

# **ALTA NATURAL HERBS & SUPPLEMENTS LTD**

Suite 118 – 7400 Moffatt Road  
Richmond, British Columbia, V6Y 3G3  
Tel: (778) 859-1936 Fax: (604) 247-0892

## **FORM 51-102F1**

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) AS OF March 29, 2016 TO ACCOMPANY THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF ALTA NATURAL HERBS & SUPPLEMENTS LTD (THE “COMPANY”) FOR THE THREE MONTHS ENDED JANUARY 31, 2016.

The following Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the three months ended January 31, 2016 and the audited financial statements of the Company for the year ended October 31, 2015, which are prepared in accordance with International Financial Reporting Standards (“IFRS”). All financial amounts are stated in Canadian currency unless stated otherwise.

This MD&A contains certain forward-looking statements based on the best beliefs, and reasonable assumptions of the management of the Company. There are many risks and uncertainties attached to the dietary supplements and nutraceuticals business. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements. (See “Risks and Uncertainties” in this MD&A for more information).

### **Overview of First Quarter – January 31, 2016**

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The Company’s financial position remained strong during the year with \$282,827 cash balance remaining at quarter-end.

During the quarter, the Company reported a total sales of \$268,299 (January 31, 2015: \$176,065) of which approximately \$64,000 (January 31, 2015: \$4,000) was from the Café which was launched in December 2014.

The Company will continue to develop its business strategies with a view to maximizing shareholder value and focusing on its long term goal of growing the Company.

### **Overall Performance and Description of Business**

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The Company is a dietary supplements and nutraceuticals company located at Suite 118-7400 Moffatt Road, Richmond, BC, V6Y 3G3. The Company is a manufacturer and converter of dietary supplements and nutraceuticals (herbal, botanical and marine-based) for the natural health care products industry. The Company develops and manufactures an extensive line of dietary supplements and nutraceuticals for the supplement industry. Alta Natural was incorporated under the Alberta Business Corporations Act on July 12, 1993 and is currently a publicly traded company listed on the TSX Venture Exchange under the symbol “AHS”, and is also a reporting issuer in British Columbia.

## ALTA NATURAL HERBS & SUPPLEMENTS LTD.

On February 15, 2010, the Company announced that it has successfully completed the development of a novel, proprietary technology for concentration and processing of Omega 3 seal oil. The Company's new technology significantly increases the concentration and content of the three therapeutically effective omega 3 fatty acids in seal oil, notably EPA, DPA and DHA, thereby allowing consumers to follow a more concentrated, lower dosage therapeutic regimen. The Company has recently received commitments for purchasing its proprietary, concentrated seal oil capsules and is continuing to develop sales for its product.

On November 12, 2013, the Company incorporated a U.S. subsidiary in Kirkland, WA, USA.

On November 1, 2014, the Company signed a five year lease with Totem Lake Hotel located in Washington State, United States, related to a new business, Alta Healthy Café (the "Café"). The Café serves health meals, drinks, function foods and supplies nutrition supplements. The Café also provides additional services such as meetings, presentations, seminars and health management for individuals.

The Company's continuance is dependent on a variety of different factors including, but not limited to, its ability to obtain adequate financing, to reach sustainable profitable levels of operation, to continue to develop and commercialize its products, and, as required, to obtain regulatory approvals for its products in the specific geological markets, as well as obtain continued financial support from its shareholders.

### **Results of Operations - For the quarter ended January 31, 2016**

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Sales for the three months ended January 31, 2016 were \$268,299 compared to \$176,065 during the comparative period. The Company's gross margin for the three month period ended January 31, 2016 was 33% versus a gross margin of 12% during the comparative period. The increase in gross margin resulted from increasing sales and improving margins related to the operations from the Café.

Other operating costs during the three months ended January 31, 2016 decreased to \$109,631 compared to \$113,345 during the comparative period. The most significant decrease was salaries and wages of \$25,759 (2015: \$42,701) and office and miscellaneous \$7,162 (2015: \$14,543), offset by an increase in rent of \$28,169 (2015: \$15,812) which includes the rent of \$26,369 for the Café.

The loss from operations for the three months ended January 31, 2016 was \$20,175 compared to net income of \$85,896 during the comparative period.

Inventory was \$41,731 as at January 31, 2016 compared to \$68,835 as at October 31, 2015. Inventory at the end of January 31, 2016 was comprised of \$33,992 in raw materials and \$7,739 in work in progress versus October 31, 2015, which was comprised of \$54,543 in raw materials, \$2,854 in work in progress and \$11,438 in finished goods.

Total assets were \$614,181 as at January 31, 2016 compared to \$617,662 as at October 31, 2015. The nominal decrease in total assets as at January 31, 2016 was mainly due to increases in cash and receivables offset by a decrease in inventory.

Management is confident that the collectability of remaining amounts receivable will not be an issue, as the Company maintains close relationships with its customers.

Total liabilities were \$101,501 as at January 31, 2016 as compared to \$110,775 as at October 31, 2015. The decrease in liabilities is due primarily to the decrease in accounts payable.

**Summary of Quarterly Results:**

|                                   | <b>1<sup>th</sup> Quarter<br/>Jan 31, 2016</b> | <b>4<sup>th</sup> Quarter<br/>Oct 31, 2015</b> | <b>3<sup>rd</sup> Quarter<br/>Jul 31, 2015</b> | <b>2<sup>nd</sup> Quarter<br/>Apr 30, 2015</b> |
|-----------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|
| Revenue                           | \$ 268,299                                     | \$ 185,081                                     | \$ 170,557                                     | \$ 119,156                                     |
| Gross profit margin               | 88,868                                         | 106,312                                        | (4,435)                                        | 39,882                                         |
| Gross margin percentage           | 33.1%                                          | 57.4%                                          | (2.6%)                                         | 33.5%                                          |
| Operating expenses                | 109,631                                        | 204,560                                        | 201,082                                        | 172,828                                        |
| Net loss                          | (20,175)                                       | (119,410)                                      | (194,550)                                      | (146,128)                                      |
| Basic and diluted loss per share* | (0.00)                                         | (0.00)                                         | (0.01)                                         | 0.01                                           |
| Total assets                      | 614,181                                        | 617,662                                        | 673,224                                        | 796,718                                        |
| Working capital                   | 317,363                                        | 313,146                                        | 396,553                                        | 559,392                                        |

  

|                                   | <b>1<sup>st</sup> Quarter<br/>Jan 31, 2015</b> | <b>4<sup>th</sup> Quarter<br/>Oct 31, 2014</b> | <b>3<sup>rd</sup> Quarter<br/>Jul 31, 2014</b> | <b>2<sup>nd</sup> Quarter<br/>Apr 30, 2014</b> |
|-----------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|
| Revenue                           | \$ 176,065                                     | \$ 102,621                                     | \$ 121,585                                     | \$ 46,378                                      |
| Gross profit margin               | 21,596                                         | 14,387                                         | (9,176)                                        | 21,002                                         |
| Gross margin percentage           | 12.26%                                         | 14.0%                                          | (7.5%)                                         | 45.3%                                          |
| Operating expenses                | 113,345                                        | 44,821                                         | 99,164                                         | 40,131                                         |
| Net loss                          | (85,896)                                       | (47,571)                                       | (111,278)                                      | 177,502                                        |
| Basic and diluted loss per share* | 0.00                                           | (0.00)                                         | (0.00)                                         | 0.00                                           |
| Total assets                      | 670,082                                        | 782,056                                        | 734,120                                        | 901,426                                        |
| Working capital                   | 399,147                                        | 463,941                                        | 668,626                                        | 780,746                                        |

\* No exercise or conversion is assumed during the years in which a net loss is incurred, as the effect is anti-dilutive.

**New Opportunities**

The Company continues to evaluate new markets and customers and is focused on growth opportunities within Canada and globally.

**Outstanding Share Data**

The Company has an authorized share capital of an unlimited number of common shares without nominal or par value, of which 37,514,237 were issued and outstanding as at the date of this report.

The Company has outstanding a total of 180,000 options with exercise price of \$0.20 that expire on December 11, 2018.

**Related Party Transactions**

During the three months ended January 31, 2016, the Company paid or accrued salary and wages of \$3,900 (2015 - \$3,900) and rent of \$1,800 (2015: \$1,800) to Mr. Haofang Song, the Chief Financial Officer of the Company.

During the three months ended January 31, 2016, the Company paid or accrued salary and wages of \$Nil (2015 - \$21,000) to Mr. Jianfang Jin, the Chief Executive Officer of the Company.

During the three months ended January 31, 2016, the Company paid or accrued accounting fees of \$Nil (2015 - \$7,000) to a company controlled by Mr. Eugene Beukman, a former director of the Company.

As at January 31, 2016, the Company owed \$12,483 (October 31, 2015 - \$12,498) to Mr. Jianfang Jin, Mr. Haofang Song, and Mr. William Xiong which is included in accounts payable and accrued liabilities.

The transactions are in the normal course of operations and measured at the exchange rate amount established and agreed to by all parties.

**Liquidity and Solvency**

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The following table summarizes the Company's cash on hand, working capital and cash flow:

| <b>As at</b>                                    | <b>January 31, 2016</b> | <b>October 31, 2015</b> |
|-------------------------------------------------|-------------------------|-------------------------|
| Cash                                            | \$ 282,827              | \$ 270,014              |
| Working capital                                 | 317,363                 | 313,146                 |
| <b>Period ended</b>                             | <b>January 31, 2016</b> | <b>January 31, 2015</b> |
| Cash provided by (used in) operating activities | \$ (13,155)             | \$ (96,118)             |
| Cash used in investing activities               | -                       | (33,710)                |
| Cash provided by financing activities           | -                       | -                       |
| Effect of foreign exchange on cash              | -                       | -                       |
| Change in cash                                  | \$ (13,155)             | \$ (129,828)            |

The Company is dependent on financing to fund its business activities and general and administrative costs.

The Company will have to raise additional funds in the future to continue its operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of financing cannot be obtained, then the Company will be forced to curtail its activities.

**Capital Resources**

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The Company's operations currently generate negative cash flow. The Company depends on equity sales and loans to assist in financing its operations and to cover administrative and other expenses. The Company may encounter difficulty sourcing future financings. This could further hinder the Company's ability to continue operations. The Company is continuing its focus on looking for financing opportunities, additional revenue sources and on cost reduction and controlling overhead costs.

**Off-Balance Sheet Arrangements**

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The Company does not utilize off-balance sheet transactions.

**Proposed Transactions**

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There are no proposed transactions that will materially affect the performance of the Company.

**Accounting Policies**

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The accounting policies and methods employed by the Company determine how it reports its financial condition and results of operations, and may require management to make judgements or rely on assumptions about matters that are inherently uncertain. The Company's results of operations are reported using policies and methods in accordance with IFRS. In preparing financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the period. Management reviews its estimates and assumptions on an ongoing basis using the most current information available.

### Critical Accounting Estimates

The Company prepares its condensed consolidated interim financial statements in accordance with IFRS, which require management to estimate various matters that are inherently uncertain as of the date of the condensed consolidated interim financial statements. Accounting estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Company's condensed consolidated interim financial statements. The Company's significant accounting policies are discussed in the condensed consolidated interim financial statements. Critical estimates in these accounting policies are discussed below.

### Accounts Receivable

Accounts receivable is presented net of allowances for doubtful accounts. The allowance for doubtful accounts reflects estimates of probable losses in accounts receivable. The allowance is determined based on balances outstanding for over 90 days from the invoice date, historical experience and other current information. The Company extends credit to customers and distributors.

### Inventory

Inventory is comprised of finished goods and related raw materials. Finished goods are reported as the lesser of cost and estimated net realizable value. Raw materials are reported at the lesser of cost and replacement cost. Inventory is determined using the weighted average cost assumption.

### Recent Accounting Announcements

*IFRS 9 – Financial Instruments: Classification and Measurement* was issued in December 2009, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted if the date of initial application is before February 1, 2015, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning November 1, 2018. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

*IFRS 15 Revenue from Contracts with Customers* was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

## **Financial Instruments**

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### **Designation and Valuation of Financial Instruments**

The three levels of the fair value hierarchy are:

Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: inputs that are not based on observable market data.

The Company enters into financial instruments to finance its operations in the normal course of business. The fair values of cash, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments.

## ALTA NATURAL HERBS & SUPPLEMENTS LTD.

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at January 31, 2016 as follows:

|                         | Level 1    | Level 2 | Level 3 | Total |
|-------------------------|------------|---------|---------|-------|
| <b>Financial Assets</b> |            |         |         |       |
| Cash                    | \$ 282,827 | -       | -       |       |

The Company is exposed to varying degrees to a variety of financial instrument related risks:

### *Foreign exchange risk*

The Company operates in Canada and the United States of America and it is therefore exposed to foreign exchange risk arising from transactions denominated in US Dollars.

The Company's cash are denominated in both Canadian and US Dollars. Such foreign currency balances, which is held in the Company's subsidiary, are subject to fluctuation against the Canadian Dollars.

The Company's functional and reporting currency is the Canadian dollar and while some major purchases are transacted in United States dollars, the Company has been able to pass any currency fluctuations onto the customer. As a result, the Company's exposure to foreign currency risk is minimal.

### *Credit risk*

The Company's cash is largely held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company performs ongoing credit evaluations of its trade receivables, but does not require collateral. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers and historical data. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

### *Interest rate risk*

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

### *Liquidity risk*

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

### *Capital management*

The Company defines its capital as shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth and development of its operations and safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company does prepare annual expenditure budgets that are updated as necessary. The annual and updated budgets are approved by the Company's Board of Directors. The Company has historically relied on financings and debt to fund its activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

## **Risks and Uncertainties**

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The Company's principal activity is as a manufacturer and converter of dietary supplements and nutraceuticals (herbal, botanical and marine-based) for the natural health care products industry. Companies in this industry are subject to many and varied kinds of risk, including but not limited to foreign exchange risk and Interest rate risk.

Additionally, the Company's limited operating history makes it difficult to evaluate the Company's current business and forecast future results.

The Company's future performance is dependent on key personnel. The loss of the services of any of the Company's executives or Board of Directors could have a material adverse effect on the Company.

The Company's future performance is dependent on key suppliers and manufacturers and a loss of any suppliers or manufacturers could have a material adverse effect on the Company by reducing or eliminating the ability of the Company to manufacture or sell its products. If the Company is unable to manufacture its products, there is a risk that customers will be lost and that the Company will be unable to regain these customers.

There is no assurance that the Company will be able to secure the funds needed for future development, and failure to secure such funds could lead to a lack of opportunities for growth or cause the cessation of its business.

Competitors are already well established in the market for dietary supplements and nutraceuticals. The introduction of new products into these existing markets could be met with aggressive marketing, price cutting and distribution impediments by competitors.

The Company has a limited number of customers and is dependent on a few key accounts to maintain its current levels of sales. The Company has maintained and developed these relationships over a number of years by providing excellent customer service. The success of this strategy is reflected in the ongoing growth in sales.

The Company is subject to the laws and regulations relating to dietary supplements and nutraceutical's matters in all jurisdictions in which it operates.

## **Other**

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Additional information relating to the Company's operations and activities can be found by visiting the Company's website at [www.altanatural.ca](http://www.altanatural.ca) and [www.sedar.com](http://www.sedar.com).

## **Trends**

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Trends in the industry can materially affect how the company is performing. The price of supplements remains good and the Company is advancing its operations as quickly as possible while still remaining prudent when considering large cost items.

## **Outlook**

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The outlook for the supplements market remains strong and this is reflected in the Company's ongoing activity. The prospect for financing the Company's projects is good and this should enable the Company to continue as a viable entity.

## **Cautionary Statement**

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding exploration plans and our other future plans and objectives are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, without limitation, (i) estimates of exploration investment and scope of exploration programs, and (ii) estimates of stock-based compensation expense. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statement. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date of statements are made, and the Company endeavours to update corporate information and material facts on a timely basis. Forward-looking statements are subject to risks, uncertainties and other actors, including risks associated with mineral exploration, price volatility in the mineral commodities we seek, and operational and political risks.