Hello Franchisees,

It has been a few very busy months since my last letter to you.

Since our acquisition last December, we spent our time and resources in getting to know the business, understanding the inner workings of Sangster’s and developing a plan to streamline the operation of this company.

I spent the last month in Saskatoon along with Rodney Gelineau, Paul Marjerisson and Anh Dinh, one of our accounting team members from BC. Rodney and I are planning to go back within the next two weeks while Paul and Anh had stayed behind in Saskatoon to continue to focus on Sangster’s Head Office operations. Although, there are many areas that still need to be reviewed and improved upon, I am happy to report that we have eliminated a variety of redundant processes and modified personnel roles in transition with the departure of certain staff members.

The team is working hard but more work needs to be done to get this company to where it needs to be able to compete in this rapidly changing industry. Positive changes are happening, and I would like to update you on some of the projects the Sangster’s team is currently working on:

**POS System**

This has been a pain point for many of you and the Head Office staff. The current POS system has been used by Sangster’s for some time, but it is just not working anymore: continuous system issues with minimum support from vendors. We are currently reviewing several replacement options and weighing the pros and cons of each system. There is no perfect system but we know we need a system that is user friendly, has a built-in loyalty program and can provide reporting that allow for better and more informed decisions on inventory.

I understand that Windows 7 will no longer be supported starting January 14, 2020 and this will affect the current POS system. Please note that you do not have to update, purchase or upgrade anything in the meantime. Rest assured that we will provide you with notification should you need to do any update or upgrade to the current POS system.

**Product Development & Merchandising**

We are in the process of developing 6 new Sangster’s products. We have asked some of you for your feedback regarding naming and packaging and we thank you for your feedback.

Four of these products are currently with Health Canada awaiting approval while 2 are in NPN submission stage. To streamline the product development process, we are integrating Sangster’s product development process into that of EastWest Bioscience to leverage legwork that Orchard Vale Naturals (our manufacturing unit) and EastWest Science (our consumer goods unit) teams have done. In addition to product development, we are taking a strategic look at plan-ograms, pricing, products, new trending products, as well as favourable buying terms. Moving towards a more strategic merchandising plan that will aid in increasing sales, margins and basket of goods sold per customer.

**2019 Convention**

Internally, we had gone back and forth on this one due to several reasons before deciding not to hold the 2019 convention.

We negotiated the existing convention contract and started arrangements to move the event to our manufacturing facility at Penticton. We knew that that Sangster’s did not have a convention last year and everyone agreed that it will be a great gesture to have one this year, especially with the new ownership.

However, we had a few challenges that made it difficult to organize a successful convention. First, there was a significant amount of work required in the transition of ownership and implementation of changes., Second, we noticed a downward sales trend and determined we should divert the resources

allocated for this event to better use by providing additional monetary assistance to the struggling franchisees. Finally, we also had limited time and resources to secure the number of table top sponsors expected. After careful consideration, we decided to cancel the Convention. Instead, we will be offering radio/online promotion credits for $200/month up to $600 total for the year.

The purpose of these promotion credits is to provide you with additional resources and support to help develop and market your business and utilizing alternative promotional tools to reach new target markets. We will provide further details on these credits to you separately.

**Staffing Changes**

As part of the changes we are making, we recently had some staffing and role changes:

● We are integrating the Saskatoon based accounting team into our Penticton’s Head Office:

○ Bev Petryshyn, Sangster’s head accountant, moved on to a new job with a real estate management company. Bev was a great resource to our company and we wish her luck in her new endeavors. Anh Dinh, previously the accountant for Orchard Vale Naturals, has taken over Bev’s responsibilities, with the assistance of our CFO, Paul Marjerrison, Carla and I. For any accounting questions, please contact accounting@sangsters.com

○ Arlene Stevenson, Sangster’s office administrator, has moved on to a new job with an investment brokerage company. Arlene was with the company for many years and had close relationships with many of you, so we were sad to see her go. Carla McColl was brought on to assist with the work that Arlene did for Sangsters, and Anh, Aimee Allan, and myself have also been assisting. For any Sangster’s head office support and administrative questions, please contact support@sangsters.com

● Aureliusz Artymowicz, Sangster’s purchasing manager, has moved on to a new job with a supplement manufacturer. Aureliusz was also with the company for many years, keeping Sangsters’ inventory levels stocked and turning over. Aureliusz’ responsibilities are now being handled by Radmila Ljusic of OVN, Jim Zamzow of Sangsters, and Pamela Thayer. For any inventory and purchasing questions, please contact purchasing@sangsters.com.

**Accounting System**

I personally apologize for several accounting related issues that have come up in the last few weeks while we are transitioning to the new process, and I appreciate your patience in this matter. We are attempting to transition from a paper based process to a computerized system and it has been challenging. However, the team is working hard in resolving the issues and I am confident that we will achieve our goal to fully transition in September.

**Co-op/Subsidy/Incentive**

We are reviewing the existing co-op/subsidy/incentive programs.

Currently, there is no consistency in the framework and the implementation of these programs. The calculations are unnecessarily complicated and there is no measure of success in place. We want to establish incentive programs that are effective, fair for all franchisees, and can be easily measured and adapted with minimum operational overhead. We will update you soon with any changes to the co- op/subside/incentive programs.

**Franchise Support**

In the next few weeks, all support related emails will be forwarded to a general support email at support@sangsters.com that will be monitored by the entire support team.

This is to ensure that all enquiries and concerns are being addressed in a timely manner, and is not affected should someone be away that day. To ensure a seamless transition, we are testing the proposed change internally and will communicate to you once it is finalized. Additionally, the transition will be done in phases to minimize disruption to your business.

**E-Commerce Model**

I understand some of you are concerned that pushing the online sales will negatively impact your brick and mortar sales. However, I think you would agree that we need to increase our online presence to be competitive in this Amazon era. We have to adapt to stay relevant.

We are working on several models and will propose these to you for your review and feedback. At the end, I hope that we can come up with a solution that addresses your concerns while providing the franchisees with an additional revenue source.

Please feel free to reach out to me should you have any questions about any of the items above or if you have any other questions or concerns.

I am very excited about the changes we are making. The team and I are looking forward to working with you closer going forward.

Sincerely,

Ciska Asriel

President, Sangster’s