BlueOcean NutraSciences Inc.

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

Year ended December 31, 2015

July 19, 2016

This management discussion and analysis ("MD&A") has been prepared based on information available to BlueOcean NutraSciences Inc. ("BOC" or the "Company") as at July 19, 2016. The MD&A of the operating results and financial condition of the Company as at and for the year ended December 31, 2015, should be read in conjunction with the Company's audited annual consolidated financial statements and the related notes as and for years ended December 31, 2015 and 2014 (the "Consolidated Financial Statements"). The Consolidated Financial Statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.blueoceannutra.ca.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting.

As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation. The reader is also directed to see the "Other risk factors – Material weakness in internal controls" section of this MD&A.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This document contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of BOC or future events related to BOC which reflect expectations regarding growth, results of operations, performance, business prospects or opportunities or industry performance or trends. These forward-looking statements reflect BOC's current internal projections, expectations or beliefs and are based on information currently available to BOC. Often, but not always, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "predict", "potential", "continue", "budget", "schedule", "estimate", "forecast" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements expressed or implied by the forward-looking statements to differ materially from those anticipated in such statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; changes in project parameters as plans continue to be refined; changes in labour costs and other costs of materials, equipment or processes to operate as anticipated; accidents, labour disputes and other risks; delays in obtaining governmental approvals or financing or in the completion of research and development activities; and, the factors discussed in the ***Risks and uncertainties*** section of this MD&A. Although BOC has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and, unless otherwise required by applicable securities laws, BOC disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

General

BlueOcean NutraSciences Inc. ("BOC" or the "Company") was incorporated under the provisions of the Business Corporations Act (Ontario) on September 17, 2010. On April 2, 2014, the Company announced its plan to complete the repositioning of the Company as a producer and marketer of natural specialty oils targeted at the health and wellness industry. Proper use of these specialty oils in end products for human consumption has been clinically proven to improve heart, eye, brain and joint health.

The Company has developed two natural specialty-oil product platforms and one extended-release Omega3 tablet manufacturing platform. Processing, manufacturing and selling these natural specialty oils and tablets began in late Q3, 2015.

Shrimp oil platform: The Company has secured a processor on an exclusive long term basis to extract high phospholipid and astaxanthin rich Omega3 oil derived from certain wild North Atlantic and South Pacific Ocean shrimp by-products. This shrimp oil has superior astaxanthin product properties to krill oil that delivers cardiovascular, mental and eye health benefits. The Company has obtained a license (the "License") from Neptune Technologies & Bioressources Inc. to sell its shrimp oil in North America and Australia.

Algal oil platform: The Company is pursuing joint ventures, licenses as well as sales of a high-value Omega3-rich algae oil extracted from rapidly growing selected micro algae strains using its proprietary gas infusion technology that delivers cardiovascular and mental health benefits from vegan algae oils.

Extended-release ("XR") Omega3 tablet platform: Through its joint venture with CMAX Technologies Inc. ("CMAX"), the Company has commercialized Omega3 shrimp oil. Retail sales will be completed through a CMAX/M.D. Research Inc. (67%/33%) joint venture that has been memorialized through the incorporation of Pure Polar Labs Inc. ("Pure Polar").

The registered and head office of the Company's is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1.

The Consolidated Financial Statements consolidate the accounts of the Company and all of its subsidiaries (as detailed in note 2.3 of the Consolidated Financial Statements). As at December 31, 2015, the Company also has a 50% equity interest in one joint arrangement, 2453969 Ontario Inc. ("2453969") and a one-third interest in one joint arrangement, Pure Polar. BOC accounts for these arrangements using the equity method in accordance with IFRS 11 *'Joint Arrangements'.*

The Consolidated Financial Statements were authorized for issuance by the Board of Directors (The "Board") of the Company on July 14, 2016.

Operations

Prior to August 10, 2015, the Company owned a 50% equity interest in two joint arrangements, 2453969 Ontario Inc. ("2453969") and 70717, and a 33.33% interest in one joint arrangement, Pure Polar Labs Inc. ("Pure Polar") held through 2453969. The Company accounts for these arrangements using the equity method in accordance with IFRS 11 *'Joint Arrangements'.* On July 11, 2015, the Company agreed to buy the remaining 50% interest in 70717 for a nominal amount (the "Acquisition"). After the close of the transaction (August 10, 2015), 70717 became a wholly owned subsidiary of the Company. See note 9 of the Consolidated Financial Statements regarding the details of each of these joint venture arrangements.

The Company announced in a press release dated November 24, 2015, that Pure Polar, had received its first the first wholesale purchase orders for Pure Polar Regular Strength and Double Strength Omega3 Shrimp Oil products from Amazon, the World's largest e-retailer. The products are available now at Amazon.com. These products along with its Extended Release Omega3 Shrimp Oil tablets are also available through the Company's Pure Polar web-site, purepolarshrimp.com.

On March 3, 2016, the Company announced that Pure Polar had agreed to provide bottles its consumer shrimp oil brand, Pure Polar® Omega-3 Shrimp Oil (the "Product") to United Sales and Marketing Inc. (the "Distributor"), an international consumer products distribution company, for distribution in the United States. The Product will be distributed to strategically select independent health and nutrition stores in the United States. The initial distribution will provide both the Company and the Distributor with valuable consumer feedback that the Company and Distributor can use to create even more value of consumers.

On March 14, 2016, the Company announced that it had received a non-binding initial order of 100kg for bulk Pacific AstaShrimp™ oil from a Middle-Eastern company. The order is subject to the Middle-Eastern country's Ministry of health, which is expected prior to July 15, 2016.

On April 11, 2016, the Company announced that it has agree to a pilot encapsulation trial with a potential Canadian customer (the ""Customer") using its northern AstaShrimp oil. The Customer's unique formulation is expected to contain northern AstaShrimp oil as a key ingredient along with other key nutrients in the final product. The selection of northern AstaShrimp oil as the key ingredient is due to its high levels of esterified natural astaxanthin, phospholipids and omega-3 EPA/DHA. Following the trial, if successful, the Company expects an order from the Customer for up to 200 kg of bulk northern AstaShrimp oil.

On July 6, 2016, the Company announced that two of its Pure Polar® Omega-3 Shrimp Oil products had received Health Canada Natural Products Numbers ("NPN's"). Receipt of the NPN's allows the Company to commence marketing and selling Pure Polar® Omega-3 Shrimp Oil in Canada and internationally to countries that recognize the value of a Canadian natural health product licence.

Corporate

Management Cease-Trade Order

On April 25, 2016, the Company announced that the filing of its audited annual consolidated financial statements as at and for the years ended December 31, 2015 and 2014 (the "Annual Financials"), related management discussion and analysis ("MD&A") and applicable officer certifications (together with the Annual Financials and MD&A, the "Annual Materials") would be delayed beyond the filing deadline of April 29, 2016.

In view of this delay in filing, the Company applied to the applicable Canadian securities regulatory authorities pursuant to National Policy 12-203 - *Cease Trade Orders for Continuous Disclosure Defaults* ("Policy 12-203") for a management cease trade order ("MCTO"), which, if granted, would preclude members of management from trading the Company's common shares until such time as the cease trade order is no longer in effect.

On May 16, 2016, the Ontario Securities Commission ("OSC"), issued a permanent MCTO. The MCTO prohibits all trading in and all acquisitions of the securities of the Company, whether direct or indirect, by Gavin Bogle, Chief Executive Officer, and Stephen Gledhill, Chief Financial Officer, until two full business days following the receipt by the OSC of the Company's Annual Materials, or as further ordered by the Director.

On May 30, 2016, the Company announced the filing of its first quarter 2016 unaudited consolidated financial statements as at and for the three months ended March 31, 2016 and 2015 ("Interim Financials"), related interim management discussion and analysis – quarterly highlights ("Interim MD&A") and applicable officer certifications (together with the Interim Financials and Interim MD&A, the "Interim Materials") will be delayed beyond the filing deadline of May 30, 2016. The delay in the filing of the Interim Materials is a result of the delay in the filing of the Company's Annual Materials.

Issuance of common shares

During the 4th quarter of 2015, the Company issued 85,714 common shares valued at $5,000, in exchange for partial October and November 2015, management fees payable to RG Management Services Inc. ("RGMS").

In January, 2016, the Company issued a further 35,714 common shares to RGMS in exchange for partial December 2015 management fees. See the ***Transactions with related parties*** section of this MD&A.

In December 2015, the Company closed on Tranche 1 of a non-brokered private placement as detailed in note 16 (i) of the Consolidated Financial Statements (the "December PP"), issuing 805,000 units ("December Units") and raising gross proceeds of $56,350. The Company paid finders' fees of $2,500 toward this financing.

In December 2015, the Company closed on subscription receipts totaling $14,000. The subscription receipts were exchanged in January 2016, with the Company issuing 200,000 units (each a "December Unit") at $0.07 per December Unit. Each December Unit consisted of one common share of the Company and one-half-of-one common share purchase warrant. Each whole warrant (a "December Warrant") entitles the holder to purchase one common share of the Company at a price of $0.10 per share until January 13, 2018.

In January 2016, the Company closed on Tranche 2 of the December PP, whereby the Company issued 557,142 December Units (including those exchanged for subscription receipts) at $0.07 per December Unit, for gross proceeds of $39,000. The fair value of the warrants issued for Tranche 1 and Tranche 2 of $6,231 was calculated using the Black-Scholes option-pricing model with the input variables as disclosed in note 14 of the Consolidated Financial Statements.

In March and April 2016, the Company closed on a non-brokered private placement (the "March 2016 PP") whereby the Company issued an aggregate of 2,713,000 units (each a "March Unit") at $0.05 per March Unit, for gross proceeds of $135,650. Each March Unit consisted on one common share of the Company and one share purchase warrant (a "March Warrant"). Each March Warrant entitles the holder to purchase one common share of the Company at a price of $0.08 per common share until March 21, 2018, for 2,413,000 March Warrants and April 28, 2018, for 300,000 March Warrants. The fair value of the March Warrants of $25,218, was calculated using the Black-Scholes option-pricing model with the average input variables as follows: Warrant life of 2.0 years, risk-free rate of 0.53%, volatility of 115.46%, common share price of $0.032 and a dividend yield of 0%.

Issuance of options

During the 4th quarter of 2015, the Company issued a total of 693,333 options to eligible participants of its stock option plan. 60,000 options were issued with an exercise price of $0.085 and an expiry date of October 7, 2020 and 633,333 options were issued with an exercise price of $0.07 and an expiry date of October 27, 2020.

Subsequent to year end, the Company issued a total of 750,000 options to eligible participants of its stock option plan. 250,000 options were issued with an exercise price of $0.07 and an expiry date of January 16, 2021 and 500,000 options were issued with an exercise price of $0.05 and an expiry date of March 23, 2021.

Bridge loan facility

In April 2016, the Company executed and indicative term sheet for a bridge loan facility (the "Facility") with a minimum of $300,000 to a maximum of $400,000 to be advanced under the Facility. The Facility, in the amount of $400,000, closed on May 31, 2016 (the "Closing"), and is secured with a fixed and floating charge on all assets of the Company and its subsidiaries, owned or hereinafter acquired and will bear interest at 18.0% per annum on the principal amount outstanding, payable upon repayment of the Facility. The Facility will be repayable on the earlier of (i) a minimum equity financing of $1.0 million being closed by the Company or (ii) 2 years after Closing. Pursuant to the terms of the Facility, the Company paid the lender's financing and legal fees totaling $10,405. Pursuant to the terms of the Facility, proceeds therefrom are to be used as follows: Inventory and related costs - $130,000; Marketing and related costs - $170,000 and General and Administrative costs - $100,000.

Lease termination with TransAlta Generation Partnership ("TransAlta")

In April of 2015, the Company completed negotiations with TransAlta and entered into a lease termination agreement (the "Termination Agreement") regarding its leased facilities at Bluewater Energy Park. The Termination Agreement fixed the remaining amount payable by the Company to TransAlta pursuant to the lease at $647,700. The amount was to be repaid in equal monthly instalments of $26,988 over a two-year period commencing on January 1, 2016.

On January 1, 2016, the Company defaulted on the Termination Agreement by failing to make the required first repayment of $26,988. In January 2016, the Company made a $5,000 payment against amounts owing under the Termination Agreement but has made no further payments thereunder. As of this MD&A, the Company has defaulted on a total of $183,916.

Selected annual financial information

	December 31, 2015	December 31, 2014	December 31, 2013
	$	$	$
Consolidated statements of operations and comprehensive loss			
Revenue	**1,450**	-	**-**
Total operating expenses	**(1,744,244)**	(1,843,222)	(2,277,896)
Loss and comprehensive loss	**(1,101,508)**	(2,439,802)	(2,591,389)
Basic and diluted loss per common share	**(0.018)**	(0.048)	(0.065)
Consolidated statements of cash flow			
Cash used for operations	**(1,235,647)**	(1,371,949)	(1,596,944)
Cash used for investing activities	**(54,048)**	(114,000)	(280,629)
Cash provided from financing activities	**1,015,172**	497,533	2,569,666
Increase/(decrease) in cash	**(274,523)**	(988,416)	692,093
Consolidated statements of financial position			
Cash	**30,039**	304,562	1,292,978
Total assets	**142,172**	800,665	1,417,782
Shareholders' equity (deficit)	**(484,927)**	(563,661)	842,467
Average number of common shares outstanding	**61,655,644**	50,893,227	39,975,581

Overall performance

As at December 31, 2015 the Company had assets totaling $142,172 and shareholders' deficiency of $484,927. This compares with assets of $800,665 and a shareholders' deficit of $563,661, as at December 31, 2014.

As at December 31, 2015 versus December 31, 2014

Total assets decreased by $658,493 (2014 – decreased by $617,116) during the year ended December 31, 2015. Cash decreased by $274,523 with $1,235,647 used for operating activities. Investment activities used $50,048 of cash, representing the cash obtained by the Company from the Acquisition of $12,282, offset by the investment in joint ventures of $66,330. Cash was increased by completed financings that raised net proceeds of $1,028,250. These net proceeds were supplemented by the exercise of options, raising $7,500 but decreased with the advances of related-party loans recoverable in the amount of $18,849 plus repayments of related-party loans due of $1,729. Non-current assets decreased by $379,727, entirely due to the impairment taken on those assets due to the significant doubt raised as to the ability of the Company to meet its obligations as they come due and the accounting principles applicable to a going concern. Investment in joint ventures decreased by $57,040, a result of the Acquisition and the impairment of the entire amount of the Company's investments in both 2453969 and Pure Polar, both impaired as a result of negligible operations to-date coupled with uncertainly of the Company's going concern.

Results of operations

The Company has generated only nominal operating revenue and therefore losses have been incurred throughout the year ended December 31, 2015.

Year ended December 31, 2015 and December 30, 2014

Loss and comprehensive loss for the year was $1,101,508 (2014 – $2,439,802) or $0.018 (2014 – $0.048) loss per share. Operating costs decreased by $99,978 from 2014, and loss and comprehensive loss decreased by $1,338,294. The significant changes are detailed below:

Operating loss of $1,744,244 *(2014 - $1,843,222)*

Administration of $184,998 (2014 - $583,866)

The decrease of $398,868, is comprised mainly of reduced board of directors' fees of approximately $26,000 and reduced rent of approximately $321,000, as a result of the Termination Agreement. The remaining decrease of approximately $52,000 is a result of reduced administration expenses such as travel and office expenditures that have been reduced as a result of the Company's austerity measures to preserve cash.

Amortization of $39,936 (2014 – $22,288)

Amortization increased by $17,648, due entirely to the amortization of the licence purchased (the "Licence") during the fourth quarter of 2014.

Compensation of $314,933 (2014 - $478,905)

Compensation costs decreased by approximately $164,000. This decrease reflects the change of the Company's CEO and compensation of $68,000, together with variable-based compensation paid in 2014 of $70,000 (there was no variable-based compensation during 2015) and increases in other payroll cost of $26,000.

Investor relations and public reporting costs of $47,642 (2014 – $183,967)

The decrease of approximately $136,000, is principally due to 2014 investor relations contracts not in place during 2015.

Impairment of intangible assets of $339,791 (2014 - $nil)

During 2015, the Company tested for the impairment of its intangible assets. Given the significant doubt raised as to the ability to meet its obligations as they come due and the accounting principles applicable to a going concern, the Company has recorded an impairment of $339,791, representing the entire intangible balance.

License fee of $250,000 (2014 – $nil)

The Company has made its 2015 minimum royalty payment pursuant to the Licence.

Professional fees of $54,247 (2014 – $74,365)

The decrease of $20,108, is due mainly to lower legal costs.

Research and development costs of $210,954 (2014 – $227,698)

The decrease of approximately $17,000, represents increased technical consumables of approximately $24,000 offset by decreases technical consulting of approximately $41,000.

Share-based compensation of $139,492 (2014 – $116,246)

During the year ended December 31, 2015, the Company granted stock options to acquire an aggregate of 2,175,677 common shares (2014 - 2,228,250) to participants of its stock option plan. The grant-date fair value of these options amounted to $184,000 (2014 - $116,246). The Company used the Black-Scholes option pricing model to determine the fair value of the options that were issued. Details of the weighted average assumptions used may be found in note 13 of the Consolidated Financial Statements.

Other items, gain of $774,424 (2014 – loss of $508,422)

Loss resulting from onerous contract of $64,526 (2014 – $508,780)

This loss results from the mark-to-market of the fair value of the onerous contract as detailed in note 14 of the Consolidated Financial Statements and in the ***Lease termination with TransAlta Generation Partnership ("TransAlta")*** section of this MD&A.

Gain resulting from lease termination of $838,950 (2014 - $nil)

The gain results from the write-off of the straight-line lease liability and trade payable due to TransAlta. Amounts due to TransAlta are now recorded in the onerous contract liability on the consolidated statements of financial position.

Attributable losses in joint ventures of $133,138 *(2014 - $88,158)*

The Company's share of joint-venture losses are only recognized up until the point of the Acquisition (for 70717).

The decrease of $44,980 is attributable to the decreased losses in 70717 (for 2015, up to the Termination date) of $21,350. This decrease was offset by increased losses from Pure Polar of $65,803 and from 2453939 of $527, both of which included impairments of $44,012 and $526, respectively, to the value of the Company's investments in those joint ventures.

Summary of quarterly results

	4th Quarter 2015	**3rd Quarter 2015**	**2nd Quarter 2015**	**1st Quarter 2015**
Total revenues	453	997	-	-
Income (loss) and comprehensive loss	(1,040,672)	146,282	240,031	(447,149)
Net loss per share – basic and fully-diluted[1]	(0.01)	0.00	0.00	(0.01)
Total assets	142,172	498,402	941,774	564,850

Long-term debt	-	(313,553)	(378,152)	(642,483)
Deficit	(484,927)	(9,015,331)	(8,637,392)	(8,877,423)
Cash dividends declared per common share	-	-	-	-

	4th Quarter 2014	3rd Quarter 2014	2nd Quarter 2014	1st Quarter 2014
Total revenues	-	-	-	-
Net loss	(1,023,586)	(324,943)	(378,765)	(712,508)
Net loss per share – basic and fully-diluted(1)	(0.02)	(0.01)	(0.01)	(0.01)
Total assets	800,665	647,033	1,072,023	1,424,973
Long-term debt	-	-	-	-
Shareholders' deficit	(8,430,274)	(7,406,688)	(7,081,745)	(6,702,980)
Cash dividends declared per common share	-	-	-	-

(1) Inclusion of outstanding warrants and options is anti-dilutive.

Liquidity and capital resources

As at December 31, 2015, the Company had a working capital deficit of $181,181 (December 31, 2014 – $247,149) and has sustained operating losses and negative cash flows from operations since its inception. Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations associated with the financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to significant liquidity risk, as it continues to have net cash outflows to support its operations.

The Company monitors its financial position on a continual basis and updates its expected use of cash resources based on the latest available data.

There are no off-statement-of-financial-position conditions that would adversely affect the Company's liquidity and the Company has not changed its approach to capital management during the year ended December 31, 2015.

Transactions with related parties

Year ended December 31, 2015 and December 31, 2014

During the year ended December 31, 2015, compensation to key management totaled $213,618 (2014 - $295,283). Also, consulting costs of $125,000 (2014 - $120,000) were paid to RGMS for administrative, corporate secretarial and CFO services during the period. The Company's CFO is a partner of RGMS. The Company also incurred legal fees of $7,298 (2014 - $nil) that were paid to a law firm of which the President and CEO is a partner.

During the year ended December 31, 2015, non-cash, share-based compensation for the vesting of options to key management (being officers and directors of the Company), totaled $124,492 (2014 – $114,822). Note 16 of the Consolidated Financial Statements details the Black-Scholes assumptions used to calculate the fair value of the options issued during the year.

During December 2015, the Company issued 35,714 common shares with a value of $2,500 (see note 16(iii) of the Consolidated Financial Statements), to RGMS in payment of partial November 2015 management fees.

Risk and uncertainties

Capital management

The Company's main objective in managing capital is to ensure sufficient liquidity to pursue and fund product development, production and promotion. Secondarily, the Company strives to continue to fund research and development and pursue its growth strategy, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is considered to be its shareholders' equity. The Company's primary uses of capital are financing operations, increasing non-cash working capital and capital expenditures. The Company currently funds these requirements from existing cash resources and/or cash raised through the issuance of debt, common shares and/or warrants. The Company's objectives when managing capital is to ensure the Company will continue to have enough liquidity so that it can provide its products and services to its customers and returns to its shareholders. The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2015. The Company is not subject to externally imposed capital restrictions.

Financial instruments and risk management

Financial instruments

Fair value

The Company has designated its cash as fair-value-through-profit-and-loss, which is measured at fair value. Due from related parties is classified for accounting purposes as loans and receivables, which are measured at amortized cost that approximates fair value. Trade payables and accrued liabilities, due to related parties and onerous contract are classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also approximates fair value. Fair values of accounts payable and accrued liabilities, due to related parties and onerous contract are determined from transaction values that were derived from observable market inputs.

As at December 31, 2015, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Currency risk

The Company's functional currency and the majority of its operations have been conducted in Canadian dollars. BOC occasionally conducts business United States dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and these foreign currencies. The assets and liabilities primarily affected are cash and trade payables and accrued liabilities that are denominated in foreign currencies. The Company has recognized currency exchange losses during the year ended December 31, 2015, of $2,252 (2014 – $1,387).

Management believes that foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

b. Fair value

The carrying amounts of cash, trade payables and accrued liabilities, onerous contract and amounts due to related parties approximate their fair values given their short-term nature. The fair value of the onerous contract has been calculated using the present value of future cash commitments utilizing a rate of 12%, compounded monthly. Interest is calculated and accreted up to the Termination Amount of $647,700 (as defined in note 12 of the Consolidated Financial Statements).

Other risk factors

Material weakness in internal controls

During the audit of the Consolidated Financial Statements, the following material weaknesses in the internal controls of the Company were identified:

i) Minimal or insufficient records were maintained with regard to existence and costing of inventory. This weakness could lead to improper inventory valuation and subsequent allocation to costs of goods sold. The Company's inventory costs were incurred with regard to its Pure Polar joint venture (through 2453969). As indicated in note 9.3 of the Consolidated Financial Statements, due to the negligible revenue within Pure Polar, the Company has taken a full impairment of its equity investment therein. The Company will ensure that proper inventory controls regarding existence and costing are implemented and maintained.

ii) Minimal joint venture accounting records were maintained regarding 2453969 and Pure Polar contrary to joint venture and shareholder agreements stipulating that the Company would maintain such accounting records and ledgers. This weakness could lead to improper carrying amounts for the Company's equity investments for each of 2453969 and Pure Polar. The Company, in concert with its joint-venture partners, is in the process of implementing and maintaining appropriate books and records for the joint ventures commensurate within the activities within each entity.

iii) Cash payment controls. The Company currently has payment controls in place that require two signatures for any cheques greater than $5,000. On several occasions payments in excess of $5,000 were noted with only one signature. This weakness could result in payments being made that have not been properly authorized. The Company initially set this control in place prior to going public and when authorized personnel (CEO and CFO) were readily available to sign such cheques.

The Company (with the ultimate approval of its Board) is in the process of evaluating and implementing approval limits for all expenditures.

Key personnel

The success of the Company depends to a large extent upon its abilities to retain the services of its senior management and key personnel. The loss of the services of any of these persons could have a materially adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its directors, officers or other qualified personnel required to operate is business.

Segregation of duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its Consolidated Financial Statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

Technical, Regulatory and Product Platform Risk

The success of the Company depends to a large extent upon the Company's ability to produce and sell products that are new and have never been sold before. To date the Company has not sold any products at all and there is no guarantee the Company will be able to produce products that customers are willing to buy. The products have never been sold before and so there may also be unknown scientific, technical or regulatory risks associated with sales of the proposed product platforms that the Company is unable to overcome.

Research and development costs

The research and development costs for the Company are detailed as follows:

	Year ended	
	Dec. 31, 2015	Dec. 31, 2014
	$	$
Technical consulting	**166,840**	207,522
Technical consumables	**44,114**	20,176
Research and development costs	**210,954**	227,698

Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at July 19, 2016:

	Number
Common shares	68,739,263
Warrants	13,038,360
Options	5,777,573