



## **Management Discussion and Analysis**

**For the three and six months ended June 30, 2016**

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes thereto of Greenbriar Capital Corp. ("Greenbriar" or "us" or "we" or "our" or the "Company") for the three and six months ended June 30, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In addition, the following should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 and related Management Discussion and Analysis. All amounts are expressed in Canadian dollars unless otherwise stated. This Management Discussion and Analysis has been prepared as of August 3, 2016, and includes certain statements that may be deemed "forward-looking statements". Investors are directed to the section "Risks and Uncertainties" and to page 11 for a statement on forward-looking information included within this MD&A.

## BUSINESS OVERVIEW

Greenbriar's business focus is the acquisition, permitting, re-zoning, management, development and possible sale of commercial, residential, industrial, and renewable energy related real estate and energy projects in North America. The Company is currently developing wind and solar energy projects in Utah and Puerto Rico. However, as discussed below, these projects are experiencing delays and are subject to ongoing disputes.

Greenbriar is listed on the Toronto Venture Exchange under the symbol "GRB" and GEBRF on the US OTC market. Its registered records office is located at 1780 – 400 Burrard Street, Vancouver, British Columbia, V6C 3A6.

## RECENT DEVELOPMENTS AND OVERVIEW

The Company continues to have a significant working capital deficit of \$4,869,400 and a negative cash position of \$292 at June 30, 2016.

In order to continue operations, the Company will need to raise additional capital through debt or equity in the short-term until it can obtain financing for the construction and eventual production of the Company's projects or until the Company is sold. At this time, the Company cannot represent that it will be successful in raising additional capital. As discussed below, much will depend on the progress of the 80 MW Utah wind project and the 100 MW Puerto Rico solar project.

### ***Montalva Solar Project***

As background, the Montalva Solar Project is a proposed 100 MW AC solar photovoltaic renewable generating facility located in the municipalities of Guanica and Lajas, Puerto Rico and is being developed under a 100 MW AC Master Renewable Power Purchase and Operating Agreement ("PPOA") between PBJL Energy Corporation ("PBJL") and Puerto Rico Electric Power Authority ("PREPA") dated December 20, 2011, and amended on March 16, 2012 (the "Master Agreement"). PBJL a wholly owned subsidiary of AG Solar One, LLC and as discussed below AG Solar One is 100% owned by Greenbriar Capital Corp. The value of the agreement commits PREPA to purchase from the Company approximately \$1.9 Billion USD of renewable energy over the term of the agreement.

Under the terms of the Master Agreement, if the Montalva Solar Project is constructed, the Company will receive US \$140 per megawatt hour ("MWh") for electricity production escalating at 2% annually. If the project had been completed in 2014, then the terms of the Master Agreement would have paid US \$150 per MWh escalating at 2% annually. Since the Montalva Solar Project has been delayed by PREPA beyond 2014 through no fault of the Company, it is the position of the Company that the US \$150 per MWh, plus inflation escalation price should be paid under the PPOA.

The term of any project specific PPOA issued under the Master Agreement will be for twenty-five years and may be extended by mutual agreement for up to two consecutive additional five-year terms. In addition, under terms of the Master Agreement, the Company will own all Renewable Energy Credits ("REC") produced by the facility which can be sold separately to PREPA or into the US national market where qualified. Currently the average price contracted for the REC's by PREPA in Puerto Rico is an additional US \$35 per MWh. Anticipated production is 250,000 MWh per year. The Company will also retain the US Investment Tax Credit ("ITC"); which provides 30% of the entire capital costs of the Montalva Solar Project. The ITC was originally set to expire at the end of 2016, however it has been extended at its current rate of 30% until 2019 after which it will fall to 26% in 2020, 22% in 2021 and 10% in 2022. Based on recent estimates of capital costs and designing a project size of 146 MW DC which will incorporate additional solar panels to maintain maximum generation over more hours of delivery of the 100 MW AC, the estimate all-in project cost is US \$380 Million expected to be financed by project debt, project equity and tax equity. Annual revenues are anticipated at approximately US \$50 Million per year.

In April 2013 the Company entered into a 50/50 arrangement, called AG Solar One with a subsidiary of TSX-listed Alterra Power Corp (“Alterra”) (the “Arrangement”) to develop 100 Megawatts (MW’s) of solar generation capacity in Puerto Rico under the Master Agreement (the “Montalva Solar Project” or “Montalva”). The Arrangement was structured through a limited liability company called AG Solar One, LLC (“AG Solar”). As described below, on September 12, 2014, the Company acquired Alterra’s 50% interest in AG Solar and the Company now owns 100%.

The US subsidiary of Alterra, which owned half of AG Solar, advanced US \$1.1 Million to AG Solar so that it could acquire the interest in a Puerto Rican Company PBJL that, in turn owned the Master Agreement. The Company’s US subsidiary owned 33.3% and owes the spouse of an officer US \$500,000 for that 33.3% interest on terms yet to be negotiated. Upon entering the Arrangement, it was understood by both parties that if a partnership operating agreement could not be negotiated to a mutually satisfactory conclusion, the Company would repay the funds advanced by Alterra for the indirect purchase of the Master Agreement. The Company and Alterra could not reach an agreement regarding how AG Solar was going to be operated and, therefore, on July 12, 2013, and as amended October 11, 2013, the Company signed a Membership Interest Purchase and Sale Agreement (“MIPSA”) with Alterra whereby the Company agreed to acquire Alterra’s 50% interest in and to the shares of AG Solar. The Company agreed to repay Alterra the original monies advanced by Alterra, including additional amounts agreed to by the parties in connection with the forbearance, a total of US \$1.25 Million to be paid in five tranches. Upon payment of all monies to Alterra, the Company was to retain a 100% ownership interest in and to the Master Agreement. As at February 17, 2014, the Company had paid US \$250,000 to Alterra and had accrued remaining payments totaling US \$1.0 Million. The Company negotiated the issuance of securities to Alterra to settle the remaining debt of US \$1.0 Million as set forth below.

On August 12, 2014, Alterra agreed to exchange the remaining outstanding payments of \$1,094,400 (US \$1.0 Million) for 684,000 units of the Company (see *Liquidity and Capital Resources*). With the completion of the MIPSA on September 12, 2014, the Company now owns 100% of AG Solar and the option to acquire joint venture interest of \$1.4 Million (December 31, 2013 - \$772,150) was transferred to intangibles since the advance from Alterra was related to the purchase of the Master Agreement.

In September and December 2013, the Company entered into four (4) land lease option agreements in Puerto Rico after a site selection process (the “Montalva and Lajas Option Agreements”). The Montalva and Lajas Option Agreements are for two (2) sites located in close proximity that can be developed as a single project of 100MW AC or 5 projects of 20MW AC each in a region associated with low rainfall and cloud cover, exceptional levels of solar irradiance, excellent topography and drainage, low environmental impact and in proximity to 115 kilovolts (“kV”) transmission lines and a PREPA substation.

Of the Montalva Option Agreements, the Company entered into a one-year lease option agreement dated September 9, 2013, which gives the Company the exclusive right and option to lease a 775 acre site in Puerto Rico for the construction and operation of the first phase of the 100 MW AC solar photovoltaic electric generating facility (“Solar Facility”). Upon execution of the option agreement, the Company paid US \$50,000 and paid two additional US \$50,000 payments four and eight months after the effective date of the agreement. In August 2014, the parties agreed in principal to extend the lease option to January 2, 2015, and the Company paid an additional option fee of US \$30,000. The Company and the underlying parties subsequently have agreed to further extend the lease and underlying purchase option for an additional one-year period commencing January 2, 2015, at the rate of US \$150,000 payable with US \$30,000 paid on the commencement of the lease, a payment of US \$30,000 (paid) on April 1, 2015, and two additional payments of US \$45,000 each due on July 1, 2015 and October 1, 2015. On July 1, 2015, the parties agreed to further extend the lease and underlying purchase option to July 2, 2017, with modified payment terms. Under the amended option, the Company is required to pay US \$45,000, commencing on July 1, 2015 and every three months thereafter for seven additional payments due on October 1, 2015, January 1, 2016, April 1, 2016, July 1, 2016, October 1, 2016, January 1, 2017 and April 1, 2017. The Company will be assessed a late fee of 4% per month on any late payment with the exception of the July 1, 2015 and October 1, 2015 payment. The Company has the option to defer the July 1, 2015 payment until October 13, 2015 with no penalty; thereafter, a penalty of \$1,000 per day will be assessed. The Company paid \$55,000 on October 23, 2015. The Company also has the option to defer the October 1, 2015 payment to December 31, 2015 for a fee of \$4,500; thereafter, a penalty of \$1,000 per day will be assessed. On December 29, 2015, the Company paid \$45,000. Upon payment of an additional \$50,400, the Company has negotiated a forbearance period extending to October 1, 2016, during which time no further payment will be required. On April 15, 2016, the Company paid the \$50,400 and the forbearance period and the Montalva Option Agreement are in full force and effect.

Of the Lajas Option Agreements, on December 1, 2013, the Company entered into a three-year lease option agreement with renewal options for up to two additional years, which gives the Company the exclusive right and option to lease an additional 161 acre site in Puerto Rico for the Solar Facility. Upon execution of the option agreement, the Company paid US \$35,000 and is required to pay after the first year, an additional US \$10,000 in advance each successive four-month period for the next two years. On January 1, 2014, the Company entered into two additional lease option agreements for five years each, which gives the Company the exclusive right and option to lease up to a total of 654 additional acres in Puerto Rico to further expand the Solar Facility. Upon execution of the option agreements, the Company paid US \$25,000 and US \$10,000 and is required to pay after the first year, an additional US \$8,500 and US \$3,500 respectively, in advance each successive four-month period for the next four years. Due to the Company’s cash position, the lessor agreed to a deferral of all Lajas payments commencing January 1, 2015 to December 1, 2015. Upon payment of any additional \$10,333, the Company has negotiated a forbearance period extending to October 1, 2016, during which time no further payment will be required. On April 15, 2016, the Company paid the \$10,333 and the forbearance period and the Lajas Option Agreements are in full force and effect.

All four option agreements comprising the Montalva and Lajas Option Agreements provide for a lease term of twenty-five years from the date of execution and may be extended for up to four additional consecutive periods of five-years each, at the Company's option.

As previously stated, in order to continue operations and likewise make the lease option payments, the Company will need to raise additional capital through debt or project equity in the short-term until it can realize the proceeds from the placement of stock or until the Company is sold.

Further, the Company entered into a service agreement with a leading environmental consulting firm based in Puerto Rico for completing environmental site studies, completing the environmental assessment and for filing a site location authorization with the jurisdictional permitting authorities for review and approval of the construction and operation of the 100 MW AC project. On December 3, 2013, an Environmental Impact Statement ("EIS") was prepared for the project and a permit application was filed with the jurisdictional agency. The Office of Government Permissions ("OGPe") in charge of processing the permit completed an environmental review of the project's permit application and found the application complete and informally noted no red flags or issues. Notwithstanding, OGPe made a decision not to advance the application to other agencies for their review pending a site specific PPOA being issued by PREPA under the Master Agreement. The Company filed an appeal through OGPe's internal appeal process to appeal the OGPe's decision not to process the application to other agencies in advance of issuance of a site specific PPOA. Such appeal was rejected by notice received from OGPe on August 25, 2014. Subsequently, the Company filed an appeal action with the Puerto Rico Court of Appeals on September 19, 2014. On March 26, 2015, the Appeals Court upheld the prior appealed decision of OGPe and denied the Company's requested relief. Subsequently, on April 24, 2015, the Company filed a further appeal action with the Supreme Court of Puerto Rico. On June 17, 2015, the Supreme Court refused to hear the Company's further appeal or to take a position as to whether OGPe's position and process was correct in taking instruction from PREPA. Noteworthy, however, now here did the courts take a position that the Company did not hold a valid and enforceable PPOA with PREPA. The Company did not file a request of reconsideration with the Supreme Court and therefore the Company will need to refile its application with OGPe for the Montalva Project once a site specific PPOA has been issued by PREPA.

On April 14, 2014, the Company entered into an agreement with the Land Authority of Puerto Rico and deposited US \$75,000 to lease an additional 51 acres of land for the construction and operation of the interconnection transmission line for the Solar Facility. The lease agreement provides for a term of thirty-years and can be extended for a longer term at then applicable commercial rates by mutual agreement of the parties.

Under the terms of the Master Agreement, the Company filed its 100 MW AC Montalva Solar Project with PREPA on September 5, 2013, requesting an interconnection evaluation and issuance of a project specific PPOA for Montalva. After numerous delays by PREPA and failed attempts by the Company through emails and correspondence to PREPA requesting the interconnection evaluation and issuance of a project specific PPOA for Montalva, the Company filed a Notice of Default under the Master Agreement with PREPA on September 24, 2014. PREPA responded to the Notice of Default on November 3, 2014, taking the position that it had other PPOAs issued that would exceed its system renewable capacity and could not accept any additional renewable projects and further had met its obligations under the Master Agreement.

On October 27, 2014, the Company requested and received a legal opinion from a Puerto Rican law firm establishing that the Company's Master Agreement is a binding agreement between the Company and PREPA and that PREPA will be subject to damages by the Company if PREPA fails to perform on its obligations to the Company. On February 10, 2015, the law firm of Gierbolini Consulting Group, LLC ("GCG") of San Juan, Puerto Rico was retained by the Company and sent a letter to Juan Alicea Flores, President of PREPA, stating our intent to commence legal action against PREPA unless PREPA performed the required studies as required by the Master Agreement and signed the project specific PPOA for Montalva or in the alternative paid the Company \$210 Million in monetary damages. No response to the May 15, 2015, letter was received from PREPA. On May 15, 2015, the Company, through its lawyers GCG, filed a legal action against PREPA in the courts of Puerto Rico in order to protect and enforce its rights under the Master Agreement and for monetary damages of \$210 Million. As of the date of this report, the Company has been successful in a series of motions to be heard in October of 2016. The Company is confident the court will enforce the \$1.9 Billion agreement in favor of the Company or in the alternative, the Company is asking the court for \$210 Million in monetary damages, however the ultimate outcome of the court action is unknown.

The Company's design partner in the project, Atherton Pacific Holdings LLC, has progressed with bringing Chinese based engineering firms to provide technical project support and equipment design specification for procurement and project construction. Atherton Pacific Holdings LLC is willing to fund the Company once direction is given by PREPA in moving this fully executed Master PPOA forward.

### ***Blue Mountain Wind Project***

The Blue Mountain Wind Project ("Blue Mountain") is a proposed 80 MW AC renewable generating wind facility located in Southeastern Utah near the city of Montecito in San Juan County. Blue Mountain has a twenty-year Power Purchase Agreement ("PPA") with PacifiCorp executed on July 3, 2013. However, as stated below, the project is stalled and the PPA is subject to a Notice of Termination issued by PacifiCorp dated April 22, 2015, and affirmed by PacifiCorp on August 18, 2015.

On May 14, 2014, the Company declared a Force Majeure event under its 80 MW Blue Mountain PPA with PacifiCorp and suspended its Generator Interconnection Agreement (“QFLGIA”). Many of the requirements, deadlines and prices as specified in the PPA contemplated that the startup commencement date would be no later than the fall of 2013. However, the Company’s PPA approval by the Utah Public Service Commission had been the subject of an appeal to the Commission and the Utah courts by an unrelated third party and, therefore, the Company’s PPA was not final and non-appealable until June 30, 2014, thirty days after the third party appeal was rejected by the Utah Supreme Courts. As follow-up, in July 2015 the Company had a discussion with the director of QF contracts at PacifiCorp confirming their position and agreement that an extraordinary and lengthy force majeure of eight months had occurred. During this conversation, the Company requested a forbearance period under the PPA of milestones and the posting of development security until the company could determine the new contract dates required in the agreement in order for the project to move forward. PacifiCorp raised no objection. In January 2015 after extension of the wind federal tax credits had been enacted in December for an additional year, the Company contacted PacifiCorp to request new dates in its PPA and to amend the agreement. However, instead of negotiating new dates and terms for the delays, PacifiCorp notified the Company by letter in February 2015 that upon further review it did not agree that a force majeure event had occurred and no date extensions or modified terms would be granted for the project. The Company followed with a Notice of Dispute under the PPA dated February 16, 2014. During this time, an additional event of force majeure occurred where the same third party filed a complaint against PacifiCorp with the Federal Energy Regulatory Commission (“FERC”) contending that the interconnection agreement between PacifiCorp and the Company was invalid. By letter dated February 24, 2015, the Company filed an additional notice of force majeure under the provisions on the PPA. Subsequently, the Company and PacifiCorp entered into settlement discussions under the PPA dispute resolution process with the involvement of senior management from both sides, but were unable to reach an agreement or resolution of the dispute. During these ongoing discussions, PacifiCorp without warning served a notice of default on the Company for failure to post development security required within 30 days of PPA approval. However, without an extension of PPA dates, the project would not be feasible and any security posted would be automatically defaulted without new dates reflecting the delays in PPA approval. Ignoring the protests of the Company, PacifiCorp filed a notice of termination of the PPA with the Company on April 22, 2015. In addition, PacifiCorp was taking this action in the middle of the ongoing dispute resolution process under the terms of the PPA. Subsequently without resolution of the dispute, the Company exercised its right under the PPA to request mediation and a mediation occurred on August 11, 2015 before a former US federal judge acting as mediator. However, the parties were unable to resolve their ongoing disputes during mediation despite assistance from the mediator supporting a settlement of \$4.4 Million cash in favor of the company.

On August 13, 2015, the mediator recommended an award of \$4.4 Million monetary damages for the benefit of the Company, but since the mediation was non-binding, PacifiCorp did not proceed with the mediators’ advice and the mediation was terminated. On August 18, 2015, the Company received a letter from PacifiCorp affirming termination of the PPA for reasons stated therein and the termination of settlement discussions. The mediation has thus terminated without reaching agreement and under the terms of the PPA the Company is free to seek resolution in the courts or with regulatory agencies. On September 14, 2015, the Company filed a complaint with the Division of Public Utilities of the Utah Public Service Commission against PacifiCorp and followed with notice of filing a formal complaint with the full Commission. Pending the outcome with the Division of Public Utilities, the Company can either formalize its formal complaint with the full Commission or seek damages in the courts. The Company is unable to predict, based on either of these courses of action, whether it will be granted PPA revisions with acceptable terms or that it will be awarded damages against PacifiCorp. In addition, until a resolution is reached, if the project is to go forward, a further extension of the US wind tax credits may be necessary to support the economics of the project sufficient to obtain debt financing.

As historical background, on August 2, 2013, the Company completed a formal acquisition agreement for Blue Mountain, Utah Wind Energy Project, USA. The Blue Mountain acquisition included all discretionary permits, eight individual land leases and option to purchase agreements, a fully executed twenty year 80 MW PPA with PacifiCorp, six years of meteorological data and studies, a System Impact Study agreement, completed environmental work, the receipt of seven supply term sheets from top tier wind turbine vendors and a draft financing mandate from a world class financial institution. The acquisition of Blue Mountain was completed through Greenbriar Capital Corp’s wholly owned US subsidiary, Greenbriar Capital Holdco Inc., which signed a definitive Membership Interest Purchase and Sale Agreement (“MIPSA”) with Champlin Windpower, LLC of Santa Barbara, California. The acquisition of the MIPSA has immediately granted the Company a 50% interest (“initial interest”). The agreement then allows the Company to perform two milestone tasks, which will then increase the ownership interest up to 100%. The initial interest was financed by way of a three-year loan from the CEO and his spouse, which bears interest at 10% per annum.

On December 9, 2013, the Company commenced construction at Blue Mountain sufficient to qualify the project for federal tax subsidies in the form of Production Tax Credits or Investment Tax Credits both of which were extended by Congress for wind projects under construction or had spent 5% of project cost by the end of 2014. Construction was awarded to RMT, Inc. (“RMT”) of Madison, Wisconsin, a subsidiary of IEA Infrastructure and Energy Alternatives, LLC of Chicago. Total construction costs for Blue Mountain are expected to be US \$160 Million if financed by the Company, with approximately US \$136 Million of combined project tax equity and back-leveraged debt, and the balance through mezzanine loans and vendor related financing. Construction costs if built by a large balance sheet energy company with internal tax appetite would be in the US \$140 to \$145 Million range. The commencement of construction qualified Blue Mountain for US \$43 Million of federal investment tax credits under current legislation, but as stated above a further extension of the US wind tax credits may be necessary to support the economics of the project sufficient to obtain debt financing. Construction has since been suspended.

On May 5, 2014, the Company, under Blue Mountain Power Partners, LLC, entered into a Qualifying Facility for a Large QFLGIA with PacifiCorp, the transmission provider. Under the QFLGIA, PacifiCorp shall design, procure, and construct the interconnection facilities and provide network upgrades for the Blue Mountain. The term of the QFLGIA is for a period of ten years from the effective date and shall be automatically renewed for each successive one-year period thereafter. As previously stated, on May 14, 2014, the Company declared a Force Majeure event under its 80 MW Blue Mountain PPA with PacifiCorp and suspended its QFLGIA. Under the terms of its QFLGIA, the Company is allowed to suspend its QFLGIA for a period of up to three years.

On October 3, 2013, the Utah Public Service Commission (“PSC”) approved the power purchase agreements between Blue Mountain Power Partners and PacifiCorp and an additional small power producer, Latigo Wind Park. Under these agreements, PacifiCorp’s Rocky Mountain Power division is obligated to purchase all power produced by the producers’ clean energy wind projects in Southeastern Utah. As previously discussed, within the statutory timeframe, an unrelated third party competitor of Latigo and Blue Mountain filed an appeal of the approval of the PPA contracts by the PSC with Utah State Supreme Court. The third party had intervened in the PSC approval proceedings and had legal standing to challenge the Latigo and Blue Mountain agreements. The third party asserted that the PSC had unlawfully excused Latigo and Blue Mountain from compliance with the terms of an applicable regulatory tariff, referred to as Schedule 38. It also claimed discrimination by PacifiCorp in requiring the third party to comply with the regulatory requirements from which Latigo and Blue Mountain had been excused and asserted that the power purchase agreements were too vague to be enforceable and should be disapproved on that basis. By the third party’s actions, the approval of the Blue Mountain PPA was not legally approved and could not become final until thirty days after the appeal was resolved. On May 30, 2014, the Utah State Supreme Court ruled against the third party and upheld the approval of the PPA by the PSC.

### ***Tehachapi Housing Project***

On September 27, 2011 the Company acquired property in accordance with its acquisition agreement with Marks & Kilkeny LLC to acquire real property in Tehachapi, California, USA (the “Property”), as its qualifying transaction under the rules of the TSX Venture Exchange. The purchase price for the Property was US \$1,040,000. The Property comprises of an aggregate of 161 acres divided into approximately 689 total lots.

On April 1, 2014, the Company leased 161 acres of land in Tehachapi to Captiva Verde Industries Ltd (“Captiva”) for organic farming. Captiva is related to the Company by a director in common. Lease payments are US \$300 per acre for the first year, US \$310 per acre for the second year, and US \$320 per acre for the third year. The lease agreement stipulates that the Company will receive all three years of payments of \$164,181 (US \$149,618) in advance. As at December 31, 2014, the Company had received all three years payments. At the time the lease was entered into, the land was zoned for high and low density housing. Captiva made an application to have the land rezoned for commercial farming but was unsuccessful in its attempts. Therefore, since Captiva is unable to use the land for farming as originally contemplated in the lease agreement, the Company and Captiva have agreed to cancel the lease and all advance payments made by Captiva will be refunded.

On October 10, 2014, the Company listed both site 1 and site 2 for US \$2.4 Million with Berkshire Hathaway Home Services (“Berkshire”). The property was being marketed both in the local US market and internationally. Upon sale, Berkshire will charge a commission of 10%. During the first three months of 2015 the Company reduced the sale price to \$1.8 million and during the quarter ended June 30, 2015 further reduced the purchase price to \$1.4 million. In September 2015, the Company delisted the property due to renewed interest in the land for possible agricultural purposes.

The Property is situated close to the central business district and adjacent Tehachapi High School and is comprised of five parcels of real property located within the City of Tehachapi. Tehachapi is located in Kern County on the edge of the Mojave Desert, approximately 35 miles east-southeast of Bakersfield, California.

The legal description of each parcel is as follows:

- Parcel 1 – APN 417-012-01 (approx. 32.97 acres)
- Parcel 2 – APN 417-012-28 (approx. 60 acres)
- Parcel 3 – APN 417-012-27 (approx. 20 acres)
- Parcel 4 – APN 417-012-25 (approx. 19.16 acres)
- Parcel 5 – APN 415-012-14 (approx. 28.75 acres)

Parcels 1 through 4 (“Site 2”) are contiguous and aggregate approximately 132 acres of land on the south side of Cummings Valley Boulevard (State Highway 202), a major east – west thoroughfare through Tehachapi. The parcels lie immediately east of Clearview Street and immediately north of Pinon Street. The new Tehachapi High School, which opened its doors in 2003, is located immediately to the east of the parcels. A previous owner of these parcels had received Tentative Tract Map (“TTM”) approvals under TTM 6218 and TTM 6723. Parcel 5 (“Site 1”) comprises approximately 28 acres and lies north of parcels 1 through 4, on the north side of Cummings Valley Boulevard. The location of the Property is identified in the map below:



On March 24, 2014, the Company contracted Michael Burger & Associates to conduct a land appraisal for the Property. The appraiser determined the fair value of the Property as of March 24, 2014 US \$3,410,000. As of June 30, 2016, the Company had capitalized \$1.45 million for the property acquisition.

## RESULTS OF OPERATIONS

### Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Audit and tax	-	2,792	(4,857)	20,567
Bank charges	968	1,494	2,310	2,374
Consultant	88,910	38,740	141,188	76,932
Finance cost	5,640	4,115	13,466	6,618
Foreign exchange	13,997	(39,536)	(199,512)	192,620
Interest expense	8,422	8,010	17,032	15,172
Legal	1,298	979	4,240	2,705
Office	4,601	1,671	5,136	6,082
Public company	4,518	6,480	14,031	14,503
Salaries	-	38,975	-	81,175
Travel	12,502	6,419	19,096	13,477
<b>Total expenses</b>	<b>(140,856)</b>	<b>(70,139)</b>	<b>12,130</b>	<b>(432,225)</b>

The Company had an operating loss for the three and six months ended June 30, 2016 of \$141,442 and \$14,197, respectively compared to an operating loss of 71,804 and \$437,651 respectively in the comparative 2015 period. The main fluctuations are as follow s:

#### Audit and tax

For the three and six months ended June 30, 2016, the Company had a gain of \$Nil and \$4,857, respectively, in audit and tax expenses, which was a decrease compared to the expense for three and six months ended June 30, 2015 of \$2,792 and \$20,567 respectively. The gain was as a result of an over accrual of fees in the year ended December 31, 2015 which was reversed in the first quarter of 2016.

#### Consultant

For the three and six months ended June 30, 2016, the Company incurred \$88,910 and \$141,188 in consultant expenses compared with \$38,740 and \$76,932 for the previous comparative period. These fees incurred were consulting fees related to the development of the renewable energy facilities (See *Transactions with Related Parties*). The increase was due to two employees becoming consultants. Their fees are now under consultant instead of salaries.

#### Finance cost

For the three and six months ended June 30, 2016, the Company incurred \$5,640 and \$13,466 in finance costs compared with \$4,115 and \$6,618 for the previous comparative period. The fees incurred are due to the overdue fees owed to the President of the Company.

#### Foreign exchange

Foreign exchange for the three and six months ended June 30, 2016 resulted in a loss of \$13,997 and a gain of \$199,512 compared with a gain of \$39,536 and a loss of \$192,620 due to a slight weakening of the Canadian dollar against the US dollar.

#### Interest expense

Interest expense slightly increased to \$8,422 and \$17,032 for the three and six months ended June 30, 2016 from \$8,010 and \$15,172 in the comparable 2015 period as a result of the ongoing loans that the Company has outstanding.

#### Legal

Legal Fees for the three and six months ended June 30, 2016 increased to \$1,298 and \$4,240 compared with \$979 and \$2,705 in the previous comparable period.

#### Office

Office costs have increased for the three months ended June 30, 2016 to \$4,601 compared with \$1,671 however have decreased slightly for the six months ended June 30, 2016 to \$5,136 from \$6,082 in 2015 as the Company conserves its capital resources.

#### Public company

For the three and six months ended June 30, 2016, public company expenses remained fairly consistent at \$4,518 and \$14,031 compared with \$6,480 and \$14,503 in the comparative 2015 period.

#### Salaries

For the three and six months ended June 30, 2016, the Company incurred \$Nil of salary expenses compared with \$38,975 and \$81,175 in the previous comparative period due to two staff members becoming contractors instead of employees. These fees are now included in consultant fees.

#### Travel

Travel expenses increased to \$12,502 and \$19,096 in the three and six months ended June 30, 2016 compared with \$6,419 and \$13,477 travel expenses in 2015 as the Company's travel increased to pursue its legal action against PREPA.

#### Comprehensive loss

For three and six months ended June 30, 2016, comprehensive gain was \$127,484 and a loss of \$297,316, respectively (2015 – a comprehensive loss of \$190,247 and \$230,338), which is comprised of the following items:

- Net loss of \$141,442 and \$14,197 (2015 – a net loss of \$71,804 and \$437,651); and
- Currency translation gain of \$13,958 and loss of \$283,118 in the three and six months ended June 30, 2016 and a loss of 118,443 and gain of \$207,313 in the previous 2015 period.

### **SUMMARY OF QUARTERLY RESULTS**

The following table sets out selected unaudited quarterly financial information of the Company and is derived from the unaudited condensed consolidated interim financial statements prepared by management.

<b>Three Months Ended</b>	<b>Jun 2016</b>	<b>Mar 2016</b>	<b>Dec 2015</b>	<b>Sept 2015</b>	<b>Jun 2015</b>	<b>Mar 2015</b>	<b>Dec 2014</b>	<b>Sept 2014</b>
Total Revenues			-					-
Loss for the period	(141,442)	(127,246)	(364,088)	(313,736)	(71,804)	(365,846)	(442,670)	(474,328)
Loss per share (basic and fully diluted)	(.01)	(.01)	(0.03)	(0.02)	(0.01)	(0.03)	(0.04)	(0.04)
Total assets	8,492,313	8,205,135	8,530,655	8,219,113	7,672,891	7,619,352	7,053,379	6,866,138
Working capital	(4,869,400)	(4,662,096)	(5,069,825)	(3,951,646)	(3,433,985)	(3,364,404)	(2,911,888)	(2,606,144)

The net loss for the quarter ended June 2016 compared to a net loss in the quarter ended March 2016 was fairly consistent but the net loss has improved since 2015 due to a strengthening of the Canadian dollar which resulted in a reduced loss in foreign exchange. Net loss remained fairly consistent for the quarter ended December 31, 2015 compared to the quarter ended September 30, 2015. September 2015 net loss was higher than June 2015 due to a foreign exchange loss of \$221,000 but in removing this anomaly the quarter ended September 30 and June 30, 2015 have decreased over previous periods as the Company reduced spending in an effort to conserve its capital. Net loss was consistent over the March 2015, December and September 2014, as activity has leveled off. Previous to this the net loss had continued to increase quarter on quarter since March 2013, mainly due to the increase in the business activities of the Company and the issuance of share-based compensation in each of the 2013 quarters. June 2014 net loss increased at a lower rate due to a weaker US dollar against the Canadian dollar, resulting in a lesser impact in foreign exchange expense on the Company's trade payables and outstanding loans payables.

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2016, the Company had negative cash and cash equivalents of \$292 and negative working capital of \$4,869,400 compared with cash and cash equivalents of \$3,903 and negative working capital of \$5,069,825 at December 31, 2015.

Cash used in investing activities during the three and six months ended June 30, 2016, was \$273,555 and \$304,799 compared with \$118,170 and \$275,945 in the comparative period, the majority of which was used for the advancement of the Company's Blue Mountain and Montalva Solar projects.

Cash raised in financing activities during the three and six months ended June 30, 2016 was \$198,598 and \$258,436 respectively compared with \$174,180 and \$349,322 in the comparative period. Financing activities for the three and six months ended were as follows:

- On April 6, 2016, the Company issued 300,000 units through a private placement for gross proceeds of \$150,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for a period of five years from the date of issuance at a price of \$0.60 per share.

On May 31, 2016, the Company issued 400,000 units through a private placement for gross proceeds of \$200,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for a period of five years from the date of issuance at a price of \$0.60 per share. Of the 400,000 units issued, 250,000 were purchased by the spouse of the CEO.

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Financing activities for the year ended December 31, 2015 were as follows:

- On January 19, 2015, a director of the Company loaned the Company \$45,000. Under the terms of the loan agreement, the loan bears interest at 1% per month and shall be paid on January 19, 2017.
- On January 15, 2015, January 30, 2015, March 23, 2015 and May 5, 2015, the spouse of the Company's CEO loaned additional amounts of \$6,000, \$2,000, \$20,000 and \$7,000. Each loan bears interest of 10% per annum, compounded monthly and repayable after two years. A payment of \$20,000 was made towards the loan on April 20, 2015.
- On January 21, 2015, the Company issued 8,922 common shares of the Company for gross proceeds of \$5,085.54 upon the exercise of 8,922 options by a director of the Company.
- On April 17, 2015, the Company issued 205,000 units of the Company for gross proceeds of \$307,500 of which \$147,184 (net of issuance costs of \$67,708) was allocated to common shares and \$92,608 to the share purchase warrants based upon the relative fair values. Each full warrant entitles the holder to purchase one common share of the Company for a period of five years from the date of issuance at a price of \$1.75 per share.
- On August 15, 2015, the spouse of the Company's CEO loaned an additional amount of \$12,802 (US \$9,250). The loan bears interest of 10% per annum, compounded monthly and repayable after two years.
- November 25, 2015, the Company issued 404,000 units at price of \$1.50 per unit through a private placement for gross proceeds of \$606,000 of which \$336,703 (net of issuance costs of \$126,767) was allocated to common shares and \$142,530 to the share purchase warrants based upon the relative fair values. Each unit is comprised of one common share and one half common share purchase warrant. Each full Warrant entitles the holder to purchase one common share of the Company for a period of five years from the date of issuance at a price of \$1.75 per share. The Company also paid 50,000 common shares as a finders' fee in connection with the financing. The common shares from the financing and any shares issued upon the exercise of any Warrants are subject to a hold period until March 25, 2016.

As in many development stage companies, actual future funding requirements may vary from those planned due to a number of factors, including the progress of development activity and foreign exchange fluctuations. The nature of the Company's business is the acquisition, management, development, and possible sale of all types of real estate. The Company has been successful to date in acquiring its first property. The Company is also developing real estate that will support 100 MW's of solar generation capacity in Puerto Rico and 80 MW's of wind generation in Utah. However, future inflows of cash are dependent on actions by management to bring the property to completion including the eventual sale of property lots and raising additional capital. Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Historically the capital requirements of the Company have been met by equity subscriptions and loans from related parties. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable. If the Company is unable to raise any additional funds it may require, it could have a material adverse effect on its financial condition.

#### OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

#### TRANSACTIONS WITH RELATED PARTIES

In addition to related party loans outlined in the Liquidity and Capital Resources section, the Company had the following related party transactions:

The following expenses were paid to key management personnel of the Company:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Consulting Fees	-	27,000	-	54,000
Management fees	40,095	38,740	87,611	76,932
Share-based compensation	-	-	-	-
<b>Total</b>	<b>40,095</b>	<b>65,740</b>	<b>87,611</b>	<b>130,932</b>

On July 1, 2014, the Company entered into a consulting contract with the President of the Company. The agreement provides for an annual fee of US \$120,000 in which the President will lead all the wind and solar development in obtaining permitting, environmental compliance and raising of capital to construct the renewable energy facilities ("Annual Fee"). In addition, the Company agrees to reimburse all reasonable expense incurred related to office expenses, daily travel per diem, mileage expense and health and life insurance premium expense. Further, upon the Company closing certain development milestones allowing for an equity raise of at least US \$2 Million or the sale of any Company assets or project rights including the Tehachapi land whichever comes first, the agreement provides for a one-time payment of US \$250,000 in recognition of the President's unpaid work in support of the Company's projects since March 2013. Lastly, the President will be paid a US \$3 Million development completion bonus at the time the Montalva Solar Project completes all key milestones necessary for the Company to obtain project financing for the Montalva Solar Project. As at June 30, 2016, the President of the Company has been paid a total of \$55,836 (US \$42,921) fees under the contract. As at June 30, 2016, included in accounts payable are fees and expenses due to the President of the Company of \$244,399.

#### CONTINGENCY AND CONTRACTUAL OBLIGATIONS

The Company and its subsidiaries enter into contractual agreements from time to time relating to the on-going business activities. As at June 30, 2016, the Company has the following total commitments:

	Within 1 year	2 – 3 Years	Over 3 years	Total
Puerto Rico land lease (i)	407,832	62,443	-	470,275
Consultant bonus (ii)	325,225	-	-	325,225
PBJL share transfer (iii)	650,450	-	-	650,450
<b>Total</b>	<b>1,383,507</b>	<b>62,443</b>	<b>-</b>	<b>1,445,950</b>

- (i) The Company entered into four separate land options agreements with Jose Arturo Acosta, leasing a total of 1,590 acres of land in the Municipality of Lajas and Guanica of Puerto Rico. The Company made initial payments on the execution date of each options agreement and will thereafter pay advances for each successive four-month period during the option terms. The annual rent will be revised once the land area needed for the energy facility is determined and will have an initial term of twenty-five years with an extension of four consecutive periods of five

years each. As at June 30, 2016, the Company capitalized \$719,918 (US \$553,400) in land costs under the Puerto Rico project.

- (ii) The Company agreed to pay the President a one-time consultant bonus of US \$250,000 (see *Transactions with Related Parties*).
- (iii) On April 23, 2013, 330 common shares, approximately 33% interest, of PBJL were transferred between the spouse of an officer to AG Solar and the Company. The Company may be required to pay a total of approximately US \$500,000 for these shares on terms yet to be negotiated. Any future payments will be subject to available funds and the completion of a significant financing of the Company in the future.

## **RISKS & UNCERTAINTIES**

### *Credit, Liquidity, Interest, Currency and Commodity Price Risk*

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. As at December 31, 2015, the Company's financial instruments consist of cash and cash equivalents, interest receivable, deposits, accounts payable, accrued liabilities, accrued interest, and loans payable. Cash is reported at fair value. The other amounts reflected in the balance sheet approximate their fair values due to their short-term nature.

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk through its cash, which is held in a large Canadian financial institution with an issuer credit rating of A-1 by Standard & Poor's. The Company believes this credit risk is insignificant.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short-term interest rates through the interest earned on cash balances and deposits; however, management does not believe this exposure is significant.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. In order to meet its financial obligations, the Company will need to generate cash flow from the sale or otherwise disposition of property or raise additional funds.

Cash is stated at amounts compatible with those prevailing in the market, are highly liquid, and are maintained with prime financial institutions for high liquidity.

### *Real Property Ownership*

All real property investments are subject to elements of risk such investments are affected by general economic conditions, local real estate markets, the attractiveness of the properties to residents, supply and demand for housing, competition from other available housing and various other factors. Demand for residential real estate in the United States could be adversely affected by weakness in the national, regional and local economies, changes in supply of, or demand for, similar or competing properties in an area and the excess amount of units in a particular market. To the extent that any of these conditions occur, they are likely to affect market value for residential building lots, which could cause a decrease in the Company's future potential sales revenue from the Property.

### *No History of Revenue*

To date the Company has relied entirely upon the sale of common shares and the exercising of warrants to provide working capital to fund its administration, overhead costs and project development. There is no guarantee that the Company will enter into profitable agreements and earn revenue from operations. The Company has not commenced commercial production and the Company has no history or earnings or cash flow from its operations. Thus, there can be no assurance that the Company will be able to develop any value or that its activities will generate positive cash flow. The Company has not paid any dividends and it is unlikely to generate earnings or pay dividends in the immediate or foreseeable future. The Company has limited cash and other assets. A prospective investor in the Company must be prepared to rely solely upon the ability, expertise, judgment, discretion, integrity and good faith of the Company's management in all aspects of the development and implementation of the Company's business activities.

### *Market Price of the Common Shares*

The Common Shares are listed and posted for trading on the TSXV. The Company's business is in an early stage of development and an investment in the Company's securities is highly speculative. There can be no assurance that an active trading market in the Company's securities will be established and maintained. Securities of companies involved in the renewable energy industry have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the Common Shares is also likely to be significantly affected

by short-term changes in commodity prices or in the Company's financial condition or results of operations as reflected in its quarterly earnings reports.

#### *Current Global Financial Conditions*

Recent events in global financial markets, including sovereign debt crises, have had a profound impact on the global economy and global financial conditions have been subject to volatility. Many industries, including the renewable energy sector, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A continuing slow down in financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's business, financial condition, results of operations and ability to grow.

#### *Competition*

The renewable energy development industry is highly competitive. The Company competes with other domestic and international power development companies that have greater financial, human and technical resources.

The Company's competitors may be able to respond more quickly to new laws or regulations or emerging technologies, or devote greater resources to the expansion or efficiency of their operations than the Company. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and gain significant market share to the Company's detriment. The Company may also encounter increasing competition from other renewable energy companies in the Company's efforts to hire experienced professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding, to acquire it on acceptable terms, or to acquire suitable properties or prospects for development in the future. As a result of this competition, the Company may not be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Furthermore, there is no assurance that a ready market will exist for the sale of renewable energy. Factors beyond the control of the Company may affect the marketability of electrical power in existing markets. These factors include market fluctuations, the proximity and capacity of renewable power markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital or losing its investment capital.

#### *Risk related to International Activities*

A material portion of the business of the Company is in Puerto Rico. The Company's operations may be adversely affected by political or economic developments or social instability, which will not be within the Company's control, including, among other things, the risks of political unrest, labour disputes and unrest, war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions, contracts and permits, government regulation, delays in obtaining or renewing or the inability to obtain or renew necessary permits, taxation policies, economic sanctions, fluctuating exchange rates, currency controls, Puerto Rico's creditworthiness, high rates of inflation, limitations on foreign ownership and increased financing costs. The occurrence of any such events could have a material adverse effect on the Company's business and results of operations as currently contemplated.

#### *Risks Associated with Joint Venture Agreements*

Pursuant to the Company's joint venture agreements, the Company's interest in its properties may become subject to the risks normally associated with the conduct of joint ventures. In the event that any of the Company's properties become subject to a joint venture, the existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on the Company's profitability or the viability of its interests held through joint ventures. This could have a material adverse impact on the Company's business prospects, results of operations and financial condition as follows: (i) disagreements with joint venture partners on how to conduct exploration; (ii) inability of joint venture partners to meet their obligations to the joint venture or third parties; and (iii) disputes or litigation between joint venture partners regarding budgets, development activities, reporting requirements and other joint venture matters.

#### *Reliance on Key Individuals*

The Company's success depends on its ability to attract and retain the services of key personnel who are qualified and experienced. In particular, the success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the Company's directors and senior management. It is expected that these individuals will be a significant factor in the Company's growth and success. The loss of the service of these individuals could have a material adverse effect on the Company. The renewable energy industry is largely driven by prevailing electrical power prices and tax incentives which, when high, can lead to a large number of projects being developed which in turn increases the demand for skilled personnel, contractors, material and supplies. Accordingly, there is a risk to the Company of losing or being unable to secure enough suitable key personnel or key resources and, as a result, being exposed to increased capital and operating

costs and delays, which may in turn adversely affect the development of the Company's projects, the results of operations and the Company's financial condition and prospectus.

#### *Project Risk*

- *Availability of tax credits (Blue Mountain and Montalva)*
- *Interest rates at time of project financing*
- *Tax equity investor market, availability and pricing*
- *Uncertain financial markets and sponsor equity requirements*
- *Credit rating of off-takers (PREPA)*
- *Escalation of equipment cost such as wind turbines and solar panels*
- *Escalation of EPC cost*
- *Availability and timely delivery of key equipment*
- *Timely completion of interconnection by the transmission provider*
- *Weather related and force majeure events*
- *REC market pricing to be negotiate (PREPA)*
- *Eagle conservation costs and requirements (Blue Mountain)*

#### **CRITICAL ACCOUNTING JUDGEMENTS & ESTIMATES**

The preparation of the consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and reporting amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the audited consolidated financial statements for the year ended December 31, 2015.

Areas that often require significant management estimates and judgment include share-based compensation, warrants, going concern assessment, accruals, provisions, and determination of the functional currency and income tax provisions. The following is an outline of the estimates that the Company considers as critical in the preparation of its financial statements:

- (a) The Company has recorded stock-based compensation using the *Black-Scholes Pricing Model*, which requires an assumption of the risk-free rate, expected lives of the stock options, forfeiture rates, and their related volatilities.
- (b) The Company has recorded warrants using the *Black-Scholes Pricing Model*, which requires an assumption of the risk-free rate, expected lives of the warrants, and their related volatilities.
- (c) Future income tax assets are recognized to the extent it is more likely than not they will be realized.

#### **RECENT ACCOUNTING PRONOUNCEMENTS**

The adoption of the new and revised standards, amendments and interpretations issued by the IASB effective for periods beginning on or after January 1, 2015 has not had a material impact on the accounting policies, methods of computation or presentation applied by the Company.

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Company, are as follows:

##### *IFRS 2 Share based payment*

On June 20, 2016, the IASB published final amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; (a) accounting for cash-settled share-based payment transactions that include a performance condition, (b) classification of share-based payment transactions with net settlement features, as well as (c) accounting for modifications of share-based payment transactions from cash-settled to equity. These changes are effective for annual periods beginning on or after January 1, 2018.

##### *IAS 7 Statement of Cash Flows*

The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments to IAS 7 respond to investors' requests for information that helps them better understand changes in an entity's debt, which is important to their analysis of financial statements. These amendments are mandatory for annual periods beginning on or after January 1, 2017.

### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9") to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

### IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The International Accounting Standards Board (IASB) published amendments to IAS 12 on January 19, 2016. The amendments, *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)*, clarify how to account for deferred tax assets (DTAs) related to debt instruments measured at fair value. Only four paragraphs (including one on commencement) have been added or amended in the Standard itself but there are several pages added to the Basis for Conclusions. The revisions apply for periods beginning on or after January 1, 2017, with early adoption permitted.

### IFRS 15. Revenue Recognition

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") which supersedes IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programs*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers*, and SIC 31 – *Revenue – Barter Transactions involving Advertising Services*. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. On July 22, 2015, the IASB confirmed a one year deferral of the effective date of IFRS 15, therefore the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

### IFRS 16. Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS16"), which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, but earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management assessed the effectiveness of the Company's internal controls over financial reporting for the year ended December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on this assessment, management believed that, as of December 31, 2015, our internal controls over financial reporting were effective based on those criteria.

No changes in the Company's internal controls, or other factors that have materially affected, or are reasonably likely to materially affect these controls, have occurred during the period ended December 31, 2015.

## **LIMITATIONS OF CONTROLS AND PROCEDURES**

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any system of controls and procedures over financial reporting and disclosure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## **OTHER MD&A REQUIREMENTS**

### ***Capital Stock***

The Company has an unlimited number of common shares authorized with 13,824,227 outstanding on June 30, 2016 and 13,824,227 as of the date of this MD&A.

As at June 30, 2016, options to purchase 851,773 common shares and warrants to purchase 1,688,500 common shares were outstanding. As of the date of this MD&A, options to purchase 851,773 common shares and warrants to purchase 1,688,500 common shares were outstanding.

## **ADVISORY ON FORWARD-LOOKING INFORMATION**

This Management's Discussion and Analysis contains certain forward-looking statements, including statements regarding the business and anticipated future financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, market price, continued availability of capital financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in the forward-looking statements. Investors are also directed to consider other risks and uncertainties discussed in the Company's required financial statements and filings.

Forward-looking statements in this Management's Discussion and Analysis include references to:

- Management's Development Strategy including estimated timelines, marketing efforts and sales targets and timing.