

**Isodiol International Inc.**  
**(Formerly Laguna Blends Inc.)**  
**(the “Company”)**  
**Management Discussion and Analysis**  
**For the nine-month period ended December 31, 2017**

**Date of Report:** March 1, 2018

The following Management Discussion and Analysis (“MD&A”) has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of March 1, 2018 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the nine-month period ended December 31, 2017, and the related notes contained therein which have been prepared under International Financial Reporting Standards (“IFRS”).

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

#### **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words “*anticipate*”, “*believe*”, “*estimate*”, “*expect*” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the Company’s operations. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or our achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

#### **OVERALL PERFORMANCE**

Isodiol International Inc. (“Isodiol” or “the Company”) (formerly Laguna Blends Inc.) was incorporated under the Business Corporations Act (British Columbia) in June 2014 as Grenadier Resource Corp. The Company thereafter changed its name from Grenadier Resource Corp. to Laguna Blends Inc. on September 18, 2015 in conjunction with a reverse takeover transaction that closed on the same date. During the year ended March 31, 2016, the Company consolidated the share capital on a 2.5 share for 1 share basis. The discussion provided herein reflects the share consolidation.

On June 9, 2017, the Company changed its name to Isodiol International Inc. The Company’s common shares are listed on the Canadian Securities exchange under the symbol “ISOL” and on the US OTC exchange under the symbol “ISOLF”.

Isodiol is focused on the nutritional health benefits that are derived from hemp and is a product development, sales, marketing and distribution company of hemp-based consumer products and solutions. The company specializes in identifying emerging trends and opportunities from all

Cannabinoids available in hemp. Hemp is recognized as a superfood and its use in health and functional foods is growing. The Company's growth strategy includes the development of over-the-counter and pharmaceutical drugs, expanding its phytochemical portfolio and will aggressively continue International expansion into Latin America, Asia and Europe. The Company continues to strategically raise capital through secured debt financing but does not see the need for operational capital raises due to the revenues generated from ongoing operations.

As at December 31, 2017, the Company had \$26,482,828 in cash. For the nine-month period ended December 31, 2017, the Company generated a sales of \$13,698,646 and a gross profit of \$7,484,218. After factoring \$9,073,012 in operating expenses of which is inclusive of \$1,934,344 in non-cash share based payments, and other expenses of \$9,219,709, also of which includes a non-cash component of \$6,939,322 in shares issued as acquisition and restructuring costs, the Company generated a net comprehensive loss of \$10,808,503.

Significant expenses during the three-month period included consulting fees of \$442,610, management fees of \$101,196, share based compensation of \$722,347, Wages and salaries of \$1,068,498, travel of \$191,579, commissions of \$260,695, professional fees (legal and accounting) of \$189,419, shipping costs of \$137,348, advertising and promotion of \$256,411, rent expenses of \$134,910, R & D costs of \$50,409. This is reflective of the Company's continued efforts to expand its management team, create brand awareness, and acquire additional entities to help support the thus far sustained growth in its Sales figures and operations to date. Although, the Company is able to generate profitable operations through the sale of its products, management anticipates it will continue to rely on additional issuances of its equity securities and/or additional debt financing.

See the information under the heading "Risk Factors" that have and may continue to affect the Company and its business.

## **DESCRIPTION OF BUSINESS**

Isodiol is a product development, sales, marketing and distribution company for hemp-based products and solutions. The company specializes in identifying emerging trends and opportunities and through its recent acquisition of ISO International LLC has become a market leader in pharmaceutical and nutraceutical grade phytochemical compounds and an industry leader in the manufacturing and development of phytochemical consumer products.

Isodiol is the pioneer of many firsts for the cannabis industry including commercialization of a 99%+ pure pharmaceutical grade cannabinoid crystalline isolate derived from exempt parts of the hemp plant, micro-encapsulations, and nanotechnology for the highest quality consumable and topical skin care products.

Isodiol's growth strategy includes the development of over-the-counter and pharmaceutical drugs, expanding its phytochemical portfolio and will aggressively continue International expansion into Latin America, Asia and Europe.

### **C3 Global Biosciences**

C3GBS' strives to be the global leader in CBD research, science, innovation and technology to impact consumer lives resulting in markedly improved patient outcomes through sound clinical studies and evidence-based empirical data gathered by validated devices and platforms.

Along with Isodiol, C3GBS will continue to focus on the research and development of CBD and other cannabinoids to improve the quality of life for consumers. Both parties will continue to focus on the utilization of the Electroencephalogram (EEG) technology in the phytochemical field, which allows

physicians and researchers real-time feedback on the effect of Cannabis products.

#### Be Tru Organics

Be Trū is a formulator, marketer, and seller of a proprietary line of hemp extract products. Their offerings, which include topicals, oral sprays and edibles, contain powerful blends of more than 75 organic botanical terpenes and are sold under the company's Be Trū Organics™, Canatrū™, and Cebatrū™ brands. Together, Isodiol and Be Tru will continue to provide consumers with the highest quality products and focus on targeting mainstream distribution channels in addition to current distribution agreements such as United Natural Foods Inc (UNFI).

#### Bradley's Brands

Bradley's Brands is a leader in manufacturing and distributing hemp oil and nicotine e-liquids, as well as personal care products. Bradley's Brands also offers apparel and merchandising solutions. By partnering with Isodiol, Bradley's has been able to increase its operation from the United States and the United Kingdom, to the Latin American and additional European markets. Overall, the global e-cigarette and vaping market is poised to be a \$61.4 billion-dollar industry by 2025 giving the companies plenty of opportunity to penetrate new markets.

#### CN Pharma

Canadian National Pharma Group Inc. is a pharmaceutical manufacturing company which is currently in the process of receiving its Licensed Dealer ("LD") status under the provisions of the Canadian Controlled Drugs and Substances Act, in order to commence production of cannabis and hemp extracts or isolate. With this new and up and coming facility, Isodiol will be able to refine and isolate the CBD molecule to a pharmaceutical-grade purity of 99.5% + as well other Cannabinoid derivatives. This partnership will continue to position Isodiol as a global provider of pharmaceutical grade phytoceuticals, by developing high quality bioactive products within many different verticals such as personal care products, beverages and edibles, topicals, nutraceutical supplements, and capsules.

#### ISO-Sport

ISO-Sport is committed to creating superior products to support the unique performance and recovery needs of professional and prosumer athletes. The hemp-based nutrition line supports the mind and overall body wellness. ISO-Sport has been able to raise awareness of CBD and it's benefits for the human body to many different athletic organizations such as the National Football League and Cage Warriors, an MMA promotion. ISO-Sport will continue to raise awareness to professional athletes with the goal of assisting athletes through their daily lives, training and recovery process.

e committed to creating superior products to support the unique performance and recovery needs of professional and prosumer athletes. Our hemp-based nutrition line supports both mind and body wellness and serves to facilitate systemic balance and cognitive function for optimal performa

#### Pot-O-Coffee

The Pot-O-Coffee product line consists of two variants for cannabis infusion; one infused with cannabis plant-extracted tetrahydrocannabinol (THC) oil, while the other is infused with non-psychoactive cannabidiol (CBD) derived from agricultural based Hemp Oil. Since their partnership, Isodiol has been able to establish licensing relationships with Canopy Growth, Nutritional High, a California manufacturer, and anticipates even further opportunity in the coming months.

#### Iso-Bev

Iso-Bev is the industry leader in the manufacturing and development of raw ingredients and consumer beverages derived from hemp. With the infused beverage industry rapidly growing, Iso-Bev is well positioned to capitalize on this opportunity.

## Biosynthesis Pharma Group

Biosynthesis Pharma Group (BSPG) is an industry leading producer of industrial hemp. Through BSPG's industrial-sized, proprietary extraction methodologies, BSPG produces high-purity, bioactive cannabinoids that are used in pharmaceutical applications to benefit those suffering from a range of life-threatening and non-life-threatening illnesses. BSPG is currently conducting clinical trials involving its product through strategic partnerships around the globe.

## DISCUSSION OF OPERATIONS

Through the development of its own IP, Isodiol has been able to create a portfolio of products which are sold through various channels domestic in the US and internationally. Sales of its core operating subsidiary only commenced in March 2016 but have grown to \$5,894,538 in net revenues for the three month period ended December 31, 2017 (2016 - \$52,197) and \$3,208,420 in gross profits for the three month period ended December 31, 2017 (2016 - \$30,771). Management expects revenues to increase from retail sales, however it is expected expenses will also increase.

Consistent with the above increases and growth expectations, the Company experienced an spike in consulting fees, of which increased to \$442,610 (2016 - \$350,423), as well as professional fees of which totaled \$189,419 (2016 - \$22,699) over the 3-month period, both of which largely were a result of fees incurred in relation to the closing of its newly acquired subsidiary, ISO International LLC, and other acquisitions. The closing of this acquisition and subsequent ramp up of operations also resulted in the recognition of new expenses incurred on consolidation of \$1,068,498 in wage and Salary expenses, shipping costs of \$137,348, merchant fees of \$31,548, insurance costs of \$3,216, and commissions of \$260,695, all of which were \$nil for the period ended December 31, 2016. Management fees also increased dramatically to \$101,196 (2016 - 63,235) as a result of the acquired operations.

Office and administration fees on consolidation over the three-month period ended December 31, 2017, increased to \$60,004 (2016 - \$28,073), along with Travel \$191,579 (2016 - \$27,192), advertising and promotion of \$256,411 (2016 - \$92,521), as the Company spent additional funds on various marketing campaigns in North America and Europe, Rent \$134,910 (2016 - \$9,044), as the company acquired additional offices and warehouse space, warehouse supplies \$17,982 (2016 - \$2,976), Research & Development reduced slightly to \$50,409 (2016 - \$63,549), Website expenses of \$17,521 (2016 - \$8,505), and Filing and Transfer Agent fees \$29,847 (2016 - \$9,706). Investor relations costs decreased to \$12,250 (2016 - \$235,928), as additional fees were spent in 2017 on advertising and promotion. Total expenses for the three-month period ended December 31, 2017 were \$3,006,166 (2016 - \$914,851) and net income for the period was \$164,446 compared to a net loss of \$697,640 in 2016. There were no stock options granted in the three-month periods ended December 31, 2017 and 2017, however during the nine-month periods ended December 31, 2017 and 2016, share-based compensation increased to \$1,934,344 (2016 - \$24,452) as incentive stock options were granted during the period. Also acquisition and restructuring related expenses derived from share issuances made up \$6,905,200 (2016 - \$nil) of the net comprehensive loss during the nine-month period ended December 31, 2017. In addition to cash on hand at December 31, 2017 of \$26,482,828, management may rely on capital raised through subsequent financings since December 31, 2017 to meet working capital requirements for the next twelve-month period. See "Liquidity and Capital Resources" and "Risk Factors" for a discussion of risk factors that may impact the Company's ability to raise funds.

## SUMMARY OF QUARTERLY RESULTS

As the accounting acquirer in the reverse take-over transaction, the following sets out the selected quarterly consolidated financial data of Isodiol International Inc. for the eight most recently completed interim quarters:

|  | Quarter Ended<br>December 31,<br>2017 | Quarter Ended<br>September 30,<br>2017 | Quarter Ended<br>June 30, 2017 | Quarter Ended<br>Mar. 31, 2017 |
|--|---------------------------------------|--|--------------------------------|--------------------------------|
| Total Revenue                              | \$5,894,538                           | \$5,063,566                            | \$2,740,542                    | \$100,212                      |
| Net comprehensive<br>Income (Loss)         | \$164,446                             | \$(7,314,120)                          | \$(3,658,829)                  | \$(2,325,073)                  |
| Basic and diluted<br>net loss per<br>share | \$ -                                  | \$(0.04)                               | \$(0.04)                       | \$(0.05)                       |

|   | Quarter Ended<br>Dec. 31, 2016 | Quarter Ended<br>Sept. 30, 2016 | Quarter Ended<br>June 30, 2016 | Quarter Ended<br>Mar. 31, 2016 |
|---|--------------------------------|---------------------------------|--------------------------------|--------------------------------|
| Net Revenue                             | \$52,197                       | \$85,173                        | \$47,185                       | \$nil                          |
| Net comprehensive<br>Loss               | \$(903,679)                    | \$(697,640)                     | \$(359,871)                    | \$(669,138)                    |
| Basic and diluted<br>net loss per share | \$(0.03)                       | \$(0.03)                        | \$(0.02)                       | \$(0.04)                       |

The Company has had a substantial increase in revenues for the periods ending December 31, 2017, September 30, 2017 and June 30, 2017 as the acquisition of its wholly owned subsidiary, Iso International LLC took place in May 2017. Management anticipates that sales will continue to increase month over month and that a profitable operation can continue beyond the quarter ended December 31, 2017. Management will continue to offset current liabilities with cashflow generated from operations but may also continue to explore potential financing opportunities to facilitate international expansion to ensure continued growth of operational revenues.

## SELECTED QUARTERLY INFORMATION

The following selected quarterly financial information is derived from the unaudited consolidated financial statements for the three most recently completed financial years summarized as follows:

| Periods ended December 31,      | 2017       | 2016      |
|---------------------------------|------------|-----------|
| Revenues                        | 5,894,538  | 52,197    |
| Net comprehensive income (loss) | 164,446    | (903,679) |
| Total assets                    | 56,546,448 | 1,144,775 |
| Shareholder's equity (deficit)  | 52,921,56  | 342,130   |
| Loss per share                  | -          | (0.03)    |

*Period ended December 31, 2017 compared to the period ended December 31, 2016*

The Company had net comprehensive income of \$164,446 and for the three-month period ended December 31, 2017 and incurred a net a comprehensive loss of \$903,679 for the period ended December 31, 2016. The transition from a net loss for the period in 2016 to profitability for the quarter ended December 31, 2017 was mainly the result of acquisitions and restructuring of the Company. The acquisition of revenue generating entities substantially increased the consolidated revenues for the quarter ended December 31, 2017 to \$5,894,538 (2016 - \$52,197). In relation to increased revenues, cost of goods sold also increased to \$2,686,118 for the quarter ended December 31, 2017 (\$2016 - \$21,426). Gross profit for the quarter ended December 31, 2017 was \$3,208,420 (2016 - \$30,771). In addition to increased revenues from the acquisitions and growing operations, general operating expenses also increased. Expenses for the three-month period ended December 31, 2017 were \$3,006,166 compared to \$914,851 for the same period in 2016. Wages and salaries, management fees, and consulting fees all increased for the quarter ended December 31, 2017 in line with the company's efforts to build up its team of key contributors to support management's expectation of forthcoming growth as the Company seeks to scale and expand its operations into new markets.

#### **LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2017 the company had a working capital of \$30,770,642 (2016 - \$240,130) and cash on hand of \$867,044 (2016 - \$319,137). For the year ended March 31, 2017 ("Fiscal 2017"), the Company had \$718,648 in cash and a working capital surplus of \$984,111.

The significant portion of the current liabilities is driven by the closing of the ISO International LLC acquisition on May 15, 2017 and the Company's obligation to make payments of \$200,000 USD over the next five months.

Isodiol has been able to secure financing to address working capital requirements, and will continue to explore financing opportunities as its global expansion ramp-up strategy is executed. On August 21, 2017, the Company successfully achieved this through its closing of a signed a convertible debenture financing arrangement with Alumina Partners. Pursuant to the terms of the offering, the debenture has no minimum draw down requirement and is a two-year term at an annual interest rate of 8% with no upfront fees or associated costs. Alumina Partners will commit up to \$25,000,0000 CDN with conversion terms consisting of one common share (the "Shares") and one half of one common share purchase warrant (the "Warrants"), at discounts ranging from 15% to 25% of the market price of the shares. The exercise price of the Warrants will be at a 50% premium over the market price of the Shares.

On December 21, 2017, the Company completed a non-brokered private placement by issuing 16,000,000 units at a price of \$1.25 per unit for gross proceeds of \$20,000,000. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$2.00 for a period of 24 months.

On December 4, 2017, the Company completed a non-brokered private placement by issuing 12,183,778 units at a price of \$0.74 per unit for total proceeds of \$9,015,996. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.75 for a period of 36 months.

On November 23, 2017, the Company completed a non-brokered private placement by issuing 24,848,187 units at a price of \$0.25 per unit for total proceeds of \$6,212,047. Each unit consisted of

one common share and one share purchase warrant. Each warrant is exercisable at \$0.75 for a period of 12 months

On September 12, 2017, the Company completed a non-brokered private placement by issuing 4,012,414 units at a price of \$0.25 per unit for total proceeds of \$1,003,103. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.75 for a period of 24 months.

On June 16, 2017, the Company completed a non-brokered private placement by issuing 15,849,697 units at a price of \$0.12 per unit for total proceeds of \$1,901,963. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.25 for a period of 24 months.

On May 19, 2017, the Company completed a non-brokered private placement by issuing 18,709,300 units at a price of \$0.12 per unit for total proceeds of \$2,245,116. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.25 for a period of 24 months.

During the nine-month period ended December 31, 2017, the Company issued 18,817,123 common shares for proceeds of \$4,832,747 pursuant to the exercise of warrants.

During the nine-month period ended December 31, 2017, the Company issued 2,830,000 common shares for proceeds of \$502,900 pursuant to the exercise of options.

See the discussion under the heading "Risk Factors" for risks associated with the Company and its business.

#### *Operating Activities*

During the quarters ended December 31, 2017 and December 31, 2016, operating activities used cash of \$7,540,411 and \$942,641, respectively. The use of cash for the quarter ended December 31, 2017 was largely attributable to the increase in inventory related to the growth in operations, along with an increase in receivables and accounts payable. The use of cash for operating activities of \$942,641 for the quarter ended September 30, 2016 was attributable to the Company's loss for the period of \$903,679, offset mainly by non-cash shares issued for services of \$353,499 and an increase of accounts payable.

#### *Investing Activities*

During the quarter ended December 31, 2017 the Company's \$4,89,833 outflow of cash from investment activities was driven by its increase in IP and product development, capital assets, and investments and deposit payments for pending acquisitions. In the 2016 comparative period the Company did not use or earn any funds from investing activities.

#### *Financing Activities*

During the quarter ended December 31, 2017, the Company raised \$37,490,861 through the closing of private placement financings, the exercised warrants, and exercised options. The Company also increased its cash position through acquisitions of \$453,341, along with a related party advance to a wholly-owned subsidiary of the Company of \$106,826. In the comparative period ended December

31, 2016, the Company raised \$1,434,295 through financing activities and had a \$205,000 decrease in loans payable.

## **CHANGES IN ACCOUNTING POLICIES**

New standard not yet adopted

### *IFRS 9 Financial Instruments (Revised)*

IFRS 9 was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing de-recognition requirements from IAS 39 *Financial instruments: recognition and measurement*. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's financial statements has not yet been determined.

IFRS 15: Revenue from Contracts and Customers ("IFRS 15"), was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual years beginning on or after January 1, 2017. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

IFRS 16: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model. The impact of IFRS 16 on the Company's financial instruments has not yet been determined.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company did not have any off-balance sheet arrangements during the periods ended December 31, 2017 or December 31, 2016.

## **RELATED PARTY TRANSACTIONS**

During the quarter ended December 31, 2017, the Company entered into the following related party transactions:

- As of December 31, 2017, \$Nil (2016 - \$Nil) is owed to directors and officers of the Company for unpaid fees and expenses, and \$nil (2016 - \$635,000) is owed in loans payable to the spouse of the former Chief Executive Officer ("CEO") of the Company.

- During the period ended December 31, 2017, the Company paid and accrued interest expense of \$nil (2016: \$19,599), in connection with loans payable to the former CEO and the spouse of the former CEO of the Company.
- During the period ended December 31, 2017, the Company paid \$47,674 (2016 -\$nil) for consulting fees to the CEO and Director of the Company.
- During the period ended December 31, 2017, the Company paid \$27,000 (2016 -\$18,000) for consulting fees to the CFO and Director of the Company.
- During the period ended December 31, 2017, the Company paid \$66,237 (2016 -\$nil) for consulting fees to the company controlled by a Director of the Company.

### **Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and loans payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### **Subsequent Events**

- i) On January 8, 2018, the Company entered into a licensing agreement with Level Brands Inc. Under the agreement, the Company will work with Level Brands to develop consumer products for its business units, Kathy Ireland Health and Wellness and Ireland Men One (I'M1), the company's lifestyle brand for men. Under the agreement, the Company will pay Level Brands an initial \$2-million (U.S.) payment in the form of Isodiol shares and initial cash payments of \$62,500 (U.S.) each due at execution of the licensing agreement and on June 30, 2018. During the term of the agreement Level will also receive \$750,000 (U.S.) per quarter in the form of Isodiol shares and a 3-per-cent royalty on all gross sales of branded products. The release of Isodiol shares to Level shall be subject to a rolling 30-month escrow following each issuance. The contract term is for ten years. On January 22, 2018, the Company issued 1,679,321 common shares pursuant to the agreement.
- ii) On January 26, 2018, the Company signed a licensing agreement with Livecare Health Canada Inc. Under the terms of the licensing agreement, the Company will license the Telehealth platform and operate it under a white label in connection with the marketing of all its products. The company will pay Livecare a royalty dependant on the jurisdiction of commercialization. The company will also issue four quarterly instalments of stock in the first year of \$250,000 which will be subject to a 36-month escrow schedule.
- iii) On January 2, 2018, the Company completed a non-brokered private placement by issuing 8,260,000 units at a price of \$1.25 per unit for total proceeds of \$10,325,000. Each unit consisted of one common shares and one share purchase warrant. Each warrant is exercisable at \$2.00 for a period on two years.

- iv) On January 22, 2018, the Company issued 1,701,477 common shares pursuant to the Bradley's Brands acquisition.
- v) Subsequent to December 31, 2017, the Company issued 1,265,596 common shares pursuant to consulting agreements.
- vi) On February 14, 2018, the Company entered into an agreement to purchase 100% of Canadian National Pharma Group Inc. Under the agreement the Company will issue \$6-million in stock for 100 per cent of the acquisition.
- vii) Subsequent to December 31, 2017, the Company issued 1,041,000 common shares pursuant to the exercise of warrants.
- viii) Subsequent to December 31, 2017, the Company issued 270,000 common shares pursuant to the exercise of options.

### **Proposed Transactions**

There are currently no proposed transactions.

### **DISCLOSURE OF OUTSTANDING SHARE DATA**

#### *Common Shares*

The Company's authorized share capital consists of an unlimited number of common shares without par value. Taking into account the 1 for 2.5 share consolidation that was effective January 6, 2016, the Company had 287,528,191 common shares issued and outstanding at December 31, 2017. As of March 1, 2018, the Company had 301,745,585 shares issued and outstanding.

On September 18, 2015, the Company entered into a stock restriction agreement whereby 3,000,000 common shares were placed into escrow. These shares will be released from escrow beginning on September 21, 2016 at 300,000 shares and an additional 450,000 shares every 6 months thereafter until September 21, 2019. As at December 31, 2017, 1,800,000 common shares were held in escrow.

#### *Share Purchase Warrants*

As at December 31, 2017, the Company had 84,826,618 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share at the following prices and expiration dates as at December 31, 2017:

| <u>Number</u> | <u>Price</u> | <u>Expiry Date</u> |
|---------------|--------------|--------------------|
| 300,000       | \$0.25       | March 10, 2018     |
| 872,240       | \$0.68       | December 31, 2019  |
| 16,709,300    | \$0.25       | May 19, 2019       |
| 8,820,698     | \$0.25       | June 16, 2019      |
| 4,012,414     | \$0.75       | September 12, 2019 |
| 24,848,188    | \$0.75       | November 23, 2017  |
| 12,183,778    | \$0.75       | December 4, 2020   |
| 17,080,000    | \$2.00       | December 21, 2019  |

As at March 1, 2018, the Company had 92,045,618 share purchase warrants outstanding.

#### *Stock Options*

At December 31, 2017, 17,970,000 share purchase options were outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

| <b>Number of Options</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|--------------------------|-----------------------|--------------------|
| 100,000                  | \$0.25                | September 2, 2018  |
| 900,000                  | \$0.16                | March 27, 2019     |
| 2,800,000                | \$0.15                | April 4, 2019      |
| 9,000,000                | \$0.205               | June 16, 2019      |
| 170,000                  | \$0.205               | July 19, 2019      |
| 5,000,000                | \$0.315               | September 1, 2019  |

#### **RISK FACTORS**

The following information is a summary only and the risks and uncertainties below are not the only ones related to our company. There are additional risks and uncertainties that our company does not presently know of or that our company currently considers immaterial which may also impair our company's business operations. If any of the following risks actually occur, our company's business may be harmed and its financial condition and results of operations may suffer significantly. In such circumstances, the price of our company's common shares could decline and investors may lose all or part of their investment.

#### *Need for Additional Financing*

As at December 31, 2017, the Company had \$26,482,828 cash on hand and net income of \$164,446 for the quarter ended December 31, 2017. The Company anticipates generating profits from current operations, as such, to sustain current operations management anticipates the company will not likely require additional financing. In an effort to expand international operations, the Company will seek financing opportunities to support these initiatives. As discussed previously, as at August 21, 2017 the Company has secured access to up to \$25,000,000 in convertible debenture financing and will also seek to raise additional capital through private placement financings, though does not have any current arrangements for such financing and may not be able to obtain this when required.

The Company has been able to increase and maintain its share price which will benefit current shareholders in the event the Company obtains additional equity financings. Increasing revenues and generating profits will ensure the company is able to maintain a steady share price which will benefit current and future shareholders of the Company.

#### *Key Personnel*

The future success of our company will depend on being able to retain key management and attract strong upper management to ensure proper execution of our international expansion. We are confident our vision and operational plan will attract top end talent which will allow us to gain a competitive advantage over other companies in the industry.

#### *Product Recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of our company's products are recalled due to an alleged product defect or for any other reason, our company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall.

The Company has a limited operating history from which investors can evaluate its business however strong quarterly revenue and a profitable operation going forward will mitigate this risk.

#### *International Operational Risks, Including Compliance and Foreign Exchange Risk*

The Company expects to derive a significant portion of its revenues from sales outside of Canada, thus exposing its business to risks associated with foreign operations. For example, a foreign government could impose trade or foreign exchange restrictions or increased tariffs, or otherwise limit or restrict its ability to import products into a country, any of which could negatively impact our company's operations. The Company is also exposed to risks associated with foreign currency fluctuations.

In addition, our company may be subject to regulations and taxes under local, provincial, state and federal laws, including requirements regarding customs, duties, cross-border issues, occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local and foreign regulations. Changes in government regulations could also have an adverse effect on the business and financial condition of our company.

#### *Dependence on Penetration of Existing Markets*

The success of our company's business is to a large extent contingent on its ability to penetrate existing markets and to a similar extent to enter into new markets. The Company's ability to penetrate existing markets or to expand its business into additional countries, to the extent it believes that it has identified attractive geographic expansion opportunities in the future, is subject to numerous factors, many of which are out of its control.

In addition, government regulations in both its domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of its products, which could negatively impact its business, financial condition and results of operations.

#### *Competition*

The Company continues to be the market leader in innovation and product development which differentiates it from its competitors. The landscape of the market continues to be competitive, however the Company has been able to adjust its strategy to ensure it remains the market leader. Management believes that with the subsequent events that are reported herein, the Company should be able to effectively compete in a market where the barrier to entry has been significantly raised through innovation and financial constraints.

### *Changing Consumer Preferences and Demands*

The Company's business is subject to changing consumer trends and preferences. The Company's continued success depends in part on its ability to anticipate and respond to these changes, and it may not respond in a timely or commercially appropriate manner to such changes. Furthermore, our company's industry is characterized by rapid and frequent changes in demand for products and new product introductions and enhancements. If our company does not introduce new products or make enhancements to meet the changing needs of its customers in a timely manner, some of our company's products could be rendered obsolete, which could negatively impact our company's revenues, financial condition and operating results.

### *Reliance on Key Suppliers*

The Company has secured multiple sources for its raw materials and is in the process of exploring the opportunity to vertically integrate to fully control its raw ingredient supply. To date, our company has not experienced any difficulty in obtaining adequate supplies or services from its key suppliers.

### *Information Technology Infrastructure*

The Company's ability to provide products and services to its customers depends on the performance and availability of its core transactional systems. While our company continues to invest in its information technology infrastructure, including the immersive Web collaboration technology, there can be no assurance that there will not be any significant interruptions to such systems or that the systems will be adequate to meet all of its future business needs. The Company may need to expend significant resources to protect against security breaches or to address problems caused by such breaches. Any actual security breaches could damage our company's reputation and expose it to a risk of loss or litigation and possible liability under various laws and regulations. In addition, employee error or malfeasance or other errors in the storage, use or transmission of any such information could result in a disclosure to third parties. If this should occur, our company could incur significant expenses addressing such problems.

### *Compliance with Laws and Governmental Regulations*

In domestic and foreign markets, the formulation, manufacturing, packaging, labeling, distribution, importation, exportation, licensing, sale and storage of our company's products may be affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. There can be no assurance that our company is in compliance with all of these regulations. The failure to comply with these regulations or new regulations could disrupt the sale of our company's products, or lead to the imposition of significant penalties or claims and could negatively impact our company's business. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our company's products, resulting in significant loss of sales revenues.

### *Intellectual Property*

The Company does not currently hold any, patents or pending patent applications.

### *The Worldwide Financial and Economic Environment*

Various aspects of the current worldwide financial and economic environment could potentially impact on our company's liquidity, its access to capital, its operations and its overall financial condition.

#### *Technical Obsolescence and Product Development*

The Company's industry is characterized by rapidly changing technology, shifting industry standards and frequent introduction of new products. The introduction of new products embodying new technologies and the emergence of new industry standards may render our company's products obsolete or less marketable. The process of developing our company's products is complex and requires continuing development efforts. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect its business and financial condition. Research and development in the industry in which our company operates is highly speculative and involves a high degree of risk.

#### *Liquidity Risk*

Liquidity risk is defined as the potential to be unable to meet a demand for cash or meet financial obligations as they become due. This risk is managed by establishing cash forecasts, as well as operating and strategic plans. The Company's liquidity requires constant monitoring of expected cash inflows and outflows, which is achieved through forecasts which assess the adequacy of cash resources to meet financial obligations as they come due. Liquidity adequacy is assessed in view of growth requirements and capital expenditures. Liquidity risk is managed to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations. There can be no assurance that our company's forecasts will adequately predict its liquidity needs. However, due to Subsequent Events disclosed herein, liquidity risks will be mitigated due to acquisitions and product launches which are revenue and profit generating.

#### *Risk Factors Related to our company's Common Shares*

##### High Risk and Speculative Nature of Investment

An investment in our company's common shares carries a high degree of risk and should be considered as a speculative investment by purchasers. The Company has no history of earnings, limited cash reserves, a limited operating history, and is dependent on equity financing to fund planned operations. The Company has not paid dividends in the past, and our company is unlikely to pay dividends in the immediate or near future. The Company's operations are not yet sufficiently established such that it can mitigate the risks associated with its planned activities. You may be at risk of losing any investment in our company's common shares.

##### Volatility of Stock Price and Market Conditions

The market price of our company's common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in our company's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the common shares, even if our company is successful in maintaining revenues, cash flows or earnings. The purchase of our company's common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Securities of

our company should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in our company should not constitute a major portion of an investor's portfolio.

#### **ADDITIONAL INFORMATION**

The Company files annual and interim reports, information circulars and other information with certain Canadian securities regulatory authorities. The documents filed with the Canadian securities regulatory authorities are available at <http://www.sedar.com>.