natured*<sup>®</sup> subject to a 24-month hold period, with a value of \$1,130,500 as consideration. *good natured*<sup>®</sup> also pays Ex-Tech a variable outsourced supply chain and fulfillment fee for operational, marketing, production and back office services, which is directly tied to the Company’s business volumes. Annualized sales are currently estimated at US\$2+ million. The acquisition opened up additional opportunities for FDA-approved, food safe thermoformed packaging. In addition, *good natured*<sup>®</sup> is Ex-Tech’s exclusive supplier of bio-based materials and additives and Ex-Tech will be the Company’s exclusive plastics extrusion service provider in North America.

*good natured*<sup>®</sup> acquired the bioplastics division of LINDAR Packaging subject to the execution of an outsourcing supply chain and fulfillment agreement and TSX Venture Exchange approval, which was secured subsequent to year end. Effective January 1, 2017, *good natured*<sup>®</sup> began recognizing all bioplastic based packaging revenue of the bioplastics division acquired from LINDAR. This acquisition continues to move *good natured*<sup>®</sup> closer to the end user of bio-based packaging. LINDAR will receive 4,225,000 shares of *good natured*<sup>®</sup> with

a market value price of \$591,500. Sales for the period ending December 31, 2017 were US\$1 million. LINDAR has been producing thermoformed packaging since 1993 and is a recognized leader in packaging innovations, including single-serve and tamper evident food packaging.

## **Fiscal Year to Date Achievements**

- Achieved record 9 months revenue of \$3,186,438 for the nine months ended September 30, 2018 as compared to \$2,167,827 for the nine months ended August 31, 2017, an increase of 47%.
- Completed a private placement offering on February 28, 2018 for gross proceeds of \$5,049,000. The placement involved the issuance 5,049 units (“Units”), with each unit comprised of one \$1,000 principal amount unsecured 10% convertible debenture (each, a “Debenture”) of the Company due February 28, 2022 (the “Maturity Date”) and 1,500 common share purchase warrants (“Warrants”).
- April 2018 - signed a 3+ year agreement to supply a US industry leader in thermoformed packaging. The agreement covers plant-based packaging solutions for both food and general merchandise markets. The Company estimates the agreement will deliver US\$1 million in organic revenue growth in the current year, with gross margins in a range of 30% to 32%. Pricing and gross margins vary based on annual volume estimates of up to 4 million pounds of plant-based packaging material production.
- May 2018 - selected as a semi-finalist for the Sustainable Brands Innovation Open 2018 competition (SBIO) based on criteria for design, social and environmental impact, economic stability and team quality.
- During the quarter ending September 30, 2018, the Company was awarded with a second Western Innovation Initiative Agreement from Western Economic Diversification Canada. The agreement provides the Company with an interest-free, repayable contribution from the government not to exceed \$850,000 towards total project costs estimated at \$1,750,000. The project funds are directed at the Company’s development and commercialization of its new non-toxic high-heat bioplastic food containers for the grocery, take-out and consumer markets.

## results of operations

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

The information presented in these consolidated condensed interim financial statements includes the nine months ending September 30, 2018 as compared to the nine months ending August 31, 2017. As a result of the change in the financial year-end, the information contained in these consolidated condensed interim financial statements and management discussion and analysis may not be comparable to previously reported periods.

### Revenue and Gross Profit

The following is a summary of the results of operations for three and nine months ended September 30, 2018 compared to the three and nine months ended August 31, 2017:

		Three months ended Sept. 2018		Three months ended Aug. 2017	Change \$	%
Revenue	\$	1,003,362	\$	807,214	\$ 196,148	24
Cost of product		(689,723)		(547,715)	(142,008)	26
Gross profit		313,639		259,499	54,140	21
Gross profit percentage		31.3%		32.1%		
Expenses:						
Research and development		(21,135)		(77,171)	56,036	(73)
Selling, general & administrative		(746,687)		(768,345)	21,658	(3)
EBITDA	\$	(454,183)	\$	(586,017)	\$ 131,834	(22)
Share-based compensation		(40,001)		(62,472)	22,471	(36)
Depreciation and amortization		(121,039)		(120,892)	(147)	0
Financing costs		(228,606)		(34,265)	(194,341)	567
Gain on interest free loan		20,961		-	20,961	-
Net loss for the period	\$	(822,868)	\$	(803,646)	\$ (19,222)	2

	Nine months ended		Change	
	Sept. 2018	Aug. 2017	\$	%
Revenue	\$ 3,186,438	\$ 2,167,827	\$ 1,018,611	47
Cost of product	(2,140,623)	(1,474,599)	(666,024)	45
Gross profit	1,045,815	693,228	352,587	51
Gross profit percentage	32.8%	32.0%		
Expenses:				
Research and development	(179,575)	(236,009)	56,434	(24)
Selling, general & administrative	(2,298,101)	(2,388,687)	90,586	(4)
EBITDA	\$ (1,431,861)	\$ (1,931,468)	\$ 499,607	(26)
Share-based compensation	(141,928)	(151,447)	9,519	(6)
Depreciation and amortization	(369,458)	(390,864)	21,406	(5)
Financing costs	(542,985)	(79,314)	(463,671)	585
Gain on interest free loan	20,961	22,278.00	(1,317)	(6)
Net loss for the period	\$ (2,465,271)	\$ (2,530,815)	\$ 65,544	(3)

Revenue for the three months ended September 30, 2018 increased 24% to \$1,003,362 compared to \$807,214 for the three months ended August 31, 2017. Revenue for the nine months ended September 30, 2018 increased 47% to \$3,186,438 compared to \$2,167,827 for the nine months ended August 31, 2017. The increase is driven by the successful execution of the Company's market strategy to drive growth through organic sales from cross selling, product line extension, and new customer acquisition.

Gross profit for the three months ended September 30, 2018 was \$313,639 compared to \$259,499 for the three months ended August 31, 2017. Gross profit as a percentage of sales for the respective periods was 31.3% compared to 32.1% for the three months ended August 31, 2017. The decrease in gross profit for the 3 month period was due to product mix. Gross profit for the nine months ended September 30, 2018 was \$1,045,815 compared to \$693,228 for the nine months ended August 31, 2017. Gross profit as a percentage of sales for the respective periods was 32.8% compared to 32.0% for the nine months ended August 31, 2017. The increase in gross profit for the 9 month is due to product mix with gross profit percentage remaining stable based on expected ranges of planned sales mix.

## Research and development

The following is a breakdown of the material components of research and development expenses for the three and nine months ended September 30, 2018 compared to the three and nine months ended August 31, 2017:

	Three months ended		Three months ended		Change	
	Sept. 2018	Aug. 2017	\$	%		
Wages	\$ 62,012	\$ 51,402	\$ 10,610	21		
Other	26,297	25,769	528	2		
	88,309	77,171	11,138	14		
Capitalized expenditures	(67,174)	-	(67,174)	-		
	\$ 21,135	\$ 77,171	\$ (56,036)	(73)		

  

	Nine months ended		Nine months ended		Change	
	Sept. 2018	Aug. 2017	\$	%		
Wages	\$ 177,328	\$ 149,414	\$ 27,914	19		
Other	69,421	86,595	(17,174)	(20)		
	246,749	236,009	10,740	5		
Capitalized expenditures	(67,174)	-	(67,174)	-		
	\$ 179,575	\$ 236,009	\$ (56,434)	(24)		

Research and development expense for the three months ended September 30, 2018 was \$21,135 compared to \$77,171 for the three months ended August 31, 2017, a decrease of \$56,036 or 73%. Research and development expense for the nine months ended September 30, 2018 was \$179,575 compared to \$236,009 for the nine months ended August 31, 2017, a decrease of \$56,434 or 24%. Commencing in the third quarter ending September 2018, the Company capitalized expenditures related to the development of its new non-toxic high-heat bioplastic food containers for the grocery, take-out and consumer markets. By securing financing of \$850,000 from Western Economic Diversification Canada for the development cost of the new containers, management believes the major criteria of technical feasibility, commercial viability and financing for asset treatment are in place for asset capitalization.

R&D expenditures before capitalization for the nine month period have remained stable while R&D capabilities have increased due to collaborations

with the Ex-Tech and LINDAR bioplastic divisions. The Company is expanding its R&D efforts in more focused growth categories to develop new lines of products and/or to replace existing lines of products with new designs. The Company has in place a variable fee based outsourced supply chain and fulfillment agreement with Ex-Tech. The Company and LINDAR have been operating under the terms of a variable fee outsourced supply chain and fulfillment agreement since January 1, 2017 and will finalize the outsourced supply chain and fulfillment agreement in Q4 2018. Both the Ex-Tech and Lindar agreements provide for the collaboration on prototyping, sampling and testing.

### **Selling, general and administrative (“SG&A”)**

The following is a breakdown of the material components of selling, general and administrative expenses for the three and nine months ended September 30, 2018 compared to the three and nine months ended August 31, 2017:

	Three months ended		Change	
	Sept. 2018	Aug. 2017	\$	%
Wages	\$ 289,182	\$ 262,683	\$ 26,499	10
Selling and G&A costs	253,037	218,071	34,966	16
Outsource supply chain & fulfilment	204,468	287,591	(83,123)	(29)
	\$ 746,687	\$ 768,345	\$ (21,658)	(3)

  

	Nine months ended		Change	
	Sept. 2018	Aug. 2017	\$	%
Wages	\$ 840,342	\$ 797,005	\$ 43,337	5
Selling and G&A costs	763,958	863,591	(99,633)	(12)
Outsource supply chain & fulfilment	693,801	728,091	(34,290)	(5)
	\$ 2,298,101	\$ 2,388,687	\$ (90,586)	(4)

SG&A for the three months ended September 30, 2018 was \$746,687 compared to \$768,345 for the three months ended August 31, 2017, a decrease of \$21,658 or 3%. SG&A for the nine months ended September 30, 2018 was \$2,298,101 compared to \$2,388,687 for the nine months ended August 31, 2017, a decrease of \$90,586 or 4%. Overall, as the Company continues its revenue growth, SG&A has declined as a % of revenues both for the three months

ended September 30, 2018 and the nine months ended September 30, 2018 compared to prior periods. With the successful completion of debt and equity placements over the prior year, the Company decreased its professional fee expenditures related to professional firms with expertise in financing. Generally, management expects SG&A expenditures to increase due to higher sales driving variable expenditures such as marketing and selling costs and outsourced supply chain and fulfillment fees which include variable costs related to sales. In addition, the Company has incurred higher SG&A costs due to an industry-wide year over year increase in truck transportation costs of 8%.

## **Other items**

Financing costs for the three months ended September 30, 2018 were \$228,606 compared to \$34,265 for the three months ended August 31, 2017, an increase of \$194,341. Financing costs for the nine months ended September 30, 2018 were \$542,985 compared to \$79,314 for the nine months ended August 31, 2017, an increase of \$463,671. The increase is largely due to the \$5,049,000 convertible debenture placement that closed on February 28, 2018. The placement is considered to be a compound financial instrument in which the host debt instrument has been determined to be a financial liability with an embedded equity instrument. The Company measured the liability component at amortized cost, with the residual amount being assigned to the equity components. The Company used an effective interest rate of 13.2% resulting in \$672,122 assigned to the subscriber and broker warrants.

## **Net Loss**

For the three months ended September 30, 2018, the Company incurred a net loss before other items of \$822,868 (\$0.01 loss per common share) compared to a net loss of \$803,646 (\$0.01 loss per common share) for the three months ended August 31, 2017, an increase of \$19,222 or 2%. For the nine months ended September 30, 2018, the Company incurred a net loss before other items of \$2,486,232 (\$0.03 loss per common share) compared to a net loss of \$2,553,093 (\$0.03 loss per common share) for the nine months ended August 31, 2017, a reduction of \$66,861 or 3%.

## EBITDA

	Three months ended Sep. 2018	Three months ended Aug. 2017	Nine months ended Sep. 2018	Nine months ended Aug. 2017
Income (loss) for the period:	\$ (822,868)	\$ (803,646)	\$ (2,465,271)	\$ (2,530,815)
Share-based compensation	40,001	62,472	141,928	151,447
Depreciation and amortization	121,039	120,892	369,458	390,864
Financing costs	228,606	34,265	542,985	79,314
Gain on interest-free loan	(20,961)	-	(20,961)	(22,278)
<b>EBITDA</b>	<b>\$ (454,183)</b>	<b>\$ (586,017)</b>	<b>\$ (1,431,861)</b>	<b>\$ (1,931,468)</b>

The Company has included the non-GAAP performance measure, EBITDA, in the MD&A. The Company employs the measure 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, share compensation, amortization and depreciation, gains on interest-free loans and income taxes.

For the three months ended September 30, 2018, the Company incurred an EBITDA loss of \$454,183 compared to an EBITDA loss of \$586,017 for the three months ended August 31, 2017, a loss decrease of \$131,834 or 22%. For the nine months ended September 30, 2018, the Company incurred an EBITDA



loss of \$1,431,861 compared to an EBITDA loss of \$1,931,468 for the nine months ended August 31, 2017, a loss decrease of \$499,607 or 26%.

## Segmented Information

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

Sales in the nine months ended September 30, 2018 to the Company's top five customers amounted to \$2,942,534 which represented 92% of total revenue. In April 2018, the Company announced the completion of a 3+ year agreement to supply a US industry leader in thermoformed packaging which has caused an increase in the concentration of sales.

## financial condition

	Sep. 30, 2018	Dec. 31, 2017	Change	
			\$	%
Total current assets	\$ 4,183,490	\$ 3,289,944	\$ 893,546	27
Total assets	5,025,523	4,346,475	679,048	16
Total current liabilities	1,685,347	3,675,447	(1,990,100)	(54)
Total liabilities	6,977,516	4,742,807	2,234,709	47

### Total current assets and Total assets

Total current assets at September 30, 2018 were \$4,183,490 compared to \$3,289,944 at December 31, 2017, an increase of \$893,546.

Total assets at September 30, 2018 were \$5,025,523 compared to \$4,346,475 at December 31, 2017, an increase of \$679,048. For both current and total assets, the increase is due to the excess of cash raised from the February 2018 convertible debenture with warrant placement over cash used in operating activities.

## **Total current and long-term liabilities**

Total current liabilities at September 30, 2018 were \$1,685,347 compared to \$3,675,447 at December 31, 2017, a decrease of \$1,990,100.

Total liabilities at September 30, 2018 were \$6,977,516 compared to \$4,742,807 at December 31, 2017, an increase of \$2,234,709. The increase in total liabilities is due to the completion of the February 2018 convertible debenture with warrant placement at a net book value of \$4,028,464 (\$5,049,000 gross proceeds less \$672,122 assigned value to attached warrant and deferred finance costs of \$348,414).

## **liquidity and capital resources**

The Company raised net cash proceeds of \$4.7 million from a February 2018 convertible debenture with warrant placement. The funds will be used to accelerate the fulfillment of pending customer orders for product line extensions and for general corporate and working capital purposes.

The principal historical sources of liquidity have been:

- Equity financing;
- convertible debt financing;
- government funding; and
- customer payments for product development agreements and product sales.

Below is a summary of cash flows provided by/(used in) operating, financing, and investing activities for the nine months ended September 30, 2018 and August 31, 2017:

	Nine months ended		Nine months ended		Change	
	Sep. 2018	Aug. 2017	\$	%		
Cash used in operating activities	\$ (2,042,821)	\$ (1,777,525)	\$ (265,296)	15		
Cash provided by financing activities	4,713,309	2,561,297	2,152,012	84		
Cash provided by investing activities	(145,014)	(3,141)	(141,873)	4,517		
Net change in cash	\$ 2,525,474	\$ 780,631	\$ 1,744,843	224		
Beginning cash	797,383	555,201	242,682	44		
Ending cash	\$ 3,323,357	\$ 1,335,832	\$ 1,987,525	149		

### Cash used in operating activities

Cash used in operating activities for the nine months ended September 30, 2018 was \$2,042,821 compared to \$1,777,525 for the nine months ended August 31, 2017, an increase of \$265,296.

### Cash provided by financing activities

Cash provided by financing activities for the nine months ended September 30, 2018 was \$4,713,309 compared to \$2,561,297 for the nine months ended August 31, 2017, an increase of \$2,152,012. For the nine months ended September 30, 2018, the Company received net cash proceeds of \$4,700,586 from a February 2018 convertible debenture with warrant placement, received proceeds from a second WINN loan of \$77,229, repaid \$120,756 of the first WINN loan, and received \$56,250 upon the exercise of warrants. For the nine months ended August 31, 2017, the Company received additional proceeds from WINN of \$96,646, repaid \$175,000 of the outstanding credit facility loan and received net cash proceeds of \$2,639,651 from equity issuances.

## historical quarterly results

A summary of the Company's results for the previous eight quarters is as follows (except for the period ending December 31, 2017 which includes one month only):

Three months ended	Sep. 2018	Jun. 2018	Mar. 2018	**Dec. 2017
Revenue	\$ 1,003,362	\$ 1,064,589	\$ 1,118,487	\$ 263,993
Net loss	\$ (822,868)	\$ (877,910)	\$ (764,492)	\$ (546,649)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

\*\* Represents results for one month only due to the change in fiscal year end to December

Three months ended	Nov. 2017	Aug. 2017	May. 2017	Feb. 2017
Revenue	\$ 737,217	\$ 807,214	\$ 670,532	\$ 690,081
Net loss	\$ (827,114)	\$ (803,646)	\$ (754,660)	\$ (972,509)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)

## Factors affecting comparability of quarters

Fluctuations in sales on a quarter-by-quarter basis are related to the level of the Company's business development and commercialization activities which are reflective of the early stage of the Company's development, as well as established peak and non-peak sales cycles common in the packaging industry.

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

**financial instruments**

The Company's financial instruments as at September 30, 2018 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 as follows:

Financial Instrument	Category
Cash	Loan and receivables
Trade and other receivables	Loan and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Credit facility	Other financial liabilities
Loans	Other financial liabilities

**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 September 30, 2018 and the date of this MD&A, the Company did not have any off-balance sheet arrangements.

## **capital structure**

As at November 28, 2018, the Company had:

- 94,350,686 (December 31, 2017 – 93,452,354) common shares outstanding and no preferred shares;
- 7,238,794 (December 31, 2017 – 7,188,794) options outstanding; and
- 39,531,164 (December 31, 2017 – 46,335,221) warrants outstanding.

On February 28, 2018, the Company completed a convertible debenture offering of 5,049 units (“Units”) for gross proceeds of \$5,049,000. Each Unit is comprised of one \$1,000 principal amount unsecured 10% convertible debenture (“Debenture”) of the Company due February 28, 2022 (the “Maturity Date”) and 1,500 common share purchase warrants. The Company issued a total of 7,573,500 Warrants to the debenture subscribers. Each Warrant entitles the holder thereof to purchase one common share of the Company for a period of 48 months after February 28, 2018 at a price of \$0.10 per Warrant (subject to adjustment in certain circumstances). The Warrants are subject to an acceleration right if on any 20 consecutive or non-

consecutive trading days following the closing date, the Company's common shares trade at greater than a volume-weighted average trading price of \$0.20 on the TSX-V. The Company also issued non-transferable broker warrants to acquire 2,239,867 common shares from treasury at a price of \$0.15 per common share, exercisable at any time within the 36-month period following February 28, 2018. The fair value at grant date of the broker warrants issued was \$128,344 based on the Black-Scholes pricing model and was recorded as a Debenture discount. Expected volatility was determined based on comparable publicly listed companies.

From July 31, 2017 to November 20, 2017, the Company completed four tranches of a private placement totaling 17,541,000 units at a price of \$0.10 per unit for gross proceeds of \$1,754,100. Related party participation in the private placement totaled 1,699,500 units. Each unit is comprised of one common share and one common share purchase warrant of the Company. Each warrant entitles its holder to acquire one additional share of the Company at a price of \$0.15 per share within the 24-month period following the closing of the respective tranche. The Company paid cash commission, legal and other related fees totaling \$217,805 and also granted 1,094,670 non-transferable two-year broker warrants to acquire 1,094,670 units of the Company at a price of \$0.10 per unit. The fair value at grant date of the broker warrants issued was \$44,010 whose measurement was based on the Black-Scholes pricing model and was also recorded as a share issuance cost. Expected volatility was determined based on comparable publicly listed companies. The expiry date of the warrants will be subject to an acceleration right in favour of the Company that is exercisable if the shares trade at or above a volume-weighted average trading price of \$0.20 on the TSX-Venture Exchange on any 20 non-consecutive trading days, following the expiry of the 4-month statutory hold period beginning on the closing date of the applicable tranche of the private placement. If the acceleration right is exercised by the Company, the warrants will expire on the 20th business day following the date that notice of acceleration is sent to the warrant holders.

On May 5, 2017, the Company completed a private placement totaling 1,892,197 units at a price of \$0.15 per unit for gross proceeds of \$283,830. Each unit is comprised of one common share and one common share purchase warrant of

the Company. Each warrant entitles its holder to acquire one additional share of the Company at a price of \$0.20 per share. Related to the placements, the Company granted 44,000 non-transferable two-year broker warrants to acquire 44,000 units of the Company at a price of \$0.15 per unit. The total fair value at grant date of the broker warrants issued was \$2,777.

During the nine months ended September 30, 2018, the Company issued 202,500 shares at a price of \$0.11 per share to settle outstanding indebtedness of \$21,750. During the ten months ended December 31, 2017, the Company issued 1,104,500 shares at a price of \$0.10 per share to settle outstanding indebtedness of \$110,450.

## **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 IAS 39, Financial Instruments: Recognition and Measurement. Key judgments include whether the value of a contract changes in response to a change in an underlying rate, price, index or other variable, and for embedded derivatives, whether the economic risks and characteristics are not closely related to the host contract and a separate instrument with the same terms would meet the definition of a derivative on a standalone basis.

### **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 Company's significant accounting policies are disclosed in Note 3 of the Company's annual audited consolidated financial statements for the ten months ended December 31, 2017.

## **additional information**

Additional information relating to good natured Products Inc. is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **APPENDIX 1**

### **risks related to the business**

#### **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.), has invested significant time and expenditures on research and development to create the existing product line. *good natured*<sup>®</sup> plant-based products were first introduced commercially in 2014 and the near-term focus has been on actively developing a base of customer accounts and building sales, marketing and support capabilities to further grow their base of customers, while increasing the revenue per existing customers. *good natured*<sup>®</sup> 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, and \$2,465,271 for the nine months ending September 30, 2018. 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 plant-based 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 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 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 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 33% 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*<sup>®</sup> 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.