# NATURALLY SPLENDID ENTERPRISES LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Year Ended**

**December 31, 2016**

*This Management's Discussion and Analysis ("MD&A") for Naturally Splendid Enterprises Ltd. ("Naturally Splendid" or the "Company") has been prepared as of April 24, 2017. It should be read in conjunction with the audited financial statement of the Company for the year ended December 31, 2016 and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards, ("IFRS") as issued by the International Accounting Standards Board. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified. Additional information relating to the Company is available on SEDAR at www.sedar.com.*

*Statements in this MD&A that are not historical facts are "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. Readers are cautioned not to put undue reliance on forward-looking statements*

## COMPANY OVERVIEW

Naturally Splendid is in the business of distributing grain based super foods and health products for humans and pets. While most distribution has historically been in Canada, the Company expanded its distribution network into the United States in 2015, and into Korea in 2016.

During 2014 the Company formed a Colorado subsidiary, Naturally Splendid USA Ltd. This subsidiary facilitates the development of markets for the Company's products and licensed technologies in the United States.

During 2015, the Company acquired 51% of the issued Class A shares of POS BPC Manufacturing Corp. ("BPC") in accordance with the terms of a securities purchase agreement (the "Purchase Agreement") with POS Management Corp. ("POS Management") and POS Holdings Corp. ("POS"). BPC operates a 12,000 square foot facility capable of processing a variety of products including the suite of plant-based omega technologies such as HempOmega™. Additionally, the BPC Facility is designed to produce plant-based extracts, tinctures and dry ingredients for a variety of clients.

Also during 2015, the Company acquired Chi Hemp Industries Inc. ("Chi"), an online hemp product marketing company.

The Company's common shares are listed on the TSX Venture Exchange under the symbol "NSP" and on the Frankfurt Stock Exchange under the symbol "50N". The Company is also quoted on the US OTCQB board under the symbol "NSPDF"

## WHOLESALE PRODUCTS

*Bulk Hemp Seeds*

In early 2016, the Company began to market the Natera hemp food retail line and the PawsitiveFX pet care line throughout South Korea and in February 2016, the Company received its initial bulk purchase order for $924,000. In March 2016, the Company launched its hemp foods through the Lotte Home Shopping Channel in South Korea under the brand Paleo/NATERA. The Lotte Shopping Channel sells a variety of consumer goods and services by means of live, customer-interactive electronic retail sales programming which is transmitted to cable television systems and select broadcast television stations throughout Korea. Bulk sales to Korea totalled over $5.7 million in 2016, though the pace of bulk sales has declined in late 2016 and into 2017 as the market became more competitive.

*Hemp and Cannabinoid Formulations*

During 2015, Naturally Splendid USA Ltd. ("NSE USA") entered into a Novation Agreement with Full Spectrum Laboratories Limited ("FSL"), Boreal Technologies, Inc. ("Boreal") and Naturally Splendid whereby Boreal assigned, and NSE USA assumed all rights, title and interest to a Restated and Amended License Agreement between FSL and Boreal. The License Agreement provides that the licensee has a worldwide license to manufacture, commercialize and sell products based on the technology. As a result of the closing of a restated and amended licence agreement in 2015, Naturally Splendid acquired a 100-per-cent interest in FSL's omega technologies (without royalty), including HempOmega and H2Omega.

The Omega Technology and the CBD Technology are comprised of numerous exclusive and non-exclusive technologies, U.S. Provisional Patent Applications and U.S. Patent Applications, as well as all know-how, intellectual property and standard operating procedures related thereto. Naturally Splendid will focus its resources on selling products developed utilizing the Omega Technology, such as HempOmega (powder) and H2Omega (emulsion).

**The Company will market the CBD products only in jurisdictions where such products are legally permitted and in accordance with all regulatory and licensing requirements. Accordingly, the Company will not be marketing these products in Canada unless and until permitted by law, and will comply with any and all applicable regulatory and licensing requirements which may be required at the time such products are permitted.**

*HempOmega™ and other Powdered Plant Based Omega Oils*

In 2012 and 2013, Naturally Splendid in conjunction with Boreal and with funding from the Canadian National Research Council, investigated a process to commercialize and market powdered plant based omega oils including hemp oil. Unlike powdered hemp protein, powdered hemp seed oil contains all of hemp's omega 3 and 6 essential fatty acids. Two sales agreements between the Company and Boreal were signed in 2013. The products covered in the sales agreements expanded from HempOmega™ and H2Omega™ to include FlaxOmega™, CanolaOmega™, ChiaOmega™, plant based omega products created from flax, canola and chia. These products utilize the same microencapsulation and liposome technologies as HempOmega™ and are available in both the powder format and an aqueous solution for increased flexibility in ingredient applications and/or stand-alone products.

In 2014, Boreal completed the first pilot scale production run of HempOmega™. The successful completion of the production run allowed the Company to offer commercial sized production quantities, as well as to develop retail products which will utilize HempOmega™. The Company subsequently received a first shipment of HempOmega™. Further announcements included the results of a poultry study conducted at the University of Manitoba, where an increase of 637% in natural omega content as achieved from chickens that consumed HempOmega™ in their feed compared to a current commercial feed product. In February 2017, a pet food study conducted by the Food and Bio-processing division of Alberta Agriculture and Forestry concluded that the Company's Hemp omega formulation technology can be used to infuse canine foods. Shortly thereafter the Company confirmed an exclusive supply agreement with Canature Processing Ltd. to supply HempOmega™ for their freeze-dried Pet Foods and Treats.

Naturally Splendid is marketing HempOmega™ as an ingredient to be added to third party commercial products including Laguna Blends and their Pro369 hemp protein, instant, functional beverage and Caffe, Laguna's protein coffee.

## RETAIL PRODUCTS

*NATERA™*

Naturally Splendid distributes the following hemp-based food products under the NATERA™ brand:

- **Premium Shelled Hemp Seed.** Naturally Splendid Premium Shelled Hemp Seeds are a versatile, superfood that can be consumed on its own as a snack or meal replacement, or can be added to recipes to enhance taste and improve dietary profiles.


- **Premium Hemp Protein Powder and Flavoured Protein Powders.** Naturally Splendid Premium Hemp Protein Powder is easily digestible and an excellent source of protein. It can replace all other protein sources and is packed with live enzymes, EFA's, EAA's, vitamins and minerals. Hemp Protein Powder complements any juice or smoothie and is ideal for vegans and vegetarians. Naturally Splendid has also developed chocolate, berry and vanilla flavoured proteins.

- **Hemp Seed Snack Packs**. Naturally Splendid has developed and launched flavoured hemp seed snack packs in natural, maple and Himalayan pink salt flavours.


All NATERA™ brand products meet NON-GMO Project Certification requirements for both Canada and the United States. The certified products are listed on the NON-GMO project website at http://www.nongmoproject.org/find-non-gmo/search-participating-products/search/?brandId=789
Naturally Splendid is also an official member of the Canada Brand Program.

*Pawsitive FX™*

In February 2015, the Company launched the hemp-based pet care line trademarked Pawsitive FX™. The Pawsitive FX™ product line consists of three formulations for topical applications in three formats: 2 oz. tins, 0.15 oz. twist-up applicators and a 0.5 oz. version of the applicator.

**Happy Paws™** is a balm formulated to soothe dry, cracked, chapped or rough paws, helping to prevent irritation, moisturize, and maintain the health of paws. The product is made with 100% natural ingredients that are safe for pets. **Strong Paws™** is ideal for protecting dog pads in all terrains. **Happy Snouts™** is formulated with all-natural ingredients to provide gentle and soothing assistance with chapped, cracked or dry noses. It is unscented and made with 100% natural ingredients that will not harm pets. All products are made from 100% premium grade ingredients with no added scents, ensuring the best results and safety for pets. The Company also launched a Pawsitive FX™ website with support for online marketing and payments.

*CHII™*


In November 2015, the Company acquired Chi Hemp Industries Inc. Chi is an online marketer of hemp based products including hulled and whole hemp seeds, hemp flour, hemp protein and hemp oil. The reader is referred to the discussion below under Operations for the details of the acquisition.

**BRANDING & MARKETING**

The number of competitors and the degree of competition within the North American food industry varies greatly by product segment and region. In the hemp food industry, there are a limited number of competitors. These competitors offer a similar range of retail products as Naturally Splendid.

In 2013 the Company introduced the “NATERA™” brand, for which trademarks were obtained in Canada and the United States and more recently in South Korea. The NATERA™ products line includes flavoured shelled hemp seeds and flavoured hemp proteins. During 2015 the Company launched the Pawsitive FX™ line of 100% owned hemp-based pet care products.

Naturally Splendid continues to work with and expand its distribution channels, as well as direct store sales and an online presence, marketing the NATERA™ and Pawsitive FX™ product lines across Canada and in various foreign countries. The sales of HempOmega™, other commercial food ingredients and any bulk sales are handled through the Natera Ingredients division of the Company.

During 2016 and early 2017, the Company attended international food exhibitions in Asia, including South Korea and Japan. The Company announced in April 2017 that it has entered into a marketing and distribution agreement with First Step Japan, to market its NATERA® CBD and Skincare product line in Japan.

**OPERATIONS**

The Company engages outside processors to manufacture and package its hemp based products. The production process involves manufacturers purchasing hemp seed from farmers under contract. Once the product is harvested, it is sent for processing into the various hemp products including, shelled hemp seed, hemp protein and hemp oil. Finished bulk product is either delivered in bulk for export, to the Company or to subcontractors for further processing or packaging.

During the second quarter of 2016, the Company relocated its corporate and warehouse operations to a facility in Pitt Meadows, BC, Canada, as it had outgrown its facility in Burnaby, BC, Canada. The Pitt Meadows facility is approximately 12,000 square feet and is strategically located close to certain suppliers. It provides the Company with increased space to meet the growing operations of the Company’s various divisions and product lines. The lease term commenced June 1, 2016 and terminates on June 30, 2026. The rent is payable in advance at a rate of $8,093 per month plus its proportionate share of operating costs and property taxes, currently amounting to $2,572 per month.

## CO-PACKING OPERATIONS

In September 2016, the Company signed a letter of intent (“LOI”) with Eat Real Snack Food Canada Ltd. ("ERSF") for Naturally Splendid to acquire food packaging equipment from ERSF and assume the related lease agreement. Under the lease agreement, Naturally Splendid will make monthly lease payments of $9,765 until May 2022. Following the final lease payment, Naturally Splendid will own the equipment free and clear of all encumbrances. In addition, ERSF entered into a three-year agreement to commit to a guaranteed monthly minimum of $14,500 in packaging for their line of snacks. In Q4 2016, Naturally Splendid made a cash payment of $56,698, and in January 2017 issued 289,855 shares for total compensation of $100,000, in relation to the agreement.

Naturally Splendid signed the final agreements for acquisition of the packaging equipment in January 2017 and assumed responsibility for the monthly lease payments. In February and March 2017, they completed installation of the machinery acquired from ERSF and the related 3,000 sq.ft. packaging room at the Company’s Pitt Meadows headquarters and commenced commercial operations.

The acquisition of this packaging system continues the Company's strategy of becoming more vertically integrated and has many potential benefits for the Company to control inventory and costs, to launch additional product lines and to test and develop new products. The Company is actively seeking to provide co-packaging services to additional companies.

Naturally Splendid also believes this an opportunity to introduce co-packing partners to other parts of its business, such as HempOmega™, advanced proteins and other food ingredients.

*POS BPC*

In 2015, the Company purchased 51% of POS BPC Manufacturing Corp. (“BPC”), a subsidiary of POS Management, for $1.75-million and 367,647 common shares of Naturally Splendid valued at $165,441. The common shares were subject to a trading restriction for a period of 12 months from the date of issue. Each of POS and the Company have three directors on the board of BPC, and POS continues to be the operator of the BPC Facility.

BPC operates a 12,000-square-foot facility containing approximately 60,000 litres of tankage, a fractional distillation system, evaporation equipment, spray drying equipment, a ring dryer, and various other pieces of complementary and auxiliary equipment. It is capable of processing a variety of products including the suite of plant-based omega technologies such as HempOmega™. Additionally, the BPC facility is designed to produce plant-based extracts, tinctures and dry ingredients for a variety of clients.

In early 2016, BPC did a thorough cleaning and maintenance, trained operators and completed upgrades to equipment and facilities. Revenues began in April, 2016. As there were significant upfront costs to start the facility, management are of the opinion that the 2016 results do not reflect the potential of future full year operations.

The Company also completed a strategic alliance with Nature’s Health Products Canada Corp. (“NHPCC”), a member of the POS Group of Companies (“POS”) based in Saskatoon, Saskatchewan, to capitalize on opportunities to sell bulk volumes of HempOmega™. The agreement is a three-year Contractor Agreement whereby POS will process HempOmega™ to Naturally Splendid’s requirements. NHPCC is responsible for commercializing internal POS research through ingredient marketing and distribution. POS specializes in extraction, fractionation, purification and modification of bio-based materials.

The Company has signed an agreement with BPC to provide research and development services to Naturally Splendid for hemp based research, process and product development. In 2015, the Company advanced $250,000 to retain POS to further develop the plant based omega technologies and products licensed from Full Spectrum Laboratories Limited, specifically targeting the omega oil industry. As at December 31, 2016, $188,426 of these funds have been spent on R&D projects.

In 2015, the Company announced that BPC had secured a government grant for HempOmega™ product development from the Saskatchewan Agri-Value Initiative (SAVI). Naturally Splendid and SAVI will split the cost of the project 50/50 and Naturally Splendid will have 100% ownership of all data and information. The product development specialists at SFIDC will be incorporating HempOmega™ into various food applications to determine the maximum inclusion levels. The project is also evaluating shelf life and nutritional labeling to determine what levels are required to meet Health Canada's Omega-3 nutrient specifications and the development of additional product formulations. SFIDC has successfully created pizza dough and yogurt enhanced with HempOmega™.

The Company has also entered into a license and sales agreement with POS Bio-Sciences, whereby the Company will have the right to sell and market certain ingredients created using POS Bio-Sciences technology and to also sell and market additional ingredients. In consideration of the agreement, Naturally Splendid has agreed to pay POS a 5-per-cent net revenue royalty. The ingredients included in this licensing arrangement are high-quality sourced plant and marine extracts in the form of powder or oil and will be marketed through the Company's Natera Ingredients division.

**CHII HEMP INDUSTRIES INC.**

In November 2015, the Company acquired all of the issued and outstanding shares of Chi Hemp Industries Inc. ("Chi") for cash of $75,000 plus $75,000 of Company common shares (319,148 shares) and a working capital adjustment. On closing of the transaction, the Chi shareholders entered into a one-year consulting agreement with Naturally Splendid that ended on November 30, 2016. During that period, the Chi shareholders received a 12-per-cent gross sales commission on certain sales that directly benefit from their services.

The Company purchased Chi to access what is in management's opinion, a highly sophisticated online marketing capability. The Company is upgrading all its other online web related sales technologies and websites to the same high standards. Chi has been in business and has had an online presence since 1998.

**NSE UNITED STATES OPERATIONS**

NSE USA intends to implement a business strategy to leverage the omega and cannabinoid technologies that were licensed to and acquired by NSE USA. The Company had minimal activity in the USA during 2016, but expects to address the US market as opportunities and internal resources allow.

**The Company will market its products only in jurisdictions where such products are legally permitted and in accordance with all regulatory and licensing requirements, and will comply with any and all applicable regulatory and licensing requirements which may be required at the time such products are permitted.**

**MANAGEMENT, BOARD OF DIRECTORS & ADVISORY BOARD ACTIVITIES**

In August 2016, David Racz resigned from the Board of Directors. In October 2016, Chuck Jenkins resigned as a Director and as the Company CFO and Brian Richardson was appointed CFO of the Company. In December 2016, Dave Eto was appointed CEO and a Director of the Company.

## SELECTED ANNUAL INFORMATION

The following table includes information obtained from the audited consolidated financial statements of the Company and from its accounting predecessor. The audited financial statements for these fiscal years were prepared in accordance with International Financial Reporting Standards and are expressed in Canadian dollars.

| Statements of Loss Data | Year Ended December 31, 2016 ($) | Year Ended December 31, 2015 ($) | Year Ended December 31, 2014 ($) |
|---|---|---|---|
| Total Revenue | 7,346,746 | 301,705 | 234,761 |
| Cost of sales | (6,112,175) | (261,857) | (193,092) |
| Expenses | (4,079,897) | (7,144,034) | (1,837,426) |
| Interest and other Income | 69,747 | 122,900 | 1,810 |
| Net Loss | (2,775579) | (6,981,286) | (1,795,757) |
| Basic and Diluted Loss Per Share | (0.05) | (0.14) | (0.06) |

| Statements of Financial Position Data | As at December 31, 2016 ($) | As at December 31, 2015 ($) | As at December 31, 2014 ($) |
|---|---|---|---|
| Total Assets | 6,084,742 | 4,508,998 | 748,366 |
| Total Liabilities | 2,135,537 | 2,239,597 | 139,976 |
| Total Equity | 3,949,205 | 2,269,401 | 608,390 |

## SUMMARY OF QUARTERLY RESULTS

Certain comparative information has been restated to reflect the current presentation in the financial statements. All periods listed below were prepared in accordance with IFRS and are expressed in Canadian dollars.

| | Three months ended | | | |
|---|---|---|---|---|
| | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 |
| Total Revenue | 1,013,286 | 1,235,580 | 3,657,852 | 1,440,028 |
| Gross Margin | (683,596) | 266,420 | 1,596,383 | 80,353 |
| Income (loss) from operations | (2,513,719) | (713,455) | 895,452 | (513,604) |
| Comprehensive income (loss) | (2,478,063) | (724,524) | 885,301 | (458,293) |
| Basic and diluted income (loss) per share | (0.04) | (0.01) | 0.02 | (0.01) |

| | Three months ended | | | |
|---|---|---|---|---|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
| Total Revenue | (8,818) | 200,571 | 70,459 | 39,493 |
| Gross Margin | (47,083) | 38,758 | (35,563) | 6,877 |
| Loss from operations | (1,213,511) | (912,384) | (859,267) | (1,335,007) |
| Comprehensive loss | (3,884,965) | (891,033) | (905,485) | (1,299,803) |
| Basic and diluted loss per share | (0.07) | (0.02) | (0.02) | (0.03) |

## DISCUSSION OF OPERATIONS

*Overview*

During the year ended December 31, 2016, the Company experienced significant growth in sales, particularly export sales. In early 2016, the Company initiated sales of bulk product to South Korea. Korean sales continued at a strong pace, peaking in Q2 and reducing during through Q3 and Q4. Bulk sales reductions in the second half of 2016 were due to limitations at the Company's contract processor and other factors which made the market more competitive and reduced margins. Retail and online sales were higher and operations at the POS BPC facility also increased revenues.

*Q4 Results*

Q4 operating results saw a decrease in bulk sales revenue and increases in several expense categories and in cost of goods sold. Office and compensation costs, including share based compensation, increased as the Company added staff and management. The Company paid off its long-term debt during the quarter, which resulted in the early recognition of the remainder of the interest expense and accretion. A number of inventory adjustments were recognized during the quarter resulting in higher cost of goods.

*Revenue*

Revenue during the year ended December 31, 2016 was $7,346,746 (2014: $301,705). The majority of this increase was due to bulk hemp seed sales to South Korea as well as increased its sales in the retail product areas, a full year of Chi operating results and inclusion of the POS-BPC operations.

*Costs of Sales and Gross Profit*

Cost of Sales was $6,112,175 during the year, compared to $261,847 in 2015. The Company significantly changed its sales mix in 2016 with the advent of over $5.7 million of export bulk seed sales, which are generally sold at a lower gross margin percentage. Profit margins on bulk sales trended lower in the latter part of 2016 due to an increasingly competitive market. On the other hand, the increased sales levels afforded the Company increased economies of scale which helped the margins. Overall gross profits increased to $1,234,571 (16.8% of sales) compared to $39,848 (13.2%) in 2015.

*Selling and Distribution Expenses*

| | Year ended December 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Selling and distribution expenses** | **$** | **$** |
| Facility | 317,168 | 169,408 |
| Freight and delivery | 172,581 | 34,320 |
| Product development | 36,007 | 154,735 |
| Product promotion, net of grants | 284,528 | 261,321 |
| Bad debts and inventory write-down | 157,759 | - |
| | 968,043 | 619,784 |

Selling and distribution expenses during the year ended December 31, 2016 were generally higher than in 2015. Although the Company was more active in 2016, particularly in relation to bulk sales, other selling expenses were down, as the Company reduced its product giveaways and trade show promotions. Freight and delivery was significantly higher due to the bulk sales activity and bad debt and inventory provisions were higher due to the increased sales activity. Facility expenses related to the POS BPC facility operations, which were not incurred in the first half of 2015.

*Administrative Expenses*

| | Year ended December 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Administrative expenses** | **$** | **$** |
| Accounting and audit | 86,758 | 120,073 |
| Amortization | 237,615 | 134,661 |
| Bank charges, interest and accretion | 269,261 | 50,101 |
| Consulting | 560,022 | 327,766 |
| Directors' fees | - | 700 |
| Legal | 78,739 | 211,042 |
| Management fees | 540,754 | 654,020 |
| Office, rent and salaries | 730,130 | 608,191 |
| Corporate promotion | 254,287 | 588,745 |
| Share-based payments | 202,342 | 906,900 |
| Transfer agent and filing fees | 67,244 | 70,276 |
| Travel | 84,702 | 67,758 |
| | 3,111,854 | 3,740,233 |

Administrative expenses were broadly similar in 2016 compared to 2015, but lower overall due mainly to lower share-based payments.

*Accounting and audit fees* were lower in the year due to the timing of billings and no M&A activity during the year which increased audit costs in 2015. *Amortization* reflects the increase in depreciable assets of the Company, packaging equipment as well as addition of expenses from the POS BPC facility and the amortization of intangible assets; *Bank charges and interest accretion* was much higher as the Company carried long-term debt for most of the year and then recognized all remaining accretion and other interest charges of $133,547 upon early repayment of the debt in December 2016; *Consulting* fees represent outside business consultants and are higher due to increased operating activity; *Legal* fees are down in 2016 as the Company had fewer significant transactions; *Management fees* were lower in 2016 with management the United States now being minimized, offset partially by fees related to POS-BPC; *Office rent and salaries* reflects the cost of the warehouse premises, administrative staff, and the general increase in costs as the company moved to a larger head office and engaged in expanding its products and operations; *Promotion* decreased due to a reduction in the prepaid corporate promotional activities regarding corporate and general product awareness campaigns in all the markets where the Company has shareholders and potential investors; *Share based payments* were down significantly, reflecting the significant issuance of options and other compensation in 2015; *Transfer agent and filing fees* were down slightly in 2016 as the Company did fewer financings; *Travel* has increased slightly over the year, reflecting the lower level of activity at trade shows, offset by attendance at events sponsored by the federal and provincial governments and Asian business development initiatives.

There was no impairment of goodwill in 2016 compared to an impairment of $ 2,784,017 in 2015 which related to the acquisition of the POS BPC facility

## LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, the Company had cash of $362,649 (2015 $34,330) and working capital of $1,101,366 (December 31, 2015, working capital deficit of $755,094). As at the date of this MD&A, the Company has working capital of approximately $720,000.

**Cash flows – Year ended:**

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Operating activities | (3,321,232) | (2,230,284) |
| Investing activities | (164,656) | (2,383,683) |
| Financing activities | 3,766,157 | 4,622,893 |
| Net change in cash and cash equivalents | 280,269 | 8,926 |
| Cash, beginning of year | 34,330 | 25,404 |
| Cash, end of year | 314,599 | 34,330 |
| **Cash consists of:** | | |
| Cash | 362,649 | 34,330 |
| Cheques issued in excess of bank deposits | (48,050) | - |
| | 314,599 | 34,330 |

On November 8, 2016, the Company closed the final tranche this financing by issuing 11,834,720 units for gross proceeds of $3,195,374. Please see Note 16 to the Company's December 31, 2016 financial statements for additional detail on the Company's equity financing activities during the year.

In December 2016, the Company repaid two loans totaling $466,805 inclusive of accrued interest. Please see Note 13 to the Company's December 31, 2016 financial statements for additional detail on the Company's equity financing activities during the year.

In March 2017, Naturally Splendid received $445,425 in cash and $120,000 in accounts payable settlement from the exercise of warrants previously granted. The warrants were exercised at prices of $0.30, $0.35 and $0.40 for a total of 1,464,500 common shares being issued. Following the issuance of these shares, Naturally Splendid had 76,010,649 common shares outstanding.

The Company's future capital requirements will depend upon many factors including, without limitation, consumer demand, raw material supply and prices and costs of sales. Since the Company expects to generate limited revenues from operations in the near future, it must continue to rely upon the sale of its equity and debt securities to raise capital, which would result in further dilution to the shareholders. There is no assurance that financing, whether debt or equity, will be available to the Company in the amount required by it at any particular time or for any period and that such financing can be obtained on terms satisfactory to it or at all.

## OUTSTANDING SHARE DATA

On January 27, 2017, the Company issued 3,040,000 common share purchase options to employees Directors and consultants of the Company. The options are exercisable into common shares of the Company at $0.35 per share, with 20% vesting on issue and 40% vesting on each of the first and second anniversaries of issue. In March 2017, 1,464,500 warrants with exercise prices of $0.30 - $0.40 were exercised for gross proceeds of $445,425 in cash plus settlement of $120,000 in accounts payable and 2,917,427 warrants expired unexercised.

As of the date of this MD&A, the Company had 76,010,649 common shares outstanding common shares outstanding plus 6,790,500 share purchase options and 9,759,850 warrants.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has not engaged in off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

The Company has agreed to purchase a packaging line by assuming a capital lease and other related consideration. Please see description under Operations above.

## TRANSACTIONS BETWEEN RELATED PARTIES

*Key management compensation*

The remuneration of directors and other members of key management were as follows:

| | Year ended December 31, 2016 $ | 2015 $ |
|---|---|---|
| Management fees | 275,168 | 455,858 |
| Directors' fees | - | 700 |
| Share-based payments (note 16) | 31,575 | 654,880 |
| | 306,743 | 1,111,438 |

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the period.

*Related party transactions*

Management fees were paid to a company controlled by the Company's former Chief Financial Officer and consulting fees were paid to a company controlled by a director. Transactions with related parties were as follows:

| | Year ended December 31, 2016 $ | 2015 $ |
|---|---|---|
| Management fees | 50,000 | 60,000 |
| Consulting fees | 42,000 | 42,000 |
| | 92,000 | 102,000 |

POS Management Corporation is a company subject to common control. During year ended September 30, 2016, the Company received facilities revenues and contract services revenue from POS Management Corporation totaling $51,306 (2015 - $nil) and incurred management fees expense of $144,000 (2015 - $nil).

Included in accounts payable and accrued liabilities are the following amounts due to/from related parties:

- $3,754 (2015: $5,879) due to management and consultants for fees outstanding.
- $126,785 (2015 - $556,966) due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.

- $66,880 due to (2015 - $414,326 due from) POS Management Corp., a company subject to common control, relating to subcontractor fees.
- $nil (2015 - $22,600) due to POS Holdings Corp., a company subject to common control, relating to consulting fees outstanding.

**CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

The Company has adopted new accounting standards effective January 1, 2015. Please refer to note 3 in the annual audited financial statements for the year ended December 31, 2016 for a detailed discussion of accounting policies and estimates. There was no effect from the adoption of these standards.

**ACCOUNTING ESTIMATES AND JUDGMENTS**

*Critical accounting estimates*

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and include, but are not limited to, the following:

<u>Recoverability of accounts receivable</u>
Provisions are made against accounts that, in the estimation of management, may be uncollectible. The recoverability assessment of accounts receivable is based on a range of factors, including the age of the receivable and the creditworthiness of the customer. The provision is assessed monthly with a detailed formal review of balances and security being conducted quarterly. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payments. To the extent that future events impact the financial condition of the customers these provisions could vary significantly.

<u>Share-based payments</u>
The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

<u>Income taxes</u>
In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

<u>Interest rates</u>
The Company estimates a fair value interest rate in determining the fair value of the loans payable.

<u>Recovery of deferred tax assets</u>
The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

*Critical accounting judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

Valuation of inventory
Management makes estimates of future customer demand for products when establishing appropriate provisions for inventory obsolescence. In making these estimates management considers the life of inventory and profitability of recent sales.

Useful lives of intangible assets and equipment
Depreciation and amortization of the Company's equipment and intangible assets incorporate estimates of useful lives and residual values. These estimates may change as market conditions change and the future economic benefits from the use of the asset changes, thereby impacting the useful life and residual value of the equipment or intangible asset. Any revisions to useful life are accounted for prospectively.

Impairment of goodwill and Licensed IP
Determining the impairment of goodwill and Licensed IP requires an estimation of the recoverable amount, which is defined as the higher of fair value less cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

The allocation of fair value of assets acquired
The determination of fair value of assets acquired requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the assets and liabilities acquired require judgment and include estimates of future cash flows.

The assessment of the transactions as an asset acquisition or business combination
Management has had to apply judgments relating to the Transaction with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

Going concern
The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

F**INANCIAL** I**NSTRUMENTS**

## Categories of financial instruments

| | December 31, 2016 $ | December 31, 2015 $ |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit or loss, at fair value | | |
| Cash | 362,649 | 34,330 |
| Loans and receivables, at amortized cost | | |
| Trade and other receivables | 356,516 | 250,020 |
| Restricted cash | 60,435 | 57,560 |
| Long-term deposits | 75,703 | 36,000 |
| Due from related parties | - | 414,326 |
| Total financial assets | 855,303 | 792,236 |
| **Financial Liabilities** | | |
| Other liabilities, at amortized cost | | |
| Cheques issued in excess of bank deposits | 48,050 | - |
| Trade and other payables | 1,636,250 | 1,074,468 |
| Due to related parties | 193,665 | 585,445 |
| Long-term loans | 183,026 | 476,758 |
| Total financial liabilities | 2,060,991 | 2,136,671 |

## Fair value

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers the carrying amounts of all its financial assets and financial liabilities recognized at amortized cost in these condensed consolidated interim financial statements to approximate their fair values due to the short-term maturity of these instruments.

## Management of financial risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of these risks. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that potentially subject the Company to credit risk consist of cash and trade receivables. The Company deposits cash with major Canadian commercial banks. In order to reduce its credit risk in relation to trade receivables, the Company has adopted credit policies that include the analysis of the financial position of its customers and the regular review of their respective credit limits.

*Liquidity risk*
Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is reliant upon equity issuances and loans as its main sources of cash. The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company continuously reviews its actual expenditures, forecasts cash flows and matches the maturity dates of its cash to capital and operating needs.

The Company has been successful in raising financing in the past; however, there is no assurance that it will be able to do so in the future. As at December 31, 2016, the Company had working capital of $1,231,403 (December 31, 2015, working capital deficit of $755,094).

*Interest rate risk*
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and cash equivalents is at nominal interest rates, and therefore the Company does not consider interest rate risk to be significant.

There are no loans payable as at December 31, 2016 is fixed, as such, the Company is not exposed to interest cash flow risk.

*Other risk*
Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency or other risk. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments in the management of foreign currency, commodity price or interest rate market risks.

## FURTHER INFORMATION

### Risk Factors

An investment in the Company is speculative and involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below, in addition to the other information contained in this document, before making any decision to invest in the Company. The directors consider the following risks and other factors to be the most significant for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the directors may also have an adverse effect on the Company's business.

### Limited Operating History

Although the Company earns revenues, the Company has not been profitable to date and there is no assurance that it will do so in the future. The Company's business operations are at an early stage and its success will be largely dependent upon its ability to market its products, increase sales and, if warranted, develop new products. There is no assurance that the Company will be successful in its ability to increase sales and develop new products.

### Additional Requirements for Capital

Substantial additional financing may be required if the Company is to be successful develop its business. No assurances can be given that the Company will be able to raise the additional capital that it may require for its anticipated future development. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

### Management of Growth

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects. While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

### Success of Products is Dependent on Public Taste

The Company's revenues are substantially dependent on the success of its products, which depends upon, among other matters, pronounced and rapidly changing public tastes, factors which are difficult to predict and over which the Company has little, if any, control. A significant shift in consumer demand away from the Company's products or its failure to expand its current market position will harm its business. Consumer trends change based on a number of possible factors, including nutritional values, a change in consumer preferences or general economic conditions. Additionally, there is as a growing movement among some consumers to buy local food products in an attempt to reduce the carbon footprint associated with transporting food products from longer distances, and this could result in a decrease in the demand for food products and ingredients that the Company imports from western Canadian region. These changes could lead to, among other things, reduced demand and price decreases, which could have a material adverse effect on the Company's business.

### Raw Materials

The Company's products are derived from hemp. Accordingly, the Company and/or its manufacturers must acquire sufficient hemp so that the products can be produced to meet the demand of its customers. A hemp shortage could result in loss of sales and damage to the Company. The Company may be required to source other industrial hemp producers in the event that consumer demand increase. Also, if the Company and/or its manufacturers become unable to acquire commercial quality hemp on a timely basis and at commercially reasonable prices, and are unable to find one or more replacement suppliers with the regulatory approvals to produce hemp at a substantially equivalent cost, in substantially equivalent volumes and quality, and on a timely basis, the Company will likely be unable to meet customer demand.

### Limited Number of Products

The Company is heavily reliant on the production and distribution of hemp and related products. If they do not achieve sufficient market acceptance, it will be difficult for us to achieve consistent profitability.

The Company's revenue is derived exclusively from sales of hemp based products, and the Company expects that its hemp based products will account for substantially all of its revenue for the foreseeable future. If the hemp market declines or hemp fails to achieve substantially greater market acceptance than it currently enjoys, the Company will not be able to grow its revenues sufficiently for it to achieve consistent profitability.

Even if products to be distributed by the Company conform to international safety and quality standards, sales could be adversely affected if consumers in target markets lose confidence in the safety, efficacy, and quality of hemp. Adverse publicity about hemp based products that the Company sells may discourage consumers from buying products distributed by the Company.

**Consumer Perception of Hemp**

The Company is highly dependent upon consumer perception of hemp and hemp based products. Hemp is a term reserved for low tetrahydrocannabinol ("THC") strains of the cannabis plant. Accordingly, the public may associate hemp with high TCH cannabis plants, which are prohibited substances. Additional negative perception also occurs due to the fact that some countries, including the United States, prohibit the growing of the hemp plant even though consumption of hemp-based food products is allowed. The Company's revenues may be negatively impacted due to the fact the market does not fully accept hemp as a food product.

**Brand Awareness**

Historically, the Company's products were primarily sold in Canada. In 2016, the Company commenced selling its shelled hemp seed in South Korea. As the Company is in the early stages of marketing and distributing in South Korea, brand awareness has been limited. The Company's efforts to enter the United States market are in the formulation stage, there is no assurance that it will be able to achieve brand awareness across South Korea, or to successfully enter the United States or other markets with its brands and products. In addition, the Company must develop successful marketing, promotional and sales programs in order to sell its products. If the Company is not able to develop successful marketing, promotional and sales programs, then such failure will have a material adverse effect on the business, financial condition and operating results.

**Development of New Products**

The Company's success will depend, in part, on its ability to develop, introduce and market new and innovative products. In the event that there is a shift in consumer demand, the Company must meet such demand through new and innovative products or else its business will fail. The Company's ability to develop, market and produce new products is subject to it having substantial capital. There is no assurance that the Company will be able to develop new and innovative products or have the capital necessary to develop such products.

**Dependence on Management Team**

The Company will depend on certain key senior managers to oversee the core marketing, business development, operational and fund raising activities and who have developed key relationships in the industry. Their loss or departure in the short-term would have an adverse effect on the Company's future performance.

**Reliance on Third-Party Manufacturers**

The Company relies on outside sources to manufacture its products. The failure of such third-party manufacturers to deliver either components or finished goods on a timely basis could have a material adverse effect on the business. The Company does not intend to develop its own manufacturing capacity in the short term. As these are third parties over which the Company will have little or no control, the failure of such third parties to provide components or finished goods on a timely basis could have a material adverse effect on the business, financial condition and operating results.

**Reliance on Distributors and Key Customers**

Other than Chii, we do not sell our products directly to end customers. Instead, we will rely on third-party distributors for the sale and distribution of our products. We plan to sell our products through an extensive regional sales and distribution network throughout Canada. To the extent that our distributors are distracted from selling our products or do not expend sufficient efforts in managing and selling our products, our sales will be adversely affected. Our ability to maintain our distribution network and attract additional distributors will depend on a number of factors, many of which are outside of our control. Some of these factors include: (i) the level of demand for our brand and products in a particular distribution area; (ii) our ability to price our products at levels competitive with those offered by competing products and (iii) our ability to deliver products in the quantity and at the time ordered by distributors.

A significant portion of the Company's revenues have come from two South Korean customers. In 2016 to December 31, these customers represented 79% of all revenue. While the Company will seek to diversify its customer base, the loss of any one of its large customers will result in a material adverse effect on the Company's business and may adversely affect revenues going forward.

**Development of Generic In-House Brands**

Large retail stores often develop in-house generic brands when name brand products have been successful. The Company currently distributes a significant portion of its products to large retail stores. As a result of generic brand competition, these stores could cause the Company to lose a significant portion of its sales in a very short period of time.

**Product Liability Insurance**

The Company carries limited product liability insurance coverage. Even though the Company is not aware of any product liability claims at this time, the Company's business exposes it to potential product liability, recalls and other liability risks that are inherent in the sale of food products. The Company can provide no assurance that such potential claims will not be asserted against it. A successful liability claim or series of claims brought against the Company could have a material adverse effect on its business, financial condition and results of operations.

Although the Company reviews its insurance coverage with its agent and internally, and it believes it has adequate product liability insurance, the Company cannot provide any assurances that it will be able to obtain or maintain adequate product liability insurance on acceptable terms, if at all, or that such insurance will provide adequate coverage against potential liabilities. Claims or losses in excess of any product liability cover that may be obtained by the Company could have a material adverse effect on its business, financial conditional and results of operations.

**Product Recall**

The sale of products for human consumption involves inherent risks. The Company could decide to, or be required to, recall products due to suspected or confirmed contamination or product tampering. A product recall could adversely affect product sales financial condition and results of operation as well as the Company's general reputation in the industry.

**Trademark Protection**

The Company currently has obtained trademarks on ""Naturally Splendid", "NATERA", "Taking Responsibility for Your Health", "Your Health is Serious", "It's For Everybody" as well as the "NS" and "NATERA" design. The loss of any of these trademarks could require the Company to rebrand its products resulting in a material adverse impact on its business.

**Patent Infringement**

While the Company believes that its products and operations do not violate the intellectual property rights of third parties, other parties could bring legal actions against the Company claiming damages and seeking to enjoin the manufacture, sale and distribution of the Company's products for allegedly conflicting with patents held by them. Any such litigation could result in substantial cost to the Company and diversion of effort by its management and technical personnel. If any such actions are successful, in addition to any potential liability for damages, the Company could be required to obtain a license in order to continue to market the affected products. There can be no assurance that the Company would prevail in such action or that any license required under any such patent would be available on acceptable terms, if at all. Failure to obtain needed patents, licenses or proprietary information held by others may have material adverse effect on the Company's business. In addition, if the Company were to become involved in such litigation, it could consume a substantial portion of the Company's time and resources.

**Government Regulation**

The processing, manufacturing, packaging, labeling, advertising and distribution of the Company's products is subject to regulation by one or more federal agencies, and various agencies of the provinces and localities in which our products are sold. These government regulatory agencies may attempt to regulate any of our products that fall within their jurisdiction. Such regulatory agencies may not accept the evidence of safety for any new ingredients that the Company may want to market, may determine that a particular product or product ingredient presents an unacceptable health risk and may determine that a particular statement of nutritional support that we want to use is an unacceptable claim. Such a determination would prevent the Company from marketing particular products or using certain statements of nutritional support on its products. The Company also may be unable to disseminate third-party literature that supports its products if the third-party literature fails to satisfy certain requirements.

In addition, a government regulatory agency could require the Company to remove a particular product from the market. Any future recall or removal would result in additional costs to the Company, including lost revenues from any products that we are required to remove from the market, any of which could be material. Any such product recalls or removals could lead to liability, substantial costs and reduced growth prospects.

**Government Regulation relating to the CBD Technology**

If the Company elects to produce, sell or market any products utilizing the CBD Technology after it has obtained a satisfactory opinion on the legality of these products and the acceptance of the TSXV, it will be subject to variety laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of CBD products in the United States and elsewhere.

Currently, sixteen states in the United States allow the limited use of low THC CBD oil. There is no assurance that these states will not reverse their position on the use of CBDs. Although CBDs are not specifically set forth in the schedule of prohibited substances in the Controlled Substances Act (United States), the Drug Enforcement Agency has asserted authority to regulate the use of CBDs. Until such time as U.S. Federal law clarifies the position on the use of CBDs, the Company may be unable to sell any products utilizing the CBD Technology.

**Competition**

The Company faces competition in the markets in which it operates. Some of the Company's competitors may also be better positioned to develop superior product features and technological innovations and able to better adapt to market trends than the Company. The Company's ability to compete depends on, among other things, high product quality, short lead-time, timely delivery, competitive pricing, range of product offerings and superior customer service and support. Increased competition may require the Company to reduce prices or increase costs and may have a material adverse effect on its financial condition and results of operations. Any decrease in the quality of the Company's products or level of service to customers or any occurrence of a price war among the Company's competitors and the Company may adversely affect the business and results of operations.

**Product Liability Claims**

The Company may be required to pay for losses or injuries purportedly or actually caused by its products. Historically, there have been no product liability claims; however, there is no assurance that this trend will continue in the future. In the event that the Company's products are found to cause any injury or damage, the Company will be subject to substantial liability. This liability may exceed the funds available by the Company and result in the failure of its business.

**Global Economic Conditions**

Current global economic conditions could have a negative effect on the Company's business and results of operations. Market disruptions have included extreme volatility in securities prices, as well as diminished liquidity and credit availability. An economic crisis may adversely affect the Company in a variety of ways. Access to lines of credit or the capital markets may be severely restricted, which may preclude the Company from raising funds required for operations and to fund continued expansion. It may be more difficult for the Company to complete strategic transaction with third parties. Financial and credit market turmoil could also negatively impact suppliers, customers and banks with whom the Company does business. Such developments could decrease the Company's ability to source, produce and distribute its products or obtain financing and could expose it to risk that one of its suppliers, customers or banks will be unable to meet their obligations under agreements with them. If economic conditions worsen, it is possible these factors could significantly impact the Company's financial conditions.

**Smaller Companies**

Market perception of junior companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds through the issue of further common shares or otherwise. The share price of publicly traded smaller companies can be highly volatile. The value of the common shares may go down as well as up and, in particular, the share price may be subject to sudden and large falls in value given the restricted marketability of the common shares.

**Forward Looking Statements**

Certain statements contained in this management discussion and analysis constitute "forward-looking statements." These statements, identified by words such as "plan," "anticipate," "believe," "estimate," "should," "expect" and similar expressions include our expectations and objectives regarding our future financial position, operating results and business strategy. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Issuer to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; lack of brand awareness; dependence on consumer taste; reliance on third party suppliers and third party distributors; limited operating history of the Company; market fluctuations; potential product liability claims and retention of key personnel, as well as those factors discussed in the section titled "*Risk Factors*" above.

Forward looking statements are based on a number of material factors and assumptions, including consumer buying patterns will increase in specialty and grocery stores, economic conditions in Canada will continue to show modest improvement in the near to medium future, the average cost of whole hemp seed will fluctuate in line with historical trends, no material change to competitive environment in the distribution of hemp-based food additives and supplements, the Company will be able to access sufficient qualified staff, there will be no material changes with the Company's larger customers and there will be no material changes to the tax and other regulatory requirements governing the Company. While the Company considers these assumptions may be reasonable based on information currently available to it, these assumptions may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons, including but not limited to risks and uncertainties disclosed in the section titled "*Risk Factors*" above.

The Company intends to discuss in its quarterly and annual reports any events or circumstances that occurred during the period to which such documents relate that are reasonably likely to cause actual events or circumstances to differ materially from those disclosed in this Filing Statement. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of such factors, may cause actual results to differ materially from those contained in any forwarding looking statement.

The Company advises you to carefully review the reports and documents we file from time to time with the applicable securities commissions. Additional Information relating to the Company can be found on SEDAR at www.sedar.com.