

## FORM 5

### **QUARTERLY LISTING STATEMENT**

Name of Listed Issuer: **Laguna Blends Inc. (formerly Grenadier Resource Corp.** (the “Issuer”).

Trading Symbol: **LAG**

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This Quarterly Listing Statement must be posted on or before the day on which the Issuer’s unaudited interim financial statements are to be filed under the *Securities Act*, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer’s first, second and third fiscal quarters. This statement is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

#### **General Instructions**

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term “Issuer” includes the Listed Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

#### **SCHEDULE A: FINANCIAL STATEMENTS**

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

***The Issuer’s Financial Statements for the three month period ended June 30, 2016 are attached as Schedule A.***

## **SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below must be provided when not included in Schedule A.

### **1. Related party transactions**

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

***All related party transactions have been disclosed in the Issuer's Financial Statements for the three months ended June 30, 2016 attached hereto as Schedule A and the Issuer's Management's Discussion and Analysis for the three month period ended June 30, 2016 attached hereto as Schedule C.***

### **2. Summary of securities issued and options granted during the period.**

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

- (a) summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
05/17/2016	Common shares	Private Placement	1,763,409	\$0.11	\$193,975	Cash	Unrelated	Nil
06/02/2016	Common shares	Consulting Agreements	461,687	\$0.11	N/A	Debt	Consultant	Nil
06/23/2016	Common shares	Consulting Agreements	85,714	\$0.105	N/A	Debt	Consultant	Nil

(b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant
06/13/2016	100,000		Consultants	\$0.10	06/13/2017	\$0.24

### 3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,
- (b) number and recorded value for shares issued and outstanding,
- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and
- (d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

***A summary of securities has been provided in the Issuer's Financial Statements for the three month period ended June 30, 2016 attached hereto as Schedule A.***

### 4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name of Director	Position(s) Held
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Stuart Gray	CEO, & Director
Martin Carleton	Director
Bryan Loree	CFO, Corporate Secretary & Director
Rhys Williams	Director

## **SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

Provide Interim MD&A if required by applicable securities legislation.

***The Issuer's Management's Discussion and Analysis is attached for the three month period ended June 30, 2016 is attached as Schedule C.***

## Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated **August 29, 2016.**

**Stuart Gray**

Name of Director or Senior Officer

**"Stuart Gray"**

Signature

**Chief Executive Officer**

Official Capacity

<b>Issuer Details</b> Name of Issuer <b>Laguna Blends Inc.</b>	For Quarter Ended <b>June 30, 2016</b>	Date of Report YY/MM/D <b>2016/08/29</b>
Issuer Address <b>201-1912 Enterprise Way</b>		
City/Province/Postal Code <b>Kelowna, BC V1Y 9S9</b>	Issuer Fax No. ( )	Issuer Telephone No. <b>(250) 868-0787</b>
Contact Name <b>Stuart Gray</b>	Contact Position <b>CEO</b>	Contact Telephone No. <b>(250) 868-0787</b>
Contact Email Address <b>lagunablendsceo@gmail.com</b>	Web Site Address <b>www.lagunablends.com</b>	

Schedule "A"

**Financial Statements**

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**LAGUNA BLENDS INC.**

**(FORMERLY GRENADIER RESOURCE CORP.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(Expressed in Canadian Dollars)**

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## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the three months ended June 30, 2016.

**LAGUNA BLENDS INC.**  
(formerly GRENADIER RESOURCE CORP.)  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)

As at	June 30, 2016	March 31, 2016
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 74,702	\$ 105,814
Prepaid expenses and deposits	21,869	35,565
Receivables (Note 6)	54,889	65,637
Inventory	310,547	277,547
Total current assets	462,007	484,563
<b>Equipment</b> (Note 5)	-	-
Total Assets	\$ 462,007	\$ 484,563
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 256,720	\$ 250,643
Due to related parties (Note 9)	8,784	41,666
Loans payable (Notes 4, 7 and 9)	890,000	935,000
Total current liabilities	1,155,504	1,227,309
<b>Shareholders' equity</b>		
Share capital (Note 8)	8,311,322	7,907,861
Reserves (Note 8)	944,862	939,203
Accumulated Deficit	(9,949,681)	(9,589,810)
Total shareholder's equity	(693,497)	(742,746)
Total Liabilities and Shareholder's Equity	\$ 462,007	\$ 484,563

**Nature of operations and going concern** (Note 1)  
**Events after the Reporting Period** (Note 14)

Approved and authorized by the Board on August 29, 2016:

**"Stuart Gray"**

Director

**"Martin Carleton"**

Director

The accompanying notes are an integral part of these consolidated financial statements.



**LAGUNA BLENDS INC.**

(formerly GRENADIER RESOURCE CORP.)

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

	For the three months ended June 30, 2016		For the three months ended June 30, 2015	
<b>Net sales</b>	\$	47,185	\$	-
<b>Cost of goods sold</b>		(32,873)		-
<b>Gross profit</b>		14,312		
<b>Operating Expenses</b>				
Consulting fees (Note 9)	\$	82,300	\$	120,375
Business development		6,292		737,741
Filing and transfer agent fees		4,059		-
Investor relations		41,597		-
Management fees (Note 9)		69,993		-
Office and administration (Note 9)		25,900		30,687
Professional fees		48,046		36,131
Rent		9,044		-
Share based compensation (Note 8 and 9)		65,445		-
Travel and promotions		5,640		-
Warehouse supplies		8,379		-
Website expenses		4,953		-
		371,648		924,934
<b>Loss from operations</b>	\$	(357,336)	\$	(924,934)
<b>Other income (expense)</b>				
Other income		12,246		-
Interest expense (Note 9)		(14,781)		-
<b>Net comprehensive loss for the period</b>	\$	(359,871)	\$	(924,934)
<b>Basic and diluted loss per common share</b>	\$	(0.02)	\$	(0.03)
<b>Weighted average number of common shares outstanding</b>		21,360,514		28,099,221

The accompanying notes are an integral part of these consolidated financial statements.

**LAGUNA BLENDS INC.**

(formerly GRENADIER RESOURCE CORP.)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in Canadian Dollars)

	For the three months ended June 30, 2016		For the three months ended June 30, 2015	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$	(359,871)	\$	(924,934)
Items not involving cash:				
Shares issued for services		65,445		-
Share-based payments		-		621,000
Changes in non-cash working capital items:				
Receivables		10,748		(12,051)
Prepaid		13,696		57,919
Inventory		(33,000)		-
Accounts payable and accrued liabilities		6,077		29,434
Related parties		(32,882)		-
Cash used in operating activities		(32,862)		(228,632)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from the issuance of common shares		343,675		-
Proceeds (repayment) from the issuance of loans payable		(45,000)		215,000
Cash provided by financing activities		298,675		215,000
<b>Change in cash during the period</b>		(31,112)		(13,632)
<b>Cash, beginning of period</b>		105,814		14,560
<b>Cash, end of period</b>	\$	74,702	\$	928
<b>Cash paid during the period for interest</b>	\$	14,781	\$	-

Supplemental Cash Flow Information (Note 15)

The accompanying notes are an integral part of these consolidated financial statements.

# LAGUNA BLENDS INC.

(formerly GRENADIER RESOURCE CORP.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Share capital		Reserves			
	Number	Amount	Warrants	Stock-based compensation	Deficit	Total
<b>Balance, March 31, 2015</b>	10,400,000	565	10,000	300	(912,978)	(337,678)
Shares issued for services	920,000	621	-	-	-	621,000
Shares returned to treasury	(816,040)	-	-	-	-	-
Net Loss for the period	-	-	-	-	(924,934)	(924,934)
<b>Balance, June 30, 2015</b>	10,504,000	1,186,000	10,000	300	(1,837,912)	(641,612)
Shares issued for cash	1,585,954	369,180	153,488	-	-	522,668
Company balance prior to RTO	6,741,973	851,399	1,030,414	80	(2,229,205)	461,762
RTO adjustment	-	(851,399)	(1,030,414)	(809)	2,229,205	(461,762)
Elimination of shares of Laguna Blends (USA) Inc.	(11,064,000)	-	-	-	-	-
Share issuance – RTO	11,064,000	6,067,775	-	40	-	6,508,775
Shares for promissory notes	560,000	66,525	-	-	-	66,525
Shares issued to settle accounts payable	967,299	218,381	-	-	-	218,381
Shares to be issued for services	-	-	-	25,000	-	25,000
Stock based compensation	-	-	-	30	-	309,415
Net Loss for the period	-	-	-	-	(7,751,898)	(7,751,898)
<b>Balance, March 31, 2016</b>	20,359,226	\$ 7,907,861	\$ 163,488	\$ 70	\$ (9,589,810)	\$ (742,746)
Shares issued for cash	2,833,409	327,675	-	-	-	327,675
Shares issued for services	547,402	59,786	-	-	-	59,786
Shares issued pursuant to options exercised	200,000	16,000	-	-	-	16,000
Stock-based compensation	-	-	-	5,659	-	5,659
Net Loss for the period	-	-	-	-	(359,871)	(359,871)
<b>Balance, June 30, 2016</b>	23,940,037	\$ 8,311,322	\$ 163,488	\$ 70	\$ (9,949,681)	\$ (693,497)

The accompanying notes are an integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Laguna Blends Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on June 2, 2014, as Grenadier Resource Corp. The Company commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "GAD" in July 2014. The Company is a network marketing Company focused on the nutritional health benefits that are derived from hemp.

The Company changed its name from Grenadier Resource Corp. to Laguna Blends Inc. on September 18, 2015 in conjunction with a reverse takeover transaction (the "RTO") (Note 4). On September 22, 2015, the Company resumed trading on the Canadian Securities Exchange at the opening of the market on September 23, 2015 under the new symbol "LAG".

The Company's registered and records office is at 800, 885 West Georgia Street, Vancouver, BC V6C 3H1. The corporate head office is at 302 – 1912 Enterprise Way, Kelowna, BC V1Y 9S9.

Effective January 6, 2016, the Company completed a consolidation of its common shares ("share consolidation") on the basis of one post-consolidation share for every 2.5 pre-consolidation common shares previously held. All references to share, per share amounts and exercise prices have been retroactively restated to reflect the effect of the share consolidation.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. During the three month period ended June 30, 2016, the Company's operations do not generate cash flows, the Company had incurred a net loss of \$359,871 and the Company had an accumulated deficit of \$9,949,681. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions indicate the existence of a material uncertainty that may give rise to significant doubt about the entity's ability to continue as a going concern.

## 2. BASIS OF PREPARATION

### Statement of Compliance

These interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

These financial statements are authorized for issued by the Board of Directors on August 29, 2016.

### Basis of Consolidation and Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars, which is the Company's functional currency, unless otherwise specified.

These consolidated financials incorporate the financial statements of the Company and its wholly controlled subsidiaries, Laguna Blends (USA) Inc. ("Laguna USA"), a company incorporated in the State of Nevada and extra-provincially registered in British Columbia and Laguna Blends (Canada) Inc. ("Laguna Canada"), a company incorporated in British Columbia. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

## 2. BASIS OF PREPARATION - (Continued)

### Use of Estimates and Judgments

The preparation of these consolidated financial requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

#### *Critical Accounting Judgments*

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long term operating budget, expected profitability, investing and financing activities and managements strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

#### *Critical Accounting Estimates*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

The inputs in accounting for share based payment transactions in the statements of loss and comprehensive loss (using the Black-Scholes model) including volatility, probable life of options granted and forfeiture rate.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements set out below have been applied consistently in all material respects.

### Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial assets in the following three categories depending on the purpose for which the instruments were acquired: Financial assets at fair value through profit or loss ("FVTPL"), available for sale ("AFS") financial assets or loans and receivable.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL or other financial liabilities, as appropriate.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

### 3. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Company's financial liabilities include accounts payable and accrued liabilities, due to related parties, and loans payable. Subsequent to initial recognition, accounts payable and accrued financial liabilities, due to related parties, and loans payable are measured at amortized cost using the effective interest method. All are classified as other financial liabilities.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of the available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company does not have any derivative financial assets or liabilities.

#### **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

The Company recognizes product sales when it is probable that the economic benefits will flow to the Company, the goods are received by the customers and the significant risks and benefits of ownership are transferred, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. Revenue is measured based on the price specified, net of sales commissions expenses, trade discounts and estimated returns at the time of sale. Historical experience is used to estimate allowances for returns.

Accounts receivable consist of amounts due from customers and are recorded upon the sale of product to customers. Credit terms are extended to customers in the normal course of business and no collateral is required. The Company estimates an allowance for doubtful accounts based on historical losses, the existing economic conditions and the financial stability of its customers. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

#### **Inventory**

Inventory is stated at the lower of cost or market value. Cost is determined using the weighted average method, which under the circumstances, management believes will provide for the most practical basis for the measurement of periodic income. Management periodically reviews inventory for slow moving or obsolete items and considers realizability based on the Company's marketing strategies and sales forecasts to determine if an allowance is necessary. If market value is below cost then an allowance is created to adjust the carrying amount of inventory.

#### **Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

#### Equipment

Equipment items are carried at cost less accumulated depreciation and accumulated impairment losses. In the year of acquisition, depreciation is recorded at one-half the normal rate. Depreciation is recognized using the declining balance method at the following annual rates:

Office Furniture	Declining-Balance	20%
Computer Equipment	Declining-Balance	55%

Equipment that is withdrawn from use, or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expense.

#### Basic and Diluted Loss per Share

Basic losses per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted losses per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect of options and warrants and their equivalent is computed by the application of the treasury stock method. Diluted earnings per share exclude all dilutive potential common shares if their effect is anti-dilutive.

#### Share Capital

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares were granted. Common shares held by the Company are classified as treasury stock and recorded as a reduction to shareholders' equity.

The Company has adopted the relative fair value method with respect to the measurement of shares and warrants issued as part of private placement units with the value attributed to the warrants recorded as a separate component of equity.

#### Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured as grant date, using the Black-Scholes option pricing model, and is recognized immediately that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

The fair value of the options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

If and when the stock options are exercised, the applicable amounts of equity reserves are transferred to share capital.

### 3. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

#### Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company and all its subsidiaries is the Canadian dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, the Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the date of the transaction. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a foreign currency are translated at the rate of exchange prevailing at the statement of financial position date, while non-monetary assets and liabilities are translated at the exchange rate prevailing on the transaction date. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transaction. Exchange gains and losses arising on translation are included in the statement of comprehensive loss or income.

#### Income taxes

##### Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### Deferred income tax

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### New standards not yet adopted

IFRS 9: Financial Instruments 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 instruments 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



### 3. SIGNIFICANT ACCOUNTING POLICIES– (Continued)

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.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization: The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These

amendments are not expected to have any impact to the consolidated financial statements given that the Company has not used a revenue-based method to depreciate its non-current assets.

### 4. REVERSE TAKEOVER TRANSACTION

On September 18, 2015, the Company completed the RTO with Laguna Blends Inc. ("Laguna Blends (USA) Inc.") pursuant to which the Company acquired all of the outstanding securities of Laguna Blends (USA) Inc. As part of the transaction, the Company changed its name to Laguna Blends Inc. and Laguna Blends Inc. changed its name to Laguna Blends (USA) Inc. Laguna Blends (USA) Inc. became a wholly owned subsidiary of the Company. As at March 31, 2015, the Company had advanced \$320,000 to Laguna Blends (USA) Inc. pursuant to the letter of intent. Prior to the completion of the RTO, the Company advanced an additional \$150,000 to Laguna Blends (USA) Inc. All amounts advanced were eliminated on completion of the RTO.

The terms of transaction were as follows:

- An exchange of common shares of the Company and Laguna Blends (USA) Inc. at a ratio of one share of the Company share for every one share of Laguna Blends (USA) Inc. (11,064,000 common shares of the Company issued);
- Share purchase warrants and stock options of the Company were issued to/exchanged with holders of Laguna Blends (USA) Inc. convertible securities.

The acquisition of Laguna Blends (USA) Inc. was accounted for as reverse takeover transaction that was not a business combination and effectively a capital transaction of the Company. Laguna Blends (USA) Inc. has been treated as the accounting parent (legal subsidiary) and the Company has been treated as the accounting subsidiary (legal parent) in these consolidated financial statements. As Laguna Blends (USA) Inc. was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Laguna Blends Inc.'s results of operations have been included from the date of the RTO. The legal capital continues to be that of Laguna Blends Inc., the legal parent. These consolidated financial statements are a continuation of those of Laguna Blends (USA) Inc. which was incorporated on June 24, 2014.

The purchase price of \$6,508,775 was calculated based on a share value of \$0.36 and an option value of \$0.24 based on the Black-Scholes option pricing model with an expected volatility of 100%, dividend yield of 0.00%, expected life of 1.6 years, and a risk-free rate of 0.81%.

	Total
Purchase price in shares	\$ 6,067,775
Purchase price in options	441,000
<b>Total Purchase Price</b>	<b>\$ 6,508,775</b>
<b>Preliminary allocation of purchase price:</b>	
Net working capital	\$ 403
Equipment	58,412

#### 4. REVERSE TAKEOVER TRANSACTION (continued)

Charges related to public company listing	6,047,013
	<u>\$ 6,508,7</u>

The fair value of the Company's net assets is estimated to be consistent with their carrying value.

#### 5. EQUIPMENT

	Office equipment	Computer equipment	Total
<b>Cost</b>			
Balance, March 31, 2015 & June 30, 2015	\$ -	\$ -	\$ -
Additions	54,667	3,745	58,412
Impairment writedown	(54,667)	(3,745)	(58,412)
<b>Balance, March 31, 2016 &amp; June 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Accumulated depreciation</b>			
Balance, March 31, 2015 & June 30, 2015	\$ -	\$ -	\$ -
Depreciation for the period	-	-	-
Impairment writedown	-	-	-
<b>Balance, March 31, 2016 &amp; June 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Carrying amounts</b>			
As at March 31, 2015 & June 30, 2015	\$ -	\$ -	\$ -
As at March 31, 2016 & June 30, 2016	\$ -	\$ -	\$ -

#### 6. RECEIVABLES

Receivables recognized on the statement of financial position are comprised of:

	June 30, 2016	June 30, 2015
Sales tax recoverable	\$ 27,626	\$ 17,980
Trade receivables	27,263	-
<b>Balance</b>	<b>\$ 54,889</b>	<b>\$ 17,980</b>

Sales tax receivable is due from Canadian government taxation authorities

All amounts are short-term and the net carrying value of receivables is considered a reasonable approximation of fair value. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against receivables. The Company's receivables are all considered current and are not past due or impaired. The Company does not possess any collateral related to these assets.

## 7. LOANS PAYABLE

	June 30, 2016	June 30, 2015
Secured loan payable, bearing interest at 10% per annum, due July 16, 2016.	\$ 250,000	\$ -
Secured loan payable, bearing interest at 10% per annum, due July 31, 2016	50,000	-
Secured loans payable, bearing interest at 10% per annum, due November 12, 2016	150,000	-
Secured loan payable, bearing interest at 10% per annum, due December 11, 2016	100,000	-
Secured loans payable, bearing interest at 10% per annum, due January 20, 2017	200,000	-
Secured loan payable, bearing interest at 10% per annum, due January 28, 2017	10,000	-
Secured loans payable, bearing interest at 10% per annum, due March 24, 2017	130,000	-
Balance, June 30, 2016	890,000	-
Less: Current portion	(890,000)	-
Long term portion	\$ -	\$ -

During the year ended March 31, 2016, the Company, through its wholly owned subsidiary Laguna USA, entered into various loan agreements in the aggregate principal amount of \$935,000. The loans are secured by a charge against all present and future inventory of Laguna USA and are bearing interest at a rate of 10% per annum, payable on each monthly anniversary of the date of the respective loan agreement. The loans may be prepaid at any time during the term of the loan, together with any accrued and unpaid interest then outstanding. During the three month period ended June 30, 2016, the Company reduced loans payable by \$45,000.

During the three month period ended June 30, 2016, the Company entered into an amended loan agreement to extend the maturity date of the \$250,000 loan payable to July 16, 2017.

During the three month period ended June 30, 2016, the Company recorded \$14,781 (2015: \$0).

## 8. SHARE CAPITAL

### a) Authorized share capital

Unlimited number of common without par value.

### b) Issued share capital

Effective January 6, 2016, the Company completed a consolidation of its common shares ("share consolidation") on the basis of one post-consolidation share for every 2.5 pre-consolidation common shares previously held. All references to share, per share amounts and exercise prices have been retroactively restated to reflect the effect of the share consolidation.

Changes in the issued common shares of the Company during the period ended June 30, 2016 were as follows:

- i. On May 17, 2016, completed a non-brokered private placement by issuing 1,763,409 common shares at a price of \$0.11 per common share for total proceeds of \$193,975.

## 8. SHARE CAPITAL (continued)

- ii. On June 2, 2016, the Company issued 22,727 common shares at a deemed price of \$0.11 per common share in connection with debt settlement agreements for a total of \$2,500 as settlement for consulting services with an unrelated party.
- iii. On June 2, 2016, the Company issued 438,960 common shares at a deemed price of \$0.11 per common share in connection with debt settlement agreements for a total of \$48,286 as settlement for consulting services with a related party.
- iv. On June 23, 2016, the Company issued 85,714 common shares at a deemed price of \$0.105 per common share in connection with debt settlement agreements for a total of \$9,000 as settlement for consulting services with a related party.
- v. On June 30, 2016, the Company issued 200,000 common shares pursuant to the exercise of options at a price of \$0.16 per share.
- vi. On June 30, 2016, the Company received subscriptions for a non-brokered private placement and is obligated to issue 1,070,000 common shares at a price of \$0.11 per common share for total proceeds of \$117,700.

Changes in the issued common shares of the Company during the year ended March 31, 2016 and the period ended March 31, 2015 were as follows:

### Year ended March 31, 2015:

- i. On June 24, 2014, the Company issued 40 common shares at par value of \$0.0025 per share for total proceeds of \$0.10.
- ii. On December 20, 2014, the Company issued 1,455,700 common shares at deemed price of \$0.05 for total proceeds of \$72,785 to settle convertible debts totaling \$72,785.
- iii. On December 31, 2014, the Company issued 2,200,000 common shares at a deemed price of \$0.05 per share for a total of \$110,000 in exchange for consulting services with unrelated parties.
- iv. On December 31, 2014, the Company issued 2,544,300 common shares at a deemed price of \$0.05 per share for a total of \$127,215 in exchange for consulting services with officers of the Company.
- v. On January 30, 2015, the Company and a lender entered into an agreement to amend the terms of the four promissory notes totaling \$105,000 bearing interest at 10% per annum and make the principal amount of the notes convertible into common shares of the Company. The Company issued to the purchaser, a convertible debenture for \$105,000 maturing on June 30, 2015. The convertible debenture allows the purchaser to convert the principal amount of \$105,000 into 1,200,000 common shares of the Company at \$0.09 per share. On January 30, 2015, the purchaser converted the principle amount into 1,200,000 shares for the total value of \$105,000.
- vi. On March 31, 2015, the Company issued 3,000,000 common shares at a deemed price of \$0.05 per share for a total of \$150,000.

### Year ended March 31, 2016:

- vii. On April 7, 2015, the Company issued 920,000 common shares at a deemed price of \$0.675 per share for a total of \$621,000 in exchange for services with unrelated parties.
- viii. On June 23, 2015, the Company cancelled 256,000 common shares previously issued to a former consultant pursuant to an agreement to terminate a consulting agreement.
- ix. On July 9, 2015, the Company and the CEO entered into a return to treasury agreement whereby 40 common shares of the Company issued to Mr. Gray on June 14, 2014 as founders shares were returned to

## 8. SHARE CAPITAL – (Continued)

the treasury of Laguna for the sole purpose of Laguna retiring the surrendered shares without any consideration.

- x. On July 28, 2015, the Company and the CEO entered into a debt settlement and subscription agreement whereby \$65,000 previously loaned by the CEO to the Company under two promissory notes and the interest thereon were settled by the issuance of 560,000 common shares of the Company to the CEO. Also on this date, the CEO returned 560,000 common shares of the Company which were issued to the CEO pursuant to his consulting agreement with the Company to the treasury for cancellation.
- xi. On October 1, 2015, completed a non-brokered private placement by issuing 223,040 common shares at a deemed price of \$0.70 per common share for total proceeds of \$156,128.
- xii. On October 28, 2015, issued 42,478 common shares at a deemed price of \$0.45 per common share in connection with debt settlement agreements for a total of \$19,115 as settlement for consulting services with an unrelated party.
- xiii. On October 30, 2015, completed a non-brokered private placement by issuing 173,628 common shares at a deemed price of \$0.70 per common share for total proceeds of \$121,540.
- xiv. On November 9, 2015, completed a non-brokered private placement by issuing 14,286 common shares at a deemed price of \$0.70 per common share for total proceeds of \$10,000.
- xv. On January 7, 2016, issued 28,571 common shares at a deemed price of \$0.70 per common share in connection with a debt settlement agreement for a total of \$20,000 as settlement for consulting services with an unrelated party.
- xvi. On March 1, 2016, issued 293,750 common shares at a deemed price of \$0.20 per common share in connection with debt settlement agreements for a total of \$58,750 as settlement for consulting services with unrelated parties.
- xvii. On March 1, 2016, issued 602,500 common shares at a deemed price of \$0.20 per common share for total proceeds of \$120,500 to settle outstanding loans payable to a related party.
- xviii. On March 10, 2016, completed a non-brokered private placement by issuing 1,175,000 common shares at a deemed price of \$0.20 per common share for total proceeds of \$235,000.

### c) Escrow shares

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 as

to 300,000 shares and an additional 450,000 shares every 6 months thereafter until September 21, 2019. As at June 30, 2016, 3,000,000 common shares were held in escrow.

## 8. SHARE CAPITAL – (Continued)

### d) Warrants

The continuity of warrants for the period ended June 30, 2016 is summarized below:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, March 31, 2015 & June 30, 2015	1,600,000	\$0.68
Issued	2,585,927	\$0.79
Expired	<u>(710,565)</u>	\$1.25
Balance, March 31, 2016	3,475,362	\$0.65
Expired	(289,408)	\$1.21
Issued	<u>1,763,407</u>	\$0.15
Balance, June 30, 2016	<u>4,949,361</u>	\$0.44

At June 30, 2016, the Company had 4,949,361 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

	<u>Exercise</u>	
<u>Number</u>	<u>Price</u>	<u>Expiry Date</u>
223,040	\$1.25	October 1, 2017 <sup>(1)</sup>
173,628	\$1.25	October 30, 2017 <sup>(1)</sup>
14,286	\$1.25	November 9, 2017 <sup>(1)</sup>
1,175,000	\$0.25	March 10, 2018
1,600,000	\$0.68	December 31, 2019
<u>1,763,407</u>	\$0.15	May 17, 2017
<u>4,949,361</u>		

- (1) These warrants contain an acceleration clause whereby, if the volume weighted average closing price of the Company's shares is at least \$0.60 for a period of twenty (20) or more consecutive trading days, the Company will have the right, by providing notice to the warrant holders, to accelerate the expiry date of the warrants to that date which is ten (10) business days from the date of such acceleration notice.

As at June 30, 2016, the weighted average remaining contractual life of all warrants outstanding was 2.58 years.

The fair value of the warrants issued was determined on the date of issuance based upon the average of the pro-rata method and the Black-Scholes Option Pricing Model using the following assumptions:

	2016	2015
Risk-free interest rate	0.55%	1.39%
Annualized volatility	100%	51%
Expected dividend yield	Nil	Nil
Expected warrants life in years	2.89 years	10 years

## 8. SHARE CAPITAL – (Continued)

### d) Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, officers, employees and consultants to acquire up to 10% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount, subject to a minimum exercise price of \$0.10. The options can be granted for a maximum term of 5 years and vesting periods are determined by the Board of Directors. Pursuant to the regulations of the CSE, stock options may be granted outside of the stock option plan.

The continuity of options for the period ended June 30, 2016 is summarized below:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding and exercisable, March 31, 2015 & June 30, 2015	720,000	\$0.40
Granted	3,270,000	\$0.25
Forfeited/Cancelled	<u>(1,460,000)</u>	\$0.45
Outstanding and exercisable, March 31, 2016	2,530,000	\$0.18
Exercised	(200,000)	\$0.16
Expired	(250,000)	\$0.23
Granted	<u>100,000</u>	\$0.10
Outstanding and exercisable, June 30, 2016	<u><u>2,180,000</u></u>	\$0.17

At June 30, 2016, 2,430,000 share purchase options were outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

	<u>Exercise</u>	
<u>Number</u>	<u>Price</u>	<u>Expiry Date</u>
1,300,000	\$0.16	March 2, 2017
40,000	\$0.28	March 2, 2017
40,000	\$0.70	September 29, 2017
700,000	\$0.16	March 2, 2019
<u>100,000</u>	\$0.10	June 13, 2017
<u><u>2,180,000</u></u>		

The weighted average remaining life for the options outstanding and exercisable at June 30, 2016 is 1.71 years.

During the period ended June 30, 2016, stock based compensation in the amount of \$5,659 (2015 - \$Nil) was recognized on the issuance of stock options to directors, officers and consultants.

The following weighted average assumptions were used for the valuation of stock options:



	June 30, 2016	June 30, 2015
Risk-free interest rate	0.69%	0.55%
Expected life of options	1.30 years	3 years
Annualized volatility	100%	100%
Forfeiture rate	0.00%	0.00%

## 9. RELATED PARTY TRANSACTIONS

Key management of the Company are the directors and officers of the Company. Management compensation transactions for the periods ended June 30, 2016 and 2015 are summarized as follows:

	Management fees (paid/accrued)	Share-based payments	Total
Period ended June 30, 2016			
Directors and officers	\$ 61,853	\$ 57,286	\$ 119,139
Period ended June 30, 2015			
Directors and officers	\$ 20,200	\$ nil	\$ 20,200

As of June 30, 2016, \$3,403 (June 30, 2015 - \$nil) is owed to directors and officers of the Company and a company owned by a director of the Company for unpaid fees and expenses, and \$830,000 is owed in loans payable to the spouse of the Chief Executive Officer ("CEO") of the Company.

During the period ended June 30, 2016, the Company paid and accrued interest expense of \$19,725 (2015: \$0), in connection with loans payable to the CEO and the spouse of the CEO of the Company. Included in accounts payable and accrued liabilities is \$6,575 (2015: \$0) in accrued interest owing to the spouse of the CEO.

During the year ended March 31, 2015, the Company paid and accrued interest expense of \$31,950 (2015: \$0) and lending fees of \$22,500 (2015: \$0), which included in interest expense, in connection with loans payable to the CEO and the spouse of the CEO of the Company. Included in accounts payable and accrued liabilities is \$24,884 (2015: \$0) in accrued interest owing to the spouse of the CEO.

On July 9, 2015, the Company and its CEO entered into a return to treasury agreement whereby 40 common shares of the Company issued to the CEO on June 14, 2014 as founder's shares were returned to the treasury of the Company for the sole purpose of the Company retiring the surrendered shares without any consideration.

On July 28, 2015, the Company and its CEO entered into a debt settlement and subscription agreement whereby \$65,000 previously loaned by the CEO to the Company under two promissory notes and the interest thereon were settled by the issuance of 560,000 common shares of the Company to the CEO. Also on this date, the CEO returned 560,000 common shares of the Company which were issued to the CEO pursuant to his consulting agreement with the Company to treasury for cancellation.

During the period ended March 31, 2015, the Company issued 415,700 common shares at a deemed price of \$0.05 per share to settle a convertible debt in the amount of \$20,785 with a former officer of the Company.

During the period ended March 31, 2015, the Company issued 640,000 common shares at a deemed price of \$0.05 per share to settle a convertible debt in the amount of \$32,000 with an individual related to an officer and director of the Company.

During the period ended March 31, 2015, the Company paid \$150,500 for consulting fees to the Chief Executive Officer and Director. Of this amount, \$108,000 represented the issuance of 2,160,000 common shares at a deemed price of \$0.05 per share and issuance of 1,600,000 warrants to purchase common shares at a fair value of \$10,000. In addition, the Company paid \$797 in benefits on behalf of the CEO and Director.

During the period ended March 31, 2015, the Company paid \$39,715 for consulting fees to the former Corporate Secretary. Of this amount \$19,215 represented the issuance of 384,300 common shares at a deemed price of \$0.05 per share. In addition, the Company paid \$797 in benefits on behalf of the Corporate Secretary.

During the period ended March 31, 2015, the Company paid \$35,247 for consulting fees to a director of the Company. Of this amount \$10,500 represented the issuance of 200,000 common shares at a deemed price of \$0.05 per share.



During the year ended March 31, 2016, the CEO assigned \$120,500 in accrued and unpaid management fees receivable from the Company to his spouse. On March 1, 2016, the Company issued 602,500 common shares at a deemed price of \$0.20 per common share to the spouse of the CEO to settle the outstanding management fees owing of \$120,500.

## 10. LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following data:

	2016	2015
Net loss available to common shareholders (numerator)	\$ (359,871)	\$ (924,934)
Weighted average number of common shares outstanding (denominator)	21,360,514	28,099,221

The basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, only if dilutive.

As of June 30, 2016, loss per share excludes 7,129,361 (2015: 5,850,000) potentially dilutive common shares related to outstanding share purchase options and warrants, as the effect was anti-dilutive.

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial Instruments

The classification of the financial instruments as well as their carrying values is shown in the table below:

		2016	2015
<b>Financial Assets</b>			
Cash	Fair Value through Profit and Loss	\$ 74,702	\$ 928
Receivables	Loans and receivables	54,889	17,980
<b>Total Financial Assets</b>		<b>\$ 129,591</b>	<b>\$ 18,908</b>
<b>Financial Liabilities</b>			
Accounts payable and accrued liabilities	Loans and receivables	\$ 256,720	\$ 125,520
Due to related parties	Loans and receivables	8,784	-
Loans payable	Financial liabilities at amortized cost	890,000	535,000
<b>Total Financial Liabilities</b>		<b>\$ 1,155,504</b>	<b>\$ 660,520</b>

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

At June 30, 2016, cash is measured using Level 1 inputs. During the year ended June 30, 2016, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers in and out of Level 3 fair value measurements.

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT– (Continued)

The fair values of the Company's financial assets and liabilities approximate their carrying amounts. The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The carrying value of loans payable approximate their carrying value based on currently available borrowing rates for debt on similar terms, credit risk and maturities.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

### Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2016, the Company had a cash balance of \$74,702 to settle current liabilities of \$1,155,504. The Company is currently investigating financing opportunities so that it has sufficient liquidity to meet liabilities when due.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to finance on-going exploration of its properties, such capital to be derived from the completion of other equity financings. The Company has limited financial resources, is currently generating net losses from operations, and has no assurance that additional funding will be available to it for future development of its business. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash.

The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist mainly of GST receivable from the Government of Canada and receivables due from merchant accounts. The Company believes credit risk with respect to receivables to be insignificant.

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices. The Company does not have a practice of trading derivatives.

##### a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash. The Company's policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company is satisfied with the credit ratings of its banks. As at June 30, 2016, the Company did not have any investments in investment-grade short-term deposit certificates.

##### b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies.

## 12. CAPITAL MANAGEMENT

The Company considers capital to be the elements of shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance its business development and meet its obligations as they come due. The Company is in the early stages of operations and is currently developing a capital structure which will support expanded activity. The Company monitors economic conditions and the risks related to the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

## 13. SEGMENTED REPORTING

The Company operates in one business segment, the sale of nutritional health products derived from hemp. Revenues from external customers are derived from customers located within North America as follows:

	2016	2015
Canada	\$ 21,597	\$ -
United States	25,588	-
	<u>\$ 47,185</u>	<u>\$ -</u>

## 14. EVENTS AFTER THE REPORTING PERIOD

Subsequent to June 30, 2016:

- i) The Company completed a private placement by issuing 2,712,882 common shares at a price of \$0.11 per common share for total proceeds of \$298,417. Each unit consisted of one common share and one warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.15 per share until July 15, 2017.
- ii) The Company completed a private placement by issuing 1,627,200 common shares at a price of \$0.25 per common share for total proceeds of \$406,800. Each unit consisted of one common share and one warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.40 per share until August 25, 2017.

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows.

During the period ended June 30 2016:

The Company issued 547,402 common shares valued at \$59,786 as payment for consulting fees.

There were no non-cash transactions during the period ended June 30, 2015.

Schedule "B"

**Supplementary Information**

*[included in Schedule "A" except for information related to Pooling Agreement as set out below]*

On September 18, 2015, certain securityholders, Clark Wilson LLP as escrow agent and the Company entered into a Voluntary Pooling Agreement, whereby such securityholders agreed to deposit a total of 19,800,000 common shares of the Company (7,920,000 on a post 1 for 2.5 consolidated basis) and released as follows:

- 9,350,000 shares (3,740,000 shares on a post-consolidation basis) on closing of the reverse take-over transaction (the "Closing Date");
- 2,612,500 shares (1,045,000 shares on a post-consolidation basis) on the date that is 18 months from the Closing Date;
- 2,612,500 shares (1,045,000 shares on a post-consolidation basis) on the date that is 24 months from the Closing Date;
- 2,612,500 shares (1,045,000 shares on a post-consolidation basis) on the date that is 30 months from the Closing Date; and
- 2,612,500 shares (1,045,000 shares on a post-consolidation basis) on the date that is 36 months from the Closing Date.

## Schedule "C"

### **Management's Discussion & Analysis**

**Laguna Blends Inc.**  
**(the "Company")**  
**Management Discussion and Analysis**  
**For the three month period ended June 30, 2016**

**Date of Report:** August 29, 2016

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 August 29, 2016 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the three month period ended June 30, 2016, 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**

The Company was incorporated under the Business Corporations Act (British Columbia) in June 2014 as Grenadier Resource Corp. The Company 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. Pursuant to the transaction, the Company acquired all of the securities of Laguna Blends (USA) Inc., a private Nevada company, in consideration for shares of the Company. The acquisition of Laguna Blends (USA) Inc. was accounted for as reverse takeover transaction of the Company. Consequently, Laguna Blends (USA) Inc. is deemed the accounting parent and the Company is deemed the accounting subsidiary. As Laguna Blends (USA) Inc. was deemed to be the acquirer for accounting purposes.

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.

The Company's common shares are listed on the Canadian Securities exchange under the symbol "LAG".

The Company is a network marketing Company focused on the nutritional health benefits that are derived from hemp and CBD (Cannabidiol). To date, the Company has developed several products (as discussed below) and launched its functional beverage category with the following products in both the USA and Canada: "Pro369" hemp protein and

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“caffe” hemp and whey protein coffee. In addition, the Company is preparing for the launch of a CBD based Skin Care line of products called Cannaceuticals “Canna”. The Company has an exclusive North American license of the products and intends on launching sales in Sept of 2016 in the USA with Canada to follow.

The Company is a network marketing company and has a network of independent affiliates that generate retail sales of its products. The Company has largely financed the development of its products and business plan through the issuance of equity securities and intends to continue to rely on such financing until such time that its business generates profitable sales. The Company has also recently raised capital through secured debt financing and may continue to raise such funds until it is able to commercialize operations.

Due to the reverse take-over transaction, Laguna Blends (USA) Inc. is deemed to be the accounting acquirer of the Company and the discussion contained herein is based upon the financial statements of Laguna Blends (USA) Inc. Laguna Blends (USA) Inc. was incorporated on June 24, 2014. As at June 30, 2016, the Company had \$74,702 in cash and a working capital deficit of \$693,497. For the period ended June 30, 2016, the Company had \$371,648 in expenses and a net loss of \$359,871. The majority of expenses consisted of consulting fees of \$82,300, management fees of \$69,993, stock-based compensation of \$65,445, professional fees of \$48,046, investor relations of \$41,597 and research and development expenses of \$6,292 as it advanced its product development towards commercialization and established its network of affiliates to later drive sales. The Company had cash of \$105,814 and a working capital deficit of \$742,746 as at March 31, 2016. The Company has generated minimal sales to date since it commenced commercial operations through the sale of its products in the fourth quarter of 2016. However, until the Company is able to generate profitable operations through the sale of its products, the Company anticipates it will 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

The Company is a network marketing company which utilizes a network of independent affiliates to generate retail sales of its products. The initial product line being sold by the Company is comprised of a proprietary line of high-protein-content functional beverages with hemp protein as their base. Their current product line of nutritional beverages includes hemp protein coffee and single serving hemp protein pouches. The Company plans to develop and launch other product offerings from time to time in the future.

The Company’s products are made from high quality hemp protein. The Company’s initial product offerings include: “Caffe”, an instant-coffee beverage that is infused with whey and hemp protein; and (ii) “Pro369”, a unique single serving “on the go” hemp protein with a variety of flavours. The hemp proteins are water soluble and can be directly mixed in water, milk, almond milk or coconut milk. Pro369 can also be blended in a shake with fruit.

The Company’s second product category are Swiss made CBD Skin Care products, “CannaCeuticals.”

Laguna has signed a distribution agreement with ISO International, LLC, a transaction under which Laguna has acquired the exclusive right to market, promote and distribute seven CBD skin care products of CannaCeuticals of California, USA (“Canna”)

The Company’s focus at the present time are the functional beverage category and the skin care category.

The Company continues to focus on research and development in connection with its functional beverage products and on structuring and developing the manufacturing, distribution and sales process and framework through which the Company intends to deliver its products to retail customers.

The Company markets its products under the name Laguna Blends or under other brand names owned by the Company, and sells its products through its independent affiliates in the U.S. and Canada. The Company conducted a soft launch of its business in March 2016, and commenced commercial production, sales and distribution of Pro369 and caffe accordingly. The Company intends to commence commercial production, sales and distribution of the. Cannaceuticals

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(Canna) skin care line in September of 2016.

The Company has independent affiliates that generate retail sales of the Company's products and who have the ability to recruit other affiliates. The Company's affiliates utilize tools and technology through network marketing that enable them to build an international business from their own home or while traveling on the road. The Company will continue to drive sales and distribution through the power of network marketing.

## DISCUSSION OF OPERATIONS

The Company is a network marketing company which utilizes a network of independent affiliates to generate retail sales of its products. Sales commenced in March 2016, as such, there was \$47,185 in net revenues for the period ended June 30, 2016 (2015 - \$nil) and \$16,785 in net revenues for the year ended March 31, 2016. Management expects revenues to increase from retail sales, however it is expected expenses will also increase.

The company had working capital deficit of \$693,497 as at June 30, 2016 (June 30, 2015 – working capital deficit of \$641,612).

The Company incurred a net comprehensive loss of \$329,871 and \$924,934 for the three month periods ended June 30, 2016 and June 30, 2015, respectively. The decrease in net comprehensive loss from the period ended June 30, 2016 from the prior period was mainly the result of the Company generating some revenues of \$47,185 (2015 - \$nil), the significant decrease of research and development costs, which were \$737,741 for the period ended June 30, 2015 compared to \$6,292 for the period ended June 30, 2016, consulting fees decreased to \$82,300 for the period ended June 30, 2016 (2015 - \$120,375). Some expense increased from the prior period as the company has become a listed issuer and is in a rapid growth period. For the period ended June 30, 2016, filing and transfer agent fees were \$4,059, investor relations fees were \$41,597, management fees of \$69,996, rent costs of \$9,044, share-based compensation was \$65,445, travel and promotion of \$5,640, warehouse supplies were \$8,379, and website expense were \$4,953, compared to all of these costs being \$nil during the period ended June 30, 2015. Professional fees were slightly higher for the period ended June 30, 2016 \$48,046 compared to \$36,131 for the period ended June 30, 2015. Office and administration fees remained similar at \$25,090 for the period ended June 30, 2016 (2015 - \$30,687). Total expenses for the period ended June 30, 2016 were \$371,648 (2015 - \$924,934) and net loss for the period was \$359,871 (2015 - \$924,934). The company had cash of \$74,702 and a working capital deficiency of \$693,497 as at June 30, 2016, as a result, management believes available funds will not be sufficient to meet working capital requirements for the next twelve month period. Management anticipates that additional funds will need to be raised, through equity financings, shareholder loans, or otherwise, to fund the Company's ongoing operations. Although the Company has secured financings in the past, there is no assurance that we will be able to do so in the future on terms that are favourable to the Company or at all. The Company may have difficulty raising additional funds as necessary due to a number of uncertainties and risk factors, including uncertainty in credit markets, fluctuation in commodity prices and general economic downturns. See "Liquidity and Capital Resources" and "Risk Factors" for a discussion of risk factors that may impact our 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 financial data of Laguna Blends (USA) Inc. or Consolidated Laguna Blends entities, for the eight most recently completed interim quarters:

	<b>Quarter Ended June 30, 2016</b>	<b>Quarter Ended Mar. 31, 2016</b>	<b>Quarter Ended Dec. 31, 2015</b>	<b>Quarter Ended Sept. 30, 2015</b>
Revenue	\$47,185	\$nil	\$nil	\$nil
Net Loss	\$(359,871)	\$(669,138)	\$(560,090)	\$(6,494,670)
Basic and diluted net loss per share	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.22)

	<b>Quarter Ended</b>	<b>Quarter Ended</b>	<b>Quarter Ended</b>	<b>Quarter Ended</b>
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### FORM 5 – QUARTERLY LISTING STATEMENT

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	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014
Revenue	\$nil	\$nil	\$nil	\$nil
Net Loss	\$(952,934)	\$(268,875)	\$(300,497)	\$(343,606)
Basic and diluted net loss per share	\$(0.03)	\$(0.20)	\$(0.05)	\$(0.15)

Laguna Blends (USA) Inc., the accounting acquirer of the Company, was incorporated on June 24, 2014. As discussed above under the heading “Description of Business”, the Company has had minimal revenues to date as commercial sales commence in quarter four of 2016 and has incurred significant amounts developing its products and building its network of associates who the Company hopes will distribute products. Management anticipates that it will continue to incur a net loss until it is able to increase sales through its network marketing channels in order to obtain profitable operations. Until such time, management anticipates that it will continue to rely on a mixture of equity and debt securities to advance its operations.

#### SELECTED ANNUAL INFORMATION

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

Periods ended June 30,	2016	2015
Revenues	47,185	-
Net earnings (loss)	(359,871)	(924,934)
Total assets	462,007	18,908
Shareholder's equity (deficit)	(693,497)	(641,612)
Loss per share	(0.02)	(0.03)

#### *Period ended June 30, 2016 compared to the period ended June 30, 2015*

The Company incurred a net comprehensive loss of \$924,934 for the period ended June 30, 2015, as compared to a net comprehensive loss of \$359,871 for the period ended June 30, 2016 (“fiscal 2016”). The decrease of \$565,063 in net comprehensive loss from the period ended June 30, 2016 from 2015 was mainly the result of revenues generated in 2016 of \$47,185 (2015 - \$nil), the significant decrease of research and development costs from \$737,741 in 2015 to \$6,292 for the period ended June 30, 2016, consulting fees decreased to \$82,300 for the period ended June 30, 2016 (2015 - \$120,375). An increase in expenses for the period ended June 30, 2016 were filing and transfer agent fees were \$4,059, investor relations fees were \$41,597, management fees of \$69,996, rent costs of \$9,044, share-based compensation was \$65,445, travel and promotion of \$5,640, warehouse supplies were \$8,379, and website expense were \$4,953, compared to all of these costs being \$nil during 2015. Professional fees were \$48,046 for period ended June 30, 2016 compared to \$36,131 for the period ended June 30, 2015. Office and administration fees were \$25,090 for the period ended June 30, 2016 (2015 - \$30,687).

#### LIQUIDITY AND CAPITAL RESOURCES

The Company had cash of \$74,702 as at June 30, 2016 and a working capital deficiency of \$693,497. The Company owed related parties a total of \$8,784 and had various loans outstanding totaling \$890,000 as at June 30, 2016. These loans are secured by a charge against all present and future inventory of Laguna Blends (USA) and bear interest at the rate of 10% per annum.



On May 17, 2016, completed a non-brokered private placement by issuing 1,763,409 common shares at a price of \$0.11 per common share for total proceeds of \$193,975.

On June 30, 2016, the Company received subscriptions for a non-brokered private placement and is obligated to issue 1,070,000 common shares at a price of \$0.11 per common share for total proceeds of \$117,700.

On January 7, 2016, the Company issued 28,571 common shares at a deemed price of \$0.70 per share to settle debt totaling \$20,000.

As the Company has not generated significant revenues from operations to date, the Company relies on the issuance of equity and debt securities to raise capital required for its operations. Although the Company believes revenues will increase, management believes that it will require significant additional capital in order to grow its business to profitability. As a result, management primarily intends to rely on additional equity and debt financing to execute on its business plan. There are no guarantees that additional sources of funding will be available to our company. Due to the uncertainty of our ability to meet our current operating and capital expenses, in their notes to our audited financial statements for the year ended March 31, 2015, our independent auditors included an explanatory paragraph regarding their substantial doubt about our ability to continue as a going concern.

See the discuss under the heading “Risk Factors” for risks associated with the Company and its business.

The company has no commitments for capital expenditures at this time.

#### *Operating Activities*

During the quarters ended June 30, 2016 and June 30, 2015, operating activities used cash of \$329,787 and \$228,632, respectively. The use of cash for the quarter ended June 30, 2016 was attributable to our loss for the period of \$359,871, offset mainly by non-cash items of shares for services of \$65,445. The use of cash for the quarter ended June 30, 2015 was attributable to our loss for the period of \$924,934, offset partly by share-based payments of \$621,000.

#### *Investing Activities*

During the quarters ended June 30, 2016 and 2015, the Company did not use or earn any funds from investing activities.

#### *Financing Activities*

During the quarter ended June 30, 2016, the Company raised \$343,675 (2015 - \$nil) through financing activities. During the quarter ended June 30, 2016, the Company had a \$45,000 decrease in loans payable and during the quarter ended June 30, 2015, the Company was provided with \$215,000 from promissory notes.

### **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.

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Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization: The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the consolidated financial statements given that the Company has not used a revenue-based method to depreciate its non-current assets

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company did not have any off balance sheet arrangements during the periods ended June 30, 2016 or June 30, 2015.

## **RELATED PARTY TRANSACTIONS**

During the quarter ended June 30, 2016, the Company entered into the following related party transactions:

- During the period ended June 30, 2016, the Company paid and accrued interest expense of \$19,725 (2015: \$0), in connection with loans payable to the CEO and the spouse of the CEO of the Company. Included in accounts payable and accrued liabilities is \$6,575 (2015: \$0) in accrued interest owing to the spouse of the CEO.
- As of June 30, 2016, \$3,403 (June 30, 2015 - \$nil) is owed to directors and officers of the Company and a company owned by a director of the Company for unpaid fees and expenses, and \$830,000 is owed in loans payable to the spouse of the Chief Executive Officer ("CEO") of the Company.

During the year ended March 31, 2016, the Company entered into the following related party transactions:

- Management fees of \$142,550 were paid to key management of Laguna Blends Inc. during the year ended March 31, 2016 (\$60,000 for the period from incorporation on June 24, 2014 to December 31, 2014);
- As of December 31, 2015, \$110,500 (March 31, 2015 - \$45,000) was owed to Stuart Gray, the President and CEO of the Company, and \$3,731 (March 31, 2015 - \$nil) was owed to Negar Adam, the Corporate Secretary of the Company.
- On July 9, 2015, the Company and Stuart Gray, the CEO, President and a director of the Company, entered into a return to treasury agreement whereby 40 common shares of Laguna Blends (USA) Inc. previously issued to Mr. Gray on June 14, 2014 as founder's shares were returned to the treasury of Laguna Blends (USA) Inc. without consideration.
- On July 28, 2015, Laguna Blends (USA) Inc. and Stuart Gray, the President and CEO of Laguna Blends (USA) entered into a debt settlement and subscription agreement, whereby \$65,000 previously loaned by the CEO to Laguna Blends (USA) Inc. under two promissory notes and the interest thereon were settled by the issuance of 560,000 common shares of Laguna Blends (USA) Inc. to the President and CEO. Also on this date, Stuart Gray, the President and CEO of Laguna Blends (USA) Inc. returned 560,000 common shares of Laguna Blends (USA) Inc. which were issued to the CEO pursuant to his consulting agreement with Laguna Blends (USA) Inc. to treasury for cancellation.

- On July 16, 2015, Laguna Blends (USA) Inc. entered into a loan agreement with Stuart Gray, President and CEO for a principal amount of \$250,000. The loan is secured by a charge against all present and future inventory of Laguna Blends (USA) Inc. and bears interest at the rate of 10% per annum. The loan is due and payable in full on July 16, 2016. Laguna Blends (USA) Inc. may at any time during the term of the loan prepay any sum up to the full amount of the loan and accrued interest then outstanding at any time for an additional 10% of such amount. Subsequent to December 31, 2015, the loan was transferred to Mr. Gray's spouse.
- On November 12, 2015, Laguna Blends (USA) Inc., entered into a loan agreement with the spouse of Stuart Gray, the President and CEO of the Company for a principal amount of \$150,000. The loan is secured by a charge against all present and future inventory of Laguna Blends (USA) Inc. and bears interest at the rate of 10% per annum. The loan is due and payable in full on November 12, 2016. Laguna Blends (USA) Inc. may at any time during the term of the loan prepay any sum up to the full amount of the loan and accrued interest then outstanding at any time for an additional 10% of such amount.
- On December 11, 2015, Laguna Blends (USA) entered into a loan agreement with the spouse of Stuart Gray, the President and CEO and a director of the Company for a principal amount of \$100,000. The loan is secured by a charge against all present and future inventory of Laguna Blends (USA) Inc. and bears interest at the rate of 10% per annum. The loan is due and payable in full on December 11, 2016. Laguna Blends (USA) Inc. may at any time during the term of the loan prepay any sum up to the full amount of the loan and accrued interest then outstanding at any time for an additional 10% of such amount.
- On January 20, 2016, Laguna Blends (USA) Inc. entered into a loan agreement with the spouse of Stuart Gray, the President, CEO and a director of the Company, for a principal amount of \$200,000. The loan is secured by a charge against all present and future inventory of Laguna Blends (USA) Inc. and bears interest at the rate of 10% per annum. The loan is due and payable in full on January 20, 2016. Laguna Blends (USA) Inc. may at any time during the term of the loan prepay any sum up to the full amount of the loan and accrued interest then outstanding at any time for an additional 10% of such amount.

#### **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.

#### **Proposed**

#### **Transactions**

The Company did not have any propose

#### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

During the quarters ended June 30, 2016 and June 30, 2015, the Company incurred expenses including the following operating expenses:

	<u><b>2016</b></u>	<u><b>2015</b></u>
Consulting fees	82,300	120,375
Management fees	69,993	-
Business development costs	6,292	737,741
Filing and transfer agent fees	4,059	-

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Investor relations	41,597	-
Professional fees	48,046	36,131
Office and administration	25,900	30,687
Rent	9,044	-
Share based compensation	65,445	-
Travel and promotion	5,640	-
Warehouse supplies	8,379	-
Website expenses	4,953	-

## DISCLOSURE OF OUTSTANDING SHARE DATA

### *Common Shares*

Taking into account the 1 for 2.5 share consolidation that was effective January 6, 2016, 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, and as at June 30, 2016, the Company had 23,940,037 common shares issued and outstanding. As of August 29, 2016, the Company had 28,039,525 shares issued and outstanding.

As at June 30, 2016 and August 29, 2016, the Company had 3,000,000 common shares held in escrow. These shares will be released from escrow over a period of 48 months from September 21, 2015.

### *Share Purchase Warrants*

As of June 30 2016, the Company had 4,949,361 share purchase warrants outstanding.

The continuity of warrants for the period ended June 30, 2016 is summarized below:

<u>Number</u>	<u>Weighted average Exercise Price</u>	<u>Expiry Date</u>
223,040	\$1.25	October 1, 2017 <sup>(1)</sup>
173,628	\$1.25	October 30, 2017 <sup>(1)</sup>
14,286	\$1.25	November 9, 2017 <sup>(1)</sup>
1,175,000	\$0.25	March 10, 2018
1,600,000	\$0.68	December 31, 2019
<u>1,763,407</u>	<u>\$0.15</u>	<u>May 17, 2017</u>
<u>4,949,361</u>	<u>\$0.59</u>	

(1) On July 31, 2015, expiration dates of these warrants were extended to one year. The new dates are reflected in the table above.

\*\*If the volume weighted average closing price of the common shares is CDN \$1.50 or more for 20 consecutive trading days, the Expiry Date of the Warrants may be accelerated to that date which is 10 business days from the date of the notice to the Warrant holders.

On May 26, 2016, 2689,408 warrants with an exercise price of \$1.25 expired unexercised. On May 31, 2016, 20,000 warrants with an exercise price of \$0.68 expired unexercised. As of August 29, 2016, the Company had 9,289,443 share purchase warrants outstanding.

#### *Stock Options*

As of June 30, 2015, the Company had 2,180,000 share purchase options outstanding, which had the following characteristics:

Number of Options	Exercise Price	Expiry Date
1,300,000	\$0.16	March 2, 2017
40,000	\$0.28	March 2, 2017
40,000	\$0.70	September 29, 2017
700,000	\$0.16	March 2, 2019
100,000	\$0.10	June 13, 2017
2,180,000		

On August 3, 2016, the Company cancelled 400,000 stock options with an exercise price of \$0.30 that were due to expire on January 15, 2017. As of August 29, 2016, the Company had 1,780,000 share purchase options outstanding.

#### **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 of June 30, 2015, the Company had cash in the approximate amount of \$74,702 and a net loss of \$359,871 for the quarter ended June 30, 2016. As such, the Company will require additional financing in the very near future to sustain its business operations. The Company currently does not have any arrangements for such financing and may not be able to obtain financing when required. The fluctuation in the price of our company's common shares has and will impact our company's ability to obtain future financing. Obtaining additional financing would be subject to a number of factors, including our company's ability to initially attract investments prior to substantial revenue generation, and thereafter our company's ability to grow its brand. The Company can provide investors with no assurance that it will ever achieve profitable operations, and thus our company faces a high risk of business failure. The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon our company's ability to:

- market and sell its products to the levels anticipated;
- generate profits from the sale of those products; and
- create a successful brand.

The Company has a history of operating losses and negative cash flow that will continue into the foreseeable future. If our company fails to execute its strategy to achieve and maintain profitability in the future, investors could lose confidence in the value of our company's common shares, which could cause our company's share price to further decline and adversely affect its ability to raise additional capital.

These circumstances raise substantial doubt about our ability to continue as a going concern, which was also described in an explanatory paragraph to our independent auditors' report on the audited financial statements March 31, 2015. If The Company are unable to continue as a going concern, investors will likely lose all of their investments in our company.

#### *Key Personnel*

The future success of our company will depend, in large part, upon its ability to retain its key management personnel and to attract and retain additional qualified marketing, sales and operational personnel, as well as independent affiliates to

form part of its network marketing system. The Company may not be able to enlist, train, retain, motivate and manage the required personnel. Competition for these types of personnel is intense. Failure to attract and retain personnel, particularly marketing, sales and operational personnel as well as independent affiliates, could make it difficult for our company to manage its business and meet its objectives.

#### *Legal Challenges to Network Marketing*

The Company anticipates there will be risks associated with its network marketing program. Network marketing programs, also known as direct selling programs, are subject to a number of regulations administered in Canada and in other foreign markets, including the United States. The business of our company is subject to the risk that, in one or more markets, its network marketing program could be found not to be in compliance with applicable laws or regulations. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as “pyramid” or “chain sales” schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization’s products rather than investments in the organization or other non-retail sales-related criteria. The ambiguity surrounding these laws can also affect the public perception of companies with network marketing businesses. The failure of our company’s network marketing program to comply with current or newly adopted regulations could negatively impact our company’s business in a particular market or in general and could adversely affect the share price of our company’s common shares.

Additionally, the failure of other network marketing companies and any associated negative publicity could adversely impact the perception of our company’s business or the network marketing industry in general, and could also adversely impact our company’s share price.

#### *Product Liability*

The Company, as a manufacturer of nutritional beverages designed to be ingested by humans, faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of our company’s products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of its products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. There can be no assurances that our company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our company’s potential products.

#### *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 may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although our company intends to implement detailed procedures for quality-testing finished products, there can be no assurance that any quality or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of our company’s significant brands or products were subject to recall, the image of that brand and our company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for our company’s products and could have a material adverse effect on the results of operations and financial condition of our company. Additionally, product recalls may lead to increased scrutiny of our company’s operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

#### *Limited Operating History*

The Company has a limited operating history from which investors can evaluate its business. The Company’s ability to successfully develop its products and to realize consistent, meaningful revenues and profit has not been established and cannot be assured. The Company has not generated any revenues and does not expect to do so in the near future. For our



company to achieve success, our company's products must receive broad market acceptance by consumers. Without this market acceptance, our company will not be able to generate sufficient revenue to continue its business operations. If our company's products are not widely accepted by the market, our company's business may fail.

The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon its ability to generate revenues, manage development costs and expenses, and compete successfully with its direct and indirect competitors. The Company anticipates operating losses in upcoming future periods. This will occur because there are expenses associated with the development, production, marketing, and sales of our company's products. As a result, our company may not generate significant revenues in the future. Failure to generate significant revenues in the near future may cause our company to suspend or cease activities.

#### *Adverse Publicity and Product Liability Insurance*

The size of our company's distribution force and the results of its operations may be significantly affected by the public's perception of our company and similar companies. This perception is dependent upon opinions concerning:  
the safety and quality of its products and ingredients;  
its independent affiliates;  
its network marketing program; and  
the network marketing business generally.

Adverse publicity concerning any actual or purported failure of our company or of its independent affiliates to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of its network marketing program, the licensing of its products for sale in its target markets or other aspects of its business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on the goodwill of our company and could negatively affect its ability to attract, motivate and retain affiliates, which would negatively impact its ability to generate revenue. The Company cannot ensure that all of its independent affiliates will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of its products.

Adverse publicity relating to our company, its products or its operations, including its network marketing program or the attractiveness or viability of the financial opportunities provided thereby could have a negative effect on its ability to attract, motivate and retain independent affiliates, and its financial condition and operating results could be materially affected.

The Company is in the process of obtaining general liability insurance, including product liability insurance. There is no guarantee that this insurance will be obtained, and if it is obtained, that it will cover all potential claims or be of a sufficient amount of coverage to protect against losses due to liability. Moreover, liability claims arising from a serious adverse event could increase its costs through higher insurance premiums and deductibles, and could make it more difficult to secure adequate insurance coverage in the future. A product liability claim or product recall could have a material adverse effect on our company's business and financial condition.

#### *Relationship with and Ability to Influence Affiliates*

The Company expects to depend upon independent affiliates for a significant portion of its sales. To increase its revenue, our company must increase the number of, or the productivity of, its independent affiliates. Therefore, its success depends in significant part upon its ability to attract, retain and motivate a large base of independent affiliates. The loss of a significant number of affiliates for any reason could negatively impact sales of our company's products and could impair its ability to attract new ones. In its efforts to attract and retain independent affiliates, our company competes with other network marketing organizations. The Company's operating results could be harmed if its business opportunities and products do not generate sufficient interest to retain existing and attract new independent affiliates.

The turnover rate of our company's independent affiliates, and its operating results, can be adversely impacted if our company, and its senior leadership, do not provide the necessary mentoring, training and business support tools to its affiliates for them to become successful.

The Company's independent affiliates may voluntarily terminate their business relationship with our company at any time. The loss of a significant number of independent affiliates for any reason, could negatively impact sales of our company's products, impair its ability to attract new affiliates and harm its financial condition and operating results.

Since our company expects that its product sales will be made through a network marketing system comprised of independent affiliates, our company does not have control over the business practices of such affiliates. Accordingly, our company is not in a position to directly provide the same direction, motivation and oversight as our company would if the independent affiliates were its own employees. As a result, there can be no assurance that its independent affiliates will participate in its marketing strategies or plans, accept its introduction of new products, or comply with its distributor policies and procedures.

While our company expects to prepare and provide information and guidelines designed to govern the conduct of its independent affiliates and to protect the goodwill associated with its business, it can be difficult to enforce these policies and procedures because of the large number of affiliates and their independent status. Violations by our company's independent affiliates of applicable law or of its policies and procedures in dealing with customers could reflect negatively on our company's products and operations and harm its business reputation.

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

The Company expects to derive a 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. From time to time, management may engage in transactions to protect a portion of its liquidities against risks associated with foreign currency fluctuations. The Company cannot be certain that any hedging activity which may be undertaken or any expected natural hedges will effectively reduce its exchange rate exposure. Additionally, our company may be negatively impacted by conflicts with or disruptions caused or faced by its third party importers, as well as conflicts between such importers and local governments or regulating agencies. The Company's operations in some markets also may be adversely affected by political, economic and social instability in foreign countries. As our company expects to expand its international operations, these and other risks associated with international operations may increase, which could harm its financial condition and operating results.

The Company is subject to direct regulation by domestic and foreign governmental agencies in countries where our company expects to generate network sales. The Company's marketing objectives are contingent, in part, upon compliance with regulatory requirements and obtaining regulatory approvals where necessary for the sale of certain of its products.

The Company is also subject to direct regulation by domestic and foreign governmental agencies in connection with the operation of its network marketing system.

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 lesser 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.

The Company's growth will depend upon improved training and other activities that enhance the retention of independent affiliates in its markets. If our company is unable to expand into new markets or penetrate existing markets, its operating results could suffer.

#### *Competition*



The market for our company's products is intensely competitive and subject to rapid technological changes. Larger competitors with longer operating histories and greater financial, marketing and other resources could develop and market new products which could render our company's existing products less competitive.

Due to the high level of competition in our company's industry, our company might fail to retain its customers and independent affiliates, which would harm its financial condition and operating results. In addition, because the industry in which our company operates is not particularly capital intensive or otherwise subject to high barriers to entry, it is relatively easy for new competitors to emerge who could compete with our company for its independent affiliates and customers. In addition, the fact that our company's independent affiliates may easily enter and exit its network marketing program contributes to the level of competition that our company faces. The Company's ability to remain competitive therefore depends, in significant part, on its success in attracting and retaining independent affiliates through an attractive compensation plan, the maintenance of an attractive product portfolio and other incentives. The Company cannot ensure that its programs will be successful and if they are not, our company's financial condition and operating results could be materially affected.

#### *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. The Company's failure to accurately predict these trends could negatively impact consumer opinion of its products, which in turn could harm its customer and distributor relationships and cause the loss of sales. The success of our company's new product offerings and enhancements depends upon a number of factors, including its ability to:

- accurately anticipate customer needs;
- innovate and develop new products or product enhancements that meet these needs;
- successfully commercialize new products or product enhancements in a timely manner;
- price its products competitively;
- manufacture and deliver its products in sufficient volumes and in a timely manner; and
- differentiate its product offerings from those of its competitors.

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.

#### *Product Concentration*

The Company expects that its hemp and CBD based products from both the functional beverage category and skin care category will constitute a significant portion of its revenues. If consumer demand for these products does not develop as expected, or if our company ceases offering these products without a suitable replacement, then our company's financial condition and operating results would be materially affected.

#### *Reliance on Key Suppliers*

The Company's business is heavily dependent upon its key suppliers, namely for the provision of raw materials, for contract manufacturing services, as well as for other services such as information technology support. If our company is unable to maintain a business relationship with one or more of its key suppliers, its business and financial condition could be materially adversely affected. To date, our company has not experienced any difficulty in obtaining adequate supplies or services from its key suppliers; however, there can be no assurance that our company's outside contract manufacturers and suppliers will continue to reliably supply products and services to our company at the levels of quality and quantity which it requires.

#### *Information Technology Infrastructure*

The Company's ability to provide products and services to its customers and independent affiliates depends on the performance and availability of its core transactional systems. This software is provided by a third party. 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.

Anyone that is able to circumvent our company's security measures could misappropriate confidential or proprietary information, including that of third parties such as its independent affiliates, cause interruption in its operations, damage its computers or otherwise damage its reputation and business. 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 or its independent affiliates are 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.

Governmental regulations in countries where our company plans to commence or expand operations may prevent or delay entry into those markets. In addition, our company's ability to sustain satisfactory levels of sales may depend in significant part on its ability to introduce additional products into such markets. However, governmental regulations in our company's markets, both domestic and international, can delay or prevent the introduction, or require the reformulation or withdrawal, of certain of its products. Any such regulatory action, whether or not it results in a final adverse determination, could create negative publicity, with detrimental effects on sales.

#### *Intellectual Property*

The Company does not currently hold any registered trademarks, patents or pending patent applications. The Company has taken measures to ensure that its product designs remain confidential by requiring employees and consultants to enter into agreements featuring confidentiality provisions. Such agreements prohibit employees and consultants from disclosing any confidential information outside of our company or for any use or purpose other than those of our company. These agreements govern interactions with business partners and prospective business partners where disclosure of proprietary information may be necessary. There can be no assurance that these agreements will be held valid and enforceable by a court, or that our company's employees and consultants will not breach these agreements. In addition, it may be difficult and expensive for our company to take legal action to remedy any possible breaches of these agreements.

#### *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. The Company notes that economic and financial markets are fluid and it cannot ensure that there will not be a material adverse deterioration in its liquidity in the near future. If our company is forced to borrow money to support its liquidity requirements, increases in interest rates could negatively affect the cost of financing our company's operations.

#### *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. The marketability of any product which may be developed by our company could be affected by numerous factors beyond our company's control, including:

- proprietary rights of third parties or competing products or technologies may preclude commercialization;
- requisite regulatory approvals may not be obtained; and
- other factors may become apparent during the course of research, up scaling or manufacturing which may result in the discontinuation of research and other critical projects.

#### *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.

#### *Taxation Relating to Independent Affiliates*

The Company's independent affiliates are typically subject to taxation in their respective jurisdictions, and in some instances, legislation or governmental agencies could impose an obligation on our company to collect taxes and to maintain appropriate records. In addition, our company is subject to the risk in some jurisdictions of being responsible for social security, withholding or other taxes with respect to payments to its independent affiliates.

In addition, in the event that local laws and regulations or the interpretation of local laws and regulations change to require our company to treat its independent affiliates as employees, or that they are deemed by local regulatory authorities in one or more of the jurisdictions in which our company intends to operate to be its employees rather than independent affiliates under existing laws and interpretations, our company may be held responsible for social contributions, withholding and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our company's financial condition and operating results.

#### *Manufacturing Facilities*

The Company relies on its contracted manufacturers having properly validated, fully functioning manufacturing facilities of sufficient size in which to produce its products for market. Should systems fail, or a disaster strike, the ability to produce our company's products would be negatively affected which, in turn, would affect revenue generation. The Company does not currently have backup manufacturing contracts or capacity for its products. As a result, our company would be forced to find new manufacturers should an unexpected event as described above occur.

#### *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.

##### *Significant Ownership Interest of Management and Directors*

As of the date hereof, our company's officers and directors own approximately 20% of our company's common shares on a fully diluted basis. As a group, they hold a controlling interest in our company's common shares. As a result, these

individuals, jointly, could exercise substantial control over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership limits the power to exercise control by minority shareholders.

#### **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>.