



# NATURALLY SPLENDID ENTERPRISES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Nine Month Period Ended

September 30, 2016



*This Management's Discussion and Analysis ("MD&A") for Naturally Splendid Enterprises Ltd. ("Naturally Splendid" or the "Company") has been prepared as of November 21, 2016. It should be read in conjunction with the unaudited financial statement of the Company for the three and nine months ended September 30, 2016 and with the audited financial statement of the Company for the year ended December 31, 2015 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](http://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 hemp-based food and health products. 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 late 2015, the Company completed a letter of intent with a Korean-based distributor to market the Natera hemp food retail line and the PawsitiveFX pet care line throughout South Korea. In February 2016, the Company received an initial purchase order for \$924,000 from Korea Beauty & Health Care Co. Ltd. ("KBH") based in South Korea. KBH was established in 2003 and has a successful record bringing a variety of products to the South Korean marketplace in the area of cosmetics, household items, functional foods and medical equipment. KBH was certified as a food manufacturer and cosmetic manufacturer in 2015 and is also a product developer with its own R&D facility.

Also in February 2016, the Company appointed KBH as master distributor for the Naturally Splendid hemp food brands in South Korea. KBH will market the Naturally Splendid hemp food brands, Natera and Chii, through television shopping channels, on-line shopping, off-line shopping and traditional retail throughout South Korea. Additionally, KBH will strategically secure additional Korean distributors. To retain the exclusive rights to the Naturally Splendid hemp food brands, Natera and Chii, Korea Beauty & Healthcare must achieve minimum hemp seed sales of 200 tonnes in the first year of the agreement, 300 tonnes in the second year of the agreement and 300 tonnes in the third year of the agreement. This represents gross sales estimated to be a minimum of \$8-million over the term of the three-year agreement. KBH has already exceeded the 2016 volume requirement.

In March 2016, the Company launched its hemp foods through the Lotte Home Shopping Channel in South Korea under the brand Paleo/NATERA. KBH has developed the Paleo/NATERA brand of shelled hemp seeds specifically for the Asian market. 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. Lotte Home Shopping operates 24 hours a day and seven days a week.

During the third quarter of 2016, the Company experienced production bottlenecks at its third-party processor as well as working capital constraints, and was unable to fulfill all of the purchase orders for the period.

#### *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.

Under the terms of the Novation Agreement, NSE USA paid \$725,000 to Boreal and the Company issued 2,928,571 common shares of the Company to Full Spectrum Partners, LLLP (an entity controlled by FSL) at a market value of \$761,428 for a total acquisition cost of \$1,486,428.

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. In consideration of owning a 100-per-cent interest in the omega technologies and the removal of the royalty, Naturally Splendid extinguished its non-exclusive licence of FSL's bioreactor technology, and changed its exclusive licence on certain analytical testing SOPs (standard operating procedures) and GC-MS terpene analysis SOPs to a non-exclusive licence.

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™.

**The Company will market these 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. Furthermore, the Company will not produce, sell or market any products utilizing the CBD Technology until it has obtained a satisfactory opinion on the legality of these products and the acceptance of the TSXV.**

## *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 will also be available in both the powder format and an aqueous solution for increased flexibility in ingredient applications and/or stand-alone products.

In 2014, Boreal had 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 in 2014 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 late 2014 and early 2015, the Company announced a service agreement with the Alberta provincial government's Agriculture and Rural Development's Food and Bio Processing Division to determine the efficacy and nutritional benefits of incorporating HempOmega™ in proprietary, private label and ingredient products for the pet food industry. The study has assisted the Company in developing pet superfoods fortified with HempOmega. This project includes funding in part from the National Research Council of Canada.

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. There is also a range of all natural shampoos in development.



**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. **Happy Coats™** is an all-natural line of shampoos under development that is effective and safe for even the most sensitive skin. All products are made from 100% premium grade ingredients with no added scents, ensuring the best results and safety for pets. Pawsitive FX™ has generated distribution networks in Western and Eastern Canada. The Company also launched a Pawsitive FX™ website with support for online marketing and payments.

### CHI™

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, as well as hemp flour, hemp protein and hemp oil. The reader is referred to the discussion below under Operations for the details of the acquisition.



## **Branding and 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 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. The Company launched Canada’s first single serve flavoured shelled hemp seeds with the introduction of Himalayan Pink Salt and Maple flavors, as well as the original natural flavor. In addition, the Company supplemented its natural hemp protein line with 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 related products and any bulk sales are handled through a division of the Company, BC Ingredients.

On March 23, 2016, the Company announced that it was a finalist for the prestigious NutraIngredients Awards for HempOmega™ in the category of Start-up Ingredient of the Year where the Company was one of the top three finalists. Additionally, in Q2 the Company attended international food exhibitions in Asia and participated in a BC Trade Mission to Korea, the Philippines and Japan. The Company plans to leverage these relationships to penetrate markets in Southeast Asia.

## **Operations**

The Company engages outside producers to manufacture and process 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 or to the Company or subcontractors for packaging. Naturally Splendid is in the process of bringing additional packaging in-house.

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 \$8,409 per month plus its proportionate share of operating costs and property taxes, currently amounting to \$3,231 per month.

In September 2016, the Company signed a letter of intent ("LOI") with Eat Real Snack Food Canada Ltd. ("ERSF") whereby Naturally Splendid will acquire certain branded food packaging equipment from ERSF and will assume ERSF's 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 in May 2022, Naturally Splendid will own the equipment free and clear of all encumbrances.

Also under the LOI:

- ERSF and Naturally Splendid will enter into a three-year service agreement whereby the Company will process and package for ERSF, for a minimum payment of \$14,500 per month over the period, being a minimum of \$174,000 annually or \$522,000 for the initial three-year term.
- Naturally Splendid will pay ERSF \$100,000 in cash or in shares of Naturally Splendid (at the Company's sole discretion) with \$50,000 paid within 30 days from closing of the transaction and \$50,000 paid within six months from closing of the transaction.
- The parties agreed the deemed value of the lease payments will be \$600,000. In the event that the total lease payments are less than \$600,000, Naturally Splendid has agreed to pay to ERSF, in cash or shares, the difference between \$600,000 and the remaining lease payments.

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 new products more easily. There is also potential to provide packaging services not only to ERSF, but also to additional companies. The equipment will be relocated to the

Company's premises in Pitt Meadows. The transaction is subject to the acceptance of the TSX Venture Exchange.

#### *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.

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 also signed an agreement with BPC to provide research and development services to Naturally Splendid for hemp based research, process and product development. The Company invested \$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. \$188,427 of these funds have been spent in 2016 to date.

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.

The Company has also entered into a licence and sales agreement with POS Bio-Sciences, whereby the Company will have the right to sell and market, on an exclusive basis, five ingredients created using POS Bio-Sciences technology and to also sell and market, on a non-exclusive basis, additional ingredients. In consideration of the licence, 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 bulk ingredient division, Simplii (<http://simpliingredients.com/>).

In late 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 project will be conducted at the Saskatchewan Food Industry Development Centre, Inc. (SFIDC) located in Saskatoon, Saskatchewan and is expected to run for up to three months with periodic reports and updates. 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. The project was initially scheduled to complete by February 1, 2016, however the deadline was subsequently extended to June 1, 2016. The extension includes the development of additional product formulations. SFIDC has successfully created pizza dough and yogurt enhanced with HempOmega™.

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 expected 2016 results will not reflect the potential of future full year operations.

POS Bio-Sciences, where HempOmega™ is produced, was the winner of the North Saskatoon Business Association's (NSBA) 19<sup>th</sup> annual Business Builder Awards in the Export Category.

#### *Chi 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. The Chi shareholders will receive a 12-per-cent gross sales commission on certain sales that directly benefit from their services as agreed to by Naturally Splendid management.

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.

#### *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.

During 2015, NSE USA entered into an exclusive sales and distribution agreement for North America with Medropharm GmbH, a biotechnology company located in Switzerland. Medropharm specializes in the production, extraction, research and formulation of raw materials and products derived from industrial hemp. Under the agreement, NSE USA has the exclusive rights to market and distribute in North America an edible, cannabidiol-rich hemp powder, as well as the non-exclusive rights to market and distribute hemp-derived cannabinoid extracts and formulations globally. The products contain naturally occurring cannabidiol, a non-psychoactive cannabinoid prevalent in industrial hemp strains of cannabis sativa. The term of the initial exclusive distribution agreement is for two years. Pursuant to the agreement, NSE USA is permitted to sell the products to Medropharm's existing clients.

**The Company will market these 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. Furthermore, the Company will not produce, sell or market any products utilizing the CBD Technology until it has obtained a satisfactory opinion on the legality of these products and the acceptance of the TSXV.**

#### **Management, Board of Directors and 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's CFO and Brian Richardson was appointed CFO of the Company.



## 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			
	September 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015
Total Revenue	1,235,580	3,657,852	1,440,028	(8,818)
Gross Margin	375,483	1,596,383	80,353	(47,083)
Income (loss) from operations	(626,761)	895,452	(513,604)	(1,213,511)
Comprehensive income (loss)	(637,830)	885,301	(458,293)	(3,884,965)
Basic and diluted income (loss) per share	(0.01)	0.02	(0.01)	(0.07)

	Three months ended			
	September 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014
Total Revenue	200,571	70,459	39,493	28,798
Gross Margin	38,758	(35,563)	6,877	11,716
Loss from operations	(912,384)	(859,267)	(1,335,007)	(147,172)
Comprehensive loss	(891,033)	(905,485)	(1,299,803)	(413,985)
Basic and diluted loss per share	(0.02)	(0.02)	(0.03)	(0.015)

## DISCUSSION OF OPERATIONS

### *Overview*

During the nine months ended September 30, 2016, the Company experienced significant growth in sales, particularly export sales. In early 2016, the Company initiated sales of bulk product to South Korea, and in Q3, Korean sales continued at a strong, though somewhat reduced pace, due to limitations at the Company's contract processor and other factors. Company management believe that export sales will recover during Q4 and into 2017 as these issues are addressed. Online marketing results are also increasing, as are the operations at the POS BPC facility.

### *Revenue*

Revenue during the three and nine-month periods ended September 30, 2016 was \$1,235,580 and \$6,333,620 respectively, compared to \$200,571 and \$310,523 during 2015. The Company increased its sales in all product area, with the most significant increases in bulk export sales. However, during the third quarter, the Company experienced production bottlenecks at its third-party processor as well as working capital constraints, and was unable to fill all of the purchase orders for the period. POS-BPC also continued steady operations during the third quarter, though not as high as the Q2 levels due to production changeovers.

### *Costs of Sales and Gross Profit*

Cost of Sales during the three and nine-month periods ended September 30, 2016 were \$860,257 and \$4,281,401 respectively, compared to \$161,813 and \$300,451 in 2015. Overall gross profits increased to

\$375,483 (30.4% of sales) and \$1,943,156 (32.4%), compared to \$38,758 (19.3%) and \$10,072 (3.2%) during the same periods in 2015.

*Selling Expenses*

	Three-months ended September 30,		Nine-months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Selling and distribution expenses</b>				
Facility	74,935	73,435	201,560	73,435
Product development, net of grants	3,720	89,257	17,277	129,877
Product promotion and trade shows	120,199	64,789	233,614	187,327
Bad debts	39,195	-	39,195	-
Other selling costs	-	41,220	56	100,667
	<u>238,049</u>	<u>268,701</u>	<u>491,702</u>	<u>491,306</u>

Selling and distribution expenses during the three and nine-month periods ended September 30, 2016 were similar to 2015 overall. 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. Facility expenses related to the POS BPC facility operations, which were not incurred in the first half of 2015.

*Administrative Expenses*

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Administrative expenses</b>				
Accounting and audit	(867)	63,730	100,069	124,120
Depreciation and amortization	89,752	42,382	144,383	61,898
Bank charges, interest and accretion	34,267	7,308	97,829	12,189
Consulting	189,084	60,738	290,932	291,175
Legal	21,830	98,717	44,211	172,708
Management fees	94,920	116,409	284,760	339,539
Office, rent and salaries	177,770	101,864	476,200	343,353
Promotion	111,032	172,805	229,440	369,595
Share-based payments	12,245	-	67,567	792,980
Transfer agent and filing fees	2,223	3,368	26,231	61,720
Travel	31,579	15,120	43,447	56,631
	<u>763,835</u>	<u>682,441</u>	<u>1,805,069</u>	<u>2,625,908</u>

Administrative expenses were similar in Q3 2016 compared to 2015, and lower overall year to date.

*Accounting and audit fees* were lower in the quarter and during the nine months due to the timing of billings; *Depreciation and 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* of \$32,394 reflect the interest accreted as an expense related to the fair valuing of certain loans and payables. Interest of \$\$57,624 (2015: \$Nil) was accreted; *Consulting* fees represent outside business consultants. Amounts were higher during the most recent quarter, but similar to 2015 year to date; *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 bring paid in Canadian dollars; *Office rent and salaries* reflects the cost of the warehouse premises, administrative staff, and the general increase in costs as the company engaged in expanding its products and operations. The effects of a new warehouse lease with higher rent payments and the cost of a move are starting to be incurred during the period; *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. The Company still has to differentiate its hemp based products from the generally negative connotations of similar marijuana based products; *Share based payments* were down significantly, reflecting the significant issuance of options and other compensation in 2015; *Transfer agent and filing fees* were down in 2016 as the Company did fewer financings; *Travel* has increased in Q3 but decreased over the year, reflecting the lower level of activity at trade shows, partially offset by attendance at events sponsored by the federal and provincial governments and Asian business development initiatives.

## LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2016, the Company had cash of \$92,276 (December 31, 2015 \$34,330) and working capital of \$419,877 (December 31, 2015, working capital deficit of \$755,094). As at the date of this MD&A, the Company has working capital of approximately \$2,750,000.

### Cash flows – Nine months ended:

	<b>September 30, 2016</b>	September 30, 2015
Operating activities	(713,132)	(2,201,086)
Investing activities	(160,829)	(2,437,161)
Financing activities	931,907	4,689,176
Net change in cash and cash equivalents	57,946	50,929
Cash, beginning of period	34,330	25,404
Cash, end of period	<u>92,276</u>	<u>76,333</u>

On August 23, 2016, the Company closed the initial tranche of a private placement financing by issuing a total of 3,066,057 units for gross proceeds of \$827,835 (the “First Tranche”), and 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 (the “Final Tranche”). Each unit comprises one common share of Naturally Splendid and one-half of one common share purchase warrant. Each whole warrant entitling the holder to purchase one additional common share at 35 cents per share for a period of two years from the date of the issue. Naturally Splendid has the right to accelerate the expiry date of the warrants if the average closing price of the Company’s common shares is equal to or greater than 45 cents for 10 consecutive trading days. In this event, the expiry date will be accelerated to 30 days after Naturally Splendid issues a news release announcing that it has elected to exercise this acceleration right. The Company paid cash commission totaling \$65,677 and issued a total of 135,150 finder warrants for the First Tranche and cash commission totaling \$94,224 and issued a total of 694,500 shares and 863,550 finder warrants for the Final Tranche. Each finder warrant is on the same terms as the Warrants. The securities issued under the financing are subject to a four-month hold period pursuant to applicable securities laws and the rules of the TSX Venture Exchange.

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.

In October 2015, the Company borrowed \$400,000 from two parties for a period of two years at an interest rate of 12 per cent per annum plus other compensation. Please see note 15 of the September 30, 2016 financial statements for a description of the loan terms.

On March 9, 2016, the board of directors of the Company approved the repricing of 310,000 outstanding stock options from an exercise price of 20 cents to 28.5 cents and extending the expiry dates of those stock options to March 24, 2019. The amended stock options are held by directors, officers, consultants and employees of the company.

During 2016, the company granted 305,000 stock options to certain employees and consultants of the company. Each stock option is exercisable at a price of 29.5 cents per share, subject to vesting requirements and expire on March 8, 2018 (155,000 stock options) and Dec. 1, 2018 (150,000 stock options).

On November 15, 2016, the Company agreed to settle an account payable of \$130,000 for 309,523 Company common shares to be issued at a deemed price of \$0.42 per share, subject to TSXV approval.

#### **OUTSTANDING SHARE DATA**

As of the date of this MD&A, the Company had 73,361,550 common shares outstanding plus 3,541,500 share purchase options and 15,401,523 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:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>\$</b>	\$	<b>\$</b>	\$
Management fees	<b>99,920</b>	101,409	<b>244,760</b>	294,539
Share-based payments	-	-	<b>19,108</b>	502,865
	<b><u>99,920</u></b>	<u>101,409</u>	<b><u>263,868</u></b>	<u>797,404</u>

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 Chief Financial Officer and consulting fees were paid to a company controlled by a director. Transactions with related parties were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Management fees	15,000	15,000	45,000	45,000
Consulting fees	10,500	10,500	31,500	31,500
	<u>25,500</u>	<u>25,500</u>	<u>76,500</u>	<u>76,500</u>

POS Management Corporation is a company subject to common control. During the nine-month period ended September 30, 2016, the Company received facilities revenues and contract services revenue from POS Management Corporation totaling \$51,302 (2015 - \$nil) and incurred management fees expense of \$84,000 (2015 - \$nil).

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

- \$nil (December 31, 2015 - \$5,879) due to management and consultants for fees outstanding.
- \$557,326 (December 31, 2015 - \$556,966) due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.
- \$371,403 (December 31, 2015 - \$414,326) due from POS Management Corp., a company subject to common control, of at December 31, 2015 relating to subcontractor fees.
- \$nil (December 31, 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, 2015 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:

##### Recoverability of accounts receivable

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.

##### Share-based payments

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.

### Income taxes

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.

### Interest rates

The Company estimates a fair value interest rate in determining the fair value of the loans payable.

### Recovery of deferred tax assets

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.

## FINANCIAL INSTRUMENTS

### Categories of financial instruments

	September 30, 2016	December 31, 2015
	\$	\$
<b>Financial Assets</b>		
Fair value through profit or loss, at fair value		
Cash	92,276	34,330
Loans and receivables, at amortized cost		
Trade and other receivables	553,585	250,020
Restricted cash	60,435	57,560
Total financial assets	<u>706,296</u>	<u>341,910</u>
<b>Financial Liabilities</b>		
Other liabilities, at amortized cost		
Bank indebtedness	-	-
Trade and other payables	2,502,392	1,704,998
Long-term debt, including current portion	564,462	476,758
Total financial liabilities	<u>3,066,854</u>	<u>2,181,756</u>

### 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 September 30, 2016, the Company had working capital of \$419,877 (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.

The interest rate on loans payable as at September 30, 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 not been achieved. 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 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**

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 one Korean customer. In 2016 to September 30, this customer represented 77% of all sales. 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.

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](http://www.sedar.com).