



**MAG ONE PRODUCTS INC.**  
**Management Discussion & Analysis**

*March 31, 2019*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of the financial results of Mag One Products Inc. ("Mag One", or "the Company") for the interim three and six-month periods ended March 31, 2019 should be read in conjunction with the Company's unaudited condensed interim financial statements and related notes for the period ended March 31, 2019, and the audited consolidated financial statements and MD&A for the years ended September 30, 2018 and 2017.*

*This MD&A, together with the condensed interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").*

*All dollar figures are in Canadian dollars ("C\$"), unless otherwise stated.*

### **READER ADVISORY**

*This MD&A contains certain forward looking statements and forward looking information (collectively referred to herein as "forward looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward looking statements. Forward looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "projected", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well positioned" or similar words suggesting future outcomes. In particular, this MD&A may contain forward looking statements relating to future opportunities, business strategies, mineral exploration, development and production plans and competitive advantages.*

*The forward looking statements regarding the Company are based on certain key expectations and assumptions of the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, exchange rates, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms, the actual results of exploration and development projects being equivalent to or better than estimated results in technical reports or prior activities, and future costs and expenses being based on historical costs and expenses, adjusted for inflation, all of which are subject to change based on market conditions and potential timing delays. Although management of the Company consider these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect.*

*By their very nature, forward looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward looking statements will not be achieved. Undue reliance should not be placed on forward looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward looking statements, including among other things: inability of the Company to continue meeting the listing requirements of*

*stock exchanges and other regulatory requirements, general economic and market factors, including business competition, changes in government regulations or in tax laws; general political and social uncertainties; commodity prices; the actual results of exploration, development or operational activities; changes in project parameters as plans continue to be refined; accidents and other risks inherent in the mining industry; lack of insurance; delay or failure to receive board or regulatory approvals; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; conclusions of, or estimates contained in, feasibility studies, pre-feasibility studies or other economic evaluations; and lack of qualified, skilled labour or loss of key individuals; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, along with the Company's annual information form, all of which are filed and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). Readers are cautioned that the foregoing list is not exhaustive.*

*The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward looking statements included in this MD&A are made as of the date of this MD&A and the Company does not undertake and is not obligated to publicly update such forward looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.*

## **OVERVIEW OF BUSINESS**

### **Business of the Corporation**

Mag One Products Inc (MOPI) is engaged in the development and commercialization of technologies for the processing and production of magnesium (Mg) metal, Mg-related compounds, by-products and co-products from already mined, above ground serpentinite tailings. MOPI's goal is to become the lowest cost producer of Mg metal in the world by producing Mg at a price equivalent to Aluminium. Mag One's potential is evidenced by the fact that it has received support from both the Federal and Provincial governments and is in the process of negotiating further support.

### **History**

Mag One Products Inc. was incorporated on June 18, 2007 in British Columbia, Canada. The Company's head office is located at Suite 145 – 925 Georgia Street West, Vancouver, V6C3L2. The Company's shares are currently traded on the Canadian Securities Exchange ("CSE") under the symbol "MDD" and are also listed on the Börse Frankfurt stock exchange ("Frankfurt") with the ticker symbol "304" and on the OTCBB symbol, "MGPRF".

### **Quebec Pilot Plant Study**

Mag One Operations Inc. ("MOOI"), a wholly-owned subsidiary of MOPI, is in the process of implementing its two flagship projects which will position the company and the Danville Quebec region as an emerging player in the global Mg metal, high purity magnesium oxide (HP MgO) and high purity amorphous silica (HP Silica) marketplace. The first project involves the development of a modular 30,000 tonnes per year (tpa) HP MgO & 33,000 tpa HP Silica Production facility using Serpentinite Mine Tailings

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as the feed source. The second project will transform the HP MgO into primary Magnesium (Mg) metal and a high value saleable by-product using 5,000 tpa aluminothermic reduction modules

Mag One's pathway to commercialization involves building a modular 30,000 TPY high purity magnesium oxide (MgO) and amorphous silica production facility in 2021 followed by 5000 TPY Mg metal production modules. Subsequent modules will be financed from operating revenues until we are producing 1M TPY of Mg metal.

To get to this stage Mag One needs to complete the MgO/Silica pilot plant efforts to garner offtake agreements and begin engineering of this facility. Government support for this work is already in place. In parallel Mag One will advance the game changing Tech Magnesium metal production process, developed by Dr. Doug Zuliani for which it has exclusive rights.

Mag One has already received significant support from both Provincial (Quebec) and Federal governments due to its sustainable approach to Mg production, namely low CO<sub>2</sub> footprint, zero waste and rapid commercialization via its modular expansion business strategy. The government recognizes the importance of long term, environmentally sustainable projects that will generate significant jobs and sustainable growth. Mag One's game changing modular expansion technology will result in essentially zero waste being produced as it produces Mg metal, Mg products and by-products from above ground, already-mined serpentinite tailings. In Quebec, there are up to 1 billion tonnes of this Mg-rich feedstock containing 23% Mg, 18% Si, 6% Fe and 0.2% Ni. Mag One has secured access to 110 million tonnes at a price of \$1.00/tonne as it is used, enough for 50 years of operations. The intended plant site is ideally located in a mining friendly jurisdiction that is close to road, rails, skilled labour and markets and boasts one of the lowest electricity costs in North America/ In 2017, Mag One commissioned an NI 43 101 "Summary of Current and Scientific Technical information" report entitled "Magnesium Bearing Waste Dumps Recycling Project". The Jeffrey Mine extracted more than 100M tonnes of chrysotile fibre from 1886 to 2012. Historical data further indicate that 188M tonnes of tailings were produced from the Jeffrey Mine and about 25% of that quantity has been made available under contract for Mag One's project. The available tailings, as a result of this historical production, are prepped in their present state and are not toxic. Using the available data, it is not possible to calculate a Mineral Resource nor a Mineral Reserve for this project. The two independent Authors, namely Jacques Marchand, a Quebec Ingénieur Géologue Conseil and Qualified Person per NI 43-101 and Christian Derosier a Professional Geologist, MSc, DSc and Qualified Person per NI 43-101, are however able to disclose a potential quantity and grade, expressed as ranges, of a target for further exploration. Specifically, the northern part of Mag One's Jeffrey tailings averages 38.5% +/-0.3% MgO (23.2% +/-0.3% Mg) and is considered representative of the 81,000 m<sup>3</sup> sampled in 2015. The volume of tailings that are therefore available to Mag One range from 0.08 to 18M cubic meters of chrysotile with a grade range of 26 to 41% MgO. Considering the compositional homogeneity of the tailings that were generated from the mine production rejects along with the historical

tailings testing that was carried out by the Centre de Recherche Minerale (CRM), the independent Authors believe that the average compositional grades might be representative of the 3M m3 of the shallower part of the tailings but caution that this is not a mineral resource estimate. The Authors confirm that the potential quantity and grade discussed above is conceptual as there has been insufficient exploration to define a mineral resource and that it is uncertain if further exploration will result in the target being delineated as a mineral resource. The basis for the determination of the potential volume is based on surveying done in 2015 and before. A resource/reserve calculation might be useful but in the Authors' opinion will not add material value to the project.

### **Key Agreements in Securing Magnesium Assets:**

#### **1. Dundee Sustainable Technologies Inc.'s Technical Report**

On May 19, 2017, the Company entered into a purchase agreement ("SPA") with Dundee Sustainable Technologies Inc. ("DST") to purchase a Technical Report titled "Resource Estimation of the Nickel Content in Asbestos Mines Tailings, Thetford Mines, Quebec, Canada" prepared by Systèmes Geostat International (the "Technical Report"). The terms of the agreement are:

- Payment of \$5,000 in cash and 40,000 common shares of the Company upon signing;
- \$20,000 in cash and \$30,000 worth of common stock in the Company at the prevailing 20- day volume weighted average price upon the commencement of commercial production of product(s) by processing the Tailings if occurring within twenty-four months of signing; and
- If the Company does not commence commercial production of product(s) by processing the Tailings within twenty-four months of signing, the Company is required to sell back the Technical Report for consideration of \$1.00 to DST.

During the year ended September 30, 2017, \$5,000 in cash was paid to DST and 40,000 common shares were issued with a fair value of \$9,000.

#### **2. Asbestos Corp Ltd.**

In connection with the SPA the Company entered into an Option Agreement ("OA") with Asbestos Corp Ltd. ("ACL"). The terms of the OA include:

- The Option to purchase up to 60,000,000 tonnes of the Tailings as identified in the Technical Report for a term of six months from signing, for consideration of 50,000 shares of the Company as a non-refundable deposit; and
- Upon exercise of the Option, the Company would be required to pay \$100,000 in cash, \$1.00/tonne of Tailings used as a royalty, and would have access to a minimum of five acres of the land for necessary plant and equipment.

During the year ended September 30, 2017, \$5,000 in cash was paid to ACL and 50,000 common shares were issued with a fair value of \$11,250.

During the six months ended March 31, 2019, the Company recorded amortization of \$7,562 (2018 - \$7,562) related to these intangible assets.

### **3. North American Magnesium Products, LLC**

During the year ended September 30, 2015, the Company, through its wholly-owned subsidiary Mag One Operations Inc. USA, entered into a definitive agreement to acquire 100% of the assets of North American Magnesium Products, LLC (“NAMP”), a LLC formed by Orion Laboratories, LLC. On May 27, 2015 NAMP signed a Bill of Sale to sell 100% of the its interest in their membership of North American Magnesium Products, LLC.

### **4. MagPower**

On August 31, 2017 the Company entered into an agreement to purchase 100% of the shares of MagPower Systems Inc. (“MagPower”). MagPower is a private company whose focus is the development of magnesium air batteries. The terms of the acquisition include:

- \$100 for all of the issued and outstanding shares;
- 2% royalty (“royalty obligation”) based on gross cash flow generated by MagPower up to \$2 million;
- An option for the Company to buy the royalty obligation for \$1 million for a period of 24 months; and
- Warrants issued on a prorata basis to existing MagPower shareholders with a term of two years, at a price of \$1.00 for the first year, and \$1.25 for the second year.

As at March 31, 2019, the acquisition has not been finalized, no consideration has been paid, and ownership had not been transferred.

### **5. Technology IP Acquisition Agreement**

On January 3, 2019, the Company entered into a Technology IP Acquisition Agreement (the “Agreement”) with 8200475 Canada Inc. (“Tech Magnesium”), granting the Company an exclusive license to use and option to acquire a 100% ownership of the aluminothermic and silicothermic technology (the “Tech Mag Technology”) owned by Tech Magnesium, and agreeing to collaborate to finalize the development and commercialization of the Tech Mag Technology (the “Collaboration”). The Company agrees to make the following payments during the Collaboration:

- \$5,000 per month during Phase 1;
- \$7,500 per month during Phase 2 and 3; and
- \$35,000 within 30 days of the completion of Tech Magnesium’s Phase 2 Report

The Company agrees to make the following payments upon issuing notice of exercise of the option (the “Exercise Notice”):

- An initial payment of \$50,000 due on the date the Company issues the Exercise Notice;

- Quarterly payments equal to 4% of all private and public financing raised by the Company that are specifically used to advance the Tech Magnesium Technology during the calendar quarter up to a maximum of \$2,500,000; and
- Quarterly royalty payments equal to 2.5% of the gross sales revenue from the sale of magnesium metal and alloys during the calendar quarter up to a maximum of \$2,500,000.

## **RESEARCH AND DEVELOPMENT**

Mag One had reported that it had already demonstrated that its MgO manufacturing processes have the potential to produce greater than 98 weight percent pure MgO, as well as a saleable byproduct. It was also shown that the silicon contained within the serpentinite tailings that Mag One is using, can be transformed into high-value amorphous silica (SiO<sub>2</sub>), which has potential commercial applications in the construction industry as a replacement for silica fume in concrete and in the rubber tire industry as a replacement for carbon black. Not only does the high-purity MgO have a significant commercial market, it will also serve as a feedstock for Mag One's innovative aluminothermic reduction process to produce magnesium metal. Furthermore, the iron residue from the magnesium recovery process contains nickel, which has potential value for existing nickel recovery operations. Therefore, Mag One's chlorine-free approach to transform serpentinite tailings into high purity MgO and SiO<sub>2</sub> is targeted to be essentially a near 'zero discharge' operation.

In November 2018, the Company's subsidiary, Mag One Operations entered into a new contract with the University of Sherbrooke (UdS) to continue to advance and optimize Mag One's novel hydrometallurgical process for producing high purity MgO, high-value amorphous silica and extract value from the iron-nickel residue. Mag One expects to report findings from this work in the summer of 2019. Also, during this period, Mag One Operations entered into a new contract with the Centre d'Innovation Miniere de la MRC des Sources (CIMMS) to further optimize the pilot plant operating conditions to achieve maximum purity, minimize operating costs and better understand the parameters around Mg salt evaporation.

As previously mentioned, the purpose of the Pilot Plant, designed to process 100 kg/hr of serpentinite tailings, is two-fold: (1) to gather engineering data in order to design, build and operate a commercial 30,000 metric ton per year MgO production facility in Southeastern Quebec; and, (2) to generate MgO and amorphous silica for qualification purposes by third parties, including potential customers, for establishing offtake agreements.

Between August 2018 and December 2018, the Company negotiated no cost extensions to the Jeffrey Mines (50M tonnes Serpentinite) and the Thetford Mines (60M tonnes Serpentinite tailings) option agreements.



In March 2019 the Company announced that the National Research Council of Canada (NRC), under its Industrial Research Assistance Program (NRC-IRAP) will support, on a cost-sharing basis Mag One Operations' project entitled "Feasibility – Magnesium Production using Aluminothermic Reduction Process" (the "Project"). The project is scheduled to conclude during the summer of 2019 and will consist of thermodynamic modelling, bench-scale experiments, process optimization and techno-economic analysis. Magnesium yields, along with by-product quality will be monitored at various processing conditions. With positive results stemming from the Project, Mag One expects to begin the pilot-scale demonstration phase in Q4 2019. The final phase of development will be the design, construction and start-up of Mag One's first 5,000 tonne per year primary Mg metal module. Additional modules will then be brought online to coincide with market pull. As part of this effort, Mag One Operations has entered into contracts with Dr. Arthur Pelton and Kingston Process Metallurgy.

### **GENERAL CORPORATE AFFAIRS**

In October 2018, the Cease Trade Order issued by the Commission on May 14, 2018 regarding the Company's non-compliant financial reporting was lifted. The Company has also taken measures to ensure that these non-compliances will not reoccur. Though alluded to in the Company's press release of August 22, 2018, along with the Company's Management Discussion and Analysis for Q3 2018 (issued August 29, 2018), for purposes of clarity, a list of corrective and preventative measures that have been undertaken by the company are as follows:

- In August 2018, the Board has appointed William Thomas, CPA, to be the company's Chief Financial Officer, as well as Corporate Secretary and Director.
- In view of Mag One's project activities being primarily based in Quebec, all the Company's financing and accounting functions have been centralized at the Montreal office.
- In September 2018, Mag One's board of directors authorized McMillan LLP, Barristers and Solicitors, as the agent of the Company to maintain and administer the Records Office of the Company.
- In October 2018, Gillian Holcroft, President and Director of Mag One has also assumed the role of Chairman and CEO. As Ms. Holcroft is based in Montreal, Quebec, she is well placed to assume the CEO role and to ensure a rigorous management of Mag One's accounting and operations.
- Nelson M. Skalbania, co-Founder and former Chairman & CEO of Mag One, has stepped down from a day-to-day role in the Company, but remains on the Board of Directors.
- James G. Blencoe, Co-Founder, Chief Technology Officer and Director of Mag One has stepped down from the Board and has resigned from the Company.
- In March 2019 the Company filed the audited Annual Financial Statements and Management Discussion and Analysis ("MD&A") for the fiscal year ended September 30, 2018 as well as the Interim Financial Statements and MD&A for the three-month period ended December 31, 2018.

Both of these filings have been filed on SEDAR. The failure-to-file Cease Trade Order issued by each of the British Columbia Securities Commission and the Ontario Securities Commission on February 1, 2019, was lifted as of March 5, 2019.

- In May 2019, the Company appointed Mr. Arnab Kumar De, CGMA(UK), CMA(UK), ACMA(Ind) as the CFO of the Company following the resignation of Mr. Bill Thomas. Mr. De was formerly the CFO for Tata Steel Minerals Canada (TSMC) Ltd. He is a motivated and highly skilled financial steward with expertise in all facets of financial leadership, performance analysis, reporting, and critical decision making within regulated, fast-paced environments. Having served the Tata Steel Group for about 19 years, Mr. De has been instrumental in streamlining processes, enhancing productivity, and implementing strong accounting standards and audit controls. An entrepreneurial-minded professional who gains the trust of shareholders by consistently upholding integrity, confidentiality, and professional ethics. Mr. De also served as CFO and Director in certain Tata Steel Group Companies. He has applied for his CPA certification from CPA Ontario and is currently working as an independent consultant providing strategic, financing and CFO services to certain North American companies.

The Company intends to finance its phase wise development of its various projects by subsequent equity or debt financing consequent to being able to raise funds in the capital markets by way of private placement either brokered or non brokered or prospectus offering, as the case may be and depending on the financial conditions of the market at such time as the Company would be able to attract institutional funds to subscribe to its share capital.

## **FINANCIAL CONDITION**

The following discussion of the Company's financial performance is based on the unaudited Condensed Interim Consolidated Financial Statements as of March 31, 2019 ("financial statements") set forth herein. As discussed in Note 2 to the financial statements, they are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the IASB. These financial statements should be read in conjunction with the Company's September 30, 2018 audited consolidated financial statements.

Management is required to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period then ended. The Interim Consolidated Balance Sheet as of March 31, 2019 indicates cash and cash equivalents of \$110,603 and other receivables of \$63,966 resulting in total current assets of \$174,569, an increase of \$60,708 from September 30, 2018. The long-term assets are comprised of Intangible Assets and Plant and Machinery of \$129,458 which is a decrease of \$15,180 from September 30, 2018. The total assets are \$304,027 which is an increase of \$45,528 from September 30, 2018.

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The Company's current liabilities at March 31, 2019 are its trade and other payables of \$1,813,463 which is an increase of \$398,374 from September 30, 2018. The Company also had Convertible Debentures amounting to \$150,000 (September 30, 2018: \$150,000). Equity attributable to shareholders of the Company is \$(1,659,436), a decrease of \$(352,846) from September 30, 2018, and is comprised of share capital of \$7,923,396 (Previous Year: \$7,923,396), reserves of \$8,180,317 (Previous Year: \$8,181,602), Subscription received in Advance \$275,000 (Previous Year: 100,000) less the deficit of \$(18,038,149) (Previous Year: \$(17,511,588)).

The Corporation used its cash and cash equivalents from September 30, 2018 to pay its trade and other payables, fund its ongoing research programs.

For the three months ended March 31, 2019, the Company realized a net loss of \$217,104, or \$0.00 per share, compared to a net loss of \$337,664 or \$0.01 per share for the three months ended March 31, 2018. The net loss for the six months ended March 31, 2019 amounted to \$527,846 or \$0.01 per share. The net loss for the six months ended March 31, 2018 amounted to \$1,289,926, which included loss on settlement of debts amounting to \$331,902 (See Note 8).

The loss for the three months ended March 31, 2019 represents operating expenses of \$217,747 mainly comprising of Professional and Consultancy Fees \$85,620 (Previous Year: \$139,321) and Research Expenses of \$92,694 (Previous Year: \$136,493).

The loss for the six months ended March 31, 2019 represents operating expenses of \$526,411 mainly comprising of Professional and Consultancy Fees \$177,251 (Previous Year: \$290,656) and Research Expenses of \$287,794 (Previous Year: \$391,891).

The Company expects to continue incurring losses during this period of project development. These losses are expected to be funded by the current cash and private placement financing.

**Summary of Quarterly Results**

The following table sets out selected unaudited quarterly financial information of the Company for the eight quarters ended March 31, 2019. This information is derived from unaudited quarterly financial statements prepared by management. The Company's condensed interim consolidated financial statements are prepared in accordance with IFRS and expressed in Canadian dollars.

	<b>31Mar19</b>	<b>31Dec18</b>	<b>30Sept18</b>	<b>30Jun18</b>	<b>31Mar18</b>	<b>31Dec17</b>	<b>30Sept17</b>	<b>30Jun17</b>
Net Loss from continued operations	\$(217,747)	\$(308,821)	\$(270,140)	\$(498,186)	\$(342,657)	\$(966,922) <sup>(2)</sup>	\$(1,516,954) <sup>(1)</sup>	\$(461,829)
Loss per share, basic and diluted	Nil	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.04)	(0.01)

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- (1) Charge of \$756,992 on account of share-based compensation
- (2) During Q1 2018, the Company recognized loss on settlement of debts of \$331,902 related to the Company's issuance of 600,000 units to settle a note payable of \$120,000. These units had a fair value of \$452,231, including the shares valued at \$306,000 and the warrants estimated at \$146,231. The warrants were measured using the Black Scholes option pricing model with the following assumptions and inputs: expected life 2 years; volatility 131%; dividend yield 0%; and risk-free rate 1.55%.

### **Quarter Results**

During the three months ended March 31, 2019, the Company reported a net loss of \$217,747 compared to a net loss of \$342,639 during the same period in the prior year, representing a decrease in loss of \$124,892. The decrease in loss is primarily attributed to the following:

- A decrease of \$53,701 in professional and consulting fees. Professional and consulting fees were \$85,620 in the three months ended March 31, 2019, compared to \$139,321 in the same period in the prior year.
- A decrease of \$43,799 in research expenses. Research expenses were \$92,694 in the three months ended March 31, 2019, compared to \$136,493 in same period in the prior year. During the same period, the Company, accrued a receivable against a Grant from the National Research Council's Industrial Applied Research Program amounting to \$30,000 (March 31, 2018: \$ Nil), which has been credited to the account.
- A decrease of \$18,641 in office and administration fees. Office and administration fees were \$7,983 in the three months ended March 31, 2019, compared to \$26,624 in the same period in the prior year.

These decreases were partially offset by the following expense increases:

- An increase of \$13,334 in trust and filing fees. Trust and filing fees were \$17,585 in the three months ended March 31, 2019, compared to \$4,251 in the same period in the prior year.

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The operating results of the Corporation for the 3 months ended on March 31, 2019 is as under:

	For the three months ended March 31		Variance
	2019	2018	Canadian \$
	Canadian \$	Canadian \$	
<b>Administrative Expenses</b>			
Amortization (Notes 4 and 5)	7,590	18,151	10,561
Office and administration	7,983	26,624	18,641
Professional and consulting fees (Note 9)	85,620	139,321	53,701
Investor communication	2,170	12,679	10,509
Research (Net) (Note 9, 15)	92,694	136,493	43,799
Travel	4,105	5,120	1,015
Trust and filing fees	17,585	4,251	(13,334)
	(217,747)	(342,639)	(124,892)
<b>Other Items</b>			-
Interest income (expense)	7	(18)	(25)
Loss on settlement of debts (Notes 8 and 10)	-	-	-
<b>Net loss for the Period</b>	(217,740)	(342,657)	(124,917)
<b>Other Comprehensive Income (Loss)</b>			-
Foreign currency translation adjustment	636	4,993	4,357
<b>Comprehensive loss for the period</b>	(217,104)	(337,664)	(120,560)

During the six months ended March 31, 2019, the Company reported a net loss of \$526,411 compared to a net loss of \$977,262 during the same period in the prior year, representing a decrease in loss of \$450,851. The decrease in loss is primarily attributed to the following:

- A decrease of \$113,405 in professional and consulting fees. Professional and consulting fees were \$177,251 in the six months ended March 31, 2019, compared to \$290,656 in same period in the prior year.
- A decrease of \$104,097 in research expenses. Research expenses were \$287,794 in the six months ended March 31, 2019, compared to \$391,891 in the same period in the prior year.
- A decrease of \$148,440 in investor communication fees. Investor communication fees were \$4,738 in the six months ended March 31, 2019, compared to \$153,178 in the same period in the prior year.

These decreases were partially offset by the following expense increases:

- An increase of \$16,281 in trust and filing fees. Trust and filing fees were \$24,792 in the six months ended March 31, 2019, compared to \$8,511 in the same period in the prior year.

A comparison of six month ended March 31 for 2019 and 2018 is as follows:

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	<b>For the six months ended March 31</b>		<b>Variance</b>
	<b>2019</b>	<b>2018</b>	
	Canadian \$	Canadian \$	Canadian \$
<b>Administrative Expenses</b>			
Amortization (Notes 4 and 5)	15,180	36,352	21,172
Office and administration	11,580	58,071	46,491
Professional and consulting fees (Note 9)	177,251	290,656	113,405
Investor communication	4,738	153,178	148,440
Research (Net) (Note 9, 15)	287,794	391,891	104,097
Travel	5,076	38,603	33,527
Trust and filing fees	24,792	8,511	(16,281)
	(526,411)	(977,262)	(450,851)
<b>Other Items</b>			
Interest income (expense)	(150)	(415)	(265)
Loss on settlement of debts (Notes 8 and 10)	-	(331,902)	(331,902)
<b>Net loss for the Period</b>	(526,561)	(1,309,579)	(783,018)
<b>Other Comprehensive Income (Loss)</b>			
Foreign currency translation adjustment	(1,285)	19,653	20,938
<b>Comprehensive loss for the period</b>	(527,846)	(1,289,926)	(762,080)

(1) Professional Fees include expenses towards: (a) Accounting and Audit Expenses (b) Legal Expenses and (c) Other consultancy expenses. The details of the above are as below.

	<b>3 months ended March 2019</b>	<b>3 months ended March 2018</b>	<b>6 months ended March 2019</b>	<b>6 months ended March 2018</b>
<b>Professional and Consulting Fees</b>				
Accounting	44,980	70,607	74,300	91,147
Legal	40,639	11,968	102,950	31,472
Other consultants		56,745		168,037
	85,619	139,320	177,251	290,656

(2) Research Expenses: The Company is in the research phase of an internal project and is of the opinion that the research activities have not yet yielded any asset that could generate probable future economic benefits. Consequently, the Company recognizes spend towards research as an expense when it is incurred. (Note 3).

## **Use of Accounting Estimates and Judgments**

Please refer to Note 3 of the Condensed Interim Consolidated Financial Statements for the quarter ended March 31, 2019 and the audited consolidated financial statements for the year ended September 30, 2018 for an extended description of the information concerning the Company's significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses.

## **Standards Issued but Not Yet Effective**

The information is provided in Note 3 of the financial statements.

## **Financial Instruments**

### 1. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, amounts receivable and trade payables and accrued liabilities approximate their fair values because of their short-term nature. The fair values of marketable securities are based on current bid prices at March 31, 2019.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:

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 for the asset or liability that are not based on observable market data.

The carrying amounts and fair value of financial instruments presented in the statement of financial position are as follows:

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	2019		2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>						
Cash and cash equivalents	110,603	110,603	31,866	31,866	19,475	19,475
Sales tax receivable	58,274	58,274	67,955	67,955	100,747	100,747
Prepayments	5,692	5,692	14,040	14,040	0	0
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities (Note 6)	792,947	792,947	619,599	619,599	219,564	219,564
Advance from Investissement Québec (Note 7)	495,000	495,000	495,000	495,000	148,500	148,500
Due to related parties (Note 9)	516,779	516,779	299,914	299,914	42,076	42,076
Notes payable (Note 8)	8,737	8,737	576	576	120,000	120,000
Proceeds from convertible debentures (Note 16)	150,000	150,000	150,000	150,000	0	0

## 2. Financial Instrument Risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

### (i) Credit risk

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's primary exposure to credit risk is on its cash which is held in bank accounts. As most of the Company's cash is held by two banks, there is a concentration of credit risk. This risk is low, and is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The maximum exposure to credit risk is the carrying amount of the Company's financial instruments. The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consists primarily of refundable government goods and services taxes.

### (ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its ability to meet its short-term research and administrative expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset-backed commercial papers.



(iii) Foreign Exchange Risk

Foreign 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 is not exposed to foreign exchange risk.

The Company's functional currency is the Canadian dollar. Therefore, the Company is not exposed to foreign exchange risk.

(iv) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Financial assets and financial liabilities are not exposed to interest rate risk because they are non-interest bearing.

(v) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of palladium, nickel, and gold. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

During the six months ended March 31, 2019, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

### **Capital Management Policies and Procedures**

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funds to support the research and development expenses with a view to develop intellectual property rights that would enable value creation for the shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or sell assets to settle liabilities.

In order to maintain or adjust the capital structure, the Company may issue common shares or securities convertible or exercisable into common shares. No changes were made in the objectives, policies and processes for managing capital during the interim period ending March 31, 2019. The Company is not subject to any externally imposed capital requirements.

## **Liquidity and Capital Resources**

### *Working Capital*

Working capital at March 31, 2019 of \$(1,788,894) represents a decrease of \$337,666 from the levels of September 30, 2018 total of \$(1,451,228). This decrease in working capital is mainly due to the utilization of cash to meet the operating expenses during the quarter.

### *Capital Expenditures*

There were no Capital Expenditures incurred by the Company during the six months ended March 31, 2019 and 2018.

### *Convertible Debentures*

During April 2018, the Company issued 100 units of convertible debenture amounting to \$50,000. The term of each Convertible Debenture matures three (3) years from the date of issuance, carries an interest rate of six percent (6%) per annum, (interest paid upfront in advance) and is convertible to common shares of the Company at a conversion price of \$0.50 per common share, (or at 10% below the market price, whichever is less, subject to exchange approval).

On May 14, 2018, the Company announced a non-brokered private placement offering of up to \$5,000,000 (the "Offering"), by the issuance of convertible debentures of the Company (each a "Convertible Debenture").

There are 100 units available in the Offering, with a minimum tranche of \$50,000. The term of each Convertible Debenture matures three (3) years from the date of issuance, carries an interest rate of eight percent (8%) per annum, (interest paid upfront in advance) and is convertible to common shares of the Company at a conversion price of \$0.50 per common share, (or at market price, whichever is less, subject to exchange approval). Maturity is subject to an accelerated maturity of 30 days in the event the Company's common shares trade at \$1.00 or more for ten consecutive trading days.

During the year ended September 30, 2018, the Company received \$100,000 related to the Offering. The Convertible Debentures will be issued subject to regulatory approval.

No new Debentures were issued or repaid during the quarter ended March 31, 2019.

### *Capital Resources*

Equity attributable to shareholders of the Company is \$(1,659,436), a decrease of \$(352,846) from September 30, 2018, and is comprised of share capital of \$7,923,396 (Previous Year: \$7,923,396), reserves of \$8,180,317 (Previous Year: \$8,181,602), Subscription received in Advance \$275,000 (Previous Year: 100,000) less the deficit of \$(18,038,149) (Previous Year: \$(17,511,588)) .

Management of the Corporation does not believe that it has sufficient funds to pay its ongoing general and administrative expenses including research and development expenses, to pursue development of the various projects and meeting the existing commitments for the ensuing 12 months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Corporation's ability to continue future operations beyond September 30, 2019 and fund its research and development expenditures is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways, including, but not limited to, the issuance of debt or equity instruments. Management will pursue such additional sources of financing when required.

While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Corporation or that they will be available on terms which are acceptable to the Corporation. If management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts eventually realized for assets might be less than amounts reflected in these consolidated financial statements.

### **Transactions with Related Parties**

Please refer to Note 9 of the financial statements for a summary of the Company's transactions with related parties and the related period end balances.

### **Commitments and Contingencies**

Please refer to Note 13 of the financial statements for a summary of the Company's commitments and contingencies.

### **Controls and Procedures Over Financial Reporting**

Venture issuers are not required to include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"). In particular, the Company's certifying officers are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's

generally accepted accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make. Investors should be aware that inherent limitations on the ability of the Company's certifying officers to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

The following information relates to share data of the Company.

### **1. Share capital**

#### **(a) Authorized:**

Unlimited number of Class A common voting shares without par value.

Unlimited number of non-voting Class B preferred shares, without nominal or par value.

#### **(b) Issued as of March 31, 2019: The Company has 43,442,833 common shares issued (September 30, 2018: 44,147,283).**

On October 5, 2017 the Company issued 125,000 units of the Company to a family member of a director in relation to the subscriptions received in advance. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at \$0.50 per share for two years following the issuance date.

On October 5, 2017 the Company issued 1,002,930 units to the former Chairman in relation to subscriptions received in advance. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at \$0.50 per share for two years following the issuance date.

On October 5, 2017 the Company issued 20,060 units of the Company to a family member of the former Chairman in relation to the subscriptions received in advance. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at \$0.50 per share for two years following the issuance date.

On October 5, 2017 an additional 900,000 units were issued to non-related parties in relation to the subscriptions received in advance. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at \$0.50 per share for two years following the issuance date.

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On April 4, 2018, the former CEO of the Company subscribed to 500,000 units at \$0.20 per unit for total proceeds of \$100,000. During the six months ended March 31, 2019, subscriptions totalling \$175,000 were received for 1,750,000 units. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at \$0.50 per share for one year following the issuance date. As of the date of these financial statements, these units have not been issued.

On May 23, 2019, the Company completed the private placement of 8,310,000 units at a price of \$0.10 per unit for gross proceeds of \$831,000. Each unit consists of one common share of the Company and one transferrable common share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at a price of \$0.25 per share for a period of one year from the date of issuance. The Company will pay \$42,400 in finder's fees.

*Shares for Debt*

On October 5, 2017, the Company issued 600,000 units of the Company in full settlement of a note payable of \$120,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at \$0.50 per share for two years following the issuance date. The fair value of the debt settlement was estimated at \$392,231, including the shares valued at \$246,000 and the warrants estimated at \$146,231. The warrants were measured using the Black Scholes option pricing model with the following assumptions and inputs: expected life 2 years; volatility 131%; dividend yield 0%; and risk-free rate 1.55%.

*Units Issued in Error*

During the year ended September 30, 2017, the Company issued 446,500 units to the former Chairman in error. On October 5, 2017 an additional 257,950 units of the Company were issued in error. Each unit consists of one common share and one share purchase warrant. In November, 2018, these units were returned to treasury of the Company for cancellation.

In November 2018, the Company cancelled a total of 704,450 common shares and 704,450 share purchase warrants that were issued in error.

*Options*

On September 14, 2017, the Company granted a total of 4,000,000 stock options to certain officers, directors and/or consultants of the Company exercisable at \$0.30 for a period of two years.

On October 27, 2017, a company controlled by the former CEO exercised 400,000 options with an exercise price of \$0.30 for total proceeds of \$120,000.

On November 23, 2017, a company controlled by the former CEO exercised 200,000 options with an exercise price of \$0.30 for total proceeds of \$60,000.

On November 23, 2017, a director of the Company exercised 80,000 options with an exercise price of \$0.30

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for total proceeds of \$24,000.

On November 30, 2017, a company controlled by the former CEO exercised 100,000 options with an exercise price of \$0.30 for total proceeds of \$30,000.

On November 30, 2017, the former CEO of the Company exercised 40,000 options with an exercise price of \$0.30 for total proceeds of \$12,000.

On December 6, 2017, the former CEO of the Company exercised 100,000 options with an exercise price of \$0.30 for total proceeds of \$30,000.

On December 21, 2017, the former CEO of the Company exercised 70,000 options with an exercise price of \$0.30 for total proceeds of \$21,000.

*Warrants*

On October 27, 2017, the former CEO of the Company exercised 100,000 warrants with an exercise price of \$0.50 for total proceeds of \$50,000.

*Summary of Outstanding Share Data*

As at March 31, 2019, the Company had 43,442,833 common shares issued and outstanding. As at the same date, there were 7,383,050 warrants outstanding, and 3,010,000 options were outstanding.

As at the date of this MD&A, the Company has 52,387,283 common shares issued and outstanding, 15,693,050 warrants outstanding and 3,010,000 options outstanding.

	<b>Number of Shares</b>	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Issued and Outstanding</b>	52,387,283	3,010,000	\$0.30	September 24, 2019
		3,010,000		
<b>Warrants</b>	<b>Number Outstanding</b>		<b>Exercise Price</b>	<b>Expiry Date</b>
	412,500		\$1.10	August 26, 2020
	8,310,000		\$0.25	May 23, 2020
	2,647,990		\$0.50	October 10, 2019
	4,322,560		\$0.50	August 17, 2019
	15,693,050			

## **BUSINESS RISKS**

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many common risks to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment. The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been relatively successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

### *Competition*

Magnesium Metal is a competitive market and the ability to secure offtake agreements with magnesium metal clients and customers is critical. The key to success is to ensure that a stable, low-cost ultrapure magnesium metal (and Mg-related byproducts and compounds) is produced at a price less than its competitors while the sale of products from its other related operations assists in revenue flow. The Company's other assets are its technology, process and innovative modular plant expansion design.

### *New Business*

The Company currently does not have any contractual customers. To mitigate this risk, the Company is actively in discussion with several large companies who have shown great interest in purchasing the Company's magnesium-based products. However, there is a risk that the Company may not be able to find sufficient customers at the early stages.

### *Market*

The profitability of the Company's operations is significantly affected by changes in the market prices of the products. The level of interest rates, the rate of inflation, and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

### *Project Execution Risk*

The business is based on a novel, low-cost modular method for producing magnesium metal and magnesium oxide. Although the majority of the unit operations are commercially proven, several key processing steps need to undergo a technical and economic review and possible testing prior to engineering and construction. To mitigate this risk, this capital and operating cost review will be carried out by an independent engineering firm prior to detailed engineering design and construction of the facility.

Once the detailed engineering design is complete, there are no guarantee that the processing facility will be built on time and on budget. Any delays in receiving the appropriate environmental and construction permits, construction delays, as well as ramp up to full capacity may materially impact the Company's financial performance and cash flow. This risk, however is being mitigated through the design and construction of a modular facility. This approach limits the financial exposure and helps to ensure adequate cash flow prior to expanding production through additional modular units.

#### *Key Personnel*

The success of the Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

This risk is mitigated through the engagement of technology experts, consultants in the field, etc. who can intervene in such an instance. Once the final design, equipment procurement and construction of the pilot plant and other operations is complete, this risk is further mitigated

The facilities' location in an industrial community gives it the ability to engage qualified personnel to operate the facility, create local jobs and renovate an industrial wasteland to an environmentally friendly business hub is deemed to be a very low risk.

#### *Product Quality*

The unique Magnesium process is designed to produce 99.9% wt. magnesium metal ingots. If the processing steps result in inconsistent product quality, then the Company may not be able to fulfill its contractual agreements to its customers which could adversely impact its financial performance, if the Company's other products sales are not high enough to compensate.

In addition to producing Magnesium ingots, the process is also designed to produce significant quantities of secondary Mg-related byproducts, co-products and compounds for sale to customers as well as its Mg-based panels for the construction industry and Mg-Air Fuel Cell development as commercial viability is determined. The Company is determined to create a solid, stable, Canadian source of Mg and its other products to enable both Canada and the USA to rely less on other foreign imports.

#### *Consumable and Raw Material costs*

The process is based on processing on grade, already-mined, serpentinite tailings to produce magnesium metal and other related Mg byproducts. The Company has secured a long-term option agreement for the raw material supply of 50M tonnes at a very low (\$1.00/tonne as it is used) price. The Company has an option for an additional 60M tonnes in Thetford Mines Quebec. These two option contracts ensures a long-term raw material supply and as such this risk has been mitigated.



### *Property Damage*

The facility will be insured against loss of property as well as other insurances to protect against certain risks. The Company, however cannot insure against operator error, improper maintenance, and general equipment failure. As such these events may increase the overall operational costs of the facility and thus impact the profitability of the Company.

### *Environmental and Safety Compliance*

The processing facility will be designed and constructed to meet all required environmental, health and safety standards. Although best practices will be used to design, construct and operate the facility, there is always a risk that operator error or equipment failure will result in environmental and/or safety non-compliance.

### *Intellectual Property*

The Company has significant know-how which will be protected through the filing of patents as well as the issuance of non-disclosure agreements for specific know-how and business confidential information. Although every effort will be made to ensure that the Company's IP and know-how are protected, there is a risk that the competition and/or employees will not respect their legal obligations and the Company may be forced to take legal action.

### *Legal Risk*

In the normal course of the Company's business, Mag One may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to the personal injuries, property damage, property tax, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**FORWARD-LOOKING INFORMATION**

All statements in this management's discussion and analysis, other than statements of historical fact, that address future acquisitions and events or developments that the Corporation expects to occur, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward looking statements. Factors that could cause actual results to differ materially from those in forward looking statements include industry related risks, regulatory approvals, and continued availability of capital and financing and general economic, market or business conditions.

**Approved on behalf of the Board**



**Director**  
**Nelson Skalbania**



**Director**  
**Gillian Holcroft**