

Condensed Interim Consolidated Financial Statements of

**KABUNI LTD**

(formerly Magnolia Resources Ltd.)

For the Period Ended March 31, 2016 (Unaudited)  
(Expressed in Australian dollars)

**KABUNI LTD (formerly Magnolia Resources Ltd.)**  
**Condensed Interim Consolidated Statements of Financial Position**  
(Expressed in Australian dollars) (Unaudited)

	Note	March 31, 2016 \$	August 31, 2015 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		<b>4,045,833</b>	8,417,552
Receivables	5	<b>92,843</b>	132,751
Prepaid expenses and deposits	6	<b>169,061</b>	155,337
Other assets		<b>5,000</b>	5,000
		<b>4,312,737</b>	8,710,640
Property and equipment	7	<b>561,953</b>	157,178
Intangible assets	8	<b>90,519</b>	-
<b>Total assets</b>		<b>4,965,209</b>	8,867,818
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	<b>617,372</b>	852,823
Loans payable	10	<b>82,652</b>	86,851
		<b>700,024</b>	939,674
<b>Total liabilities</b>		<b>700,024</b>	939,674
<b>Shareholders' equity</b>			
Share capital	11	<b>17,348,283</b>	17,254,837
Reserves	12	<b>4,032,549</b>	3,879,716
Deficit		<b>(17,079,610)</b>	(13,172,059)
Cumulative translation adjustment		<b>(36,037)</b>	(34,350)
<b>Shareholders' equity</b>		<b>4,265,185</b>	7,928,144
<b>Total liabilities and shareholders' equity</b>		<b>4,965,209</b>	8,867,818

Nature and continuance of operations (Note 1)  
Commitments (Note 17)  
Subsequent events (Notes 18)

Approved on behalf of the Board of Directors:

**"Tony King"**  
Tony King, Executive Chairman

**"Neil Patel"**  
Neil Patel, Managing Director

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

**KABUNI LTD (formerly Magnolia Resources Ltd.)**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Australian dollars) (Unaudited)

	Note	For the seven months ended March 31, 2016	For the six months ended February 28, 2015	For the three months ended March 31, 2016	For the three months ended February 28, 2015
<b>Revenue</b>		\$ 1,186	\$ -	\$ -	\$ -
Selling expenses		862	-	-	-
		324	-	-	-
<b>Operating expenses</b>					
Advertising and promotion		197,349	51,021	78,478	9,154
Depreciation	7	14,708	-	7,188	-
General and administration		274,521	14,356	140,031	11,961
Interest expense		-	6,569	-	1,930
Insurance		11,528	944	8,432	381
Professional and consulting services		470,486	348,930	246,328	242,281
Rent		199,981	17,009	81,915	8,833
Salaries, bonus and benefits		1,533,448	93,139	669,936	44,165
Share-based payments	11,12	217,833	-	19,500	-
Software development		744,583	-	295,439	-
Travel expenses		149,913	23,194	66,710	17,892
		(3,814,350)	(555,160)	(1,613,957)	(336,597)
Interest income		79,322	-	21,920	-
Accretion expense on convertible debt		-	-	-	-
Finance costs		(4,583)	-	(2,094)	-
Foreign exchange gain (loss)		(447)	-	(447)	-
Gain on derivative liability		-	-	-	-
Incorporation costs		(21,511)	-	(1,193)	-
Loss on settlement of accounts payable		(139)	-	(139)	-
Transaction costs		-	-	-	-
Unrealized foreign exchange gain (loss)		(153,125)	-	(118,374)	-
Realized foreign exchange gain (loss)		6,958	-	(1,075)	-
<b>Loss and comprehensive loss</b>		<b>(3,907,551)</b>	<b>(555,160)</b>	<b>(1,715,359)</b>	<b>(336,597)</b>
<b>Loss per share</b>					
- basic and diluted		\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>					
- basic and diluted		130,055,106	28,001,000	130,309,175	28,001,000

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

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Australian dollars) (Unaudited)

	Note	Number of Shares	Share Capital \$	Share Subscriptions Received \$	Performance Shares Reserves \$	Cumulative Translation Adjustment \$	Deficit \$	Total \$
<b>Balance as at August 31, 2014</b>		<b>48,037,500</b>	<b>189,529</b>	<b>53,154</b>	-	<b>28,883</b>	<b>(837,708)</b>	<b>(566,142)</b>
Loss for the period		-	-	-	-	-	(222,446)	(222,446)
Cumulative translation adjustment		-	-	-	-	37,671	-	37,671
<b>Balance as at November 30, 2014</b>		<b>48,037,500</b>	<b>189,529</b>	<b>53,154</b>	-	<b>66,554</b>	<b>(1,060,154)</b>	<b>(750,917)</b>
Issuance of shares		3,339,318	207,950	(53,154)	-	-	-	154,796
Share-based payments		-	246,193	-	-	-	-	246,193
Shares repurchased	11c	(15,800,000)	(164)	-	-	-	-	(164)
Fair value of common shares issued on reverse takeover transaction:	2	36,001,000	7,200,200	-	-	-	-	7,200,200
Shares issued to advisors as finders' fee	2	4,257,547	811,509	-	-	-	-	811,509
Share-based payments	2	666,666	133,333	-	-	-	-	133,333
Shares issued on settlement of loan	11b	2,800,001	560,000	-	-	-	-	560,000
Shares issued on conversion of loan	11b	15,523,810	1,420,000	-	-	-	-	1,420,000
Performance shares issued	12	-	-	-	3,879,716	-	-	3,879,716
Public offer	11b	35,000,000	6,486,287	-	-	-	-	6,486,287
Loss for the period		-	-	-	-	-	(12,111,905)	(12,111,905)
Cumulative translation adjustment		-	-	-	-	(100,904)	-	(100,904)
<b>Balance as at August 31, 2015</b>		<b>129,825,842</b>	<b>17,254,837</b>	-	<b>3,879,716</b>	<b>(34,350)</b>	<b>(13,172,059)</b>	<b>7,928,144</b>
Issuance of shares for services		150,000	29,250	-	-	-	-	29,250
Share-based payments	11b	333,333	65,000	-	-	-	-	65,000
Performance shares issued	12	-	-	-	152,833	-	-	152,833
Share issue costs		-	(804)	-	-	-	-	(804)
Loss for the period		-	-	-	-	-	(3,907,551)	(3,907,551)
Cumulative translation adjustment		-	-	-	-	(1,687)	-	(1,687)
<b>Balance as at March 31, 2016</b>		<b>130,309,175</b>	<b>17,348,283</b>	-	<b>4,032,549</b>	<b>(36,037)</b>	<b>(17,079,610)</b>	<b>4,265,185</b>

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

**KABUNI LTD (formerly Magnolia Resources Ltd.)**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(Expressed in Australian dollars) (Unaudited)

	For the seven months ended March 31, 2016 \$	For the six months ended February 28, 2015 \$	For the three months ended March 31, 2016 \$	For the three months ended February 28, 2015 \$
<b>Cash flows from operating activities</b>				
Loss for the period	(3,907,551)	(555,160)	(1,715,359)	(336,597)
Adjustments to reconcile non-cash items				
Depreciation	14,708	-	7,188	-
Share-based payments	247,083	-	48,750	-
Accretion expense on convertible debt	-	-	-	-
Changes in non-cash working capital				
Receivables	(129,153)	(28,969)	(179,149)	-
Prepaid expenses and deposit	155,337	(566)	139,941	380
Accounts payable and accrued liabilities	(235,451)	115,678	(101)	124,882
Net cash used in operating activities	(3,855,027)	(469,017)	(1,698,730)	(211,335)
<b>Cash flows from investing activities</b>				
Acquisition of intangible asset	(90,519)	-	(1,604)	-
Acquisition of property and equipment	(419,483)	-	(249,040)	-
Net cash used in investing activities	(510,002)	-	(250,644)	-
<b>Cash flows from financing activities</b>				
Proceed from loans payable	-	257,327	-	103,294
Issuance of shares	-	200,716	-	84,254
Share issuance costs	(804)	-	-	-
Share subscriptions received	-	-	-	-
Proceeds from issuance of convertible debt	-	-	-	-
Proceeds from issuance of debt	-	-	-	-
Transaction costs of convertible debt	-	-	-	-
Repayment of interest on debt	-	-	-	-
Net cash provided by financing activities	(804)	458,043	-	187,548
Impact of exchange rate changes on cash and cash equivalents	(5,886)	(1,485)	30,512	1,039
<b>Change in cash and cash equivalents during the period</b>	<b>(4,371,719)</b>	<b>(12,459)</b>	<b>(1,918,862)</b>	<b>(22,748)</b>
Cash and cash equivalents (bank indebtedness), beginning of the period	8,417,552	(2,737)	5,964,695	7,997
<b>Cash and cash equivalents (bank indebtedness), end of the period</b>	<b>4,045,833</b>	<b>(15,196)</b>	<b>4,045,833</b>	<b>(14,751)</b>
Cash and cash equivalents is represented by:				
Cash				
Cash equivalents				

There were no significant non-cash transactions for the periods presented.

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

# **KABUNI LTD (formerly Magnolia Resources Ltd.)**

## **Notes to the Condensed Interim Consolidated Financial Statements**

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### **1. Nature and Continuance of Operations**

Kabuni Ltd. ("Kabuni" or "the Company"; formerly Magnolia Resources Limited) was incorporated on May 11, 2012 under the *Corporation Act 2001* of Australia. Kabuni is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX") under the symbol KBU.

Kabuni is a North American-based SaaS and e-commerce platform in the home design space that enables independent home design professionals to grow their business through an omni-channel retail experience. Kabuni's platform enables designers worldwide to collaborate with clients anywhere in the US and Canada and earn income from the sale of home décor products and furnishings from Kabuni's catalogue through curated Inspiration Boards.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. For the period ended March 31, 2016, the Company and its consolidated entities have a net working capital of \$3,612,713 and accumulated deficit of \$17,079,610. The Company's ability to continue as a going concern is dependent upon its ability to access sufficient capital until it has profitable operations. Management believes the Company has sufficient working capital to maintain its operations for the upcoming year. No provision has been made in these condensed interim consolidated financial statements for any adjustments to the net recoverable value of assets should the Company not be able to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these condensed interim consolidated financial statements.

The Company's registered office is at 35 Richardson Street, West Perth, WA, Australia, 6005.

### **2. Reverse Takeover Transaction**

On August 24, 2015, the Company completed its acquisition of 100% of Kabuni Technologies Inc., formerly named PDT Technologies Inc. ("Kabuni Tech.").

Under the sale share agreement ("SSA") 100% of the share capital of Kabuni Tech. was sold for the following consideration:

- (a) 38,376,819 fully paid ordinary shares of the Company, consisting of:
  - i. 25,550,000 shares to shareholders of Kabuni Tech.;
  - ii. 10,026,818 shares to other shareholders of Kabuni Tech.; and
  - iii. 2,800,001 shares to certain creditors of Kabuni Tech. to settle outstanding payables.
- (b) 4,257,547 shares to corporate advisors of Kabuni Tech. who introduced and facilitated the transaction.
- (c) 15,523,810 shares to holders of Kabuni Tech.'s convertible loan payable.
- (d) 37,463,826 performance shares to directors, employees and advisors which will automatically convert into shares upon satisfaction of certain milestones.

The 2,800,001 shares issued to certain creditors of Kabuni Tech. were issued to settle outstanding payables in the amount of Canadian ("CAD") \$420,000. The Company recognized a loss on settlement of accounts payable of \$118,999 during the year ended August 31, 2015, which related to the difference between the fair value of the share issued by Magnolia and the debt settled.

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### 2. Reverse Takeover Transaction ("RTO") (continued)

The 15,523,810 shares issued to holders of Kabuni Tech.'s convertible debt were issued to settle outstanding debt in the amount of \$1,420,000. The Company recognized a loss on settlement of convertible debt of \$47,668 during the year ended August 31, 2015, which related to the difference between the fair value of the share issued by Magnolia and the debt settled.

The acquisition of Kabuni Tech. resulted in the shareholders of Kabuni Tech. obtaining control of the merged entity. In addition, the board of directors of the merged entity was restructured such that two of the Company's three directors stepped down and were replaced by Kabuni Tech's nominees. A nominee of Kabuni Tech. serves as the Managing Director and the Kabuni Tech. management team has assumed responsibility for the management of the merged entity.

Consequently, the transaction is considered a reverse take-over ("RTO"). Since the Company has become a dormant public shell, the Company does not meet the definition of a business and the acquisition is accounted for as a purchase of the Company's net assets. The purchase consideration is determined as an equity-settled share-based payment, under IFRS 2, Share-based Payments, at the fair value of the equity instruments retained by the shareholders of the Company, based on the market value of the Company's common shares on the date of the closing of the RTO.

The application of the RTO guidance has resulted in the Company (the legal parent) being accounted for as the subsidiary and Kabuni Tech. (the legal subsidiary) being accounted for as the parent entity.

As Kabuni Tech. is deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these condensed interim consolidated financial statements at their historical carrying value. The Company's results of operations have been included from the date of the RTO. The legal capital of the entity continues to be that of the Company, the legal parent.

#### Net asset acquired:

Cash and cash equivalents	\$	2,815,998
Receivables		58,616
Other assets		5,000
Due from Kabuni Tech.		750,000
Accounts payable and accrued liabilities		(490,755)
	\$	3,138,859

#### Purchase price of equity:

36,001,000 common shares at \$0.20 per share	\$	7,200,200
Finders Fees'		
Advisor shares (4,257,547 common shares)		811,509
Additional shares to a director (666,666 common shares)		133,333
Performance shares		3,879,716
	\$	12,024,758

#### Cost of public listing

\$	8,885,899
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**Notes to the Condensed Interim Consolidated Financial Statements**  
For the period ended March 31, 2016  
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**2. Reverse Takeover Transaction (“RTO”) (continued)**

The transaction was measured at the fair value of the shares that Kabuni Tech. would have had to issue to shareholders of the Company to give shareholders of the Company the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Kabuni Tech. acquiring the Company. The fair value of the common shares was determined based on the share value in the concurrent public offer which was \$0.20 (Note 11).

During the year ended August 31, 2015, a listing fee of \$8,885,899 has been charged to the statement of loss and comprehensive loss as a listing expense to reflect the difference between the fair value of the amount paid (being the number of common shares retained by the original shareholders of the Company and finders' fee shares) and the fair value of the net assets received from the Company in accordance with in IFRS 2 Share-based Payment.

**3. Basis of presentation**

On October 21, 2015, Kabuni Tech. resolved to change its fiscal year end from August 31 to June 30 to correspond to the fiscal year end of the Company.

**(a) Statement of compliance**

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended August 31, 2015.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 16, 2016.

**(b) Basis of measurement and use of estimates and judgements**

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments carried at fair value, and are presented in Australian dollars.

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



# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### 3. Basis of presentation (continued)

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

- The valuation of share-based payments and performance share issuances in the statements of loss and comprehensive loss;
- determination of the purchase price of the Company (Note 2);
- the recognition and recoverability of deferred tax assets;
- the assumptions used to measure the fair value of the debt and equity components of convertible debentures; and
- the assumptions used to value the derivative liability arising on the convertible debentures.

### 4. New standards not yet adopted

The following new standards and interpretations are not yet effective and have not been applied in preparing these financial statements. The Company is currently evaluating the potential impacts of these new standards and does not anticipate any material changes to the financial statements upon adoption of this new and revised accounting pronouncement.

- IFRS 9 – *Financial Instruments* (effective January 1, 2018, deferred from the previously announced effective date of January 1, 2015) introduces new requirements for the classification and measurement of financial assets, and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options available in IAS 39.
- IFRS 15 – *Revenue from Contracts with Customers* (effective January 1, 2018, deferred from the previously announced effective date of January 1, 2017) is a new standard to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 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 Service*.

### 5. Receivables

The summary of the Company's receivables is as follows:

	March 31, 2016	August 31, 2015
Taxes receivable from governments	\$ 71,205	\$ 115,222
Other receivables	21,638	17,529
	<b>\$ 92,843</b>	<b>\$ 132,751</b>

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

### 6. Prepaid expenses and deposits

The summary of the Company's prepaid expenses and deposits are as follows:

	March 31, 2016	August 31, 2015
Prepaid expenses	\$ 84,016	\$ 69,311
Deposits	85,045	86,026
	<b>\$ 169,061</b>	<b>\$ 155,337</b>

### 7. Property and equipment

The summary of the Company's property and equipment is as follows:

Cost	Equipment - Office	Furniture - Office	Equipment - Design Studio	Furniture - Design Studio	Leasehold Improvements Design Studio	Total
Balance at August 31, 2014	\$ 3,568	\$ -	\$ -	\$ -	\$ -	\$ 3,568
Additions	43,857	-	109,826	-	-	153,683
Cumulative translation adjustment	1,187	-	2,749	-	-	3,936
Balance at August 31, 2015	\$ 48,612	\$ -	\$ 112,575	\$ -	\$ -	\$ 161,187
Additions	78,007	30,298	73,750	31,445	222,803	438,303
Cumulative translation adjustment	(5,515)	(1,654)	(8,860)	(1,214)	(2,188)	(19,431)
Balance at March 31, 2016	\$ 121,104	\$ 28,644	\$ 177,465	\$ 30,231	\$ 222,615	\$ 580,059
<b>Accumulated depreciation</b>						
Balance at August 31, 2014	\$ 892	\$ -	\$ -	\$ -	\$ -	\$ 892
Depreciation expense	2,984	-	-	-	-	2,984
Cumulative translation adjustment	133	-	-	-	-	133
Balance at August 31, 2015	\$ 4,009	\$ -	\$ -	\$ -	\$ -	\$ 4,009
Depreciation expense	11,543	3,165	-	-	-	14,708
Cumulative translation adjustment	(556)	(55)	-	-	-	(611)
Balance at March 31, 2016	\$ 14,996	\$ 3,110	\$ -	\$ -	\$ -	\$ 18,106
<b>Carrying amount</b>						
Balance at August 31, 2014	\$ 2,676	\$ -	\$ -	\$ -	\$ -	\$ 2,676
Balance at August 31, 2015	\$ 44,603	\$ -	\$ 112,575	\$ -	\$ -	\$ 157,178
Balance at March 31, 2016	\$ 106,108	\$ 25,534	\$ 177,465	\$ 30,231	\$ 222,615	\$ 561,953

As at March 31, 2016 the design studio is still under construction. Depreciation of the related property and equipment will commence when the asset is available for use.

### 8. Intangible assets

During the seven month period ending March 31, 2016, Kabuni Technologies entered into an agreement with Artsally Media Inc. to purchase the following assets:

- a domain name,
- registered and unregistered trademarks, logos and brand marks,
- all information in relation to artwork uploaded on website,
- vendors' rights, title and interest in the contracts,

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## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

### 8. Intangible assets (continued)

- vendors' rights, title and interest in social media accounts affiliated with the brand, and
- artist information.

These assets were purchased at cash consideration of CAD\$90,000 (\$88,915). The purchase agreement was signed on September 21, 2015, and consideration was paid in full on October 31, 2015. Management have assessed these assets as having an economic life of five to ten years. The related depreciation for the period is immaterial.

### 9. Accounts payables and accrued liabilities

	March 31, 2016	August 31, 2015
Trade payables	\$ 303,717	\$ 561,420
Accruals	256,065	61,733
Payroll payables	-	227,600
Other payables	54,258	2,070
	<b>\$ 617,372</b>	<b>\$ 852,823</b>

### 10. Loans payable

The Company has received a series of short-term loans from a company owned by a director and officer of the Company. These loans accrue interest at 8% per annum, compounded annually. As at March 31, 2016, the Company had loans outstanding, including accrued interest of CAD\$82,179 (\$82,652) (August 31, 2015 – CAD\$82,179 (\$86,851)). The loan was originally due on June 30, 2014, but subsequently was extended to June 30, 2015. The Company had provided a general security agreement over its assets to the lender.

On June 30, 2015, the Company entered into an amending agreement whereas the loan was extended an additional year and will mature on June 30, 2016. As per the agreement, the loan will no longer bear interest and the lender has been released and discharged of all security that was previously held over the Company's assets.

### 11. Share capital

#### (a) Authorized

The Company has an unlimited number of authorized commons shares with no par value.

#### (b) Issued

On March 1, 2016, the Company issued 150,000 common shares to an advisor in consideration for services provided to the Company.

On August 24, 2015, the Company completed the RTO transaction (Note 2). Concurrently with the RTO, the following transactions occurred:

- The Company completed a concurrent public offer ("Concurrent Financing") and issued 35,000,000 common shares at \$0.20 for gross proceeds of \$7,000,000. The Company incurred share issuance costs of \$513,713 in connection with the financing. As part of

# **KABUNI LTD (formerly Magnolia Resources Ltd.)**

## **Notes to the Condensed Interim Consolidated Financial Statements**

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### **11. Share capital (continued)**

#### **(b) Issued (continued)**

the Concurrent Financing, the Company issued 12,000,000 options to investors at a price of \$0.005 per option for gross proceeds of \$60,000 (Note 12(b)).

- The Company issued 2,800,001 common shares to certain creditors of Kabuni Tech. to settle outstanding debt. The fair value of the shares was \$560,000 based on the share price of the Concurrent Financing.
- The Company issued 15,523,810 common shares to holders of Kabuni Tech.'s convertible debt to settle outstanding debt. The fair value of the shares was \$1,420,000 based on the share price of the Concurrent Financing.

During the year ended August 31, 2015, Kabuni Tech. issued 3,339,318 common shares at prices between CAD\$0.00001 and CAD\$0.15 for total proceeds of CAD\$201,858 (\$207,950). The Company recorded share-based payments of \$246,193 to account for the difference between fair value of the shares issued and the consideration received.

#### **(c) Shares repurchased**

On May 25, 2015, under the SSA Agreement, Kabuni Tech. was required to repurchase 15,800,000 common shares at CAD\$0.00001 per share for gross proceeds of CAD\$158 (\$164) from certain shareholders (Note 2). The shares were returned to treasury.

#### **(d) Escrow shares**

As at March 31, 2016, the Company had 50,201,034 common shares classified by the ASX as restricted securities which are being held in escrow. The common shares will be released from escrow on the following dates: 3,900,003 on April 14, 2016, 2,666,666 on July 2, 2016, 18,093,486 on August 25, 2016, and 25,540,879 on September 3, 2017.

### **12. Reserves**

#### **(a) Performance shares**

The Company has reserved for issuance four classes of performance shares, which are to be converted to ordinary shares upon the successful completion of the following milestones:

- a. Class A Performance Shares which will convert into one fully paid ordinary share upon:
  - i. a minimum of 1,000 Registered Home Designers each achieve the CAD equivalent of at least \$200 Revenue, each month for 3 consecutive months, on or before 30 August 2016; or
  - ii. a minimum of 1,000 Registered Home Designers each achieve the CAD equivalent of at least \$200 Revenue, each month for 3 consecutive months, and the Milestone D is also achieved, (Milestone A);
- b. Class B Performance Shares which will convert into one Share upon:
  - i. a minimum of 1,000 Registered Home Designers each achieve the CAD equivalent of at least \$750 Revenue, each month for 3 consecutive months, on or before 31 December 2016; or

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### 12. Reserves (continued)

#### (a) Performance shares (continued)

- ii. a minimum of 1,000 Registered Home Designers each achieve the CAD equivalent of at least \$750 Revenue, each month for 3 consecutive months, and Milestone D is also achieved,  
(Milestone B);
- c. Class C Performance Shares which will convert into one Share upon:
  - i. the Company achieving the CAD equivalent of at least \$20 million in revenue in any 12 month period and has a minimum of 20,000 registered home designers, on or before December 1, 2017; or
  - ii. the Company achieving the CAD equivalent of at least \$20 million in revenue in any 12 month period and has a minimum of 20,000 registered home designers, and Milestone D is also achieved,  
(Milestone C);
- d. Class D Performance Shares which will convert into one Share upon:
  - i. the Company achieving the CAD equivalent of at least \$50 million in revenue in any 12 month period; and
  - ii. a minimum of 35,000 Registered Home Designers on or before December 31, 2018,  
(Milestone D).

The performance share reserve is used to record the value of the performance shares issued to the Company directors, employees and advisors based on management's assessment of the likelihood of the performance shares being converted to ordinary shares.

In connection with the RTO, management has assessed the likelihood of the Class A and B performance shares being converted into common shares to be likely, and accordingly the Company has estimated the fair value of such performance shares based on the market price of the Company's common shares at the date of the RTO. The Company has assessed the likelihood of the Class C and D performance shares being converted into common shares to be uncertain.

During the year ended August 31, 2015, in connection with the RTO, the Company issued 37,463,826 performance shares to directors, employees and advisors of the Company for \$Nil consideration. The Company recorded performance shares reserve of \$3,879,716.

During the seven month period ended March 31, 2016, the Company issued 666,666 performance shares to directors of the Company for \$Nil consideration. The Company recorded performance shares reserve of \$133,333, using a fair value of performance share price of \$0.20 per share.

During the seven period ended March 31, 2016, the Company issued 333,333 common shares to a director of the Company for \$Nil consideration. The Company recorded share-based payments of \$65,000 to reflect the fair value of the shares on issuance.

The performance shares issued and outstanding as at March 31, 2016 consisted of:

<u>Performance Shares</u>	<u>Shares Outstanding</u>	<u>Fair Value</u>
Class A	10,199,289	\$ 2,039,024
Class B	10,199,289	2,039,024
Class C	9,032,623	-
Class D	9,032,623	-
	38,463,823	\$ 4,078,049

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### 12. Reserves (continued)

#### (b) Options

As part of the Concurrent Financing, the Company issued 12,000,000 options, at an issue price of \$0.005 per option, for a gross proceeds of \$60,000. The options are exercisable at \$0.30 within 3 years of issue. The gross proceeds were received by the Company prior to the completion of the RTO and were included in the cash and cash equivalents balance as part of the net assets acquired.

#### (c) Stock options

The Company has a stock option plan under which it is authorized to grant stock options to employees, consultants, officers and directors (shareholder approval required), enabling them to acquire up to 5% of the issued and outstanding common stock of the Company. The exercise price of each option must be less than 80% of the average closing sale price of the shares on the ASX over the five trading days immediately preceding the date of grant. The options can be granted for a maximum of five years, and certain options can vest over periods of time, determined by the board of directors.

On February 19, 2016, 2,500,000 stock options exercisable at \$0.20 on or before August 31, 2017 were granted to advisors of the Company. The options will vest when the share price (based on a 20-day volume weighted average price) of the Company, as quoted by the ASX, reaches a level of \$0.225.

On March 17, 2016, 4,190,001 stock options exercisable at the greater of (1) \$0.18 and (2) the fair market value of the shares on the date of acceptance, provided that, for such purposes, the "fair market value" of the shares is defined as the average closing sale price of the shares on ASX over the 5 trading days immediately preceding the date of acceptance, on or before March 31, 2019 were granted to employees of the Company. The options will vest on September 3, 2016 (being 12-months after the date of listing on the ASX). No director or director related entity will participate in this issue and shareholder approval is not required in order to issue the options.

### 13. Segmented information

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources. The Company's primary segment is one business, being the development of an e-commerce platform in the home design space. During the period ended March 31, 2016, the Company operated in the following geographic segments: Australia, USA and Canada.

#### (a) Revenue and other income by geographical region

	March 31, 2016	March 31, 2015
Australia	\$ -	\$ -
Canada	1,186	-
<b>Total revenue</b>	<b>\$ 1,186</b>	<b>\$ -</b>

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

### 13. Segmented information (continued)

(b) Loss and comprehensive loss by geographical region

	March 31, 2016	February 28, 2015
Australia	\$ (457,670)	\$ -
USA	-	-
Canada	(3,449,881)	(555,160)
<b>Total loss and comprehensive loss</b>	<b>\$ (3,907,551)</b>	<b>\$ (555,160)</b>

(c) Total assets by geographical region

	March 31, 2016	August 31, 2015
Australia	\$ 1,823,174	\$ 8,206,807
USA	-	-
Canada	3,142,035	661,011
<b>Total assets</b>	<b>\$ 4,965,209</b>	<b>\$ 8,867,818</b>

### 14. Financial instruments and risk

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value 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 that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, and loans payable approximate their carrying values due to their short-term nature. The Company's cash and cash equivalents is measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

#### (a) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at March 31, 2016, the Company is exposed to foreign currency risk through its subsidiary, Kabuni Tech., which is denominated in CAD. A 10% appreciation (depreciation) of the CAD against the AUD, with all other variables held constant, would result in approximately a \$14,781 decrease (increase) in the Company's loss and comprehensive loss for the period.

#### (b) 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 cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness. As at March 31, 2016, the Company is not exposed to any significant credit risk.

# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### 14. Financial instruments and risk (continued)

#### (c) Interest Rate Risk

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. Included in the loss for the period in the financial statements is interest expense on loans payable and interest income on Canadian dollar cash. The Company has debt instruments at fixed rates and is therefore not exposed to risk in the event of interest rate fluctuations. As at March 31, 2016, the Company is not exposed to any significant interest rate risk.

#### (d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the sale of common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

### 15. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of the components of shareholders' equity.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements.

### 16. Related parties

#### (a) Compensation of key management personnel

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

	March 31, 2016	February 28, 2015
Professional and consulting fees	\$ 29,000	\$ 95,000
Salaries	335,446	-
Directors' fees	21,492	-
Performance shares <sup>1</sup>	198,333	-
<b>Total</b>	<b>\$ 584,271</b>	<b>\$ 95,000</b>

<sup>1</sup> The performance shares are related to a total of 1,000,000 performance shares issued to a director of the Company during the period.



# KABUNI LTD (formerly Magnolia Resources Ltd.)

## Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(Expressed in Australian dollars) (Unaudited)

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### 16. Related parties (continued)

At March 31, 2016, there was \$26,712 contractor fees (August 31, 2015 - \$53,843), \$1,152 accounting fees (August 31, 2015 - \$5,166), and \$21,492 directors' fees (August 31, 2015 - \$Nil) included in accounts payable and accrual liabilities that were owing to these related parties.

At March 31, 2016, there was \$Nil receivables (August 31, 2015 - \$10,156) included in accounts receivable that was due from an officer of the Company.

#### (b) Other transactions with related parties

At March 31, 2016, the Company has a loan outstanding, including accrued interest of \$81,187 (August 31, 2015 - \$86,852) owing to a company controlled by an officer and director of the Company. The loan bears interest at 8% per annum, and is due on June 30, 2016 (Note 10).

### 17. Commitments

#### (a) Lease Agreement

In June 2015, Kabuni Tech. entered into a binding lease agreement for the Kabuni Design Studio. Commencing July 1, 2015 the Company will pay monthly rent at a rate of CAD\$10,221 (AUD\$10,098). The rental agreement is for a period of three years with the option to extend for an additional three-year period. The total rent commitment, excluding operating costs, is as follows:

2016	\$ 122,814
2017	126,089
2018	63,863
	<hr/>
	\$ 312,766

#### (b) Design Studio

On December 4, 2015 Kabuni Tech. entered into an agreement with Turner Construction Company to build the Kabuni Design Studio. Under the contract, the maximum price of the contract is guaranteed not to exceed CAD\$300,000 (\$296,384), subject to adjustments agreed between the parties.

### 18. Subsequent events

On May 12, 2016, Kabuni Ltd. incorporated a wholly-owned subsidiary in India, Kabuni Technologies (India) Private Limited.

# **KABUNI LTD**

**(FORMERLY MAGNOLIA RESOURCES LTD.)**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SEVEN MONTHS ENDED MARCH 31, 2016

# Kabuni Ltd (formerly Magnolia Resources Ltd.)

Management's Discussion and Analysis

Seven Months Ended December 31, 2016

Dated – May 16, 2016

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# Kabuni Ltd

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Management's Discussion and Analysis

For the period ended March 31, 2016

Dated – May 16, 2016

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## Introduction

This Management Discussion and Analysis ("MD&A") of the financial condition and results of the operations of Kabuni Ltd (the "Company" or "Kabuni") constitutes management's view of the factors that affected the Company's financial and operating performance for the seven month period ended March 31, 2016. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102F1 – Management's Discussion and Analysis. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for seven month the period ended March 31, 2016 and February 28, 2015, together with the notes thereto. Results are reported in Australian dollars, unless otherwise noted. In the opinion of the management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the seven month period ended March 31, 2016 are not necessary indicative of the results that may be expected for any future period. Information contained herein is presented as at May 16, 2016 unless otherwise indicated.

The unaudited condensed interim consolidated financial statements for the seven month period ended March 31, 2016 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (1) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Kabuni's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

## Caution Regarding Forward-Looking Statements

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends," "anticipates," "believes," or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might", or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding the Company's ability to meet its working capital needs at the current level for the next twelve-month period ending December 31, 2016; management's outlook regarding future trends, sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Kabuni's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking

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Management's Discussion and Analysis

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Dated – May 16, 2016

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statements, no inference should be drawn that it will make additional updates with respect to those or other forward -looking statements, unless required by law.

## Description of Business

Kabuni is a North American-based SaaS (software-as-a-service) and e-commerce platform in the home design space that enables independent home design professionals to grow their business through an omni-channel retail experience. Kabuni's platform enables designers worldwide to collaborate with clients anywhere in the US and Canada and earn income from the sale of home décor products and furnishings from Kabuni's catalogue through curated Inspiration Boards.

Kabuni's shares commenced trading on the Australian Securities Exchange (the "ASX") under the trading ticker "KBU" on May 11, 2012.

The financial information includes the accounts of the Company and all of its subsidiaries. The subsidiaries include Kabuni Technologies Inc. in Canada; Kabuni USA, Inc. in the United States (incorporated in December 2015); and Stirling Mineral Pty Ltd in Australia. The Company has a 100% equity interest in all subsidiaries.

## Reverse Takeover Transaction ("RTO")

On August 24, 2015, the Company completed its acquisition of 100% of Kabuni Technologies Inc., formerly named PDT Technologies Inc. ("Kabuni Tech.").

Under the sale share agreement ("SSA") 100% of the share capital of Kabuni Tech. was sold for the following consideration:

1. 38,376,819 fully paid ordinary shares of the Company, consisting of:
  - i. 25,550,000 shares to shareholders of Kabuni Tech.;
  - ii. 10,026,818 shares to other shareholders of Kabuni Tech.; and
  - iii. 2,800,001 shares to certain creditors of Kabuni Tech. to settle outstanding payables.
2. 4,257,547 shares to corporate advisors of Kabuni Tech. who introduced and facilitated the transaction.
3. 15,523,810 shares to holders of Kabuni Tech.'s convertible loan payable.
4. 37,463,826 performance shares to directors, employees and advisors which will automatically convert into shares upon satisfaction of certain milestones.

The 2,800,001 shares issued to certain creditors of Kabuni Tech. were issued to settle outstanding payables in the amount of Canadian ("CAD") \$420,000. The Company recognized a loss on settlement of accounts payable of \$118,999 during the year ended August 31, 2015, which related to the difference between the fair value of the share issued by Magnolia and the debt settled.

The 15,523,810 shares issued to holders of Kabuni Tech.'s convertible debt were issued to settle outstanding debt in the amount of \$1,420,000. The Company recognized a loss on settlement of convertible debt of \$47,668 during the year ended August 31, 2015, which related to the difference between the fair value of the share issued by Magnolia and the debt settled.

The acquisition of Kabuni Tech. resulted in the shareholders of Kabuni Tech. obtaining control of the merged entity. In addition, the board of directors of the merged entity was restructured such that two of the Company's three directors stepped down and were replaced by Kabuni Tech.'s nominees. A nominee of Kabuni Tech. serves as the Managing Director and the Kabuni Tech. management team has assumed responsibility for the management of the merged entity.

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Consequently, the transaction is considered a reverse take-over ("RTO"). Since the Company has become a dormant public shell, the Company does not meet the definition of a business and the acquisition is accounted for as a purchase of the Company's net assets. The purchase consideration is determined as an equity-settled share-based payment, under IFRS 2, Share-based Payments, at the fair value of the equity instruments retained by the shareholders of the Company, based on the market value of the Company's common shares on the date of the closing of the RTO.

The application of the RTO guidance has resulted in the Company (the legal parent) being accounted for as the subsidiary and Kabuni Tech. (the legal subsidiary) being accounted for as the parent entity.

As Kabuni Tech. is deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in the unaudited condensed interim consolidated financial statements at their historical carrying value. The Company's results of operations have been included from the date of the RTO. The legal capital of the entity continues to be that of the Company, the legal parent.

## Net asset acquired:

Cash and cash equivalents	\$	2,815,998
Receivables		58,616
Other assets		5,000
Due from Kabuni Tech.		750,000
Accounts payable and accrued liabilities		(490,755)
	\$	<u>3,138,859</u>

## Purchase price of equity:

36,001,000 common shares at \$0.20 per share	\$	7,200,200
Finders Fees'		
Advisor shares (4,257,547 common shares)		811,509
Additional shares to a director (666,666 common shares)		133,333
Performance shares		3,879,716
	\$	<u>12,024,758</u>

## Cost of public listing

\$ 8,885,899

The transaction was measured at the fair value of the shares that Kabuni Tech. would have had to issue to shareholders of the Company to give shareholders of the Company the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Kabuni Tech. acquiring the Company. The fair value of the common shares was determined based on the share value in the concurrent public offer which was \$0.20.

During the year ended August 31, 2015, a non-cash listing expense of \$8,885,899 resulted from the accounting of the RTO transaction to reflect the difference between the fair value of the amount paid (being the number of common shares retained by the original shareholders of the Company and finders' fee shares) and the fair value of the net assets received from the Company in accordance with in IFRS 2 Share-based Payment.

## Overall Performance

Kabuni is the developer of a North American-based SaaS (Software-as-a-service) and e-commerce platform in the home design space that enables independent home design professionals to grow their business through an omni-channel retail experience. Kabuni is currently a pre-revenue development-stage

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business. Funding of the Company's operations until at least the quarter ending June 30, 2016 is limited to the sale of securities, incurrence of debts, and the use of previously publicly raised funds.

During the seven months ending March 31, 2016, Kabuni experienced a loss and comprehensive loss of \$3,907,551 compared to a loss and comprehensive loss of \$555,160 for the six month period ending February 28, 2015. Increasing losses are attributable to the Company's efforts to develop and market its products in anticipation of the launch of some products in the quarter ending June 30, 2016.

Cash as of March 31, 2016 fell to \$4,045,833, from \$8,417,552 at August 31, 2015 as a result of ongoing corporate activity and capital investment in support of product development, with no additional funds generated from financings. It is anticipated by management that the Company will need to raise money through the sale of securities or by incurring debt during 2016. Cash as of February 28, 2015 was \$(14,751), with the subsequent increase over 13 months primarily attributable to the issuance and sale of securities pursuant to the RTO partially offset by capital and operating costs. During the comparative six month period ended February 28, 2015, the Company raised \$458,043 through financing activities, predominantly as a result of the issuance of a loan payable.

The Company ended the seven month period ending March 31, 2016 with working capital of \$3,612,713 compared to \$7,770,966 as of August 31, 2015 and a working capital deficiency of \$649,632 as at February 28, 2015. The working capital variance between August 31, 2015 and March 31, 2016 is due to product development and marketing costs, and investments in capital assets and intellectual property. The February 28, 2015 to March 31, 2016 variance is due to the completion of certain sales of securities offset by product development and marketing costs, and investments in capital assets and intellectual property.

Kabuni did not raise funds through the issuance of capital during the seven months ending March 31, 2016.

## Going Concern Assumptions

The unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business.

The Directors believe that it is reasonably foreseeable that the Company will continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the unaudited condensed interim financial statements after consideration of the following factors:

- The ability of the Company to raise capital by the issue of additional shares under the Corporation Act 2001; and
- The ability to curtail administration and operational cash out flows as required.

The discussions in this MD&A have been written under the assumption that the Company will continue as a going concern.

## Discussion of Operations

During the seven month period ending March 31, 2016 the Company continued to develop its products and to promote itself within the interior design industry. While management does not anticipate that the Company's products will be released until at least the quarter ending June 30, 2016, the Company has spent on marketing initiatives like the US\$100,000 partnership with the American Society for Interior Designers.

The Company has also increased investment in capital and intangible investments, primarily through \$329,998 invested in the creation of a Vancouver Design Studio and \$90,519 invested to purchase domain names, trademarks, and other intellectual interests. The Company did not invest in capital assets or intellectual property in the six months ending February 28, 2015.

# Kabuni Ltd

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Management's Discussion and Analysis

For the period ended March 31, 2016

Dated – May 16, 2016

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## Seven months ended March 31, 2016 compared with six months ended February 28, 2015

The following discussion of the Company's financial performance is based on the unaudited condensed interim consolidated financial statements for the seven months ended March 31, 2016.

The Company net loss and comprehensive loss totaled \$3,907,551 for the seven months ended March 31, 2016, with basic and diluted loss per share of \$0.03. This compares with a net loss of \$555,160 with basic and diluted loss per share of \$0.02 for the six months ended February 28, 2015. The increase of \$3,352,391 in net loss was principally because of:

- a) General and administration
  - For the seven months ended March 31, 2016, general and administration expenses increased by \$260,165 as the Company expanded its operations by, among other things, hiring additional staff, engaging third-party developers, increasing promotional and marketing initiatives, and performing certain requirements of a public company.
- b) Professional and consulting services
  - For the seven months ended March 31, 2016, professional and consulting services expenses increased by \$121,556 as the Company engaged third party consultants to develop its e-commerce platform development.
- c) Rent
  - For the seven months ended March 31, 2016, rent increased by \$182,972 as the Company increased the size and number of its offices to accommodate design studio, full-time developers, management and administrative employees hired/contracted to meet the needs of the expanding business operations.
- d) Salaries, bonuses and benefits
  - For the seven months ended March 31, 2016, salaries, bonus and benefits increased by \$1,440,309 as the Company hired employees to run its operations, develop its e-commerce platform, support research and development, and advance the plans to commercialize of the Company's e-commerce platform.
- e) Share-based payments
  - For the seven months ended March 31, 2016, share-based payments increased by \$217,833 as a result of the Company instituting a share-based payment plan in order to attract and retain individuals necessary for the development and commercialization of the Company's e-commerce platform.
- f) Travel
  - For the seven months ended March 31, 2016, travel expenses increased by \$126,719 for marketing and business development. The increase is as a result of the Company becoming a publicly traded company with international operations and efforts to promote the ongoing development of the Company's products.
- g) Software development
  - For the seven months ended March 31, 2016, software development costs increased by \$744,583 due to software development operations in both Canada and India.
- h) Advertising and promotion
  - For the seven months ended March 31, 2016, advertising and promotion costs increased by \$146,328 due to promotion of the Company, its Design Studio in Vancouver, its software, and sponsorships with The American Society of Interior Designers (ASID) and Interior Designers of Canada (IDC).

## Three months ended March 31, 2016 compared with three months ended February 28, 2015

The following discussion of the Company's financial performance is based on the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016.



# Kabuni Ltd

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Management's Discussion and Analysis

For the period ended March 31, 2016

Dated – May 16, 2016

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The Company net loss and comprehensive loss totaled \$1,715,359 for the three months ended March 31, 2016, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$336,597 with basic and diluted loss per share of \$0.01 for the three months ended February 28, 2015. The increase of \$1,378,762 in net loss was principally because of:

- a) General and administration
  - For the three months ended March 31, 2016, general and administration expenses increased by \$128,070 as the Company expanded its operations by, among other things, hiring additional staff, engaging third-party developers, increasing promotional and marketing initiatives, and performing certain requirements of a public company.
- b) Professional and consulting services
  - For the three months ended March 31, 2016, professional and consulting services expenses increased by \$4,047 as the Company engaged third party consultants to develop its e-commerce platform development.
- c) Rent
  - For the three months ended March 31, 2016, rent increased by \$73,082 as the Company increased the size and number of its offices to accommodate design studio, full-time developers, management and administrative employees hired/contracted to meet the needs of the expanding business operations.
- d) Salaries, bonuses and benefits
  - For the three months ended March 31, 2016, salaries, bonus and benefits increased by \$625,771 as the Company hired employees to run its operations, develop its e-commerce platform, support research and development, and advance the plans to commercialize of the Company's e-commerce platform.
- e) Share-based payments
  - For the three months ended March 31, 2016, share-based payments increased by \$19,500 as a result of the Company instituting a share-based payment plan in order to attract and retain individuals necessary for the development and commercialization of the Company's e-commerce platform.
- f) Travel
  - For the three months ended March 31, 2016, travel expenses increased by \$48,818 for marketing and business development. The increase is as a result of the Company becoming a publicly traded company with international operations and efforts to promote the ongoing development of the Company's products.
- g) Software development
  - For the three months ended March 31, 2016, software development costs increased by \$295,439 due to software development operations in both Canada and India.
- h) Advertising and promotion
  - For the three months ended March 31, 2016, advertising and promotion costs increased by \$69,324 due to promotion of the Company, its Design Studio in Vancouver, its software, and sponsorships with The American Society of Interior Designers (ASID) and Interior Designers of Canada (IDC).

## Uncertainties

The Company has no material revenues, and is currently developing the products with which it plans to generate revenues. The Company faces significant risks and uncertainties as a result of its incomplete and untested products, which include: the timing of future product releases and associated revenues; the demand for future products; the costs to effectively market and support future products; and competition from existing and new competitors. These risks could materially affect the Company's future revenues profits, and use of cash.

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## Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters (unaudited), the latest of which ended March 31, 2016.

Our quarterly operating results have historically fluctuated significantly and may continue to fluctuate significantly in the future. Key factors that account for the fluctuations in quarterly results include the development of the e-commerce platform and the increasing pace at which the Company's software development and administrative personnel are expanding. Henceforth, we believe that the past operating results and period-to-period comparison should not be relied upon as an indication of our future performance.

The significant increase in the quarterly loss for the period ending August 31, 2015 is the result of non-cash costs of \$8,885,899 in relation to the accounting of the RTO transaction. Aside from the RTO transaction costs, losses have increased as a result of the Company increasing spending on development and marketing in anticipation of the launch of products in the quarter ending June 30, 2016.

(in Australian dollars)	March 31, 2016 (A\$)	December 31, 2015 (A\$)	August 31, 2015 (A\$)	May 31, 2015 (A\$)
Total revenue	-	1,186	5,221	797
Total loss and comprehensive loss	(1,715,359)	(2,192,192)	(10,618,250)	(1,160,503)
Loss per share	(0.01)	(0.02)	(0.08)	(0.02)
Total assets	4,965,209	6,601,407	8,867,818	359,463

(in Australian dollars)	February 28, 2015 (A\$)	November 30, 2014 (A\$)	August 31, 2014 (A\$)	May 31, 2014 (A\$)
Total revenue	-	-	-	3,129
Total loss and comprehensive loss	(334,625)	(220,973)	(256,224)	(237,795)
Loss per share	(0.01)	(0.00)	(0.01)	(0.00)
Total assets	44,333	66,593	22,815	39,221

The quarterly results in the tables above have been determined and prepared in accordance with IFRS accounting principles.

## Liquidity and Capital Resources

Since inception, the Company has incurred operating losses. The Company anticipates that it will continue to incur losses for at least the next three months until the e-commerce platform is ready to commercialize and operating revenue starts in the last quarter of fiscal year 2016. Consequently, the Company will need additional capital to fund its operations, which the Company may obtain from additional debt and equity financing, operations revenue and other sources. To date, the Company has financed its operations primarily through the issuance of its common shares. See "Discussion of Operations" for elaborations on the cause of cost variations.

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As at March 31, 2016, the Company's cash balance was recorded as \$4,045,833 (August 31, 2015 – \$8,417,552), and the Company had a working capital of \$3,612,713 (August 31, 2015 – \$7,770,966). The increase in cash and working capital was a result of an increase in cash provided by financing activities as a result of proceeds received via public offer pursuant to the RTO in August 2015.

As of March 31, 2016, the Company had 130,309,175 common shares issued and outstanding.

The Company has no interest-bearing debt and its credit risk and interest rate risk is minimal. Accounts payable, accrued liabilities and loans payable are short-term and non-interest bearing.

The Company's liquidity is dependent on successfully raising additional debt or equity financing. The Company generates no material revenues and as such regular incurment of debt or sales of securities are required to maintain liquidity.

The Company is exposed to foreign exchange risk through its subsidiary, Kabuni Tech., which is denominated in CAD. A 10% appreciation (depreciation) of the CAD against the AUD, with all other variables held constant, would result in approximately a \$14,781 decrease (increase) in the Company's loss and comprehensive loss for the period.

The Company unaudited condensed interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2016, the Company had not generated significant revenues, has negative cash flows from operations, and has an accumulated deficit of \$17,079,610. The Company continued operations are depended on its abilities to generate future cash flows, curtail administration and operational cash outflow as required, or obtain additional financing. Management is pursuing equity financing. Management is of the opinion that sufficient working capital will be obtained from external equity financing to meet its liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors, among others, may cast substantial doubt as to the Company's ability to continue as a going concern.

Below is a summary of the Company's cash flows provided by (used in) operating activities, financing activities and investing activities for the periods indicated:

	<b>Seven month period ended March, 2016 (A\$)</b>	<b>Six month period ended February 28, 2015 (A\$)</b>	<b>Three month period ended March, 2016 (A\$)</b>	<b>Three month period ended February 28, 2015 (A\$)</b>
<b>(in Australian dollars)</b>				
Net cash flows used in operating activities	(3,855,027)	(469,017)	(1,698,730)	(211,335)
Net cash flows used in investing activities	(510,002)	-	(250,644)	-
Net cash flows provided by (used in) financing activities	(804)	458,043	-	187,548
Impact of exchange rate changes on cash and cash equivalents	(5,886)	(1,485)	30,512	1,039
Net increase (decrease) in cash	(4,371,719)	(12,459)	(1,918,862)	(22,748)
Beginning cash	8,417,552	(2,737)	5,964,695	7,997
Ending cash	4,045,833	(15,196)	4,045,833	(14,751)

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## Net cash flows used in operating activities

Net cash outflows from operating activities increased by \$3,386,010 to \$3,855,027 for the seven month period ended March 31, 2016 compared to \$469,017 for the six month period ended February 28, 2015. This increase was primarily due to increases in \$260,165 general and administration expenses, \$121,556 professional and consulting services, \$182,972 rent, \$1,440,309 salaries, bonus and benefits, and \$744,583 software development, and \$146,328 advertising and promotion.

Net cash outflows from operating activities increased by \$1,487,395 to \$1,698,730 for the three month period March 31, 2016 compared to \$211,335 for the three month period ended February 28, 2015. This increase was primarily due to increases in \$128,070 general and administration expenses, \$4,047 professional and consulting services, \$73,082 rent, \$625,771 salaries, bonus and benefits, \$295,439 software development, and \$69,324 advertising and promotion.

## Net cash flows used in investing activities

Net cash outflows from investing activities increased by \$510,002 for the seven month period ended March 31, 2016 compared to \$nil for the six month period ended February 28, 2015. This increase was due to purchase of intangible asset of \$90,519 and acquisition of property and equipment of \$419,483.

Net cash outflows from investing activities increased by \$250,644 for the three month period ended March 31, 2016 compared to \$nil for the three month period ended February 28, 2015. This increase was due to purchase of intangible asset of \$1,604 and acquisition of property and equipment of \$249,040.

## Net cash flows provided by (used in) financing activities

Net cash inflows from financing activities decreased by \$458,847 to (\$804) for the seven month period ended March 31, 2016 compared to \$458,043 for the six month period ended February 28, 2015. This decrease was primarily due to no capital raising during the period.

Net cash inflows from financing activities decreased by \$187,548 to \$Nil for the three month period ended March 31, 2016 compared to \$187,548 for the three month period ended February 28, 2015. This decrease was primarily due to no capital raising during the period.

## **Contractual Obligations and Commitments**

Our contractual obligations include operating leases for premises, and contract with Turner Construction Company to build the Kabuni Design Studio in Canada. The following table summarizes the Company's contractual commitments and obligations as of March 31, 2016.

(in Australian dollars)	Total	Payments due by	
		Less than 1 year	1-3 years
Operating lease obligations	312,766	122,814	189,952
Contractual obligations	296,384	296,384	-
	609,150	419,198	189,952

## **Off-Balance Sheet Arrangements**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial conditions of the Company, including, and without limitation, such considerations as liquidity and capital resources.

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## Related Party Transactions

### Compensation of key management personnel

The Company treats “key management personnel” as related parties. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. A summary of expenses by nature incurred with key management personnel is as follows:

	<b>March 31, 2016</b>	February 28, 2015
Professional and consulting fees	<b>\$ 29,000</b>	\$ 95,000
Salaries	<b>335,446</b>	-
Directors' fees	<b>21,492</b>	-
Performance shares <sup>1</sup>	<b>198,333</b>	-
<b>Total</b>	<b>\$ 584,271</b>	<b>\$ 95,000</b>

<sup>1</sup> The performance shares are related to a total of 1,000,000 performance shares issued to a director of the Company during the period.

At March 31, 2016, the Company's accounts payable and accrued liability balances included the following:

	Fee	<b>March 31, 2016</b>	August 31, 2015	August 31, 2014
Neil Patel <sup>(a)</sup>	Contractor fee	<b>\$ 1,191</b>	\$ 208	\$ -
Peter McKay <sup>(b)</sup>	Contractor fee	<b>25,521</b>	53,635	116,496
Finance Matters <sup>(c)</sup>	Accounting fee	<b>1,152</b>	5,166	58,643
Nathan Sellyn <sup>(d)</sup>	Director fee	<b>15,242</b>	-	-
Nikolas Ajagu <sup>(e)</sup>	Director fee	<b>6,250</b>	-	-
<b>Total</b>		<b>\$ 49,356</b>	<b>\$ 59,009</b>	<b>\$ 175,139</b>

(a) A Managing Director of the Company.

(b) A former Officer of Kabuni Tech.

(c) An entity controlled by Darren Battersby, the former Chief Financial Officer of Kabuni Tech.

(d) A Non-Executive Director of the Company.

(e) A Non-Executive Director of the Company.

At March 31, 2016, the Company's accounts receivable balance included \$Nil due from Neil Patel, the Managing Director of the Company (August 31, 2015 - \$10,156).

### Other transactions with related parties

At March 31, 2016, the Company has a loan outstanding, including accrued interest of \$82,652 (August 31, 2015 - \$86,851) owing to a company controlled by an officer and director of the Company. The loan bore interest at 8% per annum, and was due on June 30, 2015. On June 30, 2015, the Company entered into an amending agreement whereas the loan was extended an additional year, maturing on June 30, 2016. As per the agreement, the loan no longer bears interest and the lender has released and discharged of all security that was previously held over the Company's assets.

## Proposed Transactions

As of the date of this filing, the Company does not have any proposed transactions that have, or are reasonably likely to have, a current or future effect on the results of operations or financial conditions of the Company, including, and without limitation, such considerations as liquidity and capital resources.

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## Significant Accounting Estimates

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

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

- The valuation of share-based payments and performance share issuances in the statements of loss and comprehensive loss;
- determination of the purchase price of the Company; and
- the recognition and recoverability of deferred tax assets.

## Recent Accounting Pronouncements

The following new standards and interpretations are not yet effective and have not been applied in preparing these financial statements. The Company is currently evaluating the potential impacts of these new standards and does not anticipate any material changes to the financial statements upon adoption of this new and revised accounting pronouncement.

- IFRS 9 – *Financial Instruments* (effective January 1, 2018, deferred from the previously announced effective date of January 1, 2015) introduces new requirements for the classification and measurement of financial assets, and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options available in IAS 39.
- IFRS 15 – *Revenue from Contracts with Customers* (effective January 1, 2018, deferred from the previously announced effective date of January 1, 2017) is a new standard to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 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 Service*.

## Financial Instruments and Risks

The Company is exposed to varying degrees to a variety of financial instrument related risks:

### Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at March 31, 2016, the Company is exposed to foreign currency risk through its subsidiary, Kabuni Tech., which is denominated in CAD. A 10% appreciation (depreciation) of the CAD against the AUD, with all other variables held constant, would result in approximately a \$14,781 decrease (increase) in the Company's loss and comprehensive loss for the period.



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## 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 cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness. As at March 31, 2016, the Company is not exposed to any significant credit risk.

## Interest Rate Risk

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. Included in the loss for the period in the financial statements is interest expense on loans payable and interest income on Canadian dollar cash. The Company has debt instruments at fixed rates and is therefore not exposed to risk in the event of interest rate fluctuations. As at March 31, 2016, the Company is not exposed to any significant interest rate risk.

## Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the sale of common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

## **Subsequent Event**

On May 12, 2016, Kabuni Ltd. incorporated a wholly-owned subsidiary in India, Kabuni Technologies (India) Private Limited.

## **Share Capital**

As of the date of this MD&A, the Company had 130,309,175 issued and outstanding commons shares, 38,130,493 issued and outstanding performance shares, 12,000,000 issued and outstanding options, and 6,690,001 issued and outstanding stock options.

On March 1, 2016 the Company issued 150,000 common shares to an advisor in consideration for services provided to the Company.

During the seven month period ended March 31, 2016, the Company issued 666,666 performance shares to directors of the Company for \$Nil consideration. The Company recorded performance shares reserve of \$133,333, using a fair value of performance share price of \$0.20 per share.

During the seven month period ended March 31, 2016, the Company issued 333,333 common shares to a director of the Company for \$Nil consideration. The Company recorded share-based payments of \$65,000 to reflect the fair value of the shares on issuance.

Performance shares outstanding for the Company at the date of this MD&A were as follows:

<u>Performance Shares</u>	<u>Shares Outstanding</u>	<u>Fair Value</u>
Class A	10,199,289	\$ 2,039,024
Class B	10,199,289	2,039,024
Class C	9,032,623	-
Class D	9,032,623	-

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38,463,823	\$	4,078,049
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Options outstanding for the Company at the date of this MD&A related to the following grants:

As part of a concurrent financing, the Company completed on completion of the RTO, the Company issued 12,000,000 options, at an issue price of \$0.005 per option, for a gross proceeds of \$60,000. The options are exercisable at \$0.30 within 3 years of issue. The gross proceeds were received by the Company prior to the completion of the RTO and were included in the cash and cash equivalents balance as part of the net assets acquired.

Stock options outstanding for the Company at the date of this M&DA related to the following grants:

1. On February 19, 2016, 2,500,000 stock options exercisable at \$0.20 on or before August 31, 2017 were granted to advisors of the Company. The options will vest when the share price (based on a 20-day volume weighted average price) of the Company, as quoted by the ASX, reaches a level of \$0.225.
2. On March 17, 2016, 4,190,001 stock options exercisable at the greater of (1) \$0.18 and (2) the fair market value of the shares on the date of acceptance, provided that, for such purposes, the "fair market value" of the shares is defined as the average closing sale price of the shares on ASX over the 5 trading days immediately preceding the date of acceptance, on or before March 31, 2019 were granted to employees of the Company. The options will vest on September 3, 2016 (being 12-months after the date of listing on the ASX). No director or director related entity will participate in this issue and shareholder approval is not required in order to issue the options.

## Management's Responsibility for Financial Statements

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

## Management's Report on Disclosure of Controls and Procedures

Management of the Company has established process to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. There have been no changes in the Company's disclosure controls and procedures during the seven-month period ended March 31, 2016.