



SPoT COFFEE (CANADA) LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For The Year Ended December 31, 2016



This Management's Discussion and Analysis (MD&A) is intended to help the reader understand SPoT Coffee (Canada) Ltd's operations, financial performance, and the present and future business environment. This MD&A, which has been prepared as of April 28, 2017, should be read in conjunction with SPoT's consolidated financial statements for the year ended December 31, 2016.

References to "SPoT" or "the Company" refer to SPoT Coffee (Canada) Ltd. and its share of consolidated subsidiaries and joint ventures, unless the context indicates otherwise. All amounts are in Canadian dollars, unless otherwise indicated.

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This discussion contains statements about SPoT's future financial condition, results of operations and business.

All statements in this MD&A, other than statements of historical fact, that address future acquisitions and events or developments that SPoT expects to occur, are forward-looking statements. Although SPoT believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include industry-related risks, regulatory approvals, and continued availability of capital and financing and general economic, market or business conditions. Specific factors that would impact the Company's ability to execute its growth plan include, amongst others, availability of expansionary capital, potential inability to locate and secure new café sites in locations that the Company believes to be attractive, obstacles to hiring and training qualified operating personnel in the local market, delay or cancelation of new site development by developers and landlords, which may become increasingly common during periods of economic uncertainty or tight credit, difficulty managing construction and development costs of new cafés at affordable levels, particularly in competitive markets, difficulty negotiating leases with acceptable terms, any shortage of construction materials and labor or lack of availability of, or inability to obtain, adequate supplies of ingredients that meet the Company's quality standards. Except as required by applicable securities requirements, the Company undertakes no obligation to update forward-looking statements if circumstances or management estimates or opinions should change, The reader is cautioned not to place undue reliance on forward-looking statements.

This MD&A contains the term "Earnings Before Interest, Taxes, Depreciation and Amortization" ("EBITDA"), which should not be considered as an alternative to, or more meaningful than, net earnings or cash flow from operating activities as determined in accordance with International Financial Reporting Standards ("IFRS"), as an indication of the Company's performance. This term does not have a standardized meaning prescribed by IFRS and SPoT's determination of EBITDA may not be comparable to that reported by other operating companies. Management uses EBITDA, among other measures, to assess the operating performance of the ongoing business without the effect of depreciation and amortization expenses. The Company excludes depreciation and amortization expenses, accruals, and other one-time, non-recurring expenses because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors.



SPoT Coffee

SPoT designs, builds, operates and franchises community oriented cafés that provide customers with the highest quality service, signature made-to order meals, and the world’s finest in-house roasted gourmet coffee. Each SPoT café is distinctively designed to complement the unique attributes of the local neighborhood, which creates a warm and friendly gathering place for the surrounding community.

SPoT’s commercial business focuses on retail stores, business accounts and third party resellers including grocery stores and other food and beverage retail chains, hotels and other hospitality service providers. The company has also recently added an ecommerce component to its official website, www.spotcoffee.com, which features a variety of SPoT’s gourmet coffee and other products.

Café Overview

SPoT has fully developed 11 full café and SPoT Express locations to date, and the company is moving toward adding a large number of new franchise cafés in 2017 and beyond. In keeping with this aggressive franchising strategy, the company has recently signed a franchise agreement with Parisco Cafés LLC for five new SPoT cafés to be built in New York State and Connecticut by the end of 2018. All of the company’s current corporate and franchise cafés are EBITDA positive as of the drafting of this document and are generating sustainable cash flows.

Franchise Business Model

SPoT received franchise registration approval from the State of New York on February 27, 2015. The Company adopted the franchise business model after proof of concept and after it had completed the development of the necessary infrastructure upon which it can build a successful franchise program. This infrastructure includes, among other things, successful and streamlined café procedures, employee training manuals, operation manuals and financial reporting systems. This franchise program will accelerate the development of new cafés as well as build and grow the SPoT Coffee brand in the regional market of the State of New York and neighbouring states. The SPoT franchise model is designed around the distinguishing design and economic features of a SPoT café that attribute to its successful operation. Management is confident that the Company can continue to build its current success throughout its franchises, as well as among various communities and their neighbourhoods in Upstate New York and beyond, by adhering to the strict café location selection criteria that it has put in place.

SPoT Coffee Express, a quick service version of the Company’s full scale cafés, is still at the forefront of SPoT’s anticipated franchise growth alternatives. SPoT Coffee franchised full cafés and Express locations will continue to leverage SPoT’s existing geographic footprint in Western New York, expanding east across New York State as the company continues to partner with local builders to focus on prime real estate.

In order to provide maximum support for its franchising business, SPoT has added new departments including Facilities Maintenance and Procurement. Furthermore, a new Vice President of Franchising, Ms. Megan Burns-Moran, was welcomed into the company in late 2016.

Corporate Business Model



Although the company is firmly focused on franchise growth, the addition of new corporate flagship stores in new territories is still a priority for SPoT Coffee as it expands. The company's now extensive experience operating cafés allows it to make the best possible decisions with regard to location assessment and selection, staffing and promotion. Whenever new corporate locations are identified and selected, SPoT plans to ensure that the communities chosen to host SPoT Coffee cafés are able to support multiple cafés in order to preserve the option of growing locally via franchise in the future.

Growth Plans

Presently, SPoT enjoys a very strong brand presence in Upstate and Western New York, and the company plans to capitalize on its success in its core market by expanding regionally throughout the American northeast. New target territories such as the states of Massachusetts and Connecticut have been identified and fully demographically analyzed in order to facilitate important management decisions such as where new SPoT cafés should be located.

The company has also identified new avenues through which it is able to attract interest from potential franchisees such as franchise expositions including the New York/New Jersey Franchise Expo and others. Local advertising also plays a pivotal role in SPoT's growth strategy as generating interest from potential local owner-operators allows the company and source its future franchisees from areas where it already has a presence and wishes to more café locations. SPoT has set a growth target for itself of 50 corporate and franchise cafés by 2020.

Overview of the Business (Current Operations)

Debt

SPoT is aggressively moving to reduce its debt. The company has already made significant headway as evidenced by its debt reduction of \$800,540 in 2016. In 2017, SPoT will continue to focus on reducing its remaining debt of approximately \$2.4 million at a similar rate.

Catering

SPoT's catering program has been rolled out in all of its cafés including all corporate and franchise locations. The revenue generated by the program has been steadily increasing since launch, and the company has been promoting the program through direct and online marketing campaigns.

Ecommerce/Retail

Direct marketing of coffee, the company's core product, has commenced in 2016 with the launch of its new website, and delivery is available throughout the United States. The company is planning to add new retail products to its online store and to continue growing its online sales in 2017.

New Developments

SPoT will soon launch its first drive-thru at its SPoT Transit location in Buffalo, New York. The company will be reporting on the progress it has made in construction of the drive-thru in the second quarter of 2017 and will be closely monitoring its performance once completed in order to apply this commercial/high vehicular traffic neighbourhood model at future locations.



Results of Operations

Overall Performance

The Company reported gross profit (measured as revenue less cost of sales) of \$7,141,133 for the year ended December 31, 2016, which represents an 10% increase from \$6,470,321 for the same period of 2015. The Company's gross margins (measured as gross profit over revenue) for the year ended December 31, 2016 were 73% of total revenue which was 5% improvement compared to the prior year.

The Company achieved positive café-level EBITDA of \$895,245 for the year ended December 31, 2016. The Company had consolidated net loss of \$170,535 for the year ended December 31, 2016. The key drivers behind the net loss in 2016 include a \$586,174 non-cash depreciation expense and a \$362,104 debenture accretion and interest expense. SPoT remained focused on operational execution and expense control during the year of 2016 and believes the continued growth of the Company will offset investments made to centralize overhead costs.

Revenue

The Company's revenue for 2016 increased 5% to \$9,777,713 from \$9,319,384 for the year of 2015.

Cost of Sales

The Company's cost of sales for 2016 decreased 7% to \$2,636,580 from \$2,849,063 for the year of 2015. The cost of sales represents 27% of the total revenue for 2016. The Company has implemented a streamlined system to optimize waste control at the café level.

Operating Expenses

Salaries and wages for the year ended December 31, 2016 increased to \$4,389,542 from \$4,181,690 for the year of 2015. The increase is in line with the Company's overall growth.

Occupancy costs for the year ended December 31, 2016 decreased to \$1,466,565 from \$1,489,351 for the year of 2015.

Office and general expenses for the year ended December 31, 2016 increased to \$789,061 from \$536,181 for the year of 2015. It relates to supplies, maintenance, telephone and shipping expenses at the café level. SPoT continues to closely monitor its day-to-day operations at both the corporate and café level.

Professional and consulting fees for the year ended December 31, 2016 increased to \$375,774 from \$297,076 for the year of 2015. The majority of fees relate to public communications, legal, accounting and audit advisory expenses associated with the Company's listing requirements, operations, franchise licensing registration and café development activities.

Travel expenses for the year ended December 31, 2016 increased to \$123,811 from \$86,816 compared to the year of 2015. The fees relate to business development and expansion in North America and Middle East.

Interest and bank charges for the year ended December 31, 2016 decreased to \$523,631 from \$783,968 for the year of 2015. It includes fees related to the credit card transactions in sales, and a \$362,104 debenture interest and accretion expense related to the Company's convertible debenture and long-term debt.



Depreciation costs for the year ended December 31, 2016 decreased to \$586,174 from \$616,751 for the year of 2015. Depreciation begins when the asset is available for use and capable of operating in the manner intended by management.

Liquidity and Capital Resources

On June 30, 2016, the Company completed a private placement of 14,146,600 units at a price of \$0.05 per unit for total gross proceeds of \$707,330, and a further issuance of 848,900 units for the settlement of \$42,445 in services provided to the Company. Each unit consists of one common share of SPoT and one half common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.075 for a period of four years from closing.

On November 24, 2016, the Company completed a private placement of 8,280,000 units at a price of \$0.06 per unit for total gross proceeds of \$496,800. Each unit consists of one common share of SPoT and one half common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.08 for a period of four years from closing.

Long Term Debt and Other Long Term Commitments

There have been no new long-term debt or long-term commitments since December 31, 2015. All long-term debts will become due within one year as of December 31, 2016.

Off Balance Sheet Arrangements

As at December 31, 2016, SPoT had no off balance sheet arrangements, such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations, or any instruments that could trigger financing, market or credit risk to SPoT.

Transactions with Related Parties

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

The Company entered into the following compensation with key management personnel, which are defined by IAS 24, *Related Party Disclosures*, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management.

	2016			2015		
	Officers	Directors	Total	Officers	Directors	Total
	\$	\$	\$	\$	\$	\$
Salaries and wages	243,238	141,900	400,138	236,770	118,800	355,570
Consulting fees	-	121,237	121,237	-	100,736	100,736
Stock-based compensation	1,041	1,185	2,226	5,079	5,785	10,864
	244,279	264,322	523,601	241,849	225,321	467,170



Related party balances included in the statement of financial position, incurred with companies with common directors and officers of the Company are as follows:

	<u>2016</u>	<u>2015</u>
Advances to related parties:		
Advances to franchisees (c)	348,977	-
Advances to director (f)	10,742	-
	<u>359,719</u>	<u>-</u>
Advance from related parties		
Salary and wages to officers (a)	109,298	181,250
Consulting fees to directors (b)	34,504	99,594
Head office occupancy expenses (d)	37,601	33,576
Advances from associate (e)	59,647	-
Advances from director (f)	-	39,678
	<u>241,050</u>	<u>354,098</u>

(a) The salary and wages to officers include wages to:

Prime City Contracting Inc. in the amount of \$205,320 (2015 - \$205,320), which is a private company controlled by the Chief Executive Office "CEO" of the Company. The payments are for management services and to provide the services of the CEO to the Company. The payments include annual compensation, vacation pay, quarterly bonus, travel allowance and medical allowance.

Y Chen in the amount of \$52,918 (2015 - \$31,450), who is an independent contractor to the Company. The payments are for accounting services and to provide service of CFO to the Company. The services are billed when provided, no contract exists between the contractor and the Company.

The salary and wages to director includes wage to:

Bourgnine Holding Ltd. in the amount of \$141,900 (2015 \$118,800), which is a private company controlled by a director of the Company. The payments are for management and financial consulting services to the Company. The payment includes annual fee and performance bonus.

(b) The consulting fees to directors include payments to:

Bourgnine Holding Ltd. in the amount of \$74,323 (2015 \$44,700), which is a private company controlled by a director of the Company. The payments are for management and financial consulting services to the Company. The payment includes annual fee and performance bonus.

RJ Stapell in the amount of \$36,914 (2015 \$ 46,044), who is a director of the Company. The payments are for business consulting, corporate governance, and strategic planning for the Company.

Other companies with common directors in the amount of \$10,000 (2015 - \$9,992) for consulting services.

(c) The advances to franchisees include advances to Spot Coffee Kenmore, Spot Coffee Hamburg, Spot Coffee Orchard Park, and Spot Coffee Williamsville.

(d) Head office occupancy expenses are paid to Canadian Oil Recovery and Remediation Ltd. which is a public company with common officers and directors with the Company. The accounts payable balance relates to shared office cost allocations including occupancy, office cost, bookkeeping and IT expenses.



(e) Advance from associate relates to amount owing from Spot Coffee Hertel Inc., now an associate to the Company as discussed in note 6.

(f) Advance from director relates to non-interest bearing on demand advances in normal course of business.

The salary and wages to officers, consulting fees to directors, and head office occupancy expenses have been included in accounts payable and accrued liabilities as at December 31, 2015.

Disclosure of Outstanding Share Data

As at April 28, 2017, the Company had 116,312,337 common shares issued and outstanding.

An additional 24,557,744 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Company's stock option plan, as well the exercise of the outstanding warrants. Accordingly, SPoT would have 140,870,081 shares outstanding on a fully diluted basis.

Critical Accounting Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates, judgements and assumptions that affect the application of accounting policies. Additionally, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates.

Certain estimates, such as those related to valuation of inventories, impairment of property and equipment, valuation of debt conversion options and derivatives, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Change in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, are discussed below

Identification of Cash-Generating Unit ("CGU")

Identification of an asset's cash-generating unit under International Accounting Standards ("IAS") 36, *Impairment of Assets*, involves judgement. CGUs are the lowest level of assets that cash inflows are independent of other assets. In determining CGUs, the Company considered the internal reporting, including the level at which financial forecasts were prepared and monitored, and the significant assets relating to the Company's products and services required to generate cash inflows.

Impairment of Depreciable Assets

At the end of each reporting period, the Company assesses whether there is any indication of impairment for its depreciable assets. If any such indication exists, then the Company will perform an impairment test. The impairment test is to compare the asset's carrying amount and its recoverable amount, where the recoverable amount is defined as the higher of the assets fair value less costs to sell or disposal and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value, using a pre-tax discount rate



that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss, which is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Share-based Payments

Under the Company's stock option plan, all stock options granted have graded vesting periods and exercisable up to five years from the date of grant. Each tranche of an award with graded vesting period is considered a separate grant at each vest date for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rate and estimated forfeitures.

The amount recognized for goods or services received during the vesting period shall be based on the best available estimate of the number of equity instruments anticipated to vest. The Company shall revise that estimate, if necessary, if subsequent information indicates that the number of share options anticipated to vest differs from previous estimates. On vesting date, the Company shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the Company shall make no subsequent adjustment to total equity for goods or services received if the share options are later forfeited at the end of the share option's life.

Useful Lives of Depreciable Assets

The Company estimates the useful lives for an item of depreciable assets to its significant parts and depreciates separately each such part. Management reviews the useful lives of depreciable assets and their significant parts at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to a variety of factors including technical obsolescence.

Valuation of Convertible Debentures

The convertible debentures were separated into their liability and equity components or derivative liability component at the date of issue, in accordance with the substance of the contractual agreements. The conversion options require an estimation of the fair value of a similar liability that doesn't have an associated equity component by using a suitable discount rate at initial recognition and each extension date. The carrying amount of the conversion options is then determined by deducting the fair value of the financial liability from the fair value of the convertible debenture as a whole.

Valuation of Stock Options and Warrants

The warrants attached with common shares and stock options require an estimation of the fair value at initial recognition. Management uses the Black-Scholes option pricing model to estimate the fair value of stock options and warrants.



Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, accounts receivable, loans receivable, bank indebtedness, accounts payable and accrued liabilities, advances from shareholders and long-term debt.

Management does not believe these financial instruments expose SPoT to any significant interest, liquidity, currency or credit risks arising from these financial instruments. The fair market value of these financial instruments is as stated in the consolidated financial statements for the year ended December 31, 2016 and 2015.

Summary of Quarterly Results

There were no dividends paid in the last eight quarters.

	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Revenue from operations	1,184,826	2,690,373	2,932,664	2,969,850	2,588,285	2,459,719	2,317,721	1,953,659
Cost of Sales	496,662	975,322	1,065,559	1,092,361	782,605	735,603	700,363	630,492
Net Income (Loss)	228,061	288,500	(387,811)	(299,285)	(204,459)	(323,416)	(274,423)	(488,791)
Total assets	2,675,907	2,356,466	2,478,462	2,611,292	2,880,012	2,901,839	2,922,414	3,077,212
Long-term Liabilities	398,181	884,177	856,825	1,091,511	1,106,588	2,349,587	3,009,607	2,969,567