



**GNOMESTAR CRAFT INC.
(FORMERLY VODIS PHARMACEUTICALS INC.)**

MANAGEMENT'S DISCUSSION

AND

ANALYSIS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2020



The following Interim Management Discussion and Analysis – Quarterly Highlights (“Quarterly Highlights”) of Gnomestar Craft Inc. (formerly Vodis Pharmaceuticals Inc.) (“Gnomestar” or “Vodis” or the “Company”) has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last management discussion & analysis, being the Management Discussion & Analysis (“Annual MD&A”) for the fiscal year ended March 31, 2020. This Quarterly Highlights does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This Quarterly Highlights has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This Quarterly Highlights should be read in conjunction with the Annual MD&A, the audited financial statements of the Company for the years ended March 31, 2020 and 2019, and the unaudited condensed consolidated interim financial statements for the nine months ended December 31, 2020, together with the notes thereto. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the nine months ended December 31, 2020, are not necessarily indicative of the results that may be expected for any future period.

The unaudited condensed consolidated interim financial statements for the nine months ended December 31, 2020, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

External auditors, appointed by the shareholders, have not audited or reviewed the condensed consolidated interim financial statements for the period ended December 31, 2020, and did not perform the tests deemed necessary to enable them to express an opinion on these condensed consolidated interim financial statements. For the purposes of preparing this Quarterly Highlights, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company’s common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Additional information relevant to the Company’s activities can be found on SEDAR at www.sedar.com, the Canadian Securities Exchange (“CSE”) web site at www.thecse.ca and the Company’s website at www.vodis.ca. All dollar amounts included therein and in the following MD&A are in Canadian dollars, the reporting and functional currency of the Company, except where noted. The MD&A contains information up to and including November 27, 2020 (the “Report Date”).

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A may constitute “forward-looking statements”. This term is defined in applicable securities laws. The forward-looking information includes, without limitation, statements concerning anticipated future events, conditions or results that are not historical facts. These statements reflect management’s current estimates, beliefs, intentions and expectations; they are not guarantees of future performance. The Company cautions that all forward-looking information is inherently uncertain, and that actual performance may be affected by a number of material factors, many of which are beyond the Company’s control. Such factors include, among others, the ability of the Company to obtain additional



financing; the Company's limited operating history; the need to comply with environmental and governmental regulations; fluctuations in currency exchange rates; operating hazards and risks; competition; and other risks and uncertainties. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Accordingly, actual future events, conditions and results may differ materially from the estimates, beliefs, intentions and expectations expressed or implied in the forward-looking information. All statements are made as of the Report Date and, except as required by law, the Company is under no obligation to update or alter any forward-looking information.

OVERVIEW

The Company was incorporated on October 31, 2011. In February 2020, the Company received a Standard Cultivation License and a Standard Processing License from Health Canada at its facility in Delta, British Columbia. The Company produces and distributes cannabis product in Canada as permitted under of the *Cannabis Act* which came into effect on October 17, 2018.

The Company is a reporting issuer in British Columbia and Ontario, and trades on the CSE under the symbol "VP" and the Frankfurt Stock Exchange under the symbol "1JV".

COMMITMENTS AND CONTINGENCIES

Company has no material or significant commitments or contingencies.

OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates transactions and, in some cases, makes proposals in these transactions. These proposals, which are usually subject to board, regulatory and sometimes shareholder approvals, may involve future payments, share issuances and commitments. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly financial information derived from the Company's unaudited condensed consolidated interim financial statements, for each of the eight recently completed quarters, which have been prepared in accordance with IFRS.

Period	Revenue	Operating Expenses	Share-based Payments	Other Items	Net Loss	Loss Per Share
	\$	\$	\$	\$	\$	\$
31-Dec-20	199,359	(255,736)	(110,358)	-	(166,735)	(0.00)
30-Sep-20	57,600	(282,917)	-	25,796	(199,521)	(0.00)
30-Jun-20	-	(287,600)	-	1,247	(286,353)	(0.00)
31-Mar-20	-	-	-	(126,019)	(126,019)	(0.00)
31-Dec-19	-	(283,766)	-	-	(283,766)	(0.00)
30-Sep-19	-	(331,700)	-	-	(331,700)	(0.01)
30-Jun-19	-	(235,601)	-	-	(235,601)	(0.00)
31-Mar-19	-	(688,473)	(33,803)	(1,470,491)	(2,192,767)	(0.02)



RESULTS OF OPERATIONS

Three Months Ended December 31, 2020 Compared to Three Months Ended December 31, 2019

The net loss for the three months ended December 31, 2020 is \$166,735 compared to \$283,766 for the three months ended December 31, 2019, representing a decrease of \$117,031. Major variances over the prior year quarter are as follows:

- An increase in revenue of \$199,359 due to commencement of production of the Delta operations in the current fiscal year.
- A decrease of \$41,196 is primarily related to the resignation of the CEO in the fourth quarter of fiscal 2019 as well as the discontinuation of operations at the Bellingham facility.
- An increase in depreciation and amortization of \$28,628. The increase is related to the charge on additions in the current quarter and the depreciation taken on the Delta facility in the current quarter due to the commencement of operations in the current year.
- An increase of \$13,119 in office and general. The increase is related to the start up and production costs of the Delta operation including supplies and seeds. All costs of production are being expensed.
- A decrease of \$30,545 in professional fees. The decrease is related to the legal fees incurred in the quarter ended December 31, 2019 on account of dispute from the Company's lockout at the Bellingham facility.
- An increase of \$3,245 in salaries, benefits and subcontract is related to the cost of staff and contractors hired for the Delta operation in the current quarter and offset by the absence in current quarter of bonuses paid in the quarter ended December 31, 2019.
- An increase of \$110,358 in share-based payments from the grant of 2,000,000 stock options in the current quarter compared to none granted in the corresponding quarter in 2019.

Nine months Ended December 31, 2020 Compared to Nine months Ended December 31, 2019

The net loss for the nine months ended December 31, 2020 is \$652,609 compared to \$851,067 for the nine months ended December 31, 2019, representing a decrease of \$198,458. Major variances over the prior year period are as follows:

- An increase in revenue of \$256,959 due to commencement of production of the Delta operations in the current period.
- A decrease of \$119,137 in consulting. The decrease is related to the resignation of the CEO in the period ended December 31, 2019 as well as the discontinuation of operations at the Bellingham facility.
- An increase in depreciation and amortization of \$80,068. The increase is related to the charge on additions in the current period as well as the depreciation taken on the Delta facility due to the commencement of operations in the current period.
- An increase of \$83,113 in office and general. The increase is related to the start up and production costs of the Delta operation including supplies and seeds. All costs of production are being expensed.
- A decrease of \$117,974 in professional fees. The decrease is due to the absence of related to the legal fees incurred in the period ended December 31, 2019 on account of dispute from the Company's lockout at the Bellingham facility.



- An increase of \$67,874 in salaries, benefits and subcontract. The increase is related to the staff and contractors hired for the Delta operation.
- An increase of \$110,358 in share-based payments from the grant of 2,000,000 stock options in the current period compared to none granted in the period ended December 31, 2019.
- A gain on lease modification of \$25,668 related to the renewal of the facility lease in the current period.

LIQUIDITY AND FINANCIAL CONDITION

The Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives, meet its ongoing obligations and recover its investments in capital assets will depend upon management's ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company and includes both executive and non-executive directors, and entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

Transactions with related parties

The following are transactions carried out with related parties:

Period ended	December 31, 2020	December 31, 2019
A law firm in which David Otto, a former director of the Company's subsidiary, is a partner, for legal expenses	\$ -	\$ 29,265
Roy Lentz, a former director of the Company's subsidiary, for accounting fees	-	6,127
	\$ -	\$ 35,392

Key management compensation

Key management includes directors (executive and non-executive) and senior officers of the Company. The compensation paid or payable to key management for employee services is shown below:

Period ended	December 31, 2020	December 31, 2019
A company controlled by the CFO of the Company, for consulting expenses (fees accrued but not yet paid)	135,000	135,000
The CEO of Vodus Innovative Pharmaceuticals Inc., for consulting expenses (fees accrued but not yet paid)	45,000	-
Plamen Ovagemov, a former director of the Company, for consulting expenses	-	45,750
	\$ 180,000	\$ 180,750

Receivable from a related party



	December 31, 2020	March 31, 2020
Due from a company controlled by the former CEO of the Company	\$ 10,000	\$ 10,000

Accounts payable to related parties

	December 31, 2020	March 31, 2020
Due to Martin Davis, LLP, a company in which David Otto, a former director of the Company's subsidiary, is a partner, for legal expenses	\$ 164,062	\$ 182,811
Due to the former CEO of the Company	137,800	137,800
Due to the CFO or companies controlled by the CFO	472,045	305,637
Due to the CEO of one of the Company's subsidiaries	432,539	364,314
Due to Plamen Ovagemov	239,382	263,595
Provision for dispute with former CEO	95,056	95,056
	\$ 1,540,884	\$ 1,349,213

Amounts due to and from related parties are unsecured, non-interest bearing and due on demand.

The former CEO does not agree with the amount recorded by the Company as owing to him and, as such, the Company has recorded a provision for contingency in the amount of \$95,056.

OUTSTANDING SHARE DATA

The authorized share capital of the Company is an unlimited number of common shares, without par value.

As at the Report Date, there were 79,239,504 common shares, 56,808,953 warrants and 4,772,500 stock options outstanding (March 31, 2020: 79,239,504 common shares, 56,996,453 warrants and 2,772,500 stock options respectively).

As at the Report Date, the following stock options were outstanding:

Exercise Price	Number of Shares Issuable on Exercise	Expiry Date
\$0.18	125,000	September 14, 2021
\$0.42	100,000	April 4, 2022
\$0.40	850,000	April 20, 2022
\$0.40	150,000	May 30, 2022
\$0.26	60,000	November 10, 2022
\$0.38	35,000	March 6, 2023
\$0.39	62,500	March 12, 2023
\$0.27	75,000	April 24, 2023
\$0.12	1,315,000	November 21, 2023
\$0.06	2,000,000	October 7, 2025
	4,772,500	

As at the Report Date, the following warrants were outstanding:



Exercise Price (\$)	Number of Shares	Expiry Date
0.32	4,577,000	November 9, 2021
0.32	3,461,500	December 7, 2021
0.05	20,710,453	December 27, 2021
0.33	8,060,000	December 12, 2022
0.15	20,000,000	October 19, 2023
56,808,953		

USE OF PROCEEDS FROM PREVIOUS FINANCINGS

Date of Private Placement	Gross Proceeds	Prior Disclosure	Actual Spent	Remaining	Variance
November 2016*	\$1,300,390	Proceeds to be used for further expansion into Washington State, USA and general working capital purposes.	\$1,300,390	\$0	\$0
October 17, 2017	\$400,000	Proceeds to be used for general working capital and corporate purposes.	\$400,000	\$0	\$0
October 27, 2017	\$95,200	Proceeds to be used for general working capital and corporate purposes.	\$95,200	\$0	\$0
December 12, 2017**	\$2,015,000	Proceeds to be used to complete the expansion of the facility in Bellingham, Washington and the process of upgrading the Delta, BC location and for general working capital and corporate purposes	\$2,015,000	\$0	\$0
October 19, 2018***	\$2,000,000	Proceeds to be used to complete the expansion of the facility in Bellingham, Washington and the process of upgrading the Delta, BC location, equipment purchases and for general working capital and corporate purposes	\$2,000,000	\$0	\$0
December 27, 2019****	\$984,023	Proceeds to be used for general working capital, capital expenditures and to carry the Company through the cultivation and processing licensing process.	\$984,023	\$0	\$0

*The Company used the net proceeds for expansion of the Bellingham facility and for working capital

**The Company used the net proceeds for completion of 80% of the Bellingham facility, required upgrades to the Delta facility and for working capital

***The Company used the net proceeds to further the expansion of the Bellingham facility and the required upgrades to the Delta facility and for working capital

****The Company used the net proceeds to upgrade the Delta facility and for working capital



MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce to the cost of capital. The Company's capital is composed of equity in the statement of financial position.

The Company is not subject to externally imposed capital requirements. The Company issues new equity financing as needed and available. Additional information relating to capital management is given in the nature and continuance of operations in Note 1 of the financial statements.

FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity, credit, currency, interest rate, and price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

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 has historically relied upon equity financings and loans from related parties to satisfy its capital requirements and will continue to depend upon equity capital and possibly loans to finance its activities. The Company manages liquidity risk through its capital management as outlined above. Management has assessed liquidity risk as high.

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument or customer contract fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

The Company reviewed its trade receivables at December 31, 2020 and determined that no impairment is required. Management has assessed credit risk as low.

Currency Risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency.

The Company and its subsidiaries did not enter into significant transactions that were not denominated in their functional currencies and are therefore not exposed to currency risks.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. Management has assessed currency risk as low.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current cash is generally not exposed to interest rate risk because of its short-term maturity. The Company has no other interest-bearing financial instruments. Management has assessed interest rate risk as low.

Price Risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices. The Company is not exposed to price risk.

Fair Value

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:



- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of cash is based on level 1 of the fair value hierarchy.

RISK AND UNCERTAINTIES

Risk is inherent in all business activities and cannot be entirely eliminated. Our goal is to enable the Company's business processes and opportunities by ensuring that the risks arising from our business activities, the markets and political environments in which we operate is mitigated. The risks and uncertainties described in this section are considered by management to be most important in the context of the Company's business. The risks and uncertainties described are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

The Company has no operating history and an evolving business model

The Company has no operating history under the new license regime and its business model is still evolving. The Company's ability to continue as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations but the Company has no proven history of performance, earnings or success. There can be no assurance that the Company will achieve profitability or obtain future financing.

Uncertain demand

Demand for the Company's medical marijuana products is dependent on a number of social, political and economic factors that are beyond its control. While the Company believes that demand for the Company's products and facilities will continue to grow, there is no assurance that such demand will exist or that the Company's products and facilities will be purchased to satisfy such demand.

Competition

The Company operates in a highly competitive marketplace with various competitors. Increased competition may result in reduced gross margins and/or loss of market share, either of which would seriously harm its business and results of operations. Management cannot be certain that the Company will be able to compete successfully against current or future competitors or that competitive pressure will not seriously harm its business. Some of the Company's competitors are much larger and have greater access to capital, sales, marketing, and other resources. These competitors may be able to respond more rapidly to new regulations or devote greater resources to the development, promotion and sale of their products than the Company can. Furthermore, some of these competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties in the industry to increase their ability to rapidly gain market share.

Reliance on key personnel

To date, the Company has been dependent on a relatively small number of key officers and employees. The Company's senior executives have experience in the industry and with the Company's business, products and customers. The loss of knowledge of the Company's operations, management expertise and technical proficiency as a result of the loss of one or more members of the Company's core management team, could result in a diversion of management resources or a temporary executive gap, or negatively affect the Company's ability to develop and pursue other business strategies, which could materially adversely affect the Company's business and/or financial results.



Share price and volume volatility

The Company's common shares may be affected by limited or sporadic trading volumes, which may affect its shareholders' ability to sell the Company's common shares. The Company's share price may be volatile and could be subject to wide fluctuations due to a number of factors including the risk factors described in this MD&A. In addition, broad fluctuations in the financial markets as well as economic conditions may adversely affect the market price of the Company's common shares.

Fluctuation in operating results

The Company may experience fluctuations in future quarterly operating results that may be caused by many factors, including but not limited to: (i) variability of sales to new and existing customers; (ii) changes in the level of marketing and other operating expenses; (iii) competitive factors; and (iv) the timing of delivery. Consequently, the Company believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that the Company's future quarterly operating results from time to time will not meet the expectations of securities analysts or investors, which may have a material adverse effect on the market price of the Company's common shares. Until the point where the Company is able to generate and predict continued positive cash flows from recurring revenue, it faces risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.

Disaster recovery

The Company's sales operations are highly automated, and a disruption or failure of its web site systems may delay its ability to complete sales and to provide services. A major disaster or other catastrophic event that results in the destruction or disruption of any of the Company's critical business or information technology systems could severely affect its ability to conduct normal business operations. This possible disruption may materially and adversely affect the Company's future operating results.

Environmental contamination on the Company's leased property may expose it to liability and adversely affect financial performance

The leased property may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. This possible contamination may materially and adversely affect the Company's future operating results.

Information technology interruptions or breaches

The Company's business operations are managed through a variety of information technology systems. These systems govern all aspects of its operations. While the Company has implemented a number of measures to keep its technology systems fully operational and to mitigate the risks associated with a failure of its systems, the Company's systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber-attacks, security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by its employees. If the Company's information technology systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them and the Company may suffer loss of critical data and interruptions or delays in its operations in the interim. Any material interruption in its information technology systems could have a material adverse effect on the Company's business, prospects, financial condition, results of operations and cash flows.

Conflicts of interest

Certain of the directors, officers and other members of management of the Company serve (and may in the future serve) as directors, officers and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company and their duties as a director, officer or member of management of such other companies. The



directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the BCBCA and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

ACCOUNTING MATTERS

The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's March 31, 2020 audited consolidated financial statements, with the exception of the accounting policy relating to revenue noted below, on account of commencement of operations in the current year.

Revenue

The Company sells certain cannabis products for medical and recreational use to certain companies in Canada who are licensed for cultivation, processing and sell dried cannabis products under Health Canada's Cannabis Act. These companies, in turn, lawfully re-sells to customers who are authorized registered or licensed retailers in their respective provinces and territories in compliance with their applicable laws.

The Company's revenue comprises of a single performance obligation and revenue is recognized at the point in time when control of the product is transferred and its obligations have been fulfilled. This occurs when the product is delivered to the customer at their premises in accordance with contract terms and condition. Revenue recorded represents the amount of consideration the Company expects to be entitled to under per the contractual terms and conditions with its customer.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Inputs used in the accounting for share-based payments expense in the condensed consolidated interim statements of comprehensive loss: Management uses the Black-Scholes Pricing Model for valuation of share-based payments, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.

Inputs used in the accounting for warrants in share capital and equity reserves: Management uses the Black-Scholes Pricing Model for valuation of warrants, which requires the input of subjective assumptions including



expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.

Critical accounting judgments

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Going concern: The condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used.

Determination of provisions for income taxes and the recognition of deferred income taxes: In assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Determination of impairment of non-financial assets: Non-financial assets include property, plant and equipment. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model using assumptions about future expected cash flows discounted at the company's cost of capital.

Determination of the lease period in the calculation of a lease obligation: When determining the length of the period of time over which lease payments are expected to be paid in the calculation of a lease obligation, the Company must determine whether to use the contractual lease term or the contractual lease term plus the optional renewal period of the lease. In determining the period, the Company considers the likelihood that the lease will be renewed based on expected lease rates in the future as well as the estimated costs of improvements that would be required to be made to a new property in the event the lease is not renewed.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The design of the Company's internal control over financial reporting was assessed as of the date of this MD&A.

Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. Management will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since there is insufficient work at this time to warrant the additional costs, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets and workload will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by management of the financial reports,



the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the audit committee.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying condensed consolidated interim financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.