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Department of
Business Oversight

# FRANCHISE DISCLOSURE DOCUMENT

MODO YOGA

Modo Yoga International Inc , a British Columbia corporation
301 Epron Road, Salt Spring Island, British Columbia, V8K 1C7 Canada
Telephone 1-888-966-9642, Email newstudios@modoyoga com

The franchisee will operate a yoga studio under the name Modo Yoga, followed by the name of the territory in which the franchisee's yoga studio is located For example, a yoga studio located in Seattle will operate under the name Modo Yoga Seattle

The total investment necessary to begin operations of a single studio ranges from $331,175 to $950,000 This includes $7,675 (Heritage Studio), $11,512 50 (Small-Market Studio) or $15,350 (Standard Studio), plus between $5,000 and $11,000 for an initial inventory package, that must be paid to the franchisor or affiliate We also offer to qualified applicants the right to develop multiple yoga studios within a development territory The total investment necessary to acquire rights to develop between two and five yoga studios ranges from $339,425 to $996,050 This includes your estimated initial investment to develop the first studio and the payment to us of an area developer fee of between $11,512 50 and $46,050, depending on how many studios you commit to develop within the development territory

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English Read this disclosure document and all accompanying agreements carefully You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale **Note, however, that no governmental agency has verified the information contained in this document**

You may wish to receive your disclosure document in another format that is more convenient for you To discuss the availability of disclosures in different formats contact the New Studios Coordinator at 301 Epron Road, Salt Spring Island, British Columbia V8K 1C7 Canada, newstudios@modoyoga com and (866) 966-9642

The terms of your contract will govern your franchise relationship Don't rely on the disclosure document alone to understand your contract Read all of your contract carefully Show your contract and this disclosure document to an advisor, like a lawyer or an accountant

Buying a franchise is a complex investment The information in this disclosure document can help you make up your mind More information on franchising such as "*A Consumer's Guide to Buying a Franchise,*" which can help you understand how to use this disclosure document, is available from the Federal Trade Commission You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D C 20580 You can also visit the FTC's home page at *www ftc gov* for additional information Call your state agency or visit your public library for other sources of information on franchising

There may also be laws on franchising in your state Ask your state agencies about them

Issuance Date May 10, 2017

**STATE COVER PAGE**
**Modo Yoga International, Inc**

Your state may have a franchise law that requires a franchisor to register or file with the state franchise administrator before offering or selling in your state REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT

Call the state franchise administrator listed in Exhibit A for information about the franchisor, or about franchising in your state

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW

Please consider the following RISK FACTORS before you buy this franchise

1 THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION IN LOS ANGELES COUNTY, CALIFORNIA OUT-OF-STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN CALIFORNIA THAN IN YOUR OWN STATE

2 THE FRANCHISE AGREEMENT STATES THAT DELAWARE LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW YOU MAY WANT TO COMPARE THESE LAWS

3 THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE

Effective Date See the next page for state effective dates

## STATE EFFECTIVE DATES

The following states require that this Franchise Disclosure Document be registered or filed with the state, or be exempt from registration California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin

This Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates

California _____
New York _____
Washington _____

In all other states, the effective date of this Franchise Disclosure Document is the Issuance Date

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Exhibits

A List of State Franchise Administrators

B List of Agents for Service of Process

C Lists of Current Licensees and Franchisees, and Former Franchisees

D Financial Statements

E Franchise Agreement

F Area Development Agreement

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APPLICABLE STATE LAW MAY REQUIRE ADDITIONAL DISCLOSURES REGARDING THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT OR STATE SPECIFIC AMENDMENTS TO THE FRANCHISE AGREEMENT THESE ADDITIONAL DISCLOSURES OR STATE SPECIFIC AMENDMENTS, IF ANY, APPEAR IN THE STATE ADDENDA AT **EXHIBIT H**

## ITEM 1

## THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this disclosure document, "Modo", "Modo Yoga", "we" or "us" means the franchisor, Modo Yoga International Inc , a British Columbia corporation "You" means the person who buys the franchise If the franchisee is a corporation, partnership, limited liability company or other entity, "you" may also refer to its owners Modo is a British Columbia corporation that was formed on September 25, 2012 Our principal business address is 301 Epron Road, Salt Spring Island, BC V8K 1C7 We do not have any parents or predecessors We have one affiliate, Moksha Yoga Inc , an Ontario corporation The principal business address for Moksha Yoga Inc is 301 Epron Road, Salt Spring Island, BC V8K 1C7 Our agents for service of process are disclosed in Exhibit B to this disclosure document

Our affiliate, Moksha Yoga Inc began offering licenses for the operation of "Moksha Yoga" studios in Canada in 2004 and in the United States from 2008 to 2012 Although we do not currently have plans to do so, we reserve the right to open one or more company-owned Modo Yoga studios in the United States in the future We franchise the right to operate, at a single business location, a yoga studio offering hot yoga classes to the public under the name Modo Yoga Our affiliate's licensed studios in the United States were previously identified by the trade name "Moksha Yoga," but beginning in September 2013 all of these studios were re-branded and are now known by the trade name "Modo Yoga" Our affiliate's licensed studio owners have become our franchisees

We also offer to qualified applicants the right to become an Area Developer within a specified Development Territory If you are approved to become an Area Developer, you will sign our Area Developer Agreement, which is attached to this disclosure document as Exhibit F, and you will sign a separate franchise agreement and pay us a separate Development Fee and initial franchise fee for each you intend to open within your Development Territory The form of franchise agreement you sign for each yoga studio you open under the Area Developer Agreement will be our then-current form and may be different from the form of franchise agreement attached to this disclosure document The Area Developer Agreement will grant you the right to own and operate a minimum of two and maximum of five yoga studios located within a specific Development Territory Area Developers must operate each of the yoga studios in accordance with our standard franchise operating practices Each of the yoga studios developed under the Area Developer Agreement will be developed pursuant to a Development Schedule that we and you will mutually agree upon when you sign the Area Developer Agreement

Modo Yoga is a green, clean, hot yoga series that stretches, strengthens and tones the muscles while detoxifying the body and calming the mind Studio owners will be trained in Modo Yoga and will be encouraged to bring their own unique knowledge and experience, as well Each studio is distinguished by using, as part of the Modo Yoga

name, the name of the territory in which the studio is located For example, if you will operate your studio in Seattle, Washington, you will operate your studio under the name Modo Yoga Seattle We have developed a line of proprietary merchandise including yoga apparel, equipment and accessories for sale from Modo Yoga studios

The general market for the goods and services offered by a Modo Yoga studio is well developed and competitive In addition to laws and regulations that apply to businesses generally, you may be subject to regulations relating to public health and safety codes and ordinances These include regulations concerning smoking, sanitation, discrimination, employment and sexual harassment laws as well as the Americans with Disabilities Act, which requires readily accessible accommodations for disabled individuals and may affect your operations You should consult with your own advisors and the government agencies in your state for information on how these laws apply to you Your competitors include other yoga studios, including those that offer hot yoga classes

We began offering franchises as of the date of this disclosure document Our affiliate, Moksha Yoga Inc began offering licenses for the operation of Moksha Yoga studios in Canada in 2004 and in the United States in 2008 We do not offer franchises in any other line of business We do operate yoga teacher training programs from our locations in Los Angeles, California, Victoria, British Columbia, Montreal, Quebec, and other locations as we determine, for individual yoga teacher instruction

In order to be eligible to become a Modo Yoga franchisee, before you sign the franchise agreement your majority owner or majority owner group (holding at least 51% in ownership interests in the franchise) must have successfully completed our Teacher Training Level I Program, which combines a 1-month intensive teaching certification course with an 11-month correspondence component and, obtained no less than 1-year of yoga teaching experience

## ITEM 2

## BUSINESS EXPERIENCE

Ted Grand, President Ted has been involved with all facets of Modo Yoga's operations since Moksha Yoga Inc 's initial organization in 2004, and he serves as our President and the President of Moksha Yoga Inc Ted maintains his offices in Vancouver, British Columbia

Jessica May Robertson, Vice President Jessica has served as Vice President of Moksha Yoga Inc , since its inception in 2004, and of Modo Yoga International Inc , since its inception in 2012 Jessica maintains her office in San Mateo, Costa Rica

Maura Costello, Director of Operations Maura joined us as a Studios Consultant in January 2013 and in December 2015 became Director of Operations She is located in Toronto, Ontario Previously she was Production Coordinator with Girls Inc , located in New York, New York, from January 2010 to December 2012

Airlie Ogden, Studio Support Manager Airlie joined us as a Studio Support Coordinator in July 2015 and in July of 2016 became Studio Support Manager She is located in Victoria, British Columbia Previously she was a yoga instructor in both Prince Edward Island and Victoria, British Columbia, from 2010 to 2015

## ITEM 3

## LITIGATION

In January 2014, our affiliate Moksha Yoga Inc signed an Assurance of Discontinuance Pursuant to Executive Law Section 63(15) with the State of New York in connection with the offer and sale of an unregistered and non-exempt franchise, in violation of New York General Business Law, Article 33, Section 680 et seq The Assurance is entitled *In the Matter of An Investigation by Eric T Schneiderman, Attorney General of the State of New York, of Moksha Yoga Inc , and Ted Grand* According to the Assurance, Moksha Yoga Inc was required to cease from offering or selling franchises in New York until registration in compliance with state laws was permitted, offer rescission to the owners of a Moksha Yoga studio located in New York City, and pay a civil penalty of $4,000 00 All of these requirements have been satisfied completely and the matter has been closed

In August 2013, we and our affiliate Moksha Yoga Inc signed a consent order with the state of Minnesota in connection with the offer and sale of an unregistered and non-exempt franchise, in violation of Minn Stat §80C 02 (2012) The consent order is entitled *In the Matter of Moko Yoga International, Inc , a British Columbia Corporation, and its affiliate Moksha Yoga Inc* , Case No FR1300020/DPK According to the consent order, we were required to cease from offering or selling franchises in Minnesota until registration in compliance with state laws was permitted, which registration has since been approved, offer rescission to our affiliate's licensed studio located in Minnesota, and pay a civil penalty of $1,000 00 to the State of Minnesota All of these requirements have been satisfied completely and the matter has been closed

No other litigation is required to be disclosed in this Item

## ITEM 4

## BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item

## ITEM 5

## INITIAL FEES

Franchisees pay an initial franchise fee of $7,675, $11,512 50 or $15,350 in a lump sum when they sign a franchise agreement The standard initial franchise fee is $15,350 The lower initial franchise fee of $11,512 50 reflects a discount of 25% off of the

standard initial franchise fee This discount is provided if the market in which the franchisee is applying to develop a studio is deemed by us to be small The lowest initial franchise fee of $7,675 is only available to Heritage Studios that have elected to convert their licensed business to a franchise

The term "Heritage Studio" means a studio previously licensed by our affiliate, Moksha Yoga Inc to open before December 1, 2012, and whose equity is majority owned by Heritage Owners The term "Heritage Owner" means an individual who was approved by our affiliate, Moksha Yoga Inc to open a studio before December 1, 2012

Other than as described above in this Item, all initial franchise fees are uniform If we determine that a franchisee does not qualify to operate a Modo Yoga studio after completing initial training, or if we do not approve of a proposed studio location, we will refund the initial franchise fee less 20% to cover our expenses for providing initial training and site evaluation assistance The initial franchise fee is otherwise not refundable

If you acquire Area Developer rights you will pay the initial franchise fee for each additional yoga studio (after the first yoga studio) that you agree to develop under the Area Developer Agreement when you sign the Franchise Agreement for each additional studio A nonrefundable Development Fee of $7,675, $11,512 50 or $15,350 for each Development Territory to be developed under the Area Developer Agreement is due when the Area Developer Agreement is signed The Development Fee is refundable within 12 months of the date that the Area Development Agreement is signed Thereafter the Development Fee is nonrefundable

We reserve the right to charge different Development Fees and initial fees under the Area Developer Agreement in our sole discretion Currently, we calculate these fees uniformly for all franchisees, but the total amount you pay may depend on the number of yoga studios you commit to open, the time period for opening the yoga studios and the market(s) in which you commit to open them For example, we may offer additional discounts if you commit to open a large number of yoga studios over a relatively short time-period in secondary and tertiary markets

As of the issuance date of this disclosure document, we have not negotiated any Area Developer Agreements and have not collected any initial fees in connection with an Area Developer Agreement so we cannot provide you with the range or formula used to calculate fees paid in the fiscal year before the issuance date

Franchisees also must purchase an initial inventory package of supplies from us The package includes inventory of yoga apparel, equipment and accessories, including our proprietary products, for your first 90-days of operations Packages range in cost from $5,000 - $11,000, depending on the size of your studio and your ability and desire to back-stock supplies

## ITEM 6

## OTHER FEES

| Name of Fee | Amount | Due Date | Remarks |
|---|---|---|---|
| Royalty Fee | $350 per month plus<br>2% of gross revenues | Monthly<br>Weekly | See Note 1 |
| Marketing Design and Brand Fund | 1% of gross revenues | Weekly | See Note 2 |
| Additional Training Fee | $2 500 - $5000, to be determined based on the amount of training requested | Upon receipt of invoice | See Note 3 |
| Transfer Fee | The lesser of 5% of the sale price of the studio or $5 000 | Upon transfer | See Note 4 |
| Late Fee | 12% per annum | When payment or report is overdue | See Note 5 |
| Indemnification | Payment of our losses and costs | Upon occurrence of liability | See Note 6 |
| Early Termination Fee | $10,000 plus lump sum unpaid Royalty Fees and Marketing Design and Brand Fund fees through the end of the term | Upon notice of termination | See Note 7 |
| Audit Fee | Reimbursement of all audit expenses if gross revenues have been understated by 3% or more | Upon receipt of invoice | ------- |
| Renewal Fee | $1,000 | Upon renewal | ------- |

All fees are imposed by and are payable to Modo, unless otherwise noted We may vary the frequency and method of payment We may require you to pay fees via electronic withdrawal from your bank account All fees are uniformly imposed and non-refundable unless otherwise agreed upon

**Notes**

1 The Royalty Fee is due monthly and weekly, beginning the first month after you open your studio for business to the public The monthly Royalty Fee is $350 per month It is due in advance on or before the first day of every month The weekly Royalty Fee is 2% of gross revenues It is paid weekly on or before the Wednesday of each week following the week in which such gross sales were made The term 'gross revenues" means all revenues you receive from the operation of your studio (including

any payments under your business interruption insurance coverage) deducting only amounts paid to any governmental tax authority and any customer refunds made in accordance with our policy In combination with the Royalty Fee, contributions to the Marketing Design and Brand Fund are capped for all franchisees at $20 000 per calendar year

2 The required weekly contribution to the Marketing, Design and Brand Fund is 1% of gross revenues All contributions to the Marketing Design and Brand Fund are paid at the same time and in the same manner as the weekly Royalty Fee

3 Modo does not charge a separate fee for providing initial training to you for up to three people but we reserve the right to approve of the people you wish to enroll in initial training (This initial training does not include the Teacher Training Level I Program, completion of which is a prerequisite to eligibility for a Modo Yoga franchise and is required to be completed at your own expense ) But if you want to have us train additional persons from your studio or if after a year of being a franchisee you hire a full-time manager to operate your studio for you, as described in Item 15, additional training may be scheduled with us In addition to the additional training fee, we may charge a fee to cover our expenses to provide training to additional or replacement personnel We may also charge a fee for additional training we may require you and your personnel to attend in the future, including but not limited to the Advanced Training" and Moksha Yoga Flow" teacher training that you must complete within 4 years of signing the franchise agreement

4 The fee to transfer your ownership interest in the franchise is the lesser of 5% of the sale price of the franchise or $5,000 There are other conditions to your ability to transfer See Item 17

5 If you do not pay any amount when due, you must pay a late charge of 10% per annum or the maximum rate permitted by law if less

6 You must hold harmless, indemnify and defend us and our affiliates, partners agents and representatives and pay for any claims and losses to them resulting from the operation of your business

7 If you desire to terminate your franchise agreement before the end of the term you must give us no fewer than 3 months notice and pay us $10,000 at the time you give notice of your intent to terminate plus an amount equal to the amount you paid in Royalty Fees and Marketing, Design and Brand Fund contributions during the 12 months preceding the date of your desired termination multiplied by the number of years remaining on the term of your franchise agreement

## ITEM 7

## ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

**Single Yoga Studio**

| TYPE | AMOUNT | METHOD OF PAYMENT | WHEN DUE | TO WHOM PAYMENT IS TO BE MADE |
|---|---|---|---|---|
| INITIAL FRANCHISE FEE | $7 675, $11 512 50 or $15 350 | Lump Sum | At signing of franchise agreement | Modo |

| TYPE | AMOUNT | METHOD OF PAYMENT | WHEN DUE | TO WHOM PAYMENT IS TO BE MADE |
|---|---|---|---|---|
| TRAVEL AND LIVING EXPENSES WHILE TRAINING (Note 1) | $0 | N/A | N/A | N/A |
| LEASE UTILITY & SECURITY DEPOSITS (Note 2) | $15 000 - $40 000 | As incurred | As incurred | Lessor, contractors |
| LEASEHOLD IMPROVEMENTS (Note 3) | $250 000 - $750,650 | As incurred | As incurred | Suppliers |
| BUSINESS LICENSE & PERMIT | $1 500 - $3 000 | As incurred | As Incurred | City State |
| SIGNAGE | $2 000 - $15 000 | As incurred | As incurred | Suppliers |
| FURNITURE & FIXTURES | $20,000 - $45,000 | As incurred | As incurred | Suppliers |
| OPENING INVENTORY (Note 4) | $5 000 - $11 000 | As incurred | As incurred | Modo |
| LEGAL AND PROFESSIONAL FEES (Note 5) | $10 000 - $25,000 | As incurred | As incurred | Suppliers |
| ADDITIONAL FUNDS - 3 MONTHS (Note 6) | $20,000 - $45,000 | As incurred | As incurred | Employees and suppliers |
| TOTAL (Note 7) | $331,175 – $950,000 | | | |

**YOUR ESTIMATED INITIAL INVESTMENT**

**Area Developer**

| Type | Amount | Method of Payment | Due Date | To whom payment is to be made |
|---|---|---|---|---|
| Development Fee (1 – 3 additional studios) | $7,675 $11,512 50 - $46,050 | Lump sum | When you sign the Area Developer Agreement | Modo |

| Type | Amount | Method of Payment | Due Date | To whom payment is to be made |
|---|---|---|---|---|
| Estimated Initial Investment (including Initial Fee) for first studio | $331,750 - $950 000 | As incurred | As incurred | Varies |
| TOTAL | $339,425 - $996,050 | | | |

All figures in Item 7 are estimates only Actual costs will vary for each franchisee depending on a number of factors If you are a Heritage Studio you may not incur all of these expenses The amounts payable to us are nonrefundable unless otherwise noted The refundability of other amounts depends upon your agreement with the applicable supplier or other party

**Notes**

1 With the exception of Level I and II training all training is done through webinars and online communication tools

2 You will need approximately 4,000 square feet for your studio This amount includes an estimate for a deposit of the first three months rent and utility deposits

3 This estimate includes amounts needed for construction, remodeling, decorating costs and any other leasehold improvements

4 This estimate includes inventory of yoga apparel, equipment and accessories including our proprietary products, for your first 90-days of operations

5 This figure includes our estimate of the cost for you to consult with independent legal and other professional advisors

6 These miscellaneous start-up costs are our estimate of necessary working capital You may have additional expenses in starting the business Your actual costs will depend on your management skill, the size of the city in which you open experience and business acumen your sales figures during the first three month period, your ability to follow our system and local market and economic conditions We base our estimate of these expenses on the experience of our affiliate that was involved in the opening of the studio at 340 S La Brea in West Hollywood, California

7 These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business Your costs will depend on factors such as how much you follow our methods and procedures your skill, experience and business acumen local economic conditions, the local market the size of the city in which you open, competition, and your customers You should review these figures carefully with a business advisor before making any decision to purchase the franchise

We do not offer financing to franchisees for any of the above items

## ITEM 8

## RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We currently have a limited line of merchandise, such as yoga apparel and equipment, that you must offer for sale from your Modo Yoga studio We reserve the right to require you to offer additional products for sale from your studio to create uniformity system-wide You must purchase these items from us, our affiliate Moksha Yoga Inc , or from a supplier designated or approved by us All designated or approved suppliers are listed in our Operations Manual

We have created a Product Selection Committee that is comprised of studio owners and our management personnel All products that we have on our approved list will be submitted by the studio owner community, and the Committee will review and approve or disapprove of such proposed products based on standards such as product quality, materials used, and environmental and ethical sensibility Studio owners will be kept informed of all approved products on a regular basis

All other equipment and services used in your business must meet our ethical and environmental specifications and standards, described in our Operations Manual, and you must purchase them from suppliers designated in our Operations Manual or from suppliers that you select that meet our criteria for suppliers The Table of Contents of our Operations Manual is attached to this disclosure document as Exhibit G In order to obtain our consent to a supplier that is not on our designated supplier list, the following conditions must be met

1 You must send a written request to us,

2 The supplier must demonstrate that it can supply an item or service meeting our specifications This may mean providing us with samples,

3 The supplier must demonstrate its financial soundness, the reliability of its product or service and a high regard for ethics and the environment, and

4 If the item will bear a Modo Yoga trademark, we may require the supplier to sign a license agreement which may include a royalty payment to us

We generally will notify you of our approval or disapproval of a supplier within 60 days We may notify you that the approval of a supplier is revoked at any time There is no fee for requesting approval of an alternative supplier but we reserve the right to invoice you for reasonable costs incurred by us in evaluating alternative suppliers for which you seek approval Other than the considerations listed above, we do not disclose our criteria for approving suppliers We may also designate brand-name supplies and equipment that you must use

We operate a website that uses our name and other trademarks and features our products You are not permitted to develop or operate a website relating to the franchised business or use our marks without our express written permission

You must obtain our approval of the lease for the location from which you will conduct the franchised business You must attempt to contain the following terms in the lease

(a) a right to assign the lease to us or our nominee subject to the landlord's consent but without a rent increase or penalty,

(b) the landlord's acknowledgement that you may not transfer or sublet without our consent,

(c) the landlord's consent to installation of our signage,

(d) the landlord's agreement to notify us if you default under your lease,

(e) no significant change may be made to the lease without our consent,

(f) if your franchise agreement terminates or expires, the landlord's agreement that the lease will transfer to us or our nominee immediately upon notice from us, without rent increase or penalty and without liability for your prior acts or omissions, and

(g) we may enter the premises and make alterations after the expiration or termination of your franchise agreement

You must obtain the insurance coverage required by your franchise agreement and our Operations Manual from a carrier with a Best's rating of at least A- The required coverage currently includes worker's compensation insurance, including employer's liability, with limits as required by law, business interruption coverage and comprehensive general liability insurance, in the minimum amounts of $1,000,000 per occurrence and $2,000,000 in the aggregate, including premises liability, professional liability products and completed operations, personal and advertising liability and such other limits and coverage as we may periodically require The required coverage is subject to change

Our affiliate Moksha Yoga Inc has negotiated purchase arrangements with certain suppliers for the benefit of franchisees Although we did not derive any revenue from suppliers on account of purchases or leases from franchisees during the fiscal year ended October 31, 2016, our affiliate received $45,017 52 on account of required purchases or leases from franchisees

We do not currently provide material benefits to franchisees based on use of designated or approved suppliers but we may do so in the future

We estimate that the required purchases and leases described in this Item will constitute approximately 30% to 40% of all purchases and leases you will incur to

establish your studio, and approximately 10% to 20% of all purchases and leases you will incur to operate the studio

None of our officers own interests in any supplier

## ITEM 9

## FRANCHISEE'S OBLIGATIONS

**This table lists your principal obligations under the franchise and other agreements It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document**

| | Obligation | Section in Agreement | Disclosure Document Item |
|---|---|---|---|
| a | Site selection and acquisition/lease | Sections 3(a) and (b) | Items 8 and 11 |
| b | Pre-opening purchases/leases | Sections 3(e) 8(d) and 10 | Items 5 7 and 8 |
| c | Site development and other pre-opening requirements | Sections 3(c) (d), (e) (f) and (g) | Items 7, 8 and 11 |
| d | Initial and ongoing training | Section 7(a) | Item 11 |
| e | Opening | Section 3(g) | Item 11 |
| f | Fees | Sections 5(d), 6, 7(a)(iii) 7(a)(iv), 8(a) 9(h), 10 11 14(b)(i), 14(b)(iii)(F) 14(c) 25 and 29, Section 3 2]of Area Developer Agreement | Items 5, 6, 7 and 11 |
| g | Compliance with standards and policies/Operating Manual | Sections 3, 7(b), 8(c), 9, 10 11, 12(b) 16(a)(vii) and 16(b)(i) | Items 8 and 11 |
| h | Trademarks and proprietary information | Sections 1 9(a) 9(b) 12 and 17(b) | Items 13 and 14 |
| i | Restrictions on products/services offered | Sections 9(a) and (c) | Items 8 and 16 |
| j | Warranty and customer service requirements | Sections 9(c)(i), (d) and (f) | Item 11 |
| k | Territorial development and sales quotas | Sections 2(b) 2(c), 9(h) and Exhibit A Sections 1 and 4 of Area Development Agreement | Item 12 |

| | Obligation | Section in Agreement | Disclosure Document Item |
|---|---|---|---|
| l | Ongoing product/service purchases | Section 9(a) | Item 8 |
| m | Maintenance appearance and remodeling requirements | Sections 9(d) and (e) | Item 11 |
| n | Insurance | Section 10 | Item 8 |
| o | Advertising | Section 8 | Items 6 and 11 |
| p | Indemnification | Section 11, Section 14 of Area Developer Agreement | Item 6 |
| q | Owner s participation/ management/staffing | Sections 9(c), 9(f) and 9(o), Section 1 4 of Area Developer Agreement | Item 15 |
| r | Records/reports | Sections 6(k) 6(l) 9(h) and 9(k), Section 13 of Area Developer Agreement | Item 6 |
| s | Inspections/audits | Section 9(j) | Item 6 |
| t | Transfer | Section 14 Section 8 of Area Developer Agreement | Item 17 |
| u | Renewal | Section 5, Section 2 of Area Developer Agreement | Item 17 |
| v | Post-termination obligations | Section 17 | Item 17 |
| w | Non-competition covenants | Section 13 Section 11 of Area Developer Agreements | Item 17 |
| x | Dispute resolution | Section 25, Section 21 of Area Developer Agreement | Item 17 |
| y | Other Personal Guaranty of franchisee and spouse (Note 1) and owner agreements (Note 2) | Exhibits B and D of the Agreement Attachment C of Area Developer Agreement | Item 22 |

Notes

(1) Residents of community property states including Arizona California, Idaho, Louisiana, Nevada New Mexico, Texas, Washington and Wisconsin, are required to have their spouse sign a spousal consent, in which the spouse must consent to the individual franchisee's execution of the Guaranty and Assumption of Franchisee's Obligations In all other states the spousal guaranty is not required

(2) Each individual who owns an interest in a franchisee that is a corporation or other business entity (and that individual's spouse) must sign an agreement to maintain confidentiality and not to compete and an agreement assuming and agreeing to discharge all obligations of the "franchisee" under the franchise agreement (Exhibit E)

## ITEM 10

## FINANCING

We do not offer financing to you, either directly or indirectly We do not guarantee your note, lease or other obligation

## ITEM 11

## FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

**Except as listed below, we are not required to provide you with any assistance**

Before you begin to operate your studio, we will provide

(1) Consultation regarding the location you propose for your studio We will review the location you propose for its general location, zoning, demographics, traffic flow, parking, rent, size, layout, visibility, accessibility, relationship to potential customers, competitive environment and our desire to add a franchise in the market You will be required to obtain and provide us with all of this information We will consult with you about your proposed location and will approve or disapprove of your proposed location within 30-days after we receive your proposal with all required information about the location If we do not approve of your proposed location you must propose a new location You must have a signed letter of intent for a lease for your studio, at a location that we have approved, within 180 days after signing the franchise agreement If you do not do so, your franchise agreement may be terminated and we will have the right to keep 20% of your franchise fee (Franchise Agreement, Section 6(a)) Your lease must contain the provisions described in Item 8 For Area Developers, we reserve the right to determine or approve the location of future yoga studios in accordance with our then-current standards for approving locations But if the process does not change at a later date, in our discretion, we will repeat the site selection process described above for each additional yoga studio site the Area Developer intends to open within the Development Territory (Franchise Agreement, Section 3(a))

(2) To a reasonable extent, assistance with opening the studio (Franchise Agreement, Section 3(g))

(3) You are required to lease or purchase all fixtures, equipment and signs we designate at your studio You may purchase these items from any approved source (we do not provide these items directly) but all fixtures, furnishing, color schemes, machinery, equipment, accessories, signs, supplies and inventory shall conform to our specifications We will establish and publish written specifications for the furniture, fixtures, signage, facility, equipment products and inventory of your studio We also provide criteria for approving proposed suppliers for these items and may suggest but not require that you use certain suppliers We do not deliver or install any items (Franchise Agreement Sections 3(e),(f) and Section 9(a)(i),(iii) and Section 9(e))

(4) Instruction and training in operating your studio and our procedures through manuals, communication and webinars As a prerequisite for eligibility as a Modo Yoga franchisee, your majority owner or majority owner group must complete an intensive Teacher Training Level I Program, at your own expense (see Item 1) After you are considered eligible to be a Modo Yoga franchisee, you, or a manager approved by us, must successfully complete our initial training program before you open your studio Initial training lasts approximately 2-3 days and takes place online through interactive webinars and online communication tools Our Operations Manual contains a detailed description of the training program and materials You will receive no compensation or reimbursement for services or expenses for participation in training We will not charge you for your training or an approved manager's training but we charge you a fee to train additional persons (if more than three people total), as described in Item 6 You will be responsible for all of your and your employees', if applicable, expenses to attend the training program, including any lodging, transportation and food (Franchise Agreement Section 7(a))

Following is an outline of the training program

| TRAINING PROGRAM | | | |
|---|---|---|---|
| **SUBJECT** | **HOURS OF CLASSROOM TRAINING** | **HOURS OF ON THE JOB TRAINING** | **LOCATION** |
| Introduction<br>Review of Materials<br>Modo History<br>Studio Business Model<br>Business Policies and Standards<br>Franchise Overview<br>Trademark Usage<br>Franchise Policies and Standards<br>Franchise Reporting Requirements<br>Opening the Business<br>Training the Staff<br>Organizing and Administration<br>Marketing<br>Conflict Resolution<br>Working with Independent Contractors<br>Optimizing the Use of Mindbody<br>Efficiency Training<br>Leadership Training | 10-16 | 0 | Online |
| **Totals** | **10-16** | — | |

Training classes are designed to cater to the individual needs and experience of prospective franchisees Training programs are held when necessary to train new franchisees but in some cases, training may only be available twice annually Your training classes may include other franchisees

Instructional materials provided include loaning you a copy of our Operations Manual, training lesson plans and other operational materials

Ted Grand and Jessica Robertson serve as our training administrators Ted has 17 years of experience in the yoga industry as an instructor, 10 years of which he has been with our affiliate, Moksha Yoga Inc , and he has been with us since our inception in 2012 Jessica has over 11 years of experience in the yoga industry as an instructor, 10 years of which he has been with our affiliate, Moksha Yoga Inc , and she has been with us since our inception in 2012

You must complete the initial online training to our satisfaction within 365 days after signing the Franchise agreement You will not be charged an additional fee for up to three additional people to attend the initial online training program We may impose additional fees for additional people attending training In addition to the initial training described above, we may require you and your personnel to attend the training again before renewing the franchise agreement We may also require you and your personnel to periodically attend additional training including attending our annual franchisee meetings at a location of our choice within the United States or Canada, and participating in quarterly webinars Additionally, within 4 years of signing the franchise agreement, you must successfully complete our "Advanced Training" and "Moksha Yoga Flow" teacher training at your own expense

We anticipate that franchisees will open their studios 9 to 12 months after they sign the franchise agreement and pay the initial franchise fee The factors that affect this time are locating a satisfactory site, obtaining a lease, construction of improvements to the site, financing, obtaining building permits, zoning and local ordinances, weather conditions, shortages and any delays in installation of equipment, fixtures and signs

Heritage Studios will not receive any of the above assistance other than receiving a copy of our Operations Manual on loan

During the operation of your studio, we will

(1) Loan you a copy of our proprietary and confidential operations manual (Franchise Agreement Section 7(b)) The Table of Contents of our Operations Manual is attached to this disclosure document as Exhibit G

(2) To a reasonable extent, advise and consult with you periodically in connection with the development and operation of the studio and reasonably attempt to assist you to resolve any operating problems that may arise (Franchise Agreement Section 7(c))

(3) Provide additional training in the Modo Yoga program, such as our Advanced Training and Moksha Yoga Flow teacher training, and other training if requested or we determine it to be necessary (Franchise Agreement Section 7(a)(iv))

Computer System

We do not require you to purchase or lease electronic cash registers or computer systems We do require that you license directly from Moneris (or another designated supplier) a system for processing payments and from Mindbody a system for scheduling classes and administering a reservation system for your studio We estimate your cost to acquire license rights to use the Moneris system will initially be $30, you will also be charged additional service fees for each transaction depending on your location and agreement with Moneris We estimate the cost to acquire license rights to use the Mindbody system will be $750 to $850, depending on the size of the studio You will be responsible for maintaining, repairing, upgrading and updating the Moneris and Mindbody systems directly with Moneris and Mindbody, respectively, in accordance with our standards described in the Operations Manual There are no limits or restrictions regarding the cost or frequency with which you will be required to manage the Moneris and Mindbody systems We estimate your annual cost to maintain the Moneris and Mindbody systems will be $1,380 to $1,980 We will not have independent access to the information contained in your Mindbody system but we reserve the right to request records from you at any time We will have independent access to your gross sales information and to the types of transactions you enter into and that are generated by and stored in your Moneris system

Marketing, Design and Brand Fund

We have established and will administer a Marketing, Design and Brand Fund to which you must contribute We may elect to disseminate marketing through Internet-based mediums and social media, television, radio and print media such as magazine, billboards, flyers, mailers and newspapers The internet-based media coverage will be international in scope and the television, radio and print media coverage will be national, regional or local in scope, in our discretion We may use the Marketing, Design and Brand Fund to employ an outside consultant or agency to assist in the development, production and dissemination of marketing materials We may also use the Marketing, Design and Brand Fund to develop promotional and advertising materials for your use In addition, we may provide sales training or printed material to assist you in selling our products or merchandise We may on occasion solicit comments from franchisees regarding advertising programs and policies but there will not be a formal advertising council composed of franchisees that will advise us regarding these topics

We will prepare a periodic accounting on how we spend Marketing, Design and Brand Fund contributions We will make the accounting available to you upon request Any contributions not spent during one year will carry over to the next year No expenditures will be made from contributions to solicit new franchise sales Contributions to the fund are neither separately accounted for nor audited

As of the issuance date of this disclosure document, franchisees are not required to allocate any funds to a local or regional advertising cooperative

You may use your own marketing materials to promote your studio, however we may require you to submit electronic copies of such materials to us at any time We reserve the right to prohibit the use of such materials if we, acting reasonably, deem them to be inappropriate

We operate a website that uses our name and other trademarks and features our products We reserve the right to conduct all commerce over the Internet and other means of electronic communication as may in the future be developed We will provide you with a fully optimized and customizable website template for your use in connection with your studio Your website will display our marks and will be pre-programmed to meet our specification and will be linked to our website

We may develop discount programs or coupon or gift certificate programs in the future If we do so, you must participate in these programs

## ITEM 12

## TERRITORY

You receive the right to operate a Modo Yoga studio at a location and within a protected territory to be approved by us You will receive a territory with a radius depending on the total population in the area, as generally described in the table below The territory radius may be adjusted by us, in our discretion, depending on the actual population density in your specific location

| Population in the Area | Territory Radius |
|---|---|
| 0-150,000 | 7 45 miles |
| 150,000-300,000 | 6 21 miles |
| 300,000-500,000 | 4 97 miles |
| 500,000-700,000 | 3 72 miles |
| 700,000+ | 3 10 miles |

In some cases, where population density is much greater than what is disclosed in the above table, we may decrease the size of the territory, in our discretion Similarly, if your studio is located in an area with low population density, the territory radius may be larger, as determined on a case by case basis

You may not relocate your studio or establish additional yoga studios without our written approval In general, the factors that we may consider in deciding whether to approve your request are demographic changes with respect to location of your studio, and the performance of your studio You do not receive any options, rights of first refusal or similar rights to acquire additional franchises or territories

Provided that you are in compliance with the terms and conditions of your franchise agreement, we will not operate a Modo Yoga studio in your protected territory or permit third parties to do so

Except as described above, you will not receive an exclusive territory You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control

Your rights to the territory are not dependent on achieving a certain sales volume but if you are not in compliance with your franchise agreement we may have the right to operate or grant another person the right to operate in your territory

We reserve all rights that we do not grant to you For example, we reserve all rights to the use of our name, to open one or more company-owned Modo Yoga studios outside of your territory, to solicit or accept orders from consumers inside your territory without compensation to you, to promote our studios and to sell our products and other products using other channels of distribution such as the Internet, catalog sales, telemarketing or other direct marketing, except for any limited use for which we may give you written permission

You have the right to serve students from outside of your territory but you do not have the right to use other channels of distribution such as the Internet, catalog sales, telemarketing or other direct marketing for solicitation of students from outside of your territory

As of the date this disclosure document was issued, we do not intend to establish other franchises or company-owned outlets to sell similar products or services under a different trademark, but we reserve the right to do so

Area Development Agreement

Area Developers are granted a protected Development Territory in which they must develop a minimum of two yoga studios The size of your Development Territory will be based upon the population density of the Development Territory, geographical area, city, county and other boundaries The size of the Development Territory may be a single or multi-city area, single county area or some other area, and will be described in Attachment D of your Area Developer Agreement We will determine the Development Territory before you sign the Area Developer Agreement based on various market and economic factors, including those described above

In addition to complying with your Development Schedule for your Development Territory, you must comply fully with the operational, financial, legal and ownership conditions contained in the Area Developer Agreement and each of the Franchise Agreements you will sign for each of the Modo Yoga franchises in your Development Territory

We will not authorize others, or develop, own, lease, construct or operate any Studios in the Development Territory during the term of the Area Developer Agreement, however, we reserve the right to sell products and services through any other retail location or through any other channels of distribution, including through mail order, catalogue sales or over the Internet Upon the expiration or termination of the Area Developer Agreement, you will no longer have a protected Development Territory and each Studio

will be limited to operating with only the protection afforded by its Franchise Agreement In light of the foregoing, you will not receive an exclusive Development Territory You may face competition from other franchisees and area developers, from outlets that we own, or from other channels of distribution or competitive brands that we control

## ITEM 13

## TRADEMARKS

We will grant you the right to conduct business as a yoga studio under the name "Modo Yoga," a design logo using the same words as seen on the cover page to this disclosure document, and related trademarks You must use the name "Modo Yoga" only in conjunction with the name of your territory For example, if your territory is Seattle, Washington, you must market your studio as Modo Yoga Seattle

The mark, "Modo Yoga", was registered on the Principal Register of the United States Patent and Trademark Office on August 5, 2014 The registration number is 4581106 All required affidavits have been filed

You must also use other trademarks which we or our affiliate develop or we prescribe to identify your studio and its services and products By trademark, we mean trade names, trademarks, service marks and logos used to identify your studio, its services and its products

We received the right to use all trademarks and to license their use to you under an agreement with our affiliate, Moksha Yoga Inc , dated September 25, 2012 Unless terminated, such agreement continues indefinitely, and such agreement may not be modified without both parties' consent If such agreement is terminated for any reason, it provides that Moksha Yoga Inc will continue to honor the rights we granted to you No other agreements limit our right to use or license the use of the trademarks

You must follow our rules when you use these trademarks You cannot use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which we license to you You may not use our trademarks in the sale of an unauthorized product or service or in a manner not authorized by us in writing

We reserve the right to modify or change the marks that you use in the operation of your studio at any time during the term of your franchise agreement This includes changing the "Modo Yoga" mark You will be responsible for all costs and expenses associated with modifying and/or changing the marks

You must notify us immediately when you learn about an infringement of or challenge to your use of our trademarks Your franchise agreement requires us to protect you against claims of infringement if you are using the trademarks as required by your franchise agreement and if you are in good standing You must assist Modo in protecting any of its rights, at our expense

If you learn about a third party's use of our trademarks that you believe to be unauthorized, you must notify us immediately We will decide whether or not to take action against the third party, and you must assist us, at our expense, if we decide to do so We have the right to control any administrative proceeding or litigation involving our trademarks If we decide to add a new trademark, or modify or discontinue the use of any trademark, you must use the new trademark or change or discontinue the use of the trademark, all at your expense

We do not know of any infringing uses that could materially affect your use of its trademarks

## ITEM 14

## PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

The franchised business does not involve any patents We do not own any rights in any patents and we do not have any pending patent applications

We claim a copyright in the Operations Manual, but have not filed for copyright registration

You must notify us immediately when you learn about a challenge to your use of our copyrighted material We are not obligated to defend or indemnify you against claims arising from your use of the copyrighted material You must assist us in protecting any of our rights, at our expense

If you learn about a third party's use of our copyrighted material which you believe to be unauthorized, you must notify us immediately We will decide whether or not to take action against the third party, and you must assist us, at our expense, if we decide to do so We have the right to control any litigation involving our copyrighted material If we decide to add, modify or discontinue the use of anything covered by a copyright, you must also do so at your expense

We do not know of any infringing uses that could materially affect your use of the copyrighted material

You also receive the right to use certain of our trade secrets and confidential information including our system and customer information

## ITEM 15

## OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

We require that you (or a 51% owner, if the franchisee is an entity) participate personally in the direct operation and management of your studio during the first year of the term of your franchise agreement After the first year, if you have satisfied all of the

terms in the franchise agreement, you may hire a manager to take over the direct operation and management of your studio We must be provided the manager's name and contact information in a timely manner, and he or she must complete initial training to our satisfaction and, if applicable, pay the additional training fee If you choose to hire an on-premises manager after the completion of the first year of the term of your franchise agreement, you must still conduct on-premises supervision of the studio for a minimum of 30 hours per month

The on-premises manager, and any other persons that we designate who are affiliated or employed by you, must sign a confidentiality and non-competition agreement in a form we approve The on-premises manager need not own an equity interest in your studio

If the franchisee is an entity, its owners and in community property states, the spouses of its owners, must sign a personal guaranty, agreeing to discharge the obligations of the franchisee under the Franchise Agreement

## ITEM 16

## RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We require that you offer and sell only those goods and services that we have approved but there are no restrictions or conditions that limit your access to customers except with regard to territorial limitations summarized in Item 12 of this disclosure document

You must offer all goods and services that we designate as required in the Operations Manual unless we otherwise agree in writing It is important that all of our studios be consistent and incorporate the same elements wherever products and services are offered This benefits all of our franchisees

We may add new services or products and change the types of authorized products or services that you offer from your studio and there are no limits on our ability to make these changes Our intent is to align all our services and products with the goal of improving environmental and ethical standards and enhancing business and product quality for franchisees and their students

## ITEM 17

## RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

### THE FRANCHISE RELATIONSHIP

**This table lists certain important provisions of the franchise and related agreements You should read these provisions in the agreements attached to this disclosure document**

| | Provision | Section in Franchise or Other Agreement | Summary |
|---|---|---|---|
| a | Length of the franchise term | Section 4, Section 2 of Area Developer Agreement | 5 years |
| b | Renewal or extension of the term | Section 5 Section 2 of Area Developer Agreement | If you meet certain conditions and we are still offering franchises, you can enter into the then-current renewal franchise agreement at a cost of $1,000 for one additional 5-year term The then-current agreement may contain materially different terms but will not include a royalty fee increase that is greater than 2 percentage points |
| c | Requirements for franchisee to renew or extend | Section 5 | You must sign our then-current form of franchise agreement which may contain different terms, successfully complete training, sign a general release fulfill all your obligations and not have received 3 or more default notices in any 24-month period, you must not be in default under your franchise agreement or any other agreement with us, you must meet requirements for new franchisees, and remodel and update your business premises You may be asked to sign a franchise agreement with materially different terms and conditions than your original franchise agreement |
| d | Termination by franchisee | Section 14(e) | If you terminate the franchise agreement early, you must pay a $10 000 termination fee along with a lump sum of royalty fee and brand fund payments calculated for the balance of the term of the franchise agreement based on your prior performance over the preceding 12-month period You must provide us with 3-months notice before termination |
| e | Termination by franchisor without cause | None | Not Applicable |
| f | Termination by franchisor with cause | Section 16 Sections 7 1 and 7 2 of Area Developer Agreement | We can terminate if you default or if the events described in (g) or (h) below occur |
| g | 'Cause" defined-curable defaults | Section 16(b) Section 7 1 of Area Developer Agreement | You have 5 days to cure non-payment and up to 30 days for other types of non-compliance |
| h | 'Cause" defined- | Section 16(a), Section 7 1 | Non-curable defaults bankruptcy or insolvency, |

| | Provision | Section in Franchise or Other Agreement | Summary |
|---|---|---|---|
| | non-curable defaults | of Area Developer Agreement | abandonment your material misrepresentation to us, conduct which reflects unfavorably on us or our system, non-compliance with law, intentional under-reporting of gross revenue, repeated failure to comply with franchise agreement requirements, seizure by government official or lien holder, eviction by lessor for any reason, final judgment of more than $5,000 remains unsatisfied for 30 days, undischarged levy of execution on franchise conviction of a felony or other criminal misconduct (but if only one owner of franchisee is convicted, and such owner is removed from ownership of the franchisee, the franchise agreement will not be terminated), danger to public health or safety, unauthorized transfer termination of any other agreement with us your unauthorized use of trademarks or trade secrets fail to transmit to us any health department report, the United States designates you a specially designated national or blocked person |
| i | Franchisee's obligations on termination/non-renewal | Sections 17(a)-(c) | Pay all amounts due to us, discontinue use of trademarks and our system de-identify return or destroy all inventory with our trademarks, return our Operations Manual and other confidential information, assist in smooth transition of business, refrain from soliciting customers or personnel, refrain from making disparaging remarks, re-assign to Modo telephone and facsimile numbers and e-mail addresses cancel fictitious business name statement, and comply with all other requirements in the Operations Manual |
| j | Assignment of contract by franchisor | Section 14(a), Section 8 1 of Area Developer Agreement | No restriction on our right to assign |
| k | "Transfer" by franchisee – definition | Section 14(b)(ii) Section 8 2 of Area Developer Agreement | Includes transfer or encumbrance of franchise agreement, assets of your business or greater than 25% ownership interest in your business |
| l | Franchisor approval of transfer by franchisee | Section 14(b)(i), Section 8 2 of Area Developer Agreement | You must obtain our consent to all transfers |

| | Provision | Section in Franchise or Other Agreement | Summary |
|---|---|---|---|
| m | Conditions for franchisor approval of transfer | Section 14(b)(iii) Section 8 2 of Area Developer Agreement | You must not be in default under your franchise agreement or any other agreement with us, the premises must meet our then-current standards, your lessor consents, transferee meets qualifications for new franchisee, the transferee must sign the then-current form of franchise agreement and guaranty, the transferee must successfully complete Modo training you pay the transfer fee you sign a general release, transferee's obligations to you are subordinated to obligations to us, you must transfer all of your agreements with us If you want to transfer your franchise to an entity, you must own the entity sign a personal service agreement with the entity and the entity must agree to your franchise agreement (you remain responsible as well and must execute a performance guaranty) |
| n | Franchisor's right of first refusal to acquire franchisee s business | Section 14(c) | We can match any offer for your studio |
| o | Franchisor's option to purchase franchisee's business | Section 17(d) | We have the option of acquiring your assets if the franchise agreement expires or terminates |
| p | Death or disability of franchisee | Sections 14(d) and 15 | If you or your principal dies or become permanently disabled, your executor or representative may either satisfy the then-current qualifications for franchisees or transfer the franchise to a qualified buyer within 90 days You will not be required to pay a transfer fee |
| q | Non-competition covenants during the term of the franchise | Section 13(a), Section 11 1 of Area Developer Agreement | You may not be involved in any business similar to ours without our advance approval, which we may withhold or revoke at any time upon notice to you |

| | Provision | Section in Franchise or Other Agreement | Summary |
|---|---|---|---|
| r | Non-competition covenants after the franchise is terminated or expires | Section 13(b), Section 11 2 of Area Developer Agreement | You may not operate a similar business for 1 year (3 years under the ADA) except where other exceptions apply |
| s | Modification of the agreement | Section 28 | No modification without a writing signed by you and us, except that we may amend the Operations Manual |
| t | Integration/ merger clause | Section 27 | Only the terms of the franchise agreement are binding (subject to state law) Any other promises are enforceable Nothing in the franchise agreement is intended to disclaim anything contained in this disclosure document |
| u | Dispute resolution by arbitration or mediation | Section 25, Section 21 of Area Developer Agreement | Except for certain claims, subject to state law, all disputes must be mediated and if not resolved arbitrated |
| v | Choice of forum | Section 25, Sections 18 and 21 of Area Developer Agreement | Subject to state law Los Angeles California |
| w | Choice of law | Section 24 Section 18 of Area Developer Agreement | Delaware law applies, subject to the Lanham Act and state law |

## ITEM 18

## PUBLIC FIGURES

We do not use any public figures to promote our franchise

## ITEM 19

## FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document Financial performance information that differs from that included in this Item 19 may be given only if (1) a franchisor provides the actual records of an

existing outlet you are considering buying, or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised studios We also do not authorize our employees or representatives to make any such representations either orally or in writing If you are purchasing an existing studios, however, we may provide you with the actual records of that studios If you receive any other financial performance information or projections of your future income, you should report it to our management by contacting New Studios Coordinator at 301 Epron Road, Salt Spring Island, British Columbia V8K 1C7 Canada, newstudios@modoyoga com and (866) 966-9642, the Federal Trade Commission, and the appropriate state regulatory agencies

## ITEM 20

## OUTLETS AND FRANCHISEE INFORMATION

**Table No 1**
**Systemwide Outlet Summary**
**For Years 2014 to 2016**

| Column 1 Outlet Type | Column 2 Year | Column 3 Outlets at Start of the Year | Column 4 Outlets at End of the Year | Column 5 Net Change |
|---|---|---|---|---|
| Franchised | 2014 | 6 | 8 | 2 |
| | 2015 | 8 | 10 | 2 |
| | 2016 | 10 | 12 | 2 |
| Company-Owned | 2014 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 |
| | 2016 | 0 | 0 | 0 |
| Total Outlets | 2014 | 6 | 8 | 2 |
| | 2015 | 8 | 10 | 2 |
| | 2016 | 10 | 12 | 2 |

## Table No 2
## Transfers of Outlets
## from Franchisees to New Owner (other than the Franchisor)
## For Years 2014 to 2016

| Column 1<br>State | Column 2<br>Year | Column 3<br>Number of Transfers |
|---|---|---|
| Total | 2014 | 0 |
| | 2015 | 0 |
| | 2016 | 0 |

## Table No 3
## Status of Franchised Outlets
## For Years 2014 to 2016

| Column 1<br>State | Column 2<br>Year | Column 3<br>Outlets at Start of Year | Column 4<br>Outlets Opened | Column 5<br>Terminations | Column 6<br>Non-Renewals | Column 7<br>Reacquired by Franchisor | Column 8<br>Ceased Operations Other Reasons | Column 9<br>Outlets at End of the Year |
|---|---|---|---|---|---|---|---|---|
| California | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Kentucky | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Minnesota | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Nevada | 2014 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| New York | 2014 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 1 | 0 | 0 | 0 | 0 | 2 |
| Ohio | 2014 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2015 | 2 | 1 | 0 | 0 | 0 | 0 | 3 |
| | 2016 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Oregon | 2014 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2016 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Texas | 2014 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Washington | 2014 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2015 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2016 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |

| Column 1 State | Column 2 Year | Column 3 Outlets at Start of Year | Column 4 Outlets Opened | Column 5 Terminations | Column 6 Non Renewals | Column 7 Reacquired by Franchisor | Column 8 Ceased Operations Other Reasons | Column 9 Outlets at End of the Year |
|---|---|---|---|---|---|---|---|---|
| Total | 2014 | 6 | 2 | 0 | 0 | 0 | 0 | 8 |
| | 2015 | 8 | 2 | 0 | 0 | 0 | 0 | 10 |
| | 2016 | 10 | 2 | 0 | 0 | 0 | 0 | 12 |

## Table No 4
## Status of Company-Owned Outlets
## For Years 2014 to 2016

| Column 1 State | Column 2 Year | Column 3 Outlets at Start of Year | Column 4 Outlets Opened | Column 5 Outlets Reacquired from Franchisee | Column 6 Outlets Closed | Column 7 Outlets Sold to Franchisee | Column 8 Outlets at End of the Year |
|---|---|---|---|---|---|---|---|
| All States | 2014 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2016 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2014 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2016 | 0 | 0 | 0 | 0 | 0 | 0 |

## Table No 5
## Projected Openings
## As of October 31, 2016

| State | Franchise Agreements Signed but Outlet Not Opened | Projected New Franchised Outlets in the Next Fiscal Year | Projected New Company-Owned Outlets in the Next Fiscal Year |
|---|---|---|---|
| California | 2 | 3 | 0 |
| New York | 0 | 1 | 0 |
| Other States | 0 | 2 | 0 |
| Total | 2 | 6 | 0 |

No franchisees have had a studio terminated, canceled, not renewed or otherwise ceased to do business during the most recently completed fiscal year If you buy this

franchise, your contact information may be disclosed to other buyers when you leave the franchise system

During the last three years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as franchisees in our system

We are unaware of any trademark specific franchisee organizations associated with our franchise system that has either been created, sponsored, or endorsed by us, or is incorporated or otherwise organized under state law and asks us to be included in our disclosure document during the next fiscal year

## ITEM 21

## FINANCIAL STATEMENTS

Attached as Exhibit D to this disclosure document are our audited financial statements dated as of the end of fiscal year 2016, 2015 and 2014 Our fiscal year ends October 31 Also attached to Exhibit D are our unaudited interim financial statements for the period November 1, 2016 to March 31, 2017

## ITEM 22

## CONTRACTS

Attached are copies of the following agreements proposed for use in this state

Exhibit E Franchise Agreement and Addendum, if applicable

Exhibit B to the Franchise Agreement Spousal Consent

Exhibit D to the Franchise Agreement Guaranty and Assumption of Franchisee's Obligations

Exhibit F Area Developer Agreement

Exhibit H Closing Questionnaire

## ITEM 23

## RECEIPT

Attached to the end of this disclosure document, following the Exhibits, is a receipt Please sign it, date it the date you receive the disclosure document, and return it to us A duplicate of the receipt is attached for your records

EXHIBIT A

**EXHIBIT A**

BLUEBIRDonline.com (888) 477-0700

## EXHIBIT A

## LIST OF STATE FRANCHISE ADMINISTRATORS

| State | Title of Administrator | Telephone Number |
|---|---|---|
| California | Toll Free Number | (866) 275-2677 |
| | Commissioner of Business Oversight<br>320 W 4th Street<br>Suite 750<br>Los Angeles, California 90013-2344 | (213) 576-7500 |
| | or | |
| | One Sansome Street<br>Suite 600<br>San Francisco, California 94104 | (415) 972-8559 |
| New York | Attorney General<br>New York State Department of Law<br>Bureau of Investor Protection and Securities<br>120 Broadway, 23rd Floor<br>New York, New York 10271 | (212) 416-8222 |
| Washington | Securities Administrator<br>Washington State Department of Financial Institutions<br>150 Israel Road S W<br>Tumwater, Washington 98501 | (360) 902-8762 |

EXHIBIT B

**EXHIBIT B**

BLUEBIRDonline.com (888) 477 0700

## EXHIBIT B

## LIST OF AGENTS FOR SERVICE OF PROCESS

| State | Name and Address of Agent |
|---|---|
| California | California Commissioner of Business Oversight<br>320 West 4th Street<br>Suite 750<br>Los Angeles, California 90013-2344 |
| New York | Secretary of State of New York<br>One Commerce Plaza<br>99 Washington Avenue<br>Albany, New York 12231 |
| Washington | Securities Administrator<br>Washington State Department of Financial Institutions<br>150 Israel Rd SW<br>Tumwater, Washington 98501 |

If a state is not listed, Modo Yoga has not filed for appointment of an agent for service of process in that state in connection with the requirements of franchise laws There may be states in addition to those listed above in which Modo Yoga has appointed an agent for service of process

EXHIBIT C

BLUEBIRDonline.com (888) 477-0700

# EXHIBIT C

## LIST OF CURRENT FRANCHISEES
## (as of October 31, 2016)

| STUDIO | OWNER(S) | LEGAL NAME | ADDRESS | CONTACT |
|---|---|---|---|---|
| California (Los Angeles) | Deena Robertson, Emily Morwen Jessica Robertson | Modo Yoga LA Inc | 340 S La Brea Ave, Los Angeles, CA 90036 | deena@modoyogala com, emily@modoyogala com, jess@mokshayoga ca |
| California (Los Angeles East) | Deena Robertson, Emily Morwen Jessica Robertson | Modo Yoga LA Inc | 1755 Glendale Blvd Los Angeles, CA 90026 | deena@modoyogala com emily@modoyogala com jess@mokshayoga ca |
| California (San Diego) | Frenny Palyniak, Andrew Palyniak | Department of Hot Yoga and Sweaty Affairs LLC | 3091 Clairemont Dr, San Diego CA 92117 | frenny@modoyogasandiego com andrew@modoyogasandiego com |
| Kentucky (Crescent Springs) | Ellen Bradley Michael Bradley | Moksha Yoga Northern Kentucky LLC | 2428 High St Crescent Springs, KY 41017 | ellen@modoyoganky com |
| Nevada (Las Vegas) | Christine Orient, Howard Fulfrost and Megan Hable | Modo Yoga Las Vegas LLC | 3638 E Sunset Rd #110 Las Vegas NV 89120 | kitty@modoyogalasvegas com |
| New York (New York City) | Guillaume Brun Rebecca Foon Sarah Neufeld | MYNYC Partners LLC | 434 6th Ave, 2nd Floor New York, NY 10011 | guillaume@modoyoganyc com |
| New York (Williamsburg) | Guillaume Brun Rebecca Foon Sarah Neufeld | MYNYC Partners LLC | 109 Metropolitan Ave, Brooklyn, NY 11249 | guillaume@modoyoganyc com |
| Minnesota (Minneapolis) | Phil Doucette and Ryann Doucette | Moksha Yoga Minneapolis LLC | 3525 West Lake St, Minneapolis MN 55416 | phil@modoyogaminneapolis com, ryann@modoyogaminneapolis com |
| Ohio (Cincinnati) | Ellen Bradley Michael Bradley | Moksha Yoga Northern Kentucky LLC | 3527 Columbia Pkwy Cincinnati OH 45226 | ellen@modoyoganky com |
| Ohio (Clifton) | Ellen Bradley Michael Bradley | Moksha Yoga Clifton LLC | 150 W McMillan St Cincinnati OH 45219 | ellen@modoyoganky com |
| Ohio (Columbus) | Chad Underwood Elizabeth Moore David Driver | Modo Yoga Short North LLC | 1042 Dublin Rd, Columbus OH 43215 | elizabeth@modoyogacolumbus com chad@modoyogacolumbus com |
| Oregon (Portland) | Jennifer Reed, Amber Reed, Rebecca Foon Sarah Neufeld, Dina Tsouluhas | Modo Portland | 400 SE Grand Ave Portland, OR 97214 | amber@modoyogaportland com, jerzy1414@gmail com |
| Texas (Austin) | Meghan McCaracken Gillian Brockett and Dave Huckle | McBrocken Enterprises LLC | 7010 Easy Wind Dr, Ste 130 Austin TX 78752 | Meghan@modoyogaaustin com, gillian@modoyogaaustin com |
| Washington (Seattle) | Kylie Sutton, Brandon Sutton | Modo Yoga Seattle Inc | 7110 Woodlawn Ave NE, Seattle, WA 98115 | Brandon@modoyogaseattle com, kyle@modoyogaseattle com |

Smythe
CPA

## INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF MODO YOGA INTERNATIONAL INC

We have audited the accompanying financial statements of Modo Yoga International Inc , which comprise the balance sheet as at October 31, 2016 and the statements of operations and comprehensive income, changes in shareholders' capital (deficiency) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error

*Auditors' Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in Canada Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

*Opinion*
In our opinion, the financial statements present fairly, in all material respects the financial position of Modo Yoga International Inc as at October 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
January 9, 2017



Sm, he LLP | smythecpa com

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F 604 686 4675

Langley
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Langley BC V1M 4A6
T 604 282 3600
F 601 888 9807

Nanaimo
201 1525 Bo n Rd
Nanaimo BC V9S 1H1
T 250 755 2111
F 250 751 3384

# Modo Yoga International Inc
## Balance Sheet
October 31
Expressed in US Dollars

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | $ 37,105 | $ 23,200 |
| Accounts Receivable | 58 700 | 46,510 |
| Goods and Services Tax | 250 | 390 |
| **Total Current Assets** | 96,055 | 70 100 |
| **TOTAL ASSETS** | **$ 96,055** | **$ 70,100** |
| **LIABILITIES AND SHAREHOLDERS' CAPITAL (DEFICIENCY)** | | |
| **Current Liabilities** | | |
| Accounts Payable and Accrued Liabilities | $ 5,811 | $ 10,922 |
| Income Taxes Payable | 3,623 | 0 |
| Due to Related Parties (Note 7) | 74,958 | 90,879 |
| **Total Current Liabilities** | 84 392 | 101 801 |
| **Shareholders' Capital (Deficiency)** | | |
| Capital Stock (Note 4) | | |
| Authorized Unlimited number of Class A common shares | | |
| Issued 100 Class A common shares | 100 | 100 |
| Retained Earnings (Deficit) | 11,563 | (31,801) |
| **Total Shareholders' Capital (Deficiency)** | 11,663 | (31 701) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' CAPITAL (DEFICIENCY)** | **$ 96,055** | **$ 70,100** |

**Approved on behalf of the Board**

Ted Grand Director

Jessica Robertson, Director

The accompanying notes are an integral part of these financial statements

# Modo Yoga International Inc.
## Statement of Operations and Comprehensive Income
**Year Ended October 31**
**Expressed in US Dollars**

| | 2016 | 2015 |
|---|---|---|
| **Revenues** | $ 105,289 | $ 75,641 |
| **Expenses** | | |
| Professional Fees | 38,403 | 51,115 |
| Bad Debt Expense | 13,815 | - |
| Merchant Fees | 4,566 | 1,008 |
| Bank Fees | 389 | 828 |
| Office | 274 | 87 |
| Loss (Gain) on Foreign Exchange | 855 | (16,060) |
| | 58,302 | 36,978 |
| Income Tax Expense (Note 6) | 3,623 | - |
| | 61,925 | 36,978 |
| **Net Income and Comprehensive Income for Year** | $43,364 | $ 38,663 |

The accompanying notes are an integral part of these financial statements

## Modo Yoga International Inc
### Statement of Changes in Shareholders' Capital (Deficiency)
**Expressed in US Dollars**

| | Capital Stock | | Retained Earnings | |
|---|---|---|---|---|
| | Number | Amount | (Deficit) | Total |
| **Balance at October 31, 2014** | 100 | $ 100 | $ (70,464) | $ (70,364) |
| Net Income for the Year | | | 38,663 | 38,663 |
| **Balance at October 31, 2015** | 100 | 100 | (31,801) | (31,701) |
| Net Income for the Year | - | - | 43,364 | 43,364 |
| **Balance at October 31, 2016** | 100 | $ 100 | $ 11,563 | $ 11,663 |

The accompanying notes are an integral part of these financial statements

# Modo Yoga International Inc
## Statement of Cash Flows
Year Ended October 31
Expressed in US Dollars

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Income | $ 43,364 | $ 38,663 |
| Items Not Involving Cash | | |
| Loss (Gain) on Foreign Exchange | 855 | (15,486) |
| Bad Debt | 13,815 | |
| | 58,034 | 23,177 |
| Changes in Non Cash Working Capital Items | | |
| Accounts Receivable | (26,005) | (41,905) |
| Taxes Payable | 3,623 | 0 |
| Goods and Services Tax | 140 | (65) |
| Accounts Payable and Accrued Liabilities | (5,111) | (3,675) |
| **Total Cash Inflows (Outflows) from Operating Activities** | 30,681 | (22,468) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayments to Related Parties | (16,776) | (3,527) |
| **Total Cash Outflows from Financing Activities** | (16,776) | (3,527) |
| **Total Increase (Decrease) in Cash During the Year** | 13,905 | (25,995) |
| **Cash, Beginning of Year** | 23,200 | 49,195 |
| **Cash End of Year** | **$ 37,105** | **$ 23,200** |

The accompanying notes are an integral part of these financial statements

## 1 NATURE OF OPERATIONS

Modo Yoga International Inc (the Company ') was incorporated under the *Business Corporations Act* (British Columbia) on September 25, 2012 The Company has only one segment in which it holds franchise rights for specific yoga studio systems and operations in the United States, Australia and France

The head office, principal address, and registered and records office of the Company are located at 301 Epron Road, Salt Spring Island, British Columbia, Canada V8K 1C7

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (' US GAAP ) and are presented in US dollars the Company s functional currency

### (b) Financial Instruments

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information These estimates involve uncertainties and cannot be determined with precision The carrying amounts of cash, accounts payable and accrued liabilities, amounts due to related parties and accounts receivable approximate fair values given their short term nature or effective interest rate

### (c) Revenue Recognition

The Company grants franchise licenses to independent operators for yoga studios Revenue for the initial franchise fee is recognized upon the signing of the franchise agreement, as all initial obligations and commitments are complete at that time

The Company earns monthly fee revenue from their studios Revenues from these fees are recognized on a monthly basis, as stated in the franchise fee agreements Revenues are shown net of foreign withholding tax

### (d) Foreign Currency Translation

Balances and transactions recorded in foreign currency are translated into US dollars as follows

(i) Monetary assets and liabilities, at the rate of exchange in effect at the balance sheet date,

(ii) Non monetary assets and liabilities, at exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities, and

(iii) Revenues and expenses, at the actual rate of exchange in effect on the transaction date

Gains and losses arising from the translation of foreign currency are included in net income for the year

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income Taxes

Deferred income taxes are provided using the asset and liability method, whereby deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis Net deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the net deferred tax assets will not be realized Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates at the date of enactment

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any Tax positions taken are not offset or aggregated with other positions Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority The portion of the benefits associated with tax positions taken that exceeds the amount measured, if any, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the statement of operations and comprehensive income

(f) Capital Stock

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset The Company s common shares are classified as equity instruments

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds

(g) Use of Estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period Significant estimates include the balance of accrued liabilities and recognition of deferred income tax assets While management believes the estimates are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows

(h) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions Related parties may be individuals and/or corporate entities A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties

(i) Recently Issued Accounting Pronouncements

The Company does not expect that the adoption of recently issued accounting pronouncements will have a material impact on its financial position, results of operations or cash flows

## 3 FINANCIAL INSTRUMENTS

### (a) Fair value measurements

Critical judgments and estimates are made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative credit worthiness of the Company to its counterparties, the credit risk of the Company's counterparties relative to the Company, and the estimated future cash flows and discount rates

### (b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities

The Company is exposed to this risk mainly in respect of its accounts payable and due to related parties All accounts payable are due within three months

### (c) 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 is not exposed to significant credit risk, as its cash is held at a major Canadian financial institution

The Company is exposed to credit risk with respect to its accounts receivable, however, this is minimized by following a program of credit evaluations of potential franchisees and limiting the amount of credit extended when deemed necessary

### (d) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates

The Company s Canadian bank account, a portion of accounts payable and accrued liabilities, and due to related parties are denominated in Canadian dollars The Company has the following balances of Canadian dollars, converted to US dollars

| | 2016 | 2015 |
|---|---|---|
| Cash | $ 744 | $ 567 |
| Accounts Payable | (4 426) | (4,426) |
| Income Taxes Payable | (3,623) | |
| Due to Related Parties | (74,958) | (90,801) |
| | $ (82,263) | $ (94,660) |

## 4 CAPITAL STOCK

The Company is authorized to issue an unlimited number of common shares with a par value of $1, issuable in series as follows

- Unlimited number of Class A common shares,
- Unlimited number of Class B common shares,
- Unlimited number of Class C common shares,
- Unlimited number of Class D common shares,
- Unlimited number of Class E preferred shares, and
- Unlimited number of Class F preferred shares

**Share Issuances**

During the years ended October 31, 2016 and 2015, the Company did not issue any common shares or preferred shares

## 5 OPERATING SEGMENTS

As at October 31, 2016, Modo Yoga International Inc operates in only one segment, the sale of yoga franchises to clients in the United States, Australia and France (2015 United States and Australia)

Revenues and income before income tax for the years ended October 31, 2016 and 2015, by country, are as follows

| 2016 | United States | France | Australia | Total |
|---|---|---|---|---|
| Revenue | $ 84,359 | $ 15,350 | $ 5,580 | $ 105,289 |
| Net income | $ 29,464 | $ 11,943 | $ 5,580 | $ 46,987 |

| 2015 | United States | France | Australia | Total |
|---|---|---|---|---|
| Revenue | $ 65 291 | $ | $ 10,350 | $ 75,641 |
| Net income | $ 30,674 | $ | $ 7,989 | $ 38,663 |

## 6 INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 13 00% (2015 13 00%) to income before income taxes

| | 2016 | 2015 |
|---|---|---|
| Income Before Income Tax | $ 46,987 | $ 38,663 |
| Statutory Income Tax Rate | 13 00% | 13 00% |
| Income Tax Expense at Statutory Rate | 6,108 | 5 026 |
| Losses Utilized | (2,485) | (5,026) |
| Change in Timing Differences | | (17) |
| Effect of Change in Tax Rates | | 17 |
| | $ 3 623 | $ |

6 **INCOME TAXES** (Continued)

The components of the deferred income tax assets and liabilities are approximately as follows

| | 2016 | 2015 |
|---|---|---|
| Deferred Income Tax Assets | | |
| Tax Losses (Gains) | $ | $ 7,925 |
| Cumulative Eligible Capital | | 230 |
| Valuation Allowance | | (8,155) |
| Net Deferred Income Tax Assets | $ | $ |

7 **DUE TO RELATED PARTIES**

| | 2016 | 2015 |
|---|---|---|
| Due to Moksha Yoga Inc. | $ 74,958 | $ 90,801 |
| Due to Shareholders | - | 78 |
| | $ 74,958 | $ 90,879 |

Moksha Yoga Inc is a related party by way of common control Amounts due to both the related party and shareholders have no stated terms of repayment and do not bear interest

Key management and personnel compensation for the year is $nil (2015 $nil)

Smythe
CPA

# Modo Yoga International Inc.

## FINANCIAL STATEMENTS

**October 31, 2015**
**Expressed in US Dollars**

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| **Independent Auditors' Report to the Shareholders** | 1 |
| **Financial Statements** | |
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| Statement of Operations and Comprehensive Income (Loss) | 3 |
| Statement of Changes in Shareholders' Deficiency | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 10 |

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Smythe
CPA

## INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF MODO YOGA INTERNATIONAL INC

We have audited the accompanying financial statements of Modo Yoga International Inc , which comprise the balance sheet as at October 31, 2015 and the statements of operations and comprehensive income (loss), changes in shareholders deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

*Management s Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement whether due to fraud or error

*Auditors' Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in Canada Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditors judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial position of Modo Yoga International Inc as at October 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
January 7, 2016



Smythe LLP is a member firm of both the PKF International Limited network and PKF North America, which are, respectively a network and an association of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms

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# Modo Yoga International Inc
## Balance Sheet
October 31
Expressed in US Dollars

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | $ 23,200 | $ 49,195 |
| Accounts Receivable | 46,510 | 4,605 |
| Goods and Services Tax | 390 | 325 |
| **Total Current Assets** | 70,100 | 54,125 |
| **TOTAL ASSETS** | $ 70,100 | $ 54,125 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current Liabilities** | | |
| Accounts Payable and Accrued Liabilities | $ 10,922 | $ 14,597 |
| Due to Related Parties (Note 7) | 90,879 | 109,892 |
| **Total Current Liabilities** | 101,801 | 124,489 |
| **Shareholders' Deficiency** | | |
| Capital Stock (Note 4) | | |
| Authorized Unlimited number of Class A common shares | | |
| Issued 100 Class A common shares | 100 | 100 |
| Deficit | (31,801) | (70,464) |
| **Total Shareholders' Deficiency** | (31,701) | (70,364) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | $ 70,100 | $ 54,125 |

**Approved on behalf of the Board**

Ted Grand, Director

Jessica Robertson, Director

The accompanying notes are an integral part of these financial statements

## Modo Yoga International Inc.
### Statement of Operations and Comprehensive Income (Loss)
**Year Ended October 31**
**Expressed in US Dollars**

| | 2015 | 2014 |
|---|---|---|
| **Revenues** | $ 75,641 | $ 46,337 |
| **Expenses** | | |
| Professional Fees | 51,115 | 69,940 |
| Supplies | 1,008 | |
| Bank Fees | 828 | 105 |
| Office | 87 | 141 |
| Website Cost | | 506 |
| Gain on Foreign Exchange | (16,060) | (8,894) |
| | 36,978 | 61 798 |
| **Net Income (Loss) and Comprehensive Income (Loss) for Year** | $ 38,663 | $ (15,461) |

The accompanying notes are an integral part of these financial statements

## Modo Yoga International Inc.
### Statement of Changes in Shareholders' Deficiency
**Expressed in US Dollars**

| | Capital Stock | | | |
|---|---|---|---|---|
| | Number | Amount | Deficit | Total |
| **Balance at October 31, 2013** | **100** | **$ 100** | **$ (55,003)** | **$ (54,903)** |
| Net Loss for the Year | - | | (15,461) | (15 461) |
| **Balance at October 31, 2014** | **100** | **100** | **(70,464)** | **(70,364)** |
| Net Income for the Year | | | 38,663 | 38,663 |
| **Balance at October 31, 2015** | **100** | **$ 100** | **$ (31 801)** | **$(31,701)** |

The accompanying notes are an integral part of these financial statements

# Modo Yoga International Inc.
## Statement of Cash Flows
**Year Ended October 31**
**Expressed in US Dollars**

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Income (Loss) | $ 38,663 | $ (15,461) |
| Changes in Non Cash Working Capital Items | | |
| Unrealized Foreign Exchange | (15,486) | |
| Accounts Receivable | (41,905) | (4,605) |
| Goods and Services Tax | (65) | (325) |
| Accounts Payable and Accrued Liabilities | (3,675) | (3,462) |
| **Total Cash Outflows from Operating Activities** | (22,468) | (23,853) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances from (to) Related Parties | (3,527) | 17,904 |
| **Total Cash Inflows (Outflows) from Financing Activities** | (3,527) | 17,904 |
| **Total Decrease in Cash During the Year** | (25,995) | (5,949) |
| **Cash, Beginning of Year** | 49,195 | 55,144 |
| **Cash, End of Year** | $ 23,200 | $ 49,195 |

The accompanying notes are an integral part of these financial statements

# Modo Yoga International Inc
## Notes to the Financial Statements
**Year Ended October 31, 2015**
**Expressed in US Dollars**

### 1 NATURE OF OPERATIONS

Modo Yoga International Inc (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on September 25, 2012 The Company has only one segment in which it holds franchise rights for specific yoga studio systems and operations in the United States and Australia

The head office, principal address, and registered and records office of the Company are located at 301 Epron Road, Salt Spring Island, British Columbia, Canada V8K 1C7

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of Presentation**

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ('US GAAP ) and are presented in US dollars, the Company's functional currency

**(b) Financial Instruments**

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information These estimates involve uncertainties and cannot be determined with precision The carrying amounts of cash, accounts payable and accrued liabilities and amounts due to related parties approximate fair value given their short term nature or effective interest rate

**(c) Revenue Recognition**

The Company grants franchise licenses to independent operators for yoga studios Revenue for the initial franchise is recognized in the period on the successful opening of a store The revenue is recognized following the completion of all initial obligations and commitments, with consideration for potential uncollectibility which usually occurs

The Company earns monthly fee revenue from their studios Revenue for these fees are recognized on a monthly basis, as stated in the franchise fee agreements Revenues are shown net of foreign withholding tax

**(d) Foreign Currency Translation**

Balances and transactions recorded in foreign currency are translated into US dollars as follows

(i) Monetary assets and liabilities, at the rate of exchange in effect at the balance sheet date

(ii) Non monetary assets and liabilities, at exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities, and

(iii) Revenues and expenses, at the actual rate of exchange in effect on the transaction date

Gains and losses arising from the translation of foreign currency are included in net income (loss) for the period

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(e) Income Taxes**

Deferred income taxes are provided using the asset and liability method, whereby deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis Net deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the net deferred tax assets will not be realized Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates at the date of enactment

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any Tax positions taken are not offset or aggregated with other positions Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority The portion of the benefits associated with tax positions taken that exceeds the amount measured, if any, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the statement of operations and comprehensive income (loss)

**(f) Capital Stock**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset The Company s common shares are classified as equity instruments

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds

**(g) Use of Estimates**

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period Significant estimates include the balance of accrued liabilities and recognition of deferred income tax assets While management believes the estimates are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows

**(h) Related Party Transactions**

Parties are considered to be related if one party has the ability directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions Related parties may be individuals and/or corporate entities A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties

**(i) Recently Issued Accounting Pronouncements**

The Company does not expect that the adoption of recently issued accounting pronouncements will have a material impact on its financial position, results of operations or cash flows

## 3 FINANCIAL INSTRUMENTS

### (a) Fair value measurements

Critical judgments and estimates are made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative credit worthiness of the Company to its counterparties, the credit risk of the Company's counterparties relative to the Company, and the estimated future cash flows and discount rates

### (b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities

The Company is exposed to this risk mainly in respect of its accounts payable and due to related parties Advances from related parties provide a substantial portion of the Company's cash requirements All payables are due within three months

### (c) 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 is not exposed to significant credit risk, as its cash is held at a major Canadian financial institution

### (d) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates

The Company's bank account, accounts payable and due to related parties are denominated in Canadian dollars The Company has the following balances of Canadian dollars, converted to US dollars

| | 2015 | 2014 |
|---|---|---|
| Cash | $ 567 | $ 366 |
| Accounts Payable | 4,426 | (3,991) |
| Due to Related Parties | (90,879) | (109,892) |
| | $ (85,886) | $ (113,517) |

## 4 CAPITAL STOCK

The Company is authorized to issue an unlimited number of common shares with a par value of $1, issuable in series as follows

- Unlimited number of Class A common shares,
- Unlimited number of Class B common shares
- Unlimited number of Class C common shares,
- Unlimited number of Class D common shares,
- Unlimited number of Class E preferred shares, and
- Unlimited number of Class F preferred shares

**Share Issuances**

During the years ended October 31 2015 and 2014, the Company did not issue any common shares or preferred shares

## 5 OPERATING SEGMENTS

As at October 31, 2015, Modo Yoga International Inc only operates in one segment, the sale of yoga franchises to clients in the United States

## 6 INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26 00% (2014 26 00%) to income before income taxes

| | 2015 | 2014 |
|---|---|---|
| Income (Loss) Before Income Tax | $ 38,663 | $ (15,461) |
| Statutory Income Tax Rate | 26 00% | 26 00% |
| Income Tax Expense (Recovery) at Statutory Rate | 10,052 | (4,020) |
| Change in Timing Differences | (17) | (20) |
| Effect of Change in Tax Rates | 17 | (237) |
| Tax Losses and Tax Offsets Recognized (Unrecognized) | (10,052) | 4,277 |
| | $ - | $ |

The components of the deferred income tax assets and liabilities are approximately as follows

| | 2015 | 2014 |
|---|---|---|
| Deferred Income Tax Assets | | |
| Tax Losses | $ 7,925 | $ 17,977 |
| Cumulative Eligible Capital | 230 | 247 |
| Valuation Allowance | (8,155) | (18,224) |
| Net Deferred Income Tax Assets | $ | $ |

6 INCOME TAXES (Continued)

The Company has losses available for deduction against future taxable income of approximately $30,480 for Canadian tax purposes These losses, if not utilized, will expire as follows

| Year of Expiry | | Amount |
|---|---|---|
| 2033 | $ | 14,947 |
| 2034 | | 15,533 |
| Total Tax Loss | $ | 30,480 |

Certain comparative disclosures in the income tax reconciliations were reclassified in the current year

7 RELATED PARTY TRANSACTIONS

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Due to Moksha Yoga Inc | $ | 90,801 | $ | 109,803 |
| Due to Shareholders | | 78 | | 89 |
| | $ | 90,879 | $ | 109,892 |

Moksha Yoga Inc is a related party by way of common control Amounts due to both the related party and shareholders have no stated terms of repayment and do not bear interest Related party amounts are stated in US dollars

Key management and personnel compensation for the year is $nil (2014 $nil)

SmytheRatcliffe
CHARTERED ACCOUNTANTS

# Modo Yoga International Inc

## FINANCIAL STATEMENTS

**October 31, 2014**
**Expressed in US Dollars**


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**SmytheRatcliffe**
CHARTERED ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF MODO YOGA INTERNATIONAL INC

We have audited the accompanying financial statements of Modo Yoga International Inc which comprise the balance sheet as at October 31 2014 and the statements of operations and comprehensive loss changes in shareholders deficiency and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement whether due to fraud or error

*Auditors Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit We conducted our audit in accordance with auditing standard generally accepted in the United States of America and in Canada Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditors judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial position of Modo Yoga International Inc as at October 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

*Emphasis of Matter*
Without qualifying our opinion we draw attention to note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast substantial doubt about the Company s ability to continue as a going concern

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver BC
January 30, 2015

7th Floor 355 Burrard St
Vancouver BC V6C 2G8
Tel 604 687 1231
Fax 604 688 4675
smytheratcliffe com

## Modo Yoga International Inc
### Balance Sheet
October 31
Expressed in US Dollars

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | $ 49,195 | $ 55,144 |
| Goods and Services Tax | 325 | 0 |
| US Withholding Tax | 4,605 | 0 |
| **Total Current Assets** | 54 125 | 55 144 |
| **TOTAL ASSETS** | $ 54,125 | $ 55,144 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current Liabilities** | | |
| Accounts Payable and Accrued Liabilities | $ 14,597 | $ 18,059 |
| Due to Related Parties (Note 7) | 109,892 | 91,988 |
| **Total Current Liabilities** | 124,489 | 110,047 |
| **Shareholders' Deficiency** | | |
| Capital Stock (Note 4) | | |
| Authorized Unlimited number of Class A common shares | | |
| Issued 100 Class A common shares | 100 | 100 |
| Deficit | (70,464) | (55 003) |
| **Total Shareholders' Deficiency** | (70,364) | (54,903) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | $ 54,125 | $ 55,144 |

**Approved on behalf of the Board**

Ted Grand, Director

Jessica Robertson, Director

The accompanying notes are an integral part of these financial statements

## Modo Yoga International Inc
### Statement of Operations and Comprehensive Loss
**Year Ended October 31**
**Expressed in US Dollars**

| | 2014 | 2013 |
|---|---|---|
| Franchise Fee Income | $ 46 337 | $ 0 |
| Expenses | | |
| Professional Fees | 69,940 | 48,120 |
| Website Cost | 506 | 1,743 |
| Office | 141 | 0 |
| Bank Fees | 105 | 355 |
| State Licensing Fees | 0 | 4,105 |
| Gain on Foreign Exchange | (8,894) | (3,956) |
| | 61,798 | 50 367 |
| Net Loss and Comprehensive Loss for Year | $ (15,461) | $ (50,367) |

The accompanying notes are an integral part of these financial statements

## Modo Yoga International Inc
### Statement of Changes in Shareholders' Deficiency
**Expressed in US Dollars**

| | Capital Stock | | | |
|---|---|---|---|---|
| | Number | Amount | Deficit | Total |
| **Balance at October 31, 2012** | 100 | $ 100 | $ (4 636) | $ (4 536) |
| Net Loss for the Year | 0 | 0 | (50,367) | (50 367) |
| **Balance at October 31, 2013** | 100 | $ 100 | $ (55,003) | $ (54,903) |
| Net Loss for the Year | 0 | 0 | (15,461) | (15,461) |
| **Balance at October 31, 2014** | 100 | $ 100 | $ (70,464) | $ (70,364) |

The accompanying notes are an integral part of these financial statements

## Modo Yoga International Inc
### Statement of Cash Flows
Year Ended October 31
Expressed in US Dollars

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Loss | $ (15,461) | $ (50 367) |
| Changes in Non Cash Working Capital Items | | |
| Accounts Receivable | 0 | 41 |
| Goods and Services Tax | (4,605) | 0 |
| US Withholding Tax receivable | (325) | 0 |
| Accounts Payable and Accrued Liabilities | (3,462) | 14,908 |
| **Total Cash Outflows from Operating Activities** | (23,853) | (35,418) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances from Related Parties | 17,904 | 31 021 |
| **Total Cash Inflows from Financing Activities** | 17,904 | 31,021 |
| **Total Decrease in Cash During the Year** | (5,949) | (4,397) |
| **Cash, Beginning of Year** | 55,144 | 59 541 |
| **Cash, End of Year** | $49,195 | $ 55,144 |

The accompanying notes are an integral part of these financial statements

## 1 NATURE AND GOING CONCERN

Modo Yoga International Inc (the Company ), was incorporated under the *Business Corporations Act* (British Columbia) on September 25 2012 The Company has only one segment in which it holds franchise rights for specific yoga studio systems and operations in the United States

The head office principal address and registered and records office of the Company are located at 301 Epron Road, Salt Spring Island, British Columbia Canada V8K 1C7

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business

The application of the going concern concept is dependent upon the Company s ability to satisfy its liabilities as they become due and to obtain the necessary *financing to maintain current* operations through the sale of yoga franchises There are several factors that cast substantial doubt on the Company s ability to continue as a going concern During the financial year ended October 31 2014, the Company had negative working cash flows *from operations of $23 853 (2013 $35 418) and* as at October 31, 2014 negative working capital of $70,364 (2013 $54 903) and currently relies upon loans from related parties to fund operations Management s plan includes obtaining additional financing in the form of advances from related *parties* and *generating revenues from* the sale of franchise rights for yoga studio systems and operations There can be no assurance that management's plan will be successful

These financial statements do *not* include any adjustments to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ( US GAAP ) and are presented in US dollars, the Company s functional currency

### (b) Financial Instruments

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information These estimates involve uncertainties and cannot be determined with precision The carrying amounts of cash, accounts payable and accrued liabilities and amounts due to related parties approximate fair value given their short term nature or effective interest rate

### (c) Revenue Recognition

The Company grants franchise licenses to independent operators for yoga studios Revenue recognized in the period is solely related to the initial franchise fee charged to a client on the *successful opening of* a store The revenue is recognized following the completion of all initial obligations and commitments, with consideration for potential uncollectibility which usually occurs

### (d) Foreign Currency Translation

Balances and transactions recorded in foreign currency are translated into US dollars as follows

(i) Monetary assets and liabilities at the rate of exchange in effect at the balance sheet date

(ii) Non monetary assets and liabilities at exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities, and

(iii) Revenues and expenses at the actual rate of exchange in effect on the transaction date

Gains and losses arising from the translation of foreign currency are included in net loss for the period

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income Taxes

Deferred income taxes are provided using the asset and liability method, whereby deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis Net deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the net deferred tax assets will not be realized Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates at the date of enactment

When tax returns are filed it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes if any Tax positions taken are not offset or aggregated with other positions Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority The portion of the benefits associated with tax positions taken that exceeds the amount measured, if any, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the statement of operations and comprehensive loss

(f) Capital Stock

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset The Company's common shares are classified as equity instruments

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds

(g) Use of Estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period Significant estimates include the balance of accrued liabilities and recognition of deferred income tax assets While management believes the estimates are reasonable actual results could differ from these estimates and could impact future results of operations and cash flows

(h) Related Party Transactions

Parties are considered to be related if one party has the ability directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions Related parties may be individuals and/or corporate entities A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties

(i) Recently Issued Accounting Pronouncements

The Company does not expect that the adoption of recently issued accounting pronouncements will have a material impact on its financial position results of operations or cash flows

**EXHIBIT D**

BLUEBIRDonline.com (888) 477 0700

BLUEBIRDonline.com (888) 477-0700

**EXHIBIT E**

**FRANCHISE AGREEMENT**

[See Attached]

# MODO YOGA INTERNATIONAL INC

## Franchise Agreement

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EXHIBIT A LOCATION OF STUDIO, TERRITORY
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EXHIBIT C INFORMATION REGARDING NON-INDIVIDUAL FRANCHISEES
EXHIBIT D GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

**Modo Yoga International Inc**

**FRANCHISE AGREEMENT**

THIS AGREEMENT is entered into by and between Modo Yoga International Inc , a British Columbia corporation, with its principal business address located at 301 Epron Road, Salt Spring Island, British Columbia V8K 1C7 Canada ("Franchisor"), and , with its principal business address located at

("Franchisee") This Agreement is for the establishment of one MODO YOGA® studio (the "Studio")

**RECITALS**

A Franchisor has established a method and system for the development and operation of MODO YOGA studios, which includes, without limitation the mark MODO YOGA® and related names, trademarks, service marks, logos, copyrights, designs, emblems, slogans, commercial symbols and other indicia and associated goodwill now or hereafter designated for use by Franchisor in connection with the System and any and all revisions, modifications and additions thereto, whether or not recorded or registered with the United States Patent and Trademark Office or any other local, state, federal or foreign agency, registrar or body (the "Marks"), distinctive building designs, decor, color schemes and trade dress and signage, an operations manual incorporating required standards, procedures, policies, and techniques, yoga poses and sequences, and advertising, marketing, and promotional programs (the "System")

B Franchisor desires to grant to Franchisee, and Franchisee desires to obtain from Franchisor, the right to establish and operate a studio in accordance with the System (the "Studio')

NOW, THEREFORE, in consideration of these premises and the mutual covenants contained herein, the sufficiency of which is acknowledged by the parties, the parties agree as follows

## 1 GRANT OF FRANCHISE

Subject to the terms and conditions of this Agreement, Franchisor grants to Franchisee a license to use the Marks and the System solely in the operation of the Studio at one (1) location within the Territory, as defined below (the "Franchise") Franchisee acknowledges that adherence to the standards and policies of the System is essential for the continued operation of the Franchise granted by this Agreement

## 2 LOCATION AND PROTECTED TERRITORY

(a) Location The location for the Studio is set forth in Exhibit A attached hereto and incorporated by this reference If the location of the Studio has not been determined at the time Franchisee and Franchisor sign this Agreement, then it shall be determined as provided in Section 3 below

(b) Territory Provided that Franchisee is in compliance with this Agreement, Franchisor shall not open and operate, or franchise another party to open and operate, a yoga studio utilizing the Marks and the System in the area described in Exhibit A and identified therein as the territory (the "Territory")

(c) Limitation Upon Territorial Protection Franchisee acknowledges the limited nature of the territorial protection granted hereby, and that Franchisor is not granting an exclusive or protected trading area to Franchisee, but rather is granting to Franchisee an area around the Studio which is protected from having another Modo Yoga studio utilizing the Marks and the System directly within it (except as described elsewhere herein), and further that Franchisee, Franchisor and all other franchisees of Franchisor are free to solicit clients for their respective studios from anywhere

(d) Franchisor's Reservation of Rights Franchisor reserves all rights not specifically granted to Franchisee hereunder In particular, and not in limitation of the foregoing, Franchisor reserves the right to conduct businesses using marks or commercial symbols different from the Marks either within or outside of the Territory Franchisor also reserves the right to use the Marks, and license the right to others to use the Marks, for purposes other than operating a Studio or selling merchandise within the Territory Franchisor also reserves the right to conduct all commerce over the Internet and other means of electronic commerce as may in the future be developed, and Franchisee has no right to do so except as may be specifically permitted hereunder

## 3 SITE SELECTION AND OPENING

(a) Site Selection Franchisee agrees and acknowledges that Franchisee is responsible for locating, obtaining financing for, securing appropriate zoning and permits for and equipping the site for the Studio Franchisee shall provide Franchisor with all relevant information concerning the proposed site including the zoning of the site, demographic information about the surrounding area, locations of any similar or complementary businesses, traffic flow, parking, rent, size, layout and such other information as Franchisor may require Franchisor will approve or disapprove the proposed site within thirty (30) days after it receives notice thereof and all relevant information Franchisee must have a signed letter of intent for a lease for the Studio, at a site approved by Franchisor, within one hundred eighty (180) days after execution of this Agreement If Franchisee has not signed a letter of intent for a lease for its Studio at a site Franchisor has approved within such time period, then Franchisor shall have the right to terminate this Agreement upon written notice to Franchisee

(b) Lease Franchisee shall not sign a lease or contract for the site without receiving Franchisor's prior written consent Franchisee shall fully perform all obligations to be performed by Franchisee under the lease or contract and shall immediately upon receipt of any notice of violation from the lessor or other party to the contract deliver a copy of such notice to Franchisor together with a statement of the steps proposed to be taken by Franchisee in response to the notice Unless expressly waived by Franchisor, the lease or contract must contain such additional terms and conditions as Franchisor

may require to provide for the protection of Franchisor's rights and interests, including but not limited to a conditional lease assignment in a form acceptable to Franchisor, and including the following

(i) the absolute and unconditional right of Franchisee to assign its interest in the lease to Franchisor or Franchisor's nominee at any time without the consent of the landlord and without rent increase or penalty,

(ii) the landlord's acknowledgment that Franchisee shall not assign or transfer the lease or any of its rights thereunder or grant any sublease thereunder without the prior written consent of Franchisor,

(iii) the landlord's consent to Franchisee's use of such signage as Franchisor may require,

(iv) the obligation of the landlord to notify Franchisor in writing of any default by Franchisee of any of the terms and conditions of the lease,

(v) that no material amendment, addition, or other modification or change be made to the lease without obtaining the prior written consent of Franchisor,

(vi) that upon expiration or termination for any reason of this Agreement, Franchisee's rights under the lease shall, at the option of Franchisor, be transferred and assigned to Franchisor or its nominee without rent increase or penalty immediately upon notice by Franchisor,

(vii) Franchisee's acknowledgment that the landlord may rely upon such notice and shall not be required to inquire into the due execution of such notice or the accuracy of the statements set forth in such notice,

(viii) that such notice shall, without further act or formality, operate as an effective assignment of Franchisee's rights under the lease to Franchisor or its nominee without rent increase or penalty, and the assumption by Franchisor or its nominee of the covenants required to be observed or performed by Franchisee under the lease, provided, however, that landlord agrees and acknowledges that Franchisor and its nominee, if any, shall not assume, and shall have no obligation to the landlord with respect to, any liabilities arising from or relating to Franchisee's actions, failure to act or defaults prior to the assignment of the lease,

(ix) Franchisee's acknowledgment that the landlord shall, upon the written request of Franchisor, disclose to Franchisor all reports, information or data in the landlord's possession respecting sales made in, upon or from the demised premises,

(x) the landlord's acknowledgment that this Agreement contains a right on the part of Franchisor, in the event of expiration or termination of this Agreement for any reason whatsoever, to enter the premises and to make any alterations in the exterior or interior decor and signage as Franchisor deems necessary to remove its

identification with Franchisor as required by this Agreement and, in the event of the exercise by Franchisor of such right, the landlord further acknowledges that such re-entry by Franchisor shall not constitute an assignment of the lease nor a subletting of the demised premises, and

(xi) that Franchisor shall be a third party beneficiary under the lease Franchisee shall be responsible for all costs associated with the negotiation of the lease All amounts spent by Franchisor to cure any breach by Franchisee of the lease for the site of the Studio shall be due to Franchisor from Franchisee upon Franchisor's written demand

(c) Site Development Franchisee shall develop the site and construct or remodel and equip the Studio, all in accordance with Franchisor's requirements Franchisee shall be solely responsible for obtaining the architectural plans for the location The architectural plans are subject to Franchisor's prior written approval All signage at the Studio site shall conform to Franchisor's specifications Franchisee shall also provide Franchisee with written specifications for the construction, equipping and installing fixtures for the site in the form of renderings

(d) Construction Standards Franchisee shall be responsible for the establishment and completion of the Studio, including construction or remodeling and equipment installation Franchisee agrees that in constructing or remodeling the Studio, it shall secure all necessary permits and adhere to the plan, design, color scheme and motif of Modo Yoga studios, as specified by Franchisor, and any changes to the standard plans and specifications, if necessary to meet the requirements of applicable codes and regulations will be subject to Franchisor's prior review and consent Franchisee shall submit all plans and specifications to Franchisor for review prior to submitting them to regulatory authorities for approval, and shall not submit plans to any regulatory authority or proceed with construction until Franchisor's written consent is obtained

(e) Fixture and Equipment Standards Franchisee shall lease or purchase all fixtures and equipment designated by Franchisor and shall install, or have installed, in the Studio all such fixtures and equipment Franchisee has the right to lease or purchase the fixtures and equipment from any source, provided, however, all fixtures, furnishings, color schemes, machinery, equipment, and accessories shall conform to specifications of design, color, quality, performance, and utility designated and approved by Franchisor

(f) Sign Standards Franchisee shall prominently display and maintain in good appearance and condition on the land and building comprising the Studio all signs of such nature, form, color, illumination, and size, and containing such legends and symbols as Franchisor shall require Franchisee shall not display at the Studio any signs to which Franchisor objects

(g) Opening Franchisee shall not open the Studio until Franchisor has given its approval in writing Franchisor may require that Franchisor or its representative

conduct an on- site inspection prior to giving its approval Franchisor shall provide Franchisee with such management assistance as Franchisor deems necessary at the opening and for a short time thereafter

(h) Relocation Franchisee may not relocate the Studio, or open additional locations, without Franchisor's prior written consent

FRANCHISEE ACKNOWLEDGES THAT ALTHOUGH FRANCHISOR MAY HAVE BEEN INVOLVED IN THE SITE SELECTION PROCESS AND IN SITE DEVELOPMENT AND MAY HAVE REVIEWED INFORMATION ON THE SITE, THE LEASE, AND OTHER ASPECTS OF THE DEVELOPMENT OF THE STUDIO, FRANCHISOR MAKES NO WARRANTY, REPRESENTATION OR GUARANTY OF ANY KIND WITH RESPECT TO THE LOCATION, THE LEASE, OR THE SUCCESS OR PROFITABILITY OF THE BUSINESS TO BE OPERATED AT SUCH LOCATION

## 4 TERM OF AGREEMENT

This Agreement shall commence on the date it is signed by Franchisor and shall continue for five (5) years, subject to earlier termination as provided herein The term of the lease or sublease (including options) Franchisee enters into for the location shall be for such period of time If Franchisee is acquiring an existing Modo Yoga studio, the term of such lease or sublease (including options) shall be the shorter of (a) the remaining term of the transferor's franchise agreement, or (b) the remaining term of the existing lease (including options) for such location

## 5 RENEWAL OF FRANCHISE

Subject to compliance with each and every one of the conditions set forth below, Franchisee has the option to renew the right to operate the Studio for one (1) additional term of five (5) years

(a) Written Notice Franchisee gives Franchisor written notice of its election to renew not less than twelve (12) months and not more than twenty-four (24) months prior to the expiration of the term,

(b) Renewal Fee Franchisee shall pay Franchisor the sum of One Thousand Dollars ($1,000) as a renewal fee

(c) No Default Franchisee, when notice is given and at the time of renewal, is not in default of any material provision of either this Agreement or any other agreement between Franchisee and Franchisor or their affiliates,

(d) No Monetary Obligations Outstanding All monetary obligations owed by Franchisee to Franchisor or its affiliate have been satisfied prior to renewal,

(e) General Release Franchisee must execute and deliver a general release of Franchisor and its affiliates, officers, directors, shareholders, employees, agents and representatives in a form acceptable to Franchisor,

(f) Lease Franchisee furnishes Franchisor with a copy of a lease for the Studio premises indicating that Franchisee has the right to the premises for the renewal term,

(g) Updates The Studio must meet Franchisor's then-current requirements or Franchisee must make all expenditures necessary to update the Studio to meet those requirements,

(h) Re-Training Franchisee or the Manager, if applicable, and those of Franchisee's other personnel as Franchisor deems necessary shall have successfully completed any retraining or refresher training course Franchisor may require,

(i) Current Agreement Franchisee shall sign Franchisor's then-current form of Franchise Agreement for a five (5) year term Franchisee acknowledges that the then-current form of Franchise Agreement may contain terms that are materially different from those set forth in this Agreement, provided, however, that such form of Franchise Agreement will not contain a Royalty Fee that, exclusive of a minimum cash payment, is greater than four percent (4%) of Gross Revenues (by way of example, it will not be greater than a monthly lump sum payment plus 4% of Gross Revenues per week), and

(j) No Repeated Defaults Franchisee shall not have, during the term of this Agreement or the preceding renewal term, received three (3) or more notices of default in any twenty-four (24) month period

Franchisee shall have no right to enter into a new agreement with Franchisor if Franchisee fails to comply with each of the conditions set forth above in a timely manner or if Franchisee fails to return to Franchisor any documents within thirty (30) days after Franchisor has delivered them to Franchisee

**6 FEES**

(a) Initial Franchise Fee In consideration of the franchise granted herein, Franchisee shall pay to Franchisor an initial franchise fee in the amount set forth on Exhibit A, attached hereto, in full upon execution of this Agreement The initial franchise fee is deemed to be fully earned immediately upon payment, and is non-refundable, except in the event Franchisee fails to complete the initial training program to Franchisor's satisfaction or in the event Franchisor does not approve of Franchisee's site for its Studio, or Franchisee has not obtained a letter of intent for such site, within the time period required by Section 3(a) of this Agreement In such event, Franchisor shall refund the initial franchisee fee less twenty percent (20%) for its cost in evaluating Franchisee's application and providing training and other assistance

(b) Continuing Royalty

(i) Franchisee shall pay to Franchisor a non-refundable continuing royalty of Three Hundred Fifty Dollars ($350 00) per month plus a non-refundable

weekly continuing royalty of two percent (2%) of Franchisee's Gross Revenues (collectively, the "Royalty Fee")

(ii) For purposes of this Agreement, "Gross Revenues" shall mean the total revenues derived by Franchisee from the Studio, products sold or dispersed at or from the Studio or otherwise in or from the franchised business, including, without limitation, cash sales, credit sales and any payments under Franchisee's business interruption insurance coverage, and excluding only amounts paid to any governmental tax authority and any customer refunds made in accordance with Franchisor's policy

(iii) Payments of the monthly Royalty Fee of Three Hundred Fifty Dollars ($350 00) shall be made in advance on or before the first (1st) day of each month Payment of the weekly two percent (2%) Royalty Fee shall be made on or before the Wednesday of each week following the week in which the applicable Gross Revenues are accrued

(iv) All Royalty Fee payments shall be accompanied by a financial reporting statement showing how such continuing royalties were computed for the week in such form and detail and giving such other financial and sales-related information as shall from time to time be required by Franchisor The Franchisor may establish in the future that the Franchisee's cash register, point of sale system and computer equipment shall be linked with Franchisor's computer system, and Franchisor may waive the requirement for all such continuing royalty payments to be accompanied by a financial reporting statement from time to time, where Franchisor is satisfied that it has obtained all required information through such linking of Franchisee's cash register, point of sale system and computer equipment with Franchisor's home office computer system All such continuing royalty payments shall also be accompanied by a copy of Franchisee's sales tax returns which Franchisee files with the appropriate governmental authorities for the franchisee! business Franchisor agrees to keep all such information confidential, and to only use the same for the purposes of this Agreement

(c) Marketing Design and Brand Fund Franchisee shall pay to Franchisor a weekly advertising fee (each, a contribution to the "**Marketing, Design and Brand Fund**") equal to one percent (1%) of Gross Revenues If Franchisee is a Heritage Studio, then Franchisee shall not make contributions to the Marketing, Design and Brand Fund in accordance with the first sentence of this section but instead in accordance with the following schedule

| | |
|---|---|
| Gross Revenues of $0 - $399,999 | $50 per month |
| Gross Revenues of $400,000 - $699,000 | $100 per month |
| Gross Revenues of $700,000 or more | $150 per month |

(d) Due Date Franchisee shall begin paying the Royalty Fee, in accordance with Section 6(b)(iii) above, and making weekly contributions to the Marketing, Design and Brand Fund, on the first day of the fourth month after Franchisee is open for business to the public The foregoing to the contrary notwithstanding, Heritage Studios shall not be required to make contributions to the Marketing, Design and Brand Fund

until June 1, 2014 Franchisor may require that payments be made by electronic funds transfer, cash, check, certified check, bank draft, money order, automatic pre-authorized payment plan or such other method as Franchisor may specify from time to time Franchisee shall execute and deliver such instruments as are necessary and appropriate to affect such transfers Franchisor shall have the right to vary the frequency of the due date and the method of payment from time to time The Royalty Fee and contributions to the Marketing, Design and Brand Fund are non-refundable

(e) Non-payment Subject to Section 16(b)(ii) hereof, if Franchisor does not receive Franchisee's Royalty Fee, contribution to the Marketing, Design and Brand Fund or any other payment hereunder by the dates they are due, Franchisee acknowledges that, in addition to exercising all other rights and remedies that Franchisor has, Franchisor may terminate this Agreement

(f) Charge on Late Payments In addition to all other rights and remedies that accrue to Franchisor, late or overdue payments shall bear interest after the due date at the rate of ten percent (10%) per annum, not to exceed the highest applicable rate allowed by law Franchisee acknowledges that this provision does not constitute agreement by Franchisor to accept such payments after they are due or a commitment to extend credit to, or otherwise finance such amounts

(g) No Withholding of Payment Franchisee agrees that Franchisee will not, on the grounds of the alleged non-performance by Franchisor of any of its obligations hereunder or for any other reason whatsoever, withhold payment of any amounts due, nor shall Franchisee have any right of offset

(h) Application of Payments Right of Offset Notwithstanding any designation by Franchisee, Franchisor shall have discretion to apply any payments by Franchisee to any past due indebtedness of Franchisee In addition, Franchisor shall have the right to offset any amounts due to it or its affiliates against any amounts to be paid to Franchisee

(i) Quarterly Reporting Franchisee shall provide to Franchisor on a quarterly basis, on or before the twentieth (20th) day of each month following each calendar quarter, an income and expense statement and a balance sheet in such form and detail as shall from time to time be reasonably required by Franchisor in respect of the franchised business during the preceding calendar quarter, which shall be certified as accurate by Franchisee

(j) Limitation on Fees Notwithstanding anything to the contrary, Franchisee shall not be required to pay Franchisor more than Twenty Thousand Dollars ($20,000) in combined Royalty Fees and contributions to the Marketing, Design and Brand Fund in any single calendar year

(k) Annual Reporting Franchisee shall also provide to Franchisor on an annual basis, within ninety (90) days following the end of each fiscal year of Franchisee, a balance sheet and a profit and loss statement for the franchised business for the

preceding fiscal year, prepared by a certified public accountant in accordance with generally accepted accounting principles applied on a consistent basis from year to year, which shall contain such detail as shall from time to time be reasonably required by Franchisor in respect of the franchised business during the previous fiscal year In the event Franchisee has been in default under this Agreement during such fiscal year, then upon the reasonable written request of Franchisor, said financial statements shall be audited

(l) Heritage Studios The term "**Heritage Studio**" means a studio licensed by Franchisor's affiliate, Moksha Yoga, Inc , to open a Studio before December 1, 2012, and whose equity is majority owned by Heritage Owners The term "**Heritage Owner**" means an individual who was approved by Franchisor's affiliate, Moksha Yoga Inc to open a Studio before December 1, 2012

## 7 DUTIES OF FRANCHISOR

(a) Training and Support

(i) Initial Training Within three hundred sixty-five (365) days after the date of this Agreement, Franchisee shall successfully complete Franchisor's initial online training to Franchisor's satisfaction This training shall include manuals, classroom training and other classes as required and presented by Franchisor Franchisee must complete initial training before the Studio opens for business to the public Franchisee acknowledges that training is offered only two (2) times per calendar year Franchisor reserves the right to approve Franchisee's trainees

(ii) Evaluation Franchisor shall have the right, during the initial training program, to further evaluate Franchisee's fitness to operate under this Agreement In the event Franchisee fails to successfully complete the initial training program, Franchisor shall have the right to terminate this Agreement

(iii) Training Fees Franchisee shall not be charged an additional training fee for training of three (3) persons Franchisor may charge additional fees to provide initial training to additional persons

(iv) Additional Training Franchisor may require Franchisee, the Manager and other personnel to attend refresher and additional training courses from time to time and Franchisee acknowledges that there may be a fee charged for such training

(v) Expenses Franchisee shall be responsible for all travel and living expenses, if any, that Franchisee, its Manager and other personnel may incur in connection with initial or refresher training

(b) Operations Manual Franchisor will loan to Franchisee for use during the term of this Agreement a copy of Franchisor's proprietary and confidential operations manual which Franchisor may amend from time to time, containing mandatory specifications, standards, operating procedures and rules for the System (the

"Operations Manual") All such specifications, standards, operating procedures and rules made applicable to Franchisee from time to time in the Operations Manual, or otherwise communicated to Franchisee in writing, shall constitute requirements of this Agreement and shall be kept confidential by Franchisee None of the obligations of Franchisor set forth in the Operations Manual are intended to be and shall not be construed to be incorporated in this Agreement Franchisee will not at any time copy any part of these materials, disclose any information contained in them to others or permit others access to them Franchisee acknowledges and agrees that the Operations Manual may be modified from time to time to reflect changes in the System, provided, however, that no such modification shall alter Franchisee's fundamental status and rights under this Agreement All modifications to the Operations Manual shall be binding upon Franchisee upon being mailed or otherwise delivered to Franchisee Franchisee agrees to accept, implement and adopt any such modifications at Franchisee's own cost The Operations Manual will contain proprietary information belonging to Franchisor and Franchisee acknowledges that the Operations Manual is, and shall remain, the property of Franchisor Franchisee shall promptly return the Operations Manual to Franchisor upon termination or expiration of this Agreement All references herein to the Agreement shall include the provisions of the Operations Manual and all such mandatory specifications, standards, procedures and rules, and such additions and modifications thereto Franchisee understands and agrees that it is of substantial value to Franchisor and other franchisees of Franchisor, as well as to Franchisee, that the System establish and maintain a common identity Franchisee agrees and acknowledges that full compliance with each and every detail of the System and the Operations Manual is essential to preserve, maintain and enhance the reputation, trade demand and goodwill of the System and the Marks and that failure of Franchisee to operate the Studio in accordance with the System and the Operations Manual can cause damage to all of the other parties described above, as well as to Franchisee Consistent with the goals of the System, Franchisee shall be responsible for the day-to-day operation of Franchisee's business

(c) Advice and Consultation Franchisor shall advise and consult with Franchisee periodically in connection with the development and operation of the Studio and reasonably attempt to assist Franchisee to resolve any operating problems that may arise Franchisor shall communicate to Franchisee its know-how, new developments, techniques, and improvements in studio management, yoga instruction, and services which are pertinent to the operation of the Studio in accordance with the System, all subject to Franchisee's obligation to maintain in confidence such information as would not ordinarily be disclosed

## 8 ADVERTISING

(a) Marketing, Design of Brand Fund Franchisor shall have the right to establish the Marketing, Design and Brand Fund Franchisee agrees and acknowledges that contributions to the Marketing, Design and Brand Fund may be deposited in Franchisor's general operating account, may be commingled with Franchisor's general operating funds and may be deemed an asset of Franchisor Franchisor will not be required to administratively segregate the Marketing, Design and Brand Fund on its

books and records Franchisor will use the Marketing, Design and Brand Fund for the purpose of promoting the System as a whole and increasing the goodwill of the Marks Franchisor will conduct such advertising and marketing of the System and its services as Franchisor deems desirable to promote and enhance the reputation of the System, including, without limitation, producing materials for use in connection with such advertising and marketing Franchisee understands, acknowledges and agrees that all decisions regarding advertising and marketing, including without limitation the type, quantity, timing, placement and choice of media, market areas and advertising agencies shall be made by Franchisor and shall be final and binding Franchisee agrees and acknowledges that all costs of the formulation, development and production of any advertising and promotion (including without limitation the proportionate compensation of Franchisor's employees who devote time and render services in connection with such advertising and promotional programs or the administration, accounting and collection of the Marketing, Design and Brand Funds) will be paid from the Marketing, Design and Brand Fund Franchisor does not have any obligation to make expenditures that are proportionate or equivalent to Franchisee's Marketing, Design and Brand Fund contributions in the market area of the Territory, nor does Franchisor represent that Franchisee will benefit directly or pro rata from the placement of advertising

(b) Franchisee Expenditures As of the date of this Agreement, Franchisee is not required to allocate any funds for local advertising, but Franchisor reserves the right to require Franchisee to do so in the future

(c) Approval of Advertising All advertising copy and other materials Franchisee uses shall be in strict accordance and conformity with the standards, formats and specimens set forth in the Operations Manual Franchisor reserves the right to monitor, request copies of, and/or prohibit the use of any of Franchisee's advertising material at any time Franchisee agrees and acknowledges that the copyright for any advertising or other materials that Franchisee develops for the Studio shall automatically be assigned to Franchisor without any further action by the parties required

(d) Pre-Opening Advertising Franchisee acknowledges and agrees that adequate pre-opening advertising is essential to the success of the Studio and agrees to conduct such advertising in connection with the opening of the Studio in accordance with Franchisor's directions and assistance

(e) Discounts and Coupons From time to time as part of the advertising and promotional activities conducted by Franchisor, Franchisor may institute discount programs and issue coupons Franchisee agrees to accept such coupons from customers and to redeem them in accordance with Franchisor's policies then in effect and to participate in such discount programs However, such programs shall in no way affect Franchisee's right to establish its own prices

(f) No Fiduciary Duty Nothing in this Section or anywhere in this Agreement creates a fiduciary relationship between the parties, nor shall anything herein be deemed to create any trust or agency duties between the parties No covenant shall be

implied to vary or interpret the terms of this provision Copies of Franchisor's periodic reports of the Marketing, Design and Brand Fund shall be available to Franchisee upon reasonable request

## 9 DUTIES OF FRANCHISEE

In addition to its duties as set forth elsewhere in this Agreement, Franchisee agrees to perform the following

(a) Inventory and Supply Specifications To promote uniformity and quality, and to protect the integrity of the Marks, Franchisee agrees to the following restrictions regarding inventory, supplies and products, as follows

(i) Proprietary Products Franchisor has developed the System using or incorporating trade secrets or confidential information (the "Trade Secrets") which may include future products, sequences, and poses developed and authorized for use in Modo Yoga studios Franchisee agrees to purchase all supplies required for operation of the studio, including, without limitation, yoga mats, water bottles, apparel and other items which may be specified by Franchisor from time to time ("Propriety Products") only from Franchisor, or a supplier designated by Franchisor, and in no event will Franchisee alter or attempt to substitute any other product for any Proprietary Product Franchisee will only use or distribute Proprietary Products in connection with its operation of the Studio Franchisor expressly reserves the right to designate suppliers, or itself to be the sole supplier, of Proprietary Products

(ii) Advertising and Materials or Supplies Using the Marks In the offering of yoga instruction services and related apparel and products, and in displaying Proprietary Products and other merchandise to be sold hereunder, all articles such as shopping bags, price tags, and other paper goods, packaging, point of sale advertising and promotional materials, shall be subject to approval by Franchisor as to quality and design and shall bear trademarks approved by Franchisor

(iii) All Other Products Inventory or Supplies Franchisor will from time to time establish and publish reasonable specifications for the types of products, inventory and supplies authorized for use in connection with the operation of the Studio Franchisee may purchase any or all of its products, inventory and supplies that meet Franchisor's specifications from suppliers approved by Franchisor Franchisor may, in its sole discretion, approve suppliers selected by Franchisee provided the following conditions are first met

(A) Franchisee shall submit a written request to Franchisor for approval of the supplier,

(B) The supplier shall demonstrate to Franchisor's satisfaction that it is able to supply an item to Franchisee meeting Franchisor's specifications for such item, including but not limited to, providing Franchisor with samples,

(C) The supplier shall demonstrate to Franchisor's satisfaction that the supplier is of good standing in the business community with respect to its financial soundness and the reliability of its product and service,

(D) The supplier shall obtain, maintain and submit to Franchisor proof of, sufficient insurance coverage (including, but not limited to, product liability coverage) at limits and including coverage acceptable to Franchisor, and

(E) In the event the item to be supplied is required to bear one of the Marks, such supplier must execute a license agreement (which may include a royalty payment) in a form acceptable to Franchisor

Until and unless Franchisor notifies Franchisee in writing that it has approved a supplier, Franchisee must continue to purchase from previously approved suppliers If Franchisor determines that a previously approved supplier no longer conforms to such standards, it shall so notify Franchisee and Franchisee shall thereupon discontinue making purchases from supplier

(b) Confidential Information and Operations Franchisee acknowledges that the information contained in the Operations Manual constitutes confidential and trade secret information Additionally, Franchisor may provide Franchisee with other information which has been designated by Franchisor as "Confidential," "Trade Secret," or "Proprietary Information " Without the prior written consent of Franchisor, Franchisee shall neither disclose the contents of the Operations Manual to any person, except employees of Franchisee for purposes related solely to the operation of the Studio, nor reprint or reproduce the Operations Manual, or any other confidential or proprietary information or trade secrets in whole or in part for any purpose Upon request by Franchisor, Franchisee shall obtain agreements from its personnel prohibiting disclosure of any trade secret or proprietary information

(c) Operation of Studio

(i) Operation of Studio Facility Franchisee (or a fifty-one percent (51%) owner thereof, if Franchisee is an entity) shall participate in and directly operate and manage the Studio (personally for at minimum the first year of operation, and then, thereafter either personally or through a manager approved by Franchisor who has completed the initial training program to Franchisor's satisfaction (the "**Manager**")) and shall diligently devote Franchisee's best efforts to the operation and management so as to maximize sales and profits, keeping free from conflicting enterprises or any other activities which would be detrimental to or interfere with such operation or management Franchisee shall operate and maintain the Studio only at the location designated herein and only in accordance with the business standards, procedures, policies, and techniques comprising the System as specified in the Operations Manual In particular, and not in limitation of the foregoing, Franchisee shall participate in all customer loyalty and similar programs required by Franchisor Franchisee acknowledges and agrees that such participation may involve accepting coupons issued to customers and discounting

product prices Franchisee shall conspicuously post at the Studio a notice to the effect that the Studio is a franchised business operated independently of Franchisor

(ii) Classes Classes offered at and from the Studio are essential components of the System and shall be specified by Franchisor in its sole discretion, from time to time, in its Operations Manual Franchisee shall offer all mandatory classes and shall not offer classes which are not so specified by Franchisor as mandatory or optional All mandatory classes shall be taught by teachers certified by Franchisor

(d) Sanitation and Maintenance Standards At its sole expense, Franchisee shall at all times maintain the interior and exterior of the Studio premises, including all of the fixtures, signs, and equipment, in a good, clean, attractive, and safe condition and repair

(e) Remodeling/Improvements Franchisor shall establish and publish specifications for the furnishings, fixtures, signage, facility and equipment of the Studio Franchisee shall from time to time make such cost effective improvements and alterations to the Studio as Franchisor shall require in order for the Studio to meet such specifications

(f) Staffing Requirements Franchisee shall maintain an adequate number of neat, clean, competent, and courteous employees at the Studio to ensure maximum customer satisfaction and consistent service Franchisor may periodically require Franchisee to submit to Franchisor for its approval plans setting forth staffing levels for the Studio and describing employee functions

(g) Hours of Operation Subject to any contrary requirements of regulatory authorities or Franchisee's lease, Franchisee shall operate the Studio at such minimum hours and on such days as may from time to time be prescribed by Franchisor and shall offer sufficient classes and inventory of goods and products so as to operate the Studio at maximum capacity and efficiency

(h) Sales Records and Weekly Sales Reports Franchisee shall license directly from Mindbody the Mindbody software for scheduling classes and administering a reservation system for Franchisee's Studio The estimated cost for acquiring the license rights to use the Mindbody software is $850 Franchisee shall license directly from Moneris a system for processing payments as Franchisor may require in its discretion The estimated cost for acquiring the license rights to use the Mindbody software is $30 Franchisee understands and agrees that both technological and operational developments may require Franchisee to upgrade, maintain, repair, and update the Moneris and Mindbody systems during the term of this Agreement or upon its renewal Franchisee will upgrade, maintain, repair and update the Moneris and Mindbody systems in order to assume and discharge all of the Moneris and Mindbody systems related tasks specified, and as modified from time to time, by Franchisor Franchisee agrees to execute any and all necessary agreements and pay fees in connection with the licensing, maintenance and upgrade of the Moneris and Mindbody systems which may be in excess of the estimated expenditures There are no limits or

restrictions regarding the cost or frequency with which Franchisee will be required to manage the Moneris and Mindbody software Franchisor does not have independent access to the information in the Mindbody system, but reserves the right to request records from Franchisee at any time Franchisor shall have independent access to information generated by and stored in Franchisee's Moneris system

(i) Legal Compliance At its sole expense, Franchisee shall comply with all federal, state, and local laws, ordinances and regulations applicable to the ownership and operation of the Studio

(j) Right of Inspection Franchisee shall allow the agents and representatives of Franchisor to enter the Studio at any time for the purpose of examining and inspecting fixtures, furnishings, signs, equipment, products, supplies, and employees of the Studio to determine whether Franchisee is in compliance with this Agreement and the standards and policies of the System In order to monitor the System, Franchisor shall have the right to take classes offered at the Studio, free of charge, conduct quality assurance audits, employ mystery students and conduct customer surveys If Franchisee shall fail to operate the Studio in accordance with the System, Franchisor may, at its option, and at Franchisee's expense, and in addition to any other remedies of Franchisor hereunder, place a representative of Franchisor in the Studio until Franchisor shall determine in its sole discretion that there is compliance

(k) Books and Records Franchisee shall keep books of account in accordance with good accounting practices which fully and accurately disclose Gross Revenues and shall deliver to Franchisor by the fifteenth (15th) day of the following month, monthly financial statements which accurately reflect current results of the operation of the Studio Franchisee shall permit Franchisor, or its agent or representative to inspect and examine Franchisee's books and records at reasonable times If any audit discloses that reported Gross Revenues of Franchisee have been understated, Franchisee shall immediately pay to Franchisor the amounts due, together with late charges as provided herein If such audit discloses that the reported Gross Revenues of Franchisee for the period audited have been understated by three percent (3%) or more, Franchisee shall reimburse Franchisor for any and all expenses incurred in connection with or attributable to the audit including without limitation accounting and legal fees and travel expenses, room and board and compensation for Franchisor's agents and representatives Such payments shall be without prejudice to any other rights and remedies Franchisor may have under this Agreement or otherwise Franchisee shall maintain the books and records of the Studio for at least three (3) years

(l) Required Disclosure Franchisee acknowledges that Franchisor may be required by law, regulation or other legal requirement, or may deem it advisable, to disclose information regarding Franchisee or the operation of the Studio, including without limitation, earnings or other financial performance information Franchisee agrees that Franchisor shall be entitled to disclose such information and that Franchisor shall have the right to determine the extent and manner in which such disclosure will be made If Franchisor does not have the information necessary for the disclosure

Franchisor determines it will make, Franchisee shall provide such information to Franchisor promptly upon Franchisor's request

(m) Notification of Legal Proceedings Franchisee shall notify Franchisor in writing within ten (10) days of the commencement of any action, suit or proceeding, or of the issuance of any order, writ, injunction, award, or decree of any court or government agency which may adversely affect Franchisee's financial condition or ability to perform its duties or meet its obligations hereunder

(n) System Changes Franchisor shall have the right to make changes, modifications or additions to the System (as defined herein) from time to time Franchisee acknowledges that some of such changes may be material and may involve expenditures due to the addition or substitution of new equipment, routines, services or supplies, or an alteration of specifications or standards Upon receipt of notice, Franchisee agrees to comply with and carry out all such changes, modifications or additions promptly as required and within the time specified by such notice, as if they were a part of the System at the time of execution of this Agreement

(o) Full-Time and Best Efforts Unless otherwise approved in writing by Franchisor, Franchisee shall devote its full time and best efforts to actively conducting the franchised business within the Territory during the term of this Agreement and in accordance with the terms and conditions of this Agreement If Franchisee is a corporation or partnership, Franchisor shall designate one of the principals, the shareholder or the partners, as the case may be, of Franchisee to be the person who is to be active in the day to day operations of the franchised business (the "Primary Person") In addition if Franchisee is a corporation, Franchisor will require that the Primary Person own fifty-one percent (51%) of the voting shares of Franchisee corporation If Franchisee wants to have the Studio operated on a full time basis by someone other than Franchisee or the Primary Person, Franchisee must first obtain Franchisor's written consent, which consent can be arbitrarily withheld Any fulltime manager approved by Franchisor must successfully complete all training requirements (at Franchisee's sole cost) of Franchisor and be hired by Franchisee to operate the Studio on a full time basis If at any time Franchisor determines in its sole discretion that the full time manager is failing to adequately comply with System requirements, Franchisor can require on thirty (30) days' notice that Franchisee and/or the Primary Person (or some other individual acceptable to Franchisor) take over the full time operations of the Studio Franchisee will be solely responsible for the supervision and management of the full time manager and is responsible for all costs of employment, benefits, severance, termination or related expenses with respect to any full time manager hired by Franchisee

(p) Teacher Training Franchisee agrees that during the term of this Agreement, Franchisee will not offer any form of yoga teacher training, whether taught by Franchisee, its principals, or a guest teacher, including any hosting of teacher training at the Studio or at a location other than the Studio

## 10 INSURANCE

At all times during the term of this Agreement, Franchisee shall maintain in full force and effect at its sole cost and expense Commercial General Liability Insurance with minimum limits of liability of One Million Dollars ($1,000,000) per occurrence, and Two Million Dollars ($2,000,000) in the aggregate, including premises liability, professional liability products and completed operations, personal and advertising liability and such other limits and coverages as Franchisor shall designate from time to time Franchisee shall also maintain in full force and effect at its sole cost and expense, workers compensation insurance as required by law and business interruption coverage Franchisor and all other subsidiaries, affiliates and other parties designated by Franchisor from time to time shall be named as additional insureds Franchisee shall provide Franchisor with certificates of insurance evidencing the required coverage, which certificates shall be renewed and provided annually and shall contain such detailed information as Franchisor may from time to time request, and Franchisee shall also provide Franchisor with full and complete copies of any and all of the above policies including copies of any renewals or modifications thereto upon request of Franchisor All insurance policies must be issued by an insurance company licensed to do business in the state where the Studio is located, approved by Franchisor, and rated A- or better by A M Best & Company, Inc Franchisee shall cause the companies to agree by endorsement or separate written document that Franchisor shall be given at least thirty (30) days' prior written notice of termination, expiration, cancellation, modification or reduction in coverage limits of any such policy Upon failure of Franchisee to maintain in effect any of the insurance required, or to furnish to Franchisor satisfactory evidence of such insurance, Franchisor may, in its discretion, obtain insurance coverage on behalf of Franchisee, and Franchisee agrees to promptly execute applications or instruments required to obtain any such insurance and to pay to Franchisor, on demand, all costs, premiums and other expenses incurred by Franchisor

## 11 INDEMNITY

Franchisee shall, during the term of this Agreement and after the termination or expiration of this Agreement, protect, defend, indemnify and hold Franchisor, and its affiliates and associates, licensors, officers, directors, owners, employees, agents, representatives and assignees (the "Indemnified Parties") harmless against any and all liability for all claims of every kind or nature arising in any way out of or relating to Franchisee's actions or failure to act, whether personal or in connection with the operation of the Studio, any other actions or failure to act by Franchisee, its agents or representatives or any breach of this Agreement For purposes of this indemnification, "claims" means and includes all obligations, actual and consequential damages, losses, claims, judgments, demands liens, reckonings, accounts and costs incurred in the defense of any claim (such as, by way of illustration, but not limitation, accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses) Franchisor shall have the right to defend any such claim against it with counsel of its own choosing and Franchisee agrees to cooperate fully with Franchisor in connection with the defense of any claim Franchisee shall have no right to settle or refuse to settle any claim, Franchisee shall retain all right to do so In addition, Franchisee agrees to cooperate fully with Franchisor in any other claims brought by or against Franchisor The defense of such claim,

litigation or administrative proceeding by an Indemnified Party, or by Franchisee on an Indemnified Party's behalf, shall be at the sole cost and expense of Franchisee, who shall hold each Indemnified Party free and harmless from all such obligations and liabilities and shall reimburse an Indemnified Party for all expenses incurred therein, including attorneys' fees Further, an Indemnified Party shall have the right independently to take any action it may deem necessary, in its sole discretion, to protect and defend itself against any threatened action subject to indemnification hereunder, without regard to expense, forum or other parties that may be involved

## 12 MARKS AND TRADE DRESS

(a) Ownership of Marks and Goodwill Franchisee's right to use the Marks is derived solely from, and is subject to, the terms and conditions of this Agreement Such right is limited to the operation of the Studio in accordance with this Agreement and all mandatory standards, specifications and operating procedures prescribed from time to time by Franchisor Franchisee acknowledges that Franchisor has the right to use and sublicense the use of the Marks pursuant to a license agreement between it and Moksha Yoga, Inc (the "Licensor"), an affiliate of Franchisor that owns the Marks (the "License Agreement"), and that they are valid trademarks Franchisee agrees not to contest or oppose, nor to assist anyone else to contest or oppose, directly or indirectly, the License Agreement or Franchisor's rights and use in connection therewith, the Licensor's ownership or use of, application for, or registration of, or the validity or enforceability of, any of the Marks Franchisee also agrees not to acquire or use any trademarks that are similar or identical to the Marks Franchisee agrees that its usage of the Marks and any goodwill established thereby shall inure to the exclusive benefit of the Licensor

The Marks and other aspects of the System are subject to replacement, addition, deletion, and other modification by Franchisor (or the Licensor) in its sole discretion If any such action is taken by Franchisor (or the Licensor), Franchisee will promptly accept and use such replacement, addition, deletion, and other modification, and, in the case of the System, display such changed Marks as if they were part of the System as of the effective date of this Agreement (and replace, add, remove or modify the Mark(s) that have been so changed), and Franchisee will bear the cost of conforming the Studio to any such replacement, modification, addition, deletion, or other change, provided that, in the absence of an urgency communicated by Franchisor in its commercially reasonable discretion, Franchisee shall have a period of one (1) year to conform the Studio to Franchisor's new requirements

(b) Limitations on Franchisee's Use of Marks and Trade Dress If local laws require that Franchisee file a registration stating that Franchisee is conducting business under an assumed name or trade name, Franchisee shall state in such document that it is conducting such business as a franchisee of Franchisor Franchisee shall not use any of the Marks or similar words or colorable imitations thereof as part of any name of any corporation, partnership, limited liability company or other business entity, or with any

other prefix, suffix or other modifying words, terms, designs or symbols, or in any modified form or as part of any domain name, web address or similar electronic use, nor may Franchisee use any of the Marks in connection with the sale of any unauthorized products or service or in any other manner not explicitly authorized in writing by Franchisor Franchisee will not use or display, or permit the use or display, of the trademarks, trade names, service marks, insignias, logotypes or any other commercial symbols or trade dress of any other person or entity in connection with the Studio without the prior written consent of Franchisor, or as expressly permitted in the Operations Manual

(c) Defense of Trademarks

(i) In the event that Franchisee receives notice or learns of a claim, suit, demand or proceeding against Franchisee on account of any alleged infringement, unfair competition, or similar matter relating to Franchisee's use of the Marks or of any of Franchisor's or Licensor's copyrights in accordance with the terms of this Agreement, Franchisee shall promptly notify Franchisor of such claim, suit, demand or proceeding Franchisee shall have no power, right, or authority to settle or compromise any such claim by a third party without the prior written consent of Franchisor Provided that Franchisee is in full compliance with this Agreement, Franchisor shall defend Franchisee against any claim by a third party against Franchisee for Franchisee's use of the Marks and copyrighted material in accordance with this Agreement, using attorneys of Franchisor's choosing Franchisor may elect to compromise or settle any such claim, at its sole discretion Franchisee agrees to cooperate fully with Franchisor in connection with any such defense Franchisee irrevocably grants Franchisor authority and power of attorney to defend or settle such claims, demands, suits or proceedings

(ii) In the event that Franchisee receives notice or is informed or learns that any third party, that Franchisee believes to be unauthorized to use the Marks, is using the Marks or any variants thereof, or is using any of Franchisor's, or its affiliate's copyrights, Franchisee shall promptly notify Franchisor Thereupon, Franchisor shall, in its sole discretion, determine whether or not it wishes to undertake any action against such third party on account of said person's alleged infringement of the Marks or copyrights In the event Franchisor undertakes such action, it shall have the authority and power of attorney to defend or settle such action Franchisee agrees to render such assistance as Franchisor shall reasonably demand to carry out the prosecution of any such action Franchisee shall have no right to prosecute any claim of any kind or nature whatsoever against such alleged infringer for or on account of said alleged infringement

(d) Copyright Franchisee acknowledges that Franchisor has developed, and may further develop during the term of this Agreement, certain yoga routines, artistic designs (e g posters business cards and studio signs), and certain other word combinations and other materials designated for use by Franchisee Franchisee acknowledges that Franchisor and/or its affiliate retains all right, title and interest thereto as provided by copyright law to the originator of works and, further, that Franchisee is

licensed to use such copyrighted materials solely in accordance with the terms and during the term of this Agreement

(e) Discontinuance of Use of Marks If it becomes advisable at any time in Franchisor's sole discretion for Franchisee to modify or discontinue use of any Mark or any items of trade dress, or use one or more additional or substitute marks or items, Franchisee agrees to comply with Franchisor's directions to modify or otherwise discontinue the use of such Mark or item of trade dress and to accept, use and display such additional marks or items of trade dress within a reasonable time after notice thereof by Franchisor but in no event more than thirty (30) days after receiving notice from Franchisor Franchisor shall not be obligated to compensate Franchisee for any costs incurred by Franchisee in connection with any such addition, substitution, modification or discontinuance

(f) Internet Website With the exception of a website that describes Franchisee's franchise relationship with Franchisor and as stated in this Section 12, Franchisee will not display the Marks on or associate the System with (through a link or otherwise) any website, electronic marketing materials, domain name, address, designation, or listing on the internet or other communication system without the express consent of Franchisor If Franchisor permits Franchisee to display or use the Marks on Franchisee's internet site, the form, content and appearance of Franchisee's internet site, and any modifications thereto, must comply with the Standards and be approved by Franchisor before it is posted on the Internet so that Franchisor can maintain the common identity of the System, Studios and the Marks

Franchisee acknowledges that Franchisor's domain name is the sole property of Franchisor and its affiliates Franchisee will not, directly or indirectly, use, register, obtain or maintain a registration for any Internet domain name, address, or other designation that contains any Mark or any mark that is in Franchisor's sole opinion confusingly similar, including misspellings and acronyms Upon Franchisor's request, Franchisee must promptly take all steps to cancel or transfer to Franchisor or its designee any such domain name, address, or other designation under its control

## 13 NON-COMPETITION

(a) Franchisee acknowledges that Franchisor could not protect the Trade Secrets against unauthorized use or disclosure and could not achieve a free exchange of ideas and information among franchisees in the System if Franchisee held interests in any competitive business Franchisee acknowledges that Franchisor grants the rights to Franchisee in part in consideration of, and in reliance upon, Franchisee's agreement to deal exclusively with Franchisor Therefore, Franchisee shall not at any time during the term of this Agreement, individually or in conjunction with any person or entity, have any interest as an owner, investor, shareholder, partner, member, lender, director, officer, manager, employee, consultant, guarantor, representative, or agent or in any other manner whatsoever, directly or indirectly, carry on or be engaged in, financially or otherwise, or advise in the establishment or operation of any business involving or related to operating a yoga or fitness studio, the offering of yoga classes or sale of yoga

apparel or yoga retail items The foregoing notwithstanding, Franchisee may request advance approval from Franchisor to teach yoga or fitness classes at locations other than the Studio if Franchisee is in compliance with all terms and conditions contained in this Agreement and Franchisee provides Franchisor with detailed information about the other classes, including, for example, the name of the other location, a description of the classes and the dates on which the other classes will taught Franchisor's approval may be withheld or revoked at any time in Franchisor's reasonable discretion

(b) In addition, for one (1) years after the termination or expiration of this Agreement, Franchisee shall not carry on, be engaged in or advise in the establishment or operation of any business involving or related to the operation of a yoga or fitness studio or similar businesses described in section (a) above except (i) pursuant to Franchise Agreements with Franchisor, or (ii) if Franchisee is not then a party to any other Franchise Agreement with Franchisor, only at a site that is at least ten (10) miles from any Modo Yoga studio (including Franchisee's former Studio) that is operating or being developed Franchisee agrees and acknowledges that this restriction represents only a limited one on Franchisee's ability to conduct a business and that the purpose of this covenant is not to deprive Franchisee of a means of livelihood, and will not do so, but is rather to protect the goodwill and interest of Franchisor and the System

(c) Covenants contained in this Section 13 shall be construed as severable and independent, and shall be interpreted and applied consistently with the requirements of reasonableness and equity The period, the geographic area and the scope of the restrictions on Franchisee's activities are divisible so that if any provision of the restrictions is invalid, that provision shall be automatically modified to the extent necessary to make it valid

(d) Franchisee shall require and obtain execution of agreements similar to those set forth in this Section 13 including agreements applicable upon the termination of a person's relationship with Franchisee that shall be effective for a period of one (1) year after such termination from all officers, directors, and holders of a beneficial interest of ten percent (10%) or more of the equity of any entity directly or indirectly controlling Franchisee, if Franchisee is an entity

(e) All agreements required by this Section 13 shall be in forms satisfactory to Franchisor, including without limitation specific identification of Franchisor as a third-party beneficiary with the independent right to enforce them

## 14 ASSIGNMENT, TRANSFER, EARLY TERMINATION

(a) By Franchisor This Agreement is fully transferable and assignable by Franchisor, in whole or in part, and shall inure to the benefit of any assignee, transferee or other legal successor to its interest herein

(b) By Franchisee

(i) The rights granted to Franchisee in this Agreement are personal and Franchisee acknowledges that Franchisor is entering into this Agreement in

reliance upon and in consideration of the individual character, skill, attitude, business ability and financial capacity of Franchisee or, if Franchisee is a corporation partnership, limited liability company or other entity, of its principal owners and officers or partners Accordingly, Franchisee shall not transfer (as defined below) this Agreement or any interest herein without Franchisor's prior written consent and without offering Franchisor a right of first refusal Any attempt at a transfer that violates the provisions of this Section shall constitute a material breach of this Agreement and shall convey no right or interest in this Agreement and shall therefor be void A transfer by an individual franchisee to an entity that is wholly owned by Franchisee and the sole business of which is the operation of the Studio shall not be subject to Franchisor's right of first refusal nor shall Franchisee be required to pay the transfer fee set forth below, provided that Franchisee notifies Franchisor in advance of the transfer and provides Franchisor with all documents Franchisor deems necessary or advisable including without limitation, an assumption agreement and personal guaranty by Franchisee as an individual Franchisee shall reimburse Franchisor for its expenses in documenting such a transfer

(ii) For purposes hereof, "**transfer**" means any voluntary, involuntary, direct or indirect assignment, sale, division, encumbrance, hypothecation, mortgage, pledge or other transfer by Franchisee, in whole or in part, of any interest in this Agreement, any interest in the Studio or more than twenty-five percent (25%) of the ownership of Franchisee (either by one or by a series of transfers), if Franchisee is a corporation, partnership, limited liability company or other entity "Transfer" shall also include, in the event of Franchisee's death, a transfer to the surviving spouse, heirs, estate or other representative of Franchisee (the "**Survivor**")

(iii) Franchisor may require fulfillment of any or all of the following conditions precedent to the granting of consent to any Transfer

(A) there shall be no existing default in the performance of Franchisee's obligations under this Agreement or under any other Agreement with Franchisor or any of its affiliates,

(B) the physical premises of the Studio shall be in complete compliance with Franchisor's then-current standards,

(C) if required, the lessor of the Studio has consented to Franchisee's sublease or transfer of the lease or sublease for the premises to the proposed transferee,

(D) the proposed transferee shall be qualified according to Franchisor's then-current standards for new franchisees, and shall have successfully completed Franchisor s initial training program,

(E) the proposed transferee shall have executed Franchisor's then-current standard franchise agreement (which may be materially different than this Agreement, including but not limited to the loss of Heritage Studio status, if the transfer

causes such status to be lost) for a term of years equal to the remaining term of this Agreement, the proposed transferee shall have executed all ancillary agreements then required by Franchisor and all holders of an equity interest in the proposed transferee (if an entity) shall have executed Franchisor's then-current form of Guaranty,

(F) Franchisee shall have paid to Franchisor a transfer fee equal to the lesser of five percent (5%) of the amount Franchisee received from the transferee or Five Thousand Dollars ($5,000), provided, however, that in the event such transfer is to a Survivor, the transfer fee shall only consist of the reimbursement of Franchisor's expenses,

(G) Franchisee (and its principals if Franchisee is a corporation or other entity) shall have executed a general release in a form acceptable to Franchisor of any and all claims against Franchisor and its officers, directors, employees, affiliates, shareholders, representatives and agents,

(H) any obligations of the transferee to Franchisee shall be subordinated to the transferee's obligations to Franchisor under the Franchise Agreement it enters into with Franchisor,

(I) if the proposed Transfer is to a business entity, Franchisee must own such business entity, sign a personal service agreement with such business entity, and execute a performance guaranty, and

(J) Franchisee must transfer this Agreement together with all other agreements it has entered into with Franchisor and all rights thereunder to the transferee

(iv) Franchisor's consent to any transfer shall not constitute a waiver of any claim that Franchisor may have against Franchisee or its owner(s), or of Franchisor's right to demand strict compliance with this Agreement

(v) No interest in this Agreement or the Franchise shall be the subject of a lien, security interest or pledge either in favor of Franchisee as part of a transfer of the Franchise, or otherwise

(c) Right of First Refusal Franchisee shall provide Franchisor with complete information on the proposed transferee and terms of the transfer Within sixty (60) days of receipt of the complete information and documents from Franchisee, Franchisor will inform Franchisee (i) whether it will exercise its right of first refusal, and (ii) if not, whether it will consent to the transfer In the event that Franchisor notifies Franchisee that it will exercise its right of first refusal, except as provided below, Franchisor or its nominee will accept the transfer upon the same terms and conditions as set forth in the instruments and documents which embodied the proposed transfer Franchisor shall not be required, by exercise of its right of first refusal, to perform obligations of the proposed transferee which are merely incidental to the transfer (e g , employment agreements in favor of individuals, and brokers or finders fees to be paid by the proposed transferee to Franchisee or to any principal of Franchisee) Moreover, Franchisor shall have not less

than sixty (60) days from the delivery of Franchisor's notice of exercise to consummate the transfer For avoidance of doubt, if Franchisor exercises its right of first refusal as provided herein, Franchisee shall not be required to pay Franchisor any transfer fee If Franchisor elects not to exercise its right of first refusal and consents to the proposed transferee, Franchisee may consummate the proposed transfer, but only upon the terms and conditions set forth in the notice submitted to Franchisor

(d) Death or Permanent Disability If Franchisee, or the principal of a Franchisee that is not an individual, dies or is permanently disabled in a manner that prohibits operation of the Studio, the Survivor or, in the case of permanent disability, the representative of Franchisee shall, within ninety (90) days of such death or determination of permanent disability, either meet all of the qualifications required of franchisees or shall transfer this Agreement If this Agreement is transferred pursuant this Section 14(d), Franchisee shall not be required to pay a transfer fee to Franchisor

(e) Early Termination Franchisee may terminate this Agreement before the expiration of the Term if, and only if

(i) Franchisee provides Franchisor with ninety (90) days prior written notice,

(ii) Franchisee signs a full release of Franchisor,

(iii) Franchisee pays Franchisor in immediately available funds the sum of Ten Thousand Dollars ($10,000) plus an amount equal to the sum of Royalty Fees and Marketing, Design and Brand Fund Fees that were paid to Franchisor over the twelve (12) month period leading up to Franchisee's notice of termination multiplied by the number of years remaining on the Term, as an early termination fee as consideration for Franchisor allowing Franchisee to terminate this Agreement early, and

(iv) Franchisee is in good standing under this Agreement at the time it provides notice of termination to Franchisor and upon termination (i e , is not in default of any obligations, terms or conditions of this Agreement)

## 15 OPERATION IN THE EVENT OF ABSENCE, DISABILITY OR DEATH

The parties hereto acknowledge that it is imperative that the Studio be operated without any interruption and in a manner that will not cause harm to the Studio or the System In order to insure such continued operation, in the event that Franchisee is not able to operate the Studio, by reason of illness, disability, death, or otherwise, and within sixty (60) days of such illness or death, Franchisee s executor or representative has not transferred the franchise in accordance with the provisions of this Agreement, Franchisee authorizes Franchisor to operate the Studio for as long as Franchisor deems necessary and practicable without waiver of any other rights or remedies Franchisor may have under this Agreement All proceeds from the operation of the Studio during such period of operation by Franchisor shall be separately accounted for, and the expenses of the Studio, including reasonable compensation and expenses for Franchisor's representative(s), shall be charged to said proceeds If Franchisor, in its

sole discretion, temporarily operates the Studio as provided in this section, Franchisee agrees to hold harmless and fully indemnify Franchisor and any representative(s) of Franchisor who may act hereunder

## 16 DEFAULT AND TERMINATION

The following provisions are in addition to and not in limitation of any other rights and remedies Franchisor may have at law or in equity, all of which are expressly reserved The exercise by Franchisor of any right or remedy shall not be deemed an election of remedies

(a) With Notice and No Opportunity to Cure This Agreement shall immediately terminate on delivery of notice of termination to Franchisee by Franchisor upon the occurrence of any of the following events, each of which is deemed to be an incurable breach of this Agreement and each of which is deemed to be "good cause " If Franchisee

(i) becomes insolvent or admits in writing Franchisee's inability to pay its debts as they mature, or makes an assignment for the benefit of creditors, files a petition under any foreign, state or United States bankruptcy act, receivership statute, or the like or if such a petition is filed by a third party, or if an application for a receiver is made by anyone and such petition or application is not resolved favorably to Franchisee within ninety (90) days,

(ii) abandons the Studio by failing to operate it for five (5) consecutive business days or for any shorter period in such circumstances that render reasonable the conclusion that Franchisee does not intend to continue operating the Studio, unless such failure is due to disaster or similar reasons beyond Franchisee's control,

(iii) has made any material misrepresentation or omission in the application for the Franchise or in any report that Franchisee submits to Franchisor pursuant to this Agreement,

(iv) is convicted by a trial court of, or pleads no contest to, a felony or other crime or offense or engages in conduct that reflects materially and unfavorably upon the operation and reputation of Franchisor or the System, or if any principal of Franchisee is convicted of or pleads no contest to a felony or other crime or offense or engages in such conduct, provided that, if a principal of Franchisee is the subject of this Section 16(a)(iv) and such principal promptly withdraws from ownership of Franchisee, then Franchisor shall not have the right to terminate this Agreement except as may otherwise be provided,

(v) attempts to make or makes an unauthorized assignment, encumbrance or other transfer of Franchisee's rights or obligations under this Agreement,

(vi) is a party to any other agreement with Franchisor or its affiliates that is terminated for Franchisee's breach thereof,

(vii) makes any unauthorized use of the Marks or Trade Secrets or makes any duplication or disclosure of any Trade Secrets including but not limited to any portion of the Operations Manual,

(viii) fails on three (3) or more separate occasions during the term of this Agreement to pay on a timely basis any fees payable hereunder or otherwise fails to comply with this Agreement, whether or not such failures to comply are corrected after notice is delivered to Franchisee and whether or not such failures to comply relate to the same or different requirements of this Agreement,

(ix) shall at any time have the Studio or its assets or premises seized, taken over or foreclosed by a government official in the exercise of such official's duties, or by a creditor, lien holder or lessor of Franchisee, or a writ or levy of execution shall issue against the franchise granted hereunder or the goods and chattels of Franchisee,

(x) fails, for a period of three (3) business days after notification of non-compliance, to comply with any federal, state or local law or regulations applicable to the operation of the Studio,

(xi) intentionally under-reports its Gross Revenues to Franchisor,

(xii) fails to transmit to Franchisor immediately upon receipt any report from any health department or comparable agency in connection with the Studio,

(xiii) if a judgment against Franchisee in the amount of more than Five Thousand Dollars ($5,000 00) remains unsatisfied (unless an appeal is filed or a supersedeas bond is secured) for a period of more than thirty (30) days,

(xiv) if Franchisor determines, in its sole discretion, that continued operation of the Studio by Franchisee will result in imminent danger to public health or safety, or

(xv) if the United States government designates Franchisee or any person mentioned in Section 12B hereof a "specially designated national" or "blocked person "

(b) With Notice and Opportunity to Cure This Agreement shall terminate upon Franchisee's failure to cure any of the following, each of which is deemed to be "good cause"

(i) non-compliance with any requirement in this Agreement not listed in subsection (a) above or the Operations Manual or prescribed by Franchisor within thirty (30) days after notice thereof is delivered to Franchisee, or

(ii) failure to make payments to Franchisor for any amounts due within five (5) days after notice thereof is delivered to Franchisee

(c) No Waiver The description of any default in any notice served upon Franchisee shall in no way preclude Franchisor from specifying additional or supplemental defaults in any action, arbitration, hearing or suit relating to this Agreement or the termination hereof

(d) Enforcement Franchisee acknowledges that the decision to enforce or not to enforce compliance with its rules and regulations by other franchisees shall not affect Franchisor's right to enforce such rules and regulations against Franchisee, even under similar circumstances

## 17 RIGHTS AND OBLIGATIONS UPON TERMINATION OR EXPIRATION

(a) Payment of Amounts Owed to Franchisor Franchisee agrees to pay Franchisor immediately after the effective date of termination or expiration of this Agreement, all amounts due to Franchisor and all other amounts owed to Franchisor or its affiliates which are then unpaid

(b) Marks After the termination or expiration of this Agreement, Franchisee shall

(i) not directly or indirectly at any time or in any manner identify Franchisee or any business with which Franchisee is affiliated as a current or former franchisee or licensee of Franchisor, or as otherwise associated with Franchisor, or use any Mark, any imitation thereof or other indicia of the Studio in any manner or for any purpose, or utilize for any purpose any trade name, trade or service mark or other commercial symbol that suggests or indicates a connection or association, or former connection or association, with Franchisor or the System,

(ii) at Franchisor's option, return or destroy (and if destroyed, Franchisee must set forth with particularity in a writing signed by Franchisee or a principal thereof the items destroyed) all supplies bearing any Marks,

(iii) refrain from engaging in a competing business as provided in Section 13 above,

(iv) stop using the Marks and the System and return to Franchisor all copies of the Operations Manual and all other proprietary information, including, without limitation, customer lists,

(v) stop all use of all telephone numbers, facsimile numbers, e-mail addresses, home pages, websites and the like that are associated with the Studio and the System and cooperate with Franchisor in causing all applicable telephone companies and other service providers to reassign such numbers and addresses to Franchisor or its nominee including, without limitation, signing telephone transfer forms upon the execution of this Agreement or upon demand by Franchisor for use by Franchisor upon expiration or termination of this Agreement,

(vi) refrain from soliciting clients or personnel of the Studio, and turn over all customer information and data to Franchisor,

(vii) take such action as may be required to cancel all fictitious or assumed name or equivalent registrations relating to Franchisee's use of any Marks,

(viii) assist in the smooth transition of the business to any successor franchisee,

(ix) refrain from making any disparaging comments regarding Franchisor or the System,

(x) take such steps as are necessary to change the decor, signage, flooring, fixtures, furniture and equipment and other elements of decor and trade dress so that the premises no longer resemble the Studio, and

(xi) comply with all further requirements set forth in the Operations Manual

(c) Continuing Obligations All obligations of the parties that expressly or by nature survive the expiration or termination of this Agreement, including without limitation, Sections 11, 12 and 13, shall continue in full force and effect subsequent to and notwithstanding its expiration or termination until they are satisfied in full or by nature expire

(d) Option to Purchase Upon termination or expiration of this Agreement, Franchisor or its nominee shall have the option, exercisable for sixty (60) days following the effective date of termination or expiration, to purchase the assets of the Studio The purchase price for the assets will be the fair market value as determined by the parties If the parties are unable to agree upon the fair market value of the assets, they shall jointly select an independent appraiser to do so Franchisee and Franchisor shall each pay one-half (%) of the cost of appraisal The fair market value of the assets shall be determined without giving effect to goodwill Franchisor may deduct any amounts Franchisee owes to Franchisor, any liabilities relating to the assets, and, if Franchisor has not complied with the requirements of this Agreement to upgrade and renovate the Studio, the amount necessary to upgrade and renovate the Studio to reflect Franchisor's then-current image The purchase price will be payable fifty percent (50%) at the time of closing and the balance in three (3) equal quarterly installments of principal plus interest at a rate per annum equal to the prime lending rate charged by Franchisor's bank determined as of the closing date If the purchase is exercised following Franchisor's termination of this Agreement for cause or termination by Franchisee in breach of this Agreement, any and all costs, expenses, and liabilities incurred by Franchisor, including attorneys' fees and the cost of appraisal, in exercising this option and in acquiring said property, as well as any and all monies due and owing from Franchisee to Franchisor, plus any damages, expenses and costs incurred or suffered by Franchisor by reason of any default, breach, or violation of this Agreement by Franchisee, shall be deducted from the purchase price

## 18 CONDEMNATION AND CASUALTY

(a) Franchisee shall give Franchisor notice of any proposed taking through the exercise of the power of eminent domain, at the earliest possible time If the Studio or a substantial part of the Studio is to be taken, it may be relocated within the Territory If such relocation is authorized and Franchisee opens a new Studio at such other location in accordance with Franchisor's specifications within one (1) year of the closing of the old Studio, the new Studio will thereafter be deemed to be the Studio franchised under this Agreement If such a condemnation takes place and a new Studio does not, for whatever reason, become the Studio under this Agreement in accordance with this section, then this Agreement shall terminate immediately upon notice by Franchisor to Franchisee

(b) If the Studio is damaged by fire or other casualty, Franchisee will expeditiously repair the damage If the damage or repair requires closing the Studio, Franchisee will immediately notify Franchisor, will repair or rebuild the Studio in accordance with Franchisor's specifications, and will reopen the Studio for continuous business operations as soon as reasonably practicable (but in any event within one (1) year after closing of the Studio), giving Franchisor advance notice of the date of reopening If the Studio is not reopened in accordance with this paragraph, this Agreement shall terminate immediately upon notice by Franchisor to Franchisee

## 19 UNAVOIDABLE DELAYS

In the event of failure to perform or delays in the performance of any duties hereunder caused by forces not within the reasonable preventive control of the party due to perform, for example (without limitation), government regulations, fire, flood, labor disputes, natural disasters, acts of God, civil disorders, riots, insurrections, work stoppages, slowdowns or disputes, or other similar events, such failures or delays shall not cause a default in said performance, but, in the event of delay, the parties shall extend the time of performance for a period of time equivalent to the length of delay, or for such other reasonable period of time as agreed to between the parties, provided that such extension shall not enlarge or extend the term of Agreement

## 20 INVALID OR UNENFORCEABLE PROVISIONS

If any provision of this Agreement, or its application to any person or circumstances, is invalid or unenforceable, then the remainder of this Agreement or the application of such provision to other persons or circumstances shall not be affected thereby

## 21 RELATIONSHIP BETWEEN PARTIES

(a) Nothing herein contained shall be deemed or construed to create the relationship of principal and agent, partnership, joint venture or employment, or a fiduciary relationship, and neither party shall hold itself out as an agent, legal representative, partner, subsidiary, joint venturer, servant or employee of the other party or its affiliate With respect to all matters pertaining to the operation of the Studio,

Franchisee is, and shall be, an independent contractor Neither Franchisor nor Franchisee has the right to bind or obligate the other to any obligations or debts

(b) It is acknowledged that Franchisee is the independent owner of its business, shall be in full control thereof, and shall conduct such business in accordance with its own judgment and discretion, subject only to the provisions of this Agreement Franchisee shall conspicuously identify itself as the independent owner of its business and as a franchisee of Franchisor No party hereto shall be obligated by, or have any liability for, any agreements, representations or warranties made by the other nor shall Franchisor be liable for any damages to any person or property, directly or indirectly, arising out of the operation of Franchisee's business, whether caused by Franchisee's negligent or willful action or failure to act Neither party shall have liability for any sale, use, excise, income, property or other tax levied upon the business conducted by the other party or in connection with the Franchise

## 22 WAIVER

No failure of Franchisor or Franchisee to exercise any power hereunder granted, or to insist on strict compliance by the other with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of either party's right to demand exact compliance with the terms hereof Waiver by either party of any particular default by the other shall not affect or impair any rights with respect to any subsequent default of the same or of a different nature, nor shall any delay or omission of either party to exercise any rights arising from a default affect or impair any rights as to said default or any subsequent default

## 23 NOTICES

All notices hereunder shall be hand delivered or sent by express mail, federal express or air courier or by registered or certified mail to Franchisor and Franchisee at the respective addresses set forth on the first page of this Agreement, unless Franchisor and/or Franchisee shall from time to time change said addresses by written notice to the other as provided herein Any notice given by registered or certified mail shall be deemed received by the party to whom it is addressed on the third day after such notice is deposited in the United States mail with postage thereon fully prepaid, return receipt requested Any notice given by express mail, federal express or air courier shall be deemed given the next business day

## 24 APPLICABLE LAW

This Agreement shall be governed in all respects and aspects by the laws of the State of Delaware, subject to the Lanham Act (15 U S C 1051 et seq )

## 25 RESOLUTION OF DISPUTES

(a) Upon the occurrence of any dispute or disagreement between the parties hereto arising out of or in connection with any term or provision of this Agreement, the subject matter hereof, or the interpretation or enforcement hereof (in each case, a

"**Dispute**"), the Dispute shall first be submitted to mediation on an expedited basis in Los Angeles, California, administered by the Judicial Arbitration and Mediation Service ("**JAMS**"), or its successor, in accordance with the JAMS rules and procedures then in effect Either party may commence mediation by providing to JAMS and the other party a written request for mediation, setting forth the subject of the Dispute and the relief requested, with the expectation that the first mediation session shall occur within forty-five (45) days of such written request The party seeking the mediation must submit the following in addition to any demand or filing required by JAMS a full and specific description of the claim(s) under this Agreement, including, without limitation, an identification of the specific provisions that the other party has breached, documentary evidence of the facts alleged by the complaining party and a declaration under penalty of perjury that all facts stated in the claim and documentation are true and correct and do not fail to state facts known to the complaining party that are material to the determination of the Dispute The parties will cooperate with JAMS and with one another in selecting a neutral mediator from the JAMS panel of neutrals and in scheduling the mediation proceedings The mediator must be a retired judge or an attorney licensed to practice law in California and experienced in complex commercial transactions If the parties are unable to select the mediator within ten (10) business days after receipt of the mediation notice by JAMS, then JAMS shall designate the mediator The parties covenant that they will (i) participate in the mediation in good faith, (ii) share equally in the costs of the mediator and related JAMS administrative costs, and (iii) pay in advance the estimated reasonable fees and costs of the mediation, as may be specified in advance by the mediator All offers, promises, conduct and statements, whether oral or written, made in the course of the mediation by any of the parties, their agents, employees, experts and attorneys, and by the mediator and any JAMS employees, are confidential, privileged and inadmissible for any purpose, including impeachment, in any reference, arbitration, litigation or other proceeding involving the parties, provided that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation In the event it is necessary, any party may file a motion in the Superior Court of Los Angeles County to compel the other party to participate in the mediation and the prevailing party shall be awarded its costs and expenses, including reasonable attorneys' fees in connection with such motion If the Dispute is not resolved within ten (10) business days after the first mediation session, either party may (i) give written notice to JAMS and the other party that the mediation is terminated and (ii) submit any remaining Disputes to binding arbitration pursuant to Section (b) below

(b) If the parties are unable to resolve the Dispute pursuant to subsection (a) above, then the parties may submit the Dispute to final and binding arbitration in Los Angeles, California, administered by JAMS, or its successor, in accordance with the rules and procedures of JAMS then in effect The parties agree that any and all Disputes that are submitted to arbitration in accordance with this Agreement shall be decided by one (1) neutral arbitrator who is a retired judge or attorney licensed to practice law in California who is experienced in complex commercial transactions If the parties are unable to agree on an arbitrator, JAMS shall designate the arbitrator The parties will cooperate with JAMS and with one another in selecting the arbitrator and in scheduling the arbitration proceedings in accordance with applicable JAMS procedures

The arbitration shall be conducted in accordance with the JAMS Comprehensive Arbitration Rules and Procedures Any party may commence the arbitration process called for in this Agreement by filing a written demand for arbitration with JAMS, with a copy to the other party The party seeking arbitration must submit the following in addition to any demand or filing required by JAMS a full and specific description of the claim(s) under this Agreement including without limitation an identification of the specific provisions that the other party has breached, documentary evidence of the facts alleged by the complaining party and a declaration under penalty of perjury that all facts stated in the claim and documentation are true and correct and do not fail to state facts known to the complaining party that are material to the determination of the Dispute Any award issued as a result of such arbitration shall be final and binding between the parties thereto and shall be enforceable by any court having jurisdiction over the party against whom enforcement is sought The parties expressly acknowledge and understand that by entering into this Agreement, they each are waiving their respective rights to have any Dispute between the parties hereto adjudicated by a court or by a jury

(c) The parties recognize that their relationship is unique and that each franchisee is situated differently from all other franchisees, and that no one franchisee can adequately represent the interest of others Therefore, the parties agree that any arbitration, suit, action or other legal proceeding shall be conducted and resolved on an individual basis only and not on a class-wide, multiple plaintiff, consolidated or similar basis

(d) Where there is more than one agreement in existence between Franchisee and Franchisor, Franchisee agrees that Franchisor has the right to treat a material breach or default of any one agreement between the parties as a material breach or default of all or any of the other agreements between the parties, and any such material breach or default of any one agreement shall be treated, in respect of any of the other agreements, as a material breach or default of each such agreement in accordance with its own terms

(e) The prevailing party in any legal proceeding will be entitled to recover as an element of such party's cost of arbitration, suit or proceeding, and not as damages, reasonable attorneys' fees to be fixed by the arbitrator Nothing in this Agreement shall be construed as limiting or precluding either party from bringing any action in any court of competent jurisdiction for injunctive or other extraordinary relief, without the necessity of posting a bond (and if bond shall nevertheless be required, the parties agree that the sum of $100 00 shall be sufficient bond), in connection with the Marks, trade dress, proprietary information or trade secrets The parties shall have the immediate right to seek such injunctive or other extraordinary relief at any time, including without limitation, during the pendency of arbitration or other proceeding This covenant shall be independent, severable and enforceable notwithstanding any other rights or remedies which such party may have

**26 TERMINOLOGY**

All terms and words used in this Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine, or neuter, as the context or sense of this Agreement or any section, paragraph, or clause herein may require, as if such word had been fully and properly written in the appropriate number and gender

## 27 ENTIRE AGREEMENT

(a) This Agreement and the exhibits attached hereto and incorporated herein, if any, contain the entire agreement of the parties and there are no representations, inducements, promises, agreements, arrangements or undertakings, oral or written, between the parties hereto other than those set forth and duly executed in writing in this Agreement

(b) Upon execution of this Agreement by Franchisor, all previous agreements, contracts, arrangements or undertakings of any kind relative to the Franchise granted herein are canceled, and as between the parties hereto, all claims and demands are fully satisfied, provided, however, that this paragraph shall have no effect upon written agreement(s) signed by both parties, whenever executed, except to the extent that such written agreement specifically refers to and modifies or cancels this Agreement If Franchisee is a corporation, partnership or other entity, those shareholders, partners and other persons owning an interest in such entity shall sign Franchisor's form of confidentiality and non-competition agreement If Franchisee is a corporation, partnership or other entity, Franchisor will determine which of the shareholders, partners or other principals shall sign Franchisor's form of Guaranty and Assumption of Franchisee's Obligations, in accordance with Franchisor's criteria, set forth on Exhibit D attached hereto and incorporated herein

(c) Franchisee's spouse or, the spouses of all owners of Franchisee if Franchisee is an entity, shall execute a spousal consent in the form attached hereto as Exhibit B

(d) The foregoing provisions notwithstanding, nothing in this or in any related agreement is intended to disclaim the representations Franchisor made in the Franchise Disclosure Document that Franchisor furnished to Franchisee **AMENDMENT OF AGREEMENT**

This Agreement shall not be modified or amended except by written agreement executed by both parties hereto No subsequently published manual or other publication of Franchisor shall materially alter the parties' rights and obligations under this Agreement Notwithstanding the preceding sentence, Franchisor may unilaterally amend the Operations Manual from time to time

## 29 COSTS AND EXPENSES OF ENFORCEMENT

The prevailing party shall recover the reasonable costs and expenses, including reasonable attorneys' fees, incurred by such party in connection with any legal proceeding involving the enforcement of any of the provisions of this Agreement

## 30 CAPTIONS

The section headings throughout this Agreement are for convenience and reference only, and the words contained therein shall not be held to expand, modify, amplify, or aid in the interpretation or construction of this Agreement

## 31 POWER OF ATTORNEY

Upon expiration or termination of this Agreement for whatever reason, Franchisor may, if Franchisee does not do so, execute in Franchisee's name and on its behalf all documents necessary in Franchisor's judgment to end and cause the discontinuance of Franchisee's use of Marks, trade names, internet domain names, uniform resource locators, website names, web page names, electronic mail designated addresses, other internet addresses, internet user names, keywords, adwords, search engine metatags and copyrights, and the person serving from time to time as the Secretary of Franchisor is hereby irrevocably nominated, constituted and appointed as Franchisee's attorney-in-fact so to do Any recipient including the United States Patent and Trademark Office, any internet domain name or other granting, hosting, service providing or operating authority or entity may accept a notarized or certified true copy of this Agreement as signed by Franchisee as evidence of such power of attorney

## 32 FRANCHISEE'S ACKNOWLEDGMENTS

(a) NEITHER FRANCHISEE (INCLUDING, WITHOUT LIMITATION, ANY AND ALL OF ITS DIRECTORS AND OFFICERS, IF ANY), NOR ANY OF ITS AFFILIATES OR THE FUNDING SOURCES FOR EITHER IS A SPECIALLY DESIGNATED NATIONAL OR BLOCKED PERSON NEITHER FRANCHISEE NOR ANY OF ITS AFFILIATES IS DIRECTLY OR INDIRECTLY OWNED OR CONTROLLED BY THE GOVERNMENT OF ANY COUNTRY THAT IS SUBJECT TO AN EMBARGO BY THE UNITED STATES GOVERNMENT NEITHER FRANCHISEE NOR ANY OF ITS AFFILIATES IS ACTING ON BEHALF OF A GOVERNMENT OF ANY COUNTRY THAT IS SUBJECT TO SUCH AN EMBARGO FRANCHISEE FURTHER REPRESENTS AND WARRANTS THAT IT IS IN COMPLIANCE WITH ANY APPLICABLE ANTI-MONEY LAUNDERING LAW, INCLUDING, WITHOUT LIMITATION, THE USA PATRIOT ACT FRANCHISEE AGREES THAT IT WILL NOTIFY FRANCHISOR IN WRITING IMMEDIATELY UPON THE OCCURRENCE OF ANY EVENT THAT WOULD RENDER THE FOREGOING REPRESENTATIONS AND WARRANTIES OF THIS SECTION INCORRECT

(b) BY SIGNING THIS AGREEMENT YOU ARE AGREEING TO HAVE ALL DISPUTES, CLAIMS OR CONTROVERSIES ARISING OUT OF OR RELATING TO THIS AGREEMENT DECIDED BY NEUTRAL ARBITRATION IN LOS ANGELES, CALIFORNIA, AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THOSE MATTERS LITIGATED IN A COURT OR JURY TRIAL BY SIGNING THIS AGREEMENT YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL EXCEPT TO THE EXTENT THAT THEY ARE SPECIFICALLY PROVIDED FOR UNDER THIS AGREEMENT IF YOU REFUSE TO SUBMIT TO

ARBITRATION AFTER AGREEING TO THIS PROVISION YOU MAY BE COMPELLED TO ARBITRATE UNDER FEDERAL OR STATE LAW YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY

(c) NO REPRESENTATION, PROMISE, GUARANTY OR WARRANTY WAS MADE TO INDUCE THE EXECUTION OF THIS AGREEMENT OR IN CONNECTION HEREWITH WHICH IS NOT EXPRESSLY CONTAINED HEREIN FRANCHISEE RECOGNIZES THAT NEITHER FRANCHISOR NOR ANY OTHER PERSON CAN GUARANTEE FRANCHISEE'S SUCCESS IN THE STUDIO BY THE EXECUTION AND ACCEPTANCE OF THIS AGREEMENT, THE PARTIES HERETO ACKNOWLEDGE THAT THEY HAVE READ THE SAME AND UNDERSTAND EACH PROVISION HEREOF THIS AGREEMENT, ALTHOUGH DRAWN BY FRANCHISOR, SHALL NOT BE CONSTRUED MORE STRICTLY AGAINST ONE PARTY THAN AGAINST THE OTHER PARTY

(d) FRANCHISEE ACKNOWLEDGES THAT HE OR SHE HAS HAD THE OPPORTUNITY, AND HAS BEEN ADVISED BY FRANCHISOR, TO CONSULT WITH FRANCHISEE'S OWN INDEPENDENT ADVISORS SUCH AS ATTORNEYS, ACCOUNTANTS, BANKERS AND BUSINESS CONSULTANTS REGARDING THIS FRANCHISE AND THE BUSINESS CONTEMPLATED BY THIS AGREEMENT AND THAT FRANCHISEE IS NOT RELYING ON ANY REPRESENTATIONS OR STATEMENTS OTHER THAN THOSE SET FORTH IN THIS AGREEMENT FRANCHISEE FURTHER AGREES AND ACKNOWLEDGES THAT FRANCHISEE SHALL COMPLY WITH ALL APPLICABLE LAW IN THE OPERATION OF THE STUDIO AND ITS BUSINESS AND SHALL CONSULT WITH ITS OWN INDEPENDENT ADVISORS TO THE EXTENT NECESSARY TO DO SO, FRANCHISOR SHALL NOT BE RESPONSIBLE FOR THE OPERATION OF FRANCHISEE'S BUSINESS WHENEVER A PROVISION OF THIS AGREEMENT PROVIDES FOR FRANCHISOR'S REVIEW AND CONSENT OR APPROVAL, FRANCHISOR'S REVIEW SHALL NOT BE TO DETERMINE COMPLIANCE WITH LAW, WHICH COMPLIANCE IS THE SOLE RESPONSIBILITY OF FRANCHISEE

## 33 EFFECTIVE DATE

This Agreement shall become effective and binding upon execution and delivery by Franchisor

DATE _____

_____
Franchisee (Print Name)

By _____

Title _____

DATE _____

Modo Yoga International Inc
By _____
Title _____

## Exhibit A

(1) **Address of Studio** _____

_____

_____

(2) **Territory** _____

_____

_____

## Exhibit B

SPOUSAL CONSENT

The undersigned each being the spouse of a Franchisee (or the spouse of an owner of Franchisee) hereby states

1) That he or she has read and understands the Franchise Agreement and the Franchise Disclosure Document, and

2) That he or she consents to the terms and conditions of the Franchise Agreement, including but not limited to those concerning transfer, and

3) That he or she consents to execution of the Franchise Agreement by Franchisee,

4) That he or she consents to execution of the Guaranty and Assumption of Franchisee's Obligations

Dated _____ Signature _____

Print Name _____

## Exhibit C

INFORMATION REGARDING
NON-INDIVIDUAL FRANCHISEES

(1) If Franchisee is a corporation or partnership or other entity, there is set forth below the name, address, title and percentage ownership of each shareholder, partner or member of Franchisee

| NAME | ADDRESS | TITLE | PERCENTAGE OWNERSHIP |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

(2) If Franchisee is a corporation or limited liability company, there is set forth below the name, address and title of each officer and director or manager of Franchisee

| NAME | ADDRESS | TITLE |
|---|---|---|
| | | |
| | | |
| | | |

(3) The address where Franchisee's records are maintained is

_____
_____
_____

(4) There is set forth below the name, address and title of each of Franchisee's principal officers or partners who will be devoting their full-time efforts to the operation of the licensed business

| NAME | ADDRESS | TITLE |
|---|---|---|
| | | |
| | | |
| | | |

DATE _____

_____
Name and Title of Person Completing Exhibit

_____
Signature

## Exhibit D

GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of that certain Franchise Agreement (the "Agreement") with Modo Yoga International Inc ("Franchisor") of even date herewith, each of the undersigned hereby personally and unconditionally (1) guarantees to Franchisor and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that _____ ("Franchisee") shall punctually pay and perform each and every undertaking, agreement, and covenant set forth in the Agreement, and (2) agrees to be personally bound by and personally liable for the breach of each and every provision in the Agreement, including but not limited to monetary obligations

Each of the undersigned waives (1) acceptance and notice of acceptance by Franchisor of the foregoing undertakings, (2) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed, (3) protest and notice of default to any party with respect to the indebtedness or non-performance of any obligations hereby guaranteed, (4) any right he/she may have to require that an action be brought against Franchisee or any other person as a condition of liability, and (5) any and all other notices and demands and legal and equitable defenses to which he/she may be entitled

Each of the undersigned consents and agrees that (1) his/her liability under this guaranty shall be joint and several, (2) he/she shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so, (3) he/she will individually comply with all the provisions and subsections of the Agreement and any renewals and amendments thereto, (4) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person, and (5) such liability shall not be diminished, relieved, or otherwise affected by any extension of time, credit, or other indulgence which Franchisor may, from time to time, grant to Franchisee or to any other person, including, without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall, in any way, modify or amend this guaranty which shall be continuing and irrevocable during the term of the Agreement and thereafter

If any provision of this Guaranty and Assumption Agreement is deemed to be invalid or inoperative, for any reason, that part shall be deemed modified to the extent necessary to make it valid and operative or if it cannot be so modified, then severed, and the remainder of the Guaranty and Assumption Agreement shall continue in full force and effect as if it had been executed and entered into with the invalid portion so modified or eliminated

IN WITNESS WHEREOF, each of the undersigned hereto affixed his/her signature effective on the same day and year as the executed Agreement

GUARANTOR(S)

By _____

Print Name _____

By _____

Print Name _____

By _____

Print Name _____

By _____

Print Name _____

By _____

Print Name _____

Acknowledged and Agreed as to form

MODO YOGA INTERNATIONAL INC

By _____

Title _____

**EXHIBIT F**

**EXHIBIT F**

BLUEBIRDonline.com (888) 477-0700

# EXHIBIT F

## AREA DEVELOPER AGREEMENT

[See Attached]

**MODO YOGA INTERNATIONAL, INC**

**Area Developer Agreement**

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**ATTACHMENTS**


Attachment A Development Territory
Attachment B Development Schedule and Development Fee
Attachment C Personal Guaranty
Attachment D Statement of Shareholders/Members/Partners

**MODO YOGA INTERNATIONAL, INC**

**AREA DEVELOPER AGREEMENT**

THIS AGREEMENT is made and entered into this ____ day of _____, 20___, ("**Effective Date**") by and between Modo Yoga International, Inc, a British Columbia Corporation ("**Franchisor**"), with a business address at 301 Epron Road, Salt Spring Island, British Colombia V8K 1C7 Canada, and _____, a _____, with a business address at _____ ("**Area Developer**")

**RECITALS**

A Franchisor has established a method and system for the development and operation of MODO YOGA studios (the "**Studios**"), which includes, without limitation the mark MODO YOGA® and related names, trademarks, service marks, logos, copyrights, designs, emblems, slogans commercial symbols and other indicia and associated goodwill now or hereafter designated for use by Franchisor in connection with the System and any and all revisions, modifications and additions thereto, whether or not recorded or registered with the United States Patent and Trademark Office or any other local, state, federal or foreign agency, registrar or body (the "**Marks**"), distinctive building designs, decor, color schemes and trade dress and signage, an operations manual incorporating required standards, procedures, policies, and techniques, yoga poses and sequences, and advertising, marketing, and promotional programs (the "**System**"),

B Area Developer desires to obtain the right to develop, construct, manage and operate two or more Studios pursuant the development schedule described in Attachment B attached hereto ("**Development Schedule**") and within the territory described in Attachment A attached hereto ("**Development Territory**") under the System and Marks, as well as to receive the training and other assistance provided by Franchisor in connection therewith

NOW, THEREFORE, the parties, in consideration of the premises, undertakings and commitments of each party to the other as set forth herein, hereby mutually agree as follows

**AGREEMENT**

1 GRANT

1 1 Franchisor hereby grants to Area Developer the right, and license to develop, construct, operate and manage the Studios, according to the **Development Schedule** described in Attachment B, in strict accordance with the System and under the Marks within the Development Territory described in Attachment A Each Studio shall be operated according to the terms of the individual franchise agreement ("**Franchise Agreement**') with respect thereto

1 2 If Area Developer is developing Studios, and complies with the terms of this Agreement, the Development Schedule, and the individual Franchise Agreement for each Studio, then Franchisor will not franchise or license others, nor will it directly or indirectly develop, own, lease, construct or operate in any manner, any Studios in the Development Territory during the term hereof, however, Franchisor reserves the right to sell products and services under the Marks or any other marks, through any other retail location or through any

other channels of distribution, including through mail order, catalogue sales or over the Internet Franchisor also reserves the right to (a) establish, operate or license to any other person or entity the right to establish or operate a Studio owned or licensed by Franchisor at any location outside the Development Territory, (b) develop, lease and license the use of, at any location inside or outside of the Development Territory, trademarks other than the Marks in connection with the operation of a system which offers products or services which are similar to or different from those offered under the System, on any terms or conditions which Franchisor deems advisable, and (c) merge with, or be acquired by any other business, including a business that competes with Studios operated by Area Developer, or to acquire and convert to the System operated by Franchisor any similar fitness business located inside or outside of the Development Territory or otherwise operated independently as part of, or in association with, any other system or chain, whether franchised or corporately owned Upon the expiration or termination of this Agreement, Area Developer will no longer have an exclusive Development Territory and each Studio will be limited to operating solely at the franchised location ("**Franchised Location**") described in the individual Franchise Agreement Area Developer understands, acknowledges and agrees that as a Franchisee, Area Developer will not receive any exclusive or protected territorial rights other than the territory granted with each Studio at each Franchised Location, as set forth in its Franchise Agreements

1 3 This Agreement is not a franchise agreement and Area Developer shall have no right to use in any manner the Marks or System by virtue hereof Each Studio will be governed by the individual Franchise Agreement signed by Franchisor and Area Developer for such Studio

1 4 Area Developer must own at least a 25% equity interest in each Studio developed hereunder In addition Area Developer shall ensure that a person having at least a 25% beneficial equity interest in the Franchisee under each Franchise Agreement ("**Designated Business Manager**") shall at all times devote his or her full time and attention to managing, supervising, and developing each Studio and that the person has been approved by Franchisor to do so Area Developer shall identify all equity owners of Area Developer by completing the Statement of Shareholders/Members/Partners attached to this Agreement as Attachment D Area Developer shall provide Franchisor with an updated form of Attachment D within 10 business days of any change in the equity ownership of Area Developer The failure of Area Developer to provide Franchisor with an updated Attachment D within the time frame specified in this Section 1 4 shall constitute a material default of this Agreement

## 2 TERM

Unless sooner terminated pursuant to the provisions of Section 7, the term of this Agreement shall expire upon the earlier of (a) five (5) years from the Effective Date, or (b) completion of the Development Schedule Franchisor, in its sole discretion, may permit Area Developer to renew this Agreement for an additional term, provided that, without limiting the foregoing, Area Developer has not defaulted in its obligations under this Agreement or any other agreement with Franchisor or any affiliate of Franchisor, and the parties agree in writing to a new Development Schedule

## 3 FRANCHISE AGREEMENT, INITIAL FRANCHISE FEE, AREA DEVELOPER FEE AND INITIAL TRAINING

3 1 With respect to each Studio to be developed under this Agreement

(a) As soon as Area Developer locates a site within the Development Territory that it believes is suitable for construction of a Studio in accordance with Franchisor's site selection criteria, Area Developer shall submit to Franchisor the information about the proposed location including, without limitation, lease terms, land acquisition terms, demographic criteria and preliminary site plans showing building orientation, proposed unit location, parking layout, and certain other information, as Franchisor may require periodically in Franchisor's operations manual ("**Operations Manual**") If Area Developer proposes that another entity will own and operate the Studio, Area Developer must also submit information to Franchisor regarding the proposed franchisee entity Franchisor reserves the right to request as much additional information regarding the site and the proposed franchisee entity as it deems necessary, in its sole discretion, and Area Developer agrees to provide the information within 10-days of receipt of a request therefor

(b) Should Franchisor grant preliminary authorization to proceed with the site location per Section 3 1(a) above, it will give its written authorization to Area Developer to proceed with architectural drawings and final site plans containing the information as Franchisor requires The preliminary authorization for the site location shall not constitute final authorization of the site for the Studio, or of the entity proposed as franchisee Upon receipt of the site location authorization, Area Developer should make an offer to secure the site via purchase or lease, which offer must be contingent upon final approval by Franchisor of the site and of the proposed franchisee entity

(c) Should Franchisor provide final site authorization and approve of the proposed franchisee entity for a Studio, Franchisor and Area Developer (or its affiliate) shall promptly enter into an individual Franchise Agreement for the Studio before the date Area Developer begins construction on the Franchised Location, which agreement shall be in the form of Franchisor's then-current form of Franchise Agreement The terms of the individual Franchise Agreement will then govern the further development and build-out of the Studio

3 2 Area Developer shall pay to Franchisor an Initial Franchise Fee ("**Initial Franchise Fee**") for each Studio to be developed hereunder The Initial Franchise Fee for each Studio to be developed hereunder is due upon execution of the Franchise Agreement for each Studio In addition, upon execution of this Agreement, Area Developer shall pay to Franchisor (i) a Development Fee equal to $15,350 multiplied by the number of Development Territories granted hereunder, and (ii) the Initial Franchise Fee for the first Studio

Franchisor shall provide Area Developer with Franchisor's then-current training program and on-site opening assistance for each Studio to be developed hereunder in accordance with the Franchise Agreement associated with each Studio

## 4 DEVELOPMENT SCHEDULE AND MANNER FOR EXERCISING DEVELOPMENT RIGHTS

4 1 Area Developer shall exercise the development rights granted under this Agreement only by entering into a separate Franchise Agreement with Franchisor for each Studio for which a development right is granted The Franchise Agreement to be executed for the first Studio to be developed by Area Developer under this Agreement shall be executed and delivered, and the Development Fee for all Studios to be developed hereunder shall be paid, to Franchisor on the Effective Date All subsequent Studios developed under this Agreement shall be established and operated pursuant to the form of Franchise Agreement then being used by Franchisor for a Studio Area Developer acknowledges that the then-current form of Franchise

Agreement may differ materially from the current form being used by Franchisor, and may include different economic terms, including, but not limited to, higher royalty rates and advertising contributions

4 2 Development Schedule

(a) Acknowledging that time is of the essence, Area Developer agrees to exercise its development rights according to Section 3 1 and according to the Development Schedule set forth on Attachment B, which schedule designates the number of Studios in the Development Territory to be established and in operation by Area Developer upon the expiration of each of the designated development periods ("**Development Periods**')

(b) Area Developer shall not open more than the cumulative total number of Studios Area Developer is obligated to develop under this Agreement, as set forth above in the Development Schedule, provided, however, that Area Developer may be permitted to open Studios in excess of the number permitted by the Development Schedule if, in Franchisor's sole discretion, Franchisor determines that the Development Territory can support additional Studios and Area Developer receives Franchisor's advanced written permission to develop more Studios

(c) If during the term of this Agreement, Area Developer ceases to operate any Studio developed under this Agreement for any reason, Area Developer shall develop a replacement Studio to fulfill Area Developer's obligation to have open and in operation the required number of Studios upon the expiration of each Development Period The replacement Studio shall be developed within a reasonable time to be agreed upon by the parties after Area Developer ceases to operate the Studio to be replaced If during the term of this Agreement, Area Developer, in accordance with the terms of any Franchise Agreement for any Studio developed under this Agreement, transfers its interest in such Studio, the transferred Studio shall continue to be counted in determining whether Area Developer has complied with the Development Schedule so long as it continues to be operated as a Studio If the transferred Studio ceases to be operated as a Studio during the term of this Agreement, Area Developer shall develop a replacement Studio within a reasonable time, not to exceed 12 months, after the transferred Studio ceases to be operated as a Studio In either case, the reasonable time period shall apply to the development of the replacement Studio only and, in Franchisor's sole discretion, extend the term of the applicable Development Period to the end of the mutually agreed upon time period, provided that in no event shall such time period exceed one year

(d) Opening Schedule

(i) Area Developer shall open each Studio and shall commence business in accordance with the Development Schedule set forth on Attachment B, unless, subject to Franchisor's approval, Area Developer obtains an extension of the Development Period from Franchisor to complete construction and commence operation of a particular Studio Each extension shall be for an additional 30-day period commencing upon the expiration of the applicable Development Period, including any previous extensions thereof ("**Extension Date**") No more than two extensions of any Development Period will be permitted If an extension of a Development Period is granted by Franchisor, the opening date for the Studio shall be extended to the Extension Date No extension of any Development Period shall affect the duration of any other Development Period or any of Area Developer's other development

obligations If an extension is requested in the final Development Period, the term of this Agreement shall be extended to the Extension Date, and thereafter Area Developer shall have no further rights under this Agreement except as provided in Section 2 The provisions of this Section 4 2(d)(i) do not apply to the development of a replacement Studio under Section 4 2(c) Each extension may be conditioned upon payment of an extension fee ("**Extension Fee**") of Two Thousand Five Hundred Dollars ($2,500 00) per extension

(ii) Area Developer shall notify Franchisor in writing at least 30 days prior to the Projected Opening Date (defined below) for a Studio if Area Developer will be unable to complete construction and commence operation of the Studio by the expiration date of the Development Period in which such Studio was to have been opened In such notice Area Developer shall request that Franchisor consider its request for an extension and shall include a description of the reasons for its failure to develop the Studio in a timely manner and the expected date of completion of construction and opening, if the extension were to be granted, along with payment of the Extension Fee if required

(e) Failure by Area Developer to adhere to the Development Schedule (including any extensions approved by Franchisor) or to adhere to any time period for the development of replacement Studios as set forth in Section 4 2(c) shall constitute a material event of default under this Agreement

4 3 Area Developer acknowledges that the projected opening dates ("**Projected Opening Dates**") for each Studio set forth on Attachment B are reasonable and consistent with the requirements of the Development Schedule Area Developer shall execute a Franchise Agreement for each Studio at or prior to the applicable execution deadline ("**Execution Deadline**") set forth on Attachment B Area Developer and Franchisor agree that, except with respect to the Franchise Agreement executed concurrently herewith, the Execution Deadline shall be a date no later than 12 months prior to the Projected Opening Date for each subsequent Studio to be developed

## 5 LOCATION OF STUDIOS

The location of each Studio shall be selected by Area Developer in accordance with the terms set forth in each Franchise Agreement signed by Area Developer, within the Development Territory, subject to Franchisor's prior authorization as set forth in Section 3 1(a) hereof, which authorization shall take into account all relevant demographic information then available to Franchisor The establishment of any proposed site by Area Developer before approval of Franchisor shall be the sole risk and responsibility of Area Developer and shall not obligate Franchisor in any way to authorize the same The authorization of a proposed site by Franchisor does not in any way constitute a warranty or representation by Franchisor as to the suitability of the site for location of a Studio

## 6 FRANCHISE AGREEMENT

Area Developer shall not open any Studio until, among other things, the entire Initial Franchise Fee for said Studio has been paid in full and the individual Franchise Agreement for said Studio has been signed by both Area Developer and Franchisor

## 7 DEFAULT AND TERMINATION

7 1 Default Area Developer shall be in default under this Agreement should Area Developer (or its affiliate) (a) fail to comply with the Development Schedule, (b) fail to perform any of its obligations under this Agreement or any individual Franchise Agreement, (c) cease to be a franchisee of Franchisor in good standing, or (d) fail to comply with the provisions on transfer contained herein

7 2 Termination by Franchisor Upon any default, Franchisor shall have the right, at its option, and in its sole discretion, to do any or all of the following

(a) Terminate this Agreement,

(b) Terminate the territorial exclusivity granted to Area Developer, or

(c) Reduce the size of the Area Developer's Development Territory or the number of Studios Area Developer may develop in the Development Territory

(d) In addition, if any individual Franchise Agreement issued to Area Developer or an approved affiliate of Area Developer, whether or not issued pursuant to this Agreement, is terminated for any reason, Franchisor shall have the right to terminate this Agreement upon written notice to Area Developer Upon termination or expiration of the term of this Agreement, this Agreement shall be of no further effect, and Franchisor shall have the right to open, or license others to open, Studios within the Development Territory For purposes of this Section 7 2(d), any Franchise Agreement issued by Franchisor to Area Developer or its approved affiliates, or any corporation, partnership or joint venture, or their affiliates, in which Area Developer or any stockholder, partner or joint venturer of Area Developer, has any direct or indirect ownership or participation interest, shall be deemed a Franchise Agreement issued to Area Developer

7 3 Termination by Area Developer Area Developer may terminate this Agreement upon written notice to Franchisor, provided, however, that such termination will not constitute a termination of any single Franchise Agreement that was signed in connection herewith Area Developer acknowledges and agrees that if it terminates this Agreement after the date that is 12 months following the Effective Date hereof Area Developer will not be entitled to any refund of any initial franchise fees (inclusive of the Development Fee) paid to Franchisor

## 8 ASSIGNMENT

8 1 Franchisor shall have the absolute right to transfer or assign all or any part of its rights or obligations hereunder to any person or legal entity which assumes its obligations under this Agreement and Franchisor shall thereby be released from any and all further obligations and liability to Area Developer

8 2 By Area Developer

(a) Area Developer understands and acknowledges that the rights and duties set forth in this Agreement are personal to Area Developer and are granted in reliance upon the personal qualifications of Area Developer or Area Developer's principals Area Developer has represented to Franchisor that Area Developer is entering into this Agreement with the intention

of complying with its terms and conditions and not for the purpose of transferring the development rights hereunder

(b) Neither Area Developer nor any partner, member, or shareholder thereof shall, without Franchisor's prior written consent, directly or indirectly assign, transfer, convey, give away, pledge, mortgage or otherwise encumber any interest in this Agreement or in Area Developer Any proposed assignment occurring by operation of law or otherwise, including any assignment by a trustee in bankruptcy, without Franchisor's prior written consent, shall be a material default of this Agreement

(c) Any assignment, transfer or other disposition by the Area Developer of a Studio within the Development Territory will be governed by the Franchise Agreement to which the Studio is bound

(d) Subject to the other provisions of Section 8 herein, including Section 8 2(c) above and Section 8 2(e) below, if Area Developer wishes to sell, transfer or otherwise assign any portion, or all, of the Development Territory, the Area Developer shall notify Franchisor, which may approve or disapprove the same in its sole discretion, and in addition Franchisor may require any or all of the following as conditions of its approval

(i) All of Area Developer's accrued monetary obligations and all other outstanding obligations to Franchisor, its affiliates and suppliers must be fully paid and satisfied,

(ii) Area Developer must not be in default of any provision of its Franchise Agreements, any amendments thereof or successors thereto, or any other agreement between Area Developer and Franchisor, its subsidiaries or affiliates,

(iii) Area Developer and each of its affiliates, shareholders, members, partners, officers and directors must sign a general release, under seal, the consideration for which shall be the approval of the transfer, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, officers, directors, shareholders and employees, in their corporate and individual capacities, including, without limitation, claims arising under federal, state and local laws, rules and ordinances,

(iv) The transferee must enter into a written assignment, under seal and in a form satisfactory to Franchisor, assuming and agreeing to discharge all of the Area Developer's obligations under the relevant Franchise Agreements and, if deemed necessary by Franchisor, the transferee's principals, individually, shall guarantee the performance of all these obligations in writing in a form satisfactory to Franchisor,

(v) The transferee must demonstrate to Franchisor's satisfaction that the transferee meets Franchisor's then-current educational, managerial and business standards, possesses a good moral character, business reputation and credit rating, has the aptitude and ability to open and operate the Studios (as may be evidenced by prior related experience or otherwise), has at least the same managerial and financial acumen required of new area developers, and has sufficient equity capital,

as determined by Franchisor in Franchisor's sole discretion, to open and operate the Studios required under the terms of this Area Developer Agreement,

(vi) At Franchisor's option, the transferee must sign (and, upon Franchisor's request, shall cause all interested parties to sign), for a term ending on the expiration date of the Franchise Agreement(s) and with the renewal term as may be provided by the Franchise Agreement(s), the standard form of Franchise Agreement and Area Developer Agreement then being offered to new area developers and any other ancillary agreements as Franchisor may require for the Studios, which agreements shall supersede the Franchise Agreements and the Area Developer Agreement between the Area Developer and Franchisor in all respects and the terms of which agreements may differ from the terms of the Franchise Agreements and Area Developer Agreement, including, without limitation, the implementation of other fees and different royalty rates,

(vii) Area Developer and its principals must remain liable for all direct and indirect obligations to Franchisor in connection with the Studios before the effective date of transfer and will continue to remain responsible for their obligations of nondisclosure, noncompetition and indemnification as provided in the Franchise Agreements and Personal Guaranty, attached to this Agreement as Attachment C, and shall sign any and all instruments reasonably requested by Franchisor to further evidence this liability, and

(viii) Area Developer's approved transferee shall pay to Franchisor, at the time of said transfer, Franchisor's then-current transfer fee ("**Development Transfer Fee**") for each unopened Studio to be transferred, and such amount as required by the terms of each individual Franchise Agreement, for each Studio which is open and operating at the time Area Developer notifies Franchisor of its intent to transfer or assign this Agreement (which transfer or assignment shall be in compliance with the terms of each open Studio's individual Franchise Agreement), to cover Franchisor's administrative and other expenses in connection with the transfer of the Studios by the Area Developer Currently the Development Transfer Fee equals $2,500 for each unopened Studio

(e) If Area Developer or its principals shall at any time determine to sell, transfer or otherwise dispose of all or part of the rights under this Agreement or an ownership interest in Area Developer, and Area Developer or its principals shall obtain a bona fide, signed written offer from a responsible and fully disclosed purchaser, Area Developer shall notify Franchisor in writing of each offer, and Franchisor shall have the right and option, exercisable within a period of 30 days from the date of Franchisor's receipt of the offer(s), by written notice to Area Developer or its principals, to purchase the rights under this Agreement or the ownership interest for the price and on the terms and conditions contained in said purchaser's offer If Franchisor does not exercise its right of first refusal, Area Developer or its principals may complete the sale of Area Developer or the ownership interest, subject to Franchisor's approval of the purchaser and all other conditions set forth in this Section 8 2, provided that if the sale is not completed within 120 days after delivery of the offer to Franchisor, Franchisor shall again have the right of first refusal herein provided In the event Area Developer wishes to

publicly offer its shares, said public offering shall be subject to the approval of Franchisor, not be unreasonably withheld

8 3 Each shareholder, member, or partner of the corporation, limited liability company, or partnership which is granted the rights to serve as the Area Developer hereunder shall be a party to a shareholders' agreement, operating agreement, or partnership agreement which shall provide, inter alia, that upon any dissolution of the corporation, limited liability company, or partnership, or upon any divorce decree among the parties who are also shareholders, members, or partners, that ownership of the shares, membership interest, or partnership interest shall be transferred to the shareholder, member, or partner for agreed upon consideration, which has primary responsibility for sales and marketing activities, typically the President, following any dissolution or decree The form and content of the shareholders' agreement, operating agreement, or partnership agreement must be approved by Franchisor before execution Area Developer's failure to comply with this Section 8 3 shall constitute a material default of this Agreement

## 9 FORCE MAJEURE

In the event that Area Developer is unable to comply with the Development Schedule due to strike, riot, civil disorder, war, fire, natural catastrophe or other similar events beyond its control, and upon notice to Franchisor, the Development Schedule and this Agreement shall be extended for a corresponding period, not to exceed 90 days, provided, however, that this Section 9 shall not extend the time for payment of any monetary obligations owed to Franchisor

## 10 CONFIDENTIALITY

10 1 Nothing contained in this Agreement shall be construed to require Franchisor to divulge to Area Developer any trade secrets, techniques, methods or processes except the material contained in Franchisor's Operations Manuals and training materials, and then only pursuant to the terms, conditions and restrictions contained in the applicable Franchise Agreement Area Developer acknowledges that its knowledge of Franchisor's know-how, processes, techniques, information and other proprietary data is derived entirely from information disclosed to it by Franchisor and that the information is proprietary, confidential and a trade secret of Franchisor Area Developer agrees to adhere fully and strictly to the confidentiality of the information and to exercise the highest degree of diligence in safeguarding Franchisor's trade secrets during and after the term of this Agreement Area Developer shall divulge the material only to its employees and agents and only to the extent necessary to permit the efficient operation of the Studios It is expressly agreed that the ownership of all the items and property is and shall remain vested solely in Franchisor

10 2 Area Developer agrees that all terms of this Agreement shall remain confidential and shall not make any public announcement, issue any press release or publicly make any confirmation of statements made by third parties concerning the terms of this Agreement, or make any other disclosures other than the existence of this Agreement without the prior written consent of Franchisor unless compelled by law or ordered to do so by a court of competent jurisdiction It is agreed and understood that Area Developer may disclose the terms of this Agreement to its professional advisors and lenders Franchisor shall be free to make the disclosure of the terms of this Agreement as it determines, in its sole discretion, to be in the best interest of Franchisor or the System

## 11 NONCOMPETITION

11 1 Area Developer has heretofore specifically acknowledged that, pursuant to this Agreement, Area Developer will receive valuable specialized Confidential Information and information regarding the business of Franchisor and the System Area Developer covenants that during the term of this Agreement and subject to the post-term provisions contained herein, except as otherwise approved in writing by Franchisor, Area Developer shall not, either directly or indirectly, for itself or through, on behalf of or in conjunction with any person, persons, partners or corporations

(a) Divert or attempt to divert any business or customer of the Studios to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Franchisor's Marks or the System,

(b) Employ or seek to employ any person who is at that time employed by Franchisor or by Area Developer or any other Area Developer or franchisee of Franchisor, or otherwise directly or indirectly induce this person to leave his or her employment, or

(c) Own, maintain, engage in, be employed by, advise, assist, invest in, franchise, make loans to or have any interest in any business which is the same as or substantially similar to the Studios

11 2 Area Developer covenants that, except as otherwise approved in writing by Franchisor, Area Developer shall not, for a continuous uninterrupted period commencing upon the expiration or termination of this Agreement regardless of the cause for termination, and continuing for three years thereafter, either directly or indirectly, for itself or through, on behalf of or in conjunction with any person, persons, partnership or corporation, own, maintain, engage in, be employed by, advise, assist, invest in, franchise, make loans to, or have any interest in any business which is the same as or substantially similar to the Studio and which is located within a radius of 20 miles of the Development Territory hereunder or within 20 miles of the location of any area developer, company-owned Studio or franchisee-owned Studio under the System which is in existence on the date of expiration or termination of this Agreement

11 3 Sections 11 1 and 11 2 shall not apply to ownership by Area Developer of less than a 5% beneficial interest in the outstanding equity securities of any publicly-held company provided that Area Developer has no management responsibility or advisory responsibility with such publicly-traded company

11 4 The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement If any or all portions of the covenants in this Section 11 are held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Area Developer expressly agrees to be bound by any lesser covenant subsumed within the terms of this covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 11

11 5 Area Developer understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Sections 11 1 and 11 2 in this Agreement, or any portion thereof, without Area Developer's consent, effective immediately upon receipt by Area Developer of written notice thereof, and Area Developer

agrees that it shall forthwith comply with any covenant as so modified, which shall be fully enforceable

11 6 Area Developer expressly agrees that the existence of any claims it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section 11 Area Developer agrees to pay all costs and expenses (including reasonable attorneys' fees) incurred by Franchisor in connection with the enforcement of this Section 11 provided Franchisor prevails in any or all of its claims against Area Developer

11 7 Area Developer acknowledges that Area Developer s violation of the terms of this Section 11 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Area Developer accordingly consents to the issuance of an injunction by any court of competent jurisdiction or arbitrator having jurisdiction over the Agreement prohibiting any conduct by Area Developer in violation of the terms of this Section 11

11 8 At Franchisor's request, Area Developer shall require and obtain execution of covenants similar to those set forth in this Section 11 (including covenants applicable upon the termination of a person's relationship with Area Developer) from any or all of the following persons (a) all directors and managers of each Studio, (b) all officers, directors and holders of a beneficial interest of 5% or more of the securities of Area Developer and of any corporation directly or indirectly controlling Area Developer if Area Developer is a corporation, and (c) the members or general partners and any limited partners (including any corporation, and the officers, directors and holders of a beneficial interest of 5% or more of the securities of any corporation which controls, directly or indirectly, any general or limited partner) if Area Developer is a limited liability company or partnership All covenants required by this Section 11 shall be in forms satisfactory to Franchisor, including, without limitation, specific identification of Franchisor as a third party beneficiary of these covenants with the independent right to enforce them Failure by Area Developer to obtain execution of a covenant required by this Section 11 shall constitute a material default under Section 7 hereunder

## 12 ENTIRE AGREEMENT

This Agreement constitutes the entire understanding of the parties with respect to the development of the Development Territory, and shall not be modified except by a written agreement signed by the parties hereto Where this Agreement and any Franchise Agreement between the parties conflict with respect to initial training, the amount or payment terms of Initial Franchise Fees or equity interests held by the franchisee or operating partners and unit managers, the terms of this Agreement shall govern Under no circumstances do the parties intend that this Agreement be interpreted in a way as to grant Area Developer any rights to grant sub-franchises in the Development Territory Notwithstanding anything contained in this Agreement to the contrary, nothing in this or in any related agreement is intended to disclaim the representations contained in Franchisor's Franchise Disclosure Document that Franchisor provided to Area Developer in connection with this Agreement

## 13 MONTHLY REPORTS

Area Developer agrees that it shall provide to Franchisor a monthly report of its activities and progress in developing and establishing Studios as provided herein The monthly reports shall be submitted no later than the 5th day following the end of the preceding month during the term of this Agreement

## 14 INDEPENDENT CONTRACTOR AND INDEMNIFICATION

14 1 It is acknowledged and agreed that Area Developer and Franchisor are independent contractors and nothing contained herein shall be construed as constituting Area Developer as the agent, partner or legal representative of Franchisor for any purpose whatsoever Area Developer shall enter into contracts for the development of the Development Territory contemplated by this Agreement at its sole risk and expense and shall be solely responsible for the direction, control and management of its agents and employees Area Developer acknowledges that it does not have authority to incur any obligations, responsibilities or liabilities on behalf of Franchisor, or to bind Franchisor by any representations or warranties, and agrees not to hold itself out as having this authority

14 2 Area Developer agrees to protect defend, indemnify and hold Franchisor harmless from and against all claims, actions, proceedings, damages, costs expenses and other losses and liabilities, directly or indirectly incurred as a result of, arising from, out of, or in connection with Area Developer's carrying out its obligations hereunder

## 15 COMPLIANCE WITH APPLICABLE LAWS

Area Developer shall develop all Studios in the Development Territory in accordance and compliance with all applicable federal, state and local statutes, laws, including all food and beverage laws, and laws related to the operation of Studios, ordinances and regulations (where applicable) and agrees to promptly pay all financial obligations incurred in connection therewith

## 16 CHANGE IN DEVELOPMENT TERRITORY

The parties acknowledge that the development of the Development Territory as anticipated hereunder has been determined according to the needs of the Area Developer's targeted market in the Development Territory, as determined by Franchisor, as of the date of execution of this Agreement Area Developer understands that, if there is an increased public demand for the products and services offered by Franchisor due to an increase in the number of individuals or families in the Development Territory, Franchisor will expect the Area Developer to establish additional Studios within the Development Territory While Franchisor will not require the Area Developer to establish the additional Studios, Franchisor will strongly encourage Area Developer to do so Any additional Studio shall be governed by Franchisor's then-current form of individual Franchise Agreement

## 17 SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their heirs, successors, permitted assigns and personal representatives

## 18 APPLICABLE LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, which laws shall govern in the event of any conflict of laws, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U S C Sections 1051 et seq ), and provided further that the parties expressly agree that this Agreement is not intended to confer on any of Area Developer's principals that is not a resident of the State of California the benefit of any California law providing specific protection to franchisees residing or operating in the State of California The parties expressly consent to personal jurisdiction in the

State of California and agree that, except as set forth in Section 21, the state and federal court(s) located in Los Angeles, California will have exclusive jurisdiction for the purposes of carrying out this provision

## 19 RECEIPT OF DOCUMENTS

Area Developer acknowledges receipt of the Disclosure Document, Area Developer Agreement, Franchise Agreement, and other contracts for the Studio at least 14 calendar days before execution hereof or payment of any monies

## 20 NOTICE

Whenever this Agreement requires notice, it shall be in writing and shall be sent by registered or certified mail return receipt requested, to the other party at the addresses set forth below, unless written notice is given of a change of address

All notices to Area Developer shall be conclusively deemed to have been received by Area Developer upon the delivery or attempted delivery of this notice to Area Developer s address listed herein, or the changed address

| | |
|---|---|
| Notices to Franchisor | **Modo Yoga International Inc**<br>301 Epron Road<br>Salt Spring Island, British<br>Columbia<br>V8K 1C7 Canada |
| Notice to Area Developer | _____<br>_____<br>_____ |

## 21 APPLICABLE LAW

This Agreement shall be governed in all respects and aspects by the laws of the State of Delaware, subject to the Lanham Act (15 U S C 1051 et seq )

## 22 RESOLUTION OF DISPUTES

22 1 Upon the occurrence of any dispute or disagreement between the parties hereto arising out of or in connection with any term or provision of this Agreement, the subject matter hereof, or the interpretation or enforcement hereof (in each case, a "Dispute"), the Dispute shall first be submitted to mediation on an expedited basis in Los Angeles, California, administered by the Judicial Arbitration and Mediation Service ("JAMS"), or its successor, in accordance with the JAMS rules and procedures then in effect Either party may commence mediation by providing to JAMS and the other party a written request for mediation, setting forth the subject of the Dispute and the relief requested, with the expectation that the first mediation session shall occur within forty-five (45) days of such written request The party seeking the mediation must submit the following in addition to any demand or filing required by JAMS a full and specific description of the claim(s) under this Agreement, including, without limitation, an identification of the specific provisions that the other party has breached, documentary evidence of the facts alleged by the complaining party and a declaration under penalty of perjury that all facts stated

in the claim and documentation are true and correct and do not fail to state facts known to the complaining party that are material to the determination of the Dispute The parties will cooperate with JAMS and with one another in selecting a neutral mediator from the JAMS panel of neutrals and in scheduling the mediation proceedings The mediator must be a retired judge or an attorney licensed to practice law in California and experienced in complex commercial transactions If the parties are unable to select the mediator within ten (10) business days after receipt of the mediation notice by JAMS, then JAMS shall designate the mediator The parties covenant that they will (i) participate in the mediation in good faith (ii) share equally in the costs of the mediator and related JAMS administrative costs, and (iii) pay in advance the estimated reasonable fees and costs of the mediation, as may be specified in advance by the mediator All offers, promises, conduct and statements, whether oral or written, made in the course of the mediation by any of the parties, their agents, employees, experts and attorneys, and by the mediator and any JAMS employees, are confidential, privileged and inadmissible for any purpose, including impeachment, in any reference, arbitration, litigation or other proceeding involving the parties, provided that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation In the event it is necessary, any party may file a motion in the Superior Court of Los Angeles County to compel the other party to participate in the mediation and the prevailing party shall be awarded its costs and expenses, including reasonable attorneys' fees in connection with such motion If the Dispute is not resolved within ten (10) business days after the first mediation session, either party may (i) give written notice to JAMS and the other party that the mediation is terminated and (ii) submit any remaining Disputes to binding arbitration pursuant to Section (b) below

22 2 If the parties are unable to resolve the Dispute pursuant to subsection (a) above, then the parties may submit the Dispute to final and binding arbitration in Los Angeles, California, administered by JAMS, or its successor, in accordance with the rules and procedures of JAMS then in effect The parties agree that any and all Disputes that are submitted to arbitration in accordance with this Agreement shall be decided by one (1) neutral arbitrator who is a retired judge or attorney licensed to practice law in California who is experienced in complex commercial transactions If the parties are unable to agree on an arbitrator, JAMS shall designate the arbitrator The parties will cooperate with JAMS and with one another in selecting the arbitrator and in scheduling the arbitration proceedings in accordance with applicable JAMS procedures The arbitration shall be conducted in accordance with the JAMS Comprehensive Arbitration Rules and Procedures Any party may commence the arbitration process called for in this Agreement by filing a written demand for arbitration with JAMS, with a copy to the other party The party seeking arbitration must submit the following in addition to any demand or filing required by JAMS a full and specific description of the claim(s) under this Agreement including without limitation an identification of the specific provisions that the other party has breached, documentary evidence of the facts alleged by the complaining party and a declaration under penalty of perjury that all facts stated in the claim and documentation are true and correct and do not fail to state facts known to the complaining party that are material to the determination of the Dispute Any award issued as a result of such arbitration shall be final and binding between the parties thereto and shall be enforceable by any court having jurisdiction over the party against whom enforcement is sought The parties expressly acknowledge and understand that by entering into this Agreement, they each are waiving their respective rights to have any Dispute between the parties hereto adjudicated by a court or by a jury

22 3 The parties recognize that their relationship is unique and that each area developer is situated differently from all other area developers, and that no one area developer can adequately represent the interest of others Therefore, the parties agree that any

arbitration, suit, action or other legal proceeding shall be conducted and resolved on an individual basis only and not on a class-wide, multiple plaintiff, consolidated or similar basis

22 4 Where there is more than one agreement in existence between Area Developer and Franchisor, Area Developer agrees that Franchisor has the right to treat a material breach or default of any one agreement between the parties as a material breach or default of all or any of the other agreements between the parties, and any such material breach or default of any one agreement shall be treated, in respect of any of the other agreements, as a material breach or default of each such agreement in accordance with its own terms

22 5 The prevailing party in any legal proceeding will be entitled to recover as an element of such party's cost of arbitration, suit or proceeding, and not as damages, reasonable attorneys' fees to be fixed by the arbitrator Nothing in this Agreement shall be construed as limiting or precluding either party from bringing any action in any court of competent jurisdiction for injunctive or other extraordinary relief, without the necessity of posting a bond (and if bond shall nevertheless be required, the parties agree that the sum of $100 00 shall be sufficient bond), in connection with the Marks, trade dress proprietary information or trade secrets The parties shall have the immediate right to seek such injunctive or other extraordinary relief at any time, including without limitation, during the pendency of arbitration or other proceeding This covenant shall be independent, severable and enforceable notwithstanding any other rights or remedies which such party may have

## 23 MODIFICATION BY FRANCHISOR

Franchisor may modify and update its Operations Manual, the Marks and the System unilaterally under any conditions and to any extent which Franchisor, in the exercise of its sole discretion, deems necessary to meet competition, protect trademarks or trade name, or improve the quality of the products or services provided through the Studios, and Area Developer shall exclusively incur the costs of any change in the Studio or the System which has been caused by this modification In the event that any improvement or addition to the Operations Manual, the System or the Marks is developed by Area Developer, then Area Developer agrees to assign all right, title, and interest to such improvement or addition or, if such assignment is prohibited by law, to grant to Franchisor an irrevocable, world-wide, exclusive, royalty-free license, with the right to sub-license the improvement or addition

## 24 ACKNOWLEDGEMENTS

24 1 Area Developer acknowledges and recognizes that different terms and conditions, including different fee structures, may pertain to different area developer agreements and franchise agreements offered in the past, contemporaneously herewith, or in the future, and that Franchisor does not represent that all area developer agreements or franchise agreements are or will be identical

24 2 Area Developer acknowledges that it is not, nor is it intended to be, a third party beneficiary of this Agreement or any other agreement to which Franchisor is a party

24 3 Area Developer represents to Franchisor that it has the business acumen, corporate authority, and financial wherewithal to enter into this Agreement and to perform all of its obligations hereunder and furthermore that the execution of this Agreement is not in contravention of any other written or oral obligation of the Area Developer

24 4 Area Developer acknowledges that it received from Franchisor this Agreement with all blanks filled in at least seven calendar days before the execution of this Agreement

24 5 Area Developer acknowledges and accepts the following

THE SUCCESS OF AREA DEVELOPER IN MANAGING AND OPERATING MULTIPLE STUDIOS IS SPECULATIVE AND WILL DEPEND ON MANY FACTORS INCLUDING, TO A LARGE EXTENT, AREA DEVELOPER'S INDEPENDENT BUSINESS ABILITY AREA DEVELOPER HAS BEEN GIVEN THE OPPORTUNITY AND BEEN ENCOURAGED TO OBTAIN INDEPENDENT ADVICE FROM LEGAL AND OTHER PROFESSIONALS BEFORE ENTERING INTO THIS AGREEMENT THIS OFFERING IS NOT A SECURITY AS THAT TERM IS DEFINED UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS THE OBLIGATION TO TRAIN, MANAGE, PAY, RECRUIT AND SUPERVISE EMPLOYEES OF THE STUDIOS RESTS SOLELY WITH AREA DEVELOPER AREA DEVELOPER HAS NOT RELIED ON ANY WARRANTY OR REPRESENTATION, EXPRESSED OR IMPLIED, AS TO THE POTENTIAL SUCCESS OR PROJECTED INCOME OF THE BUSINESS VENTURE CONTEMPLATED HEREBY NO REPRESENTATIONS OR PROMISES HAVE BEEN MADE BY FRANCHISOR TO INDUCE AREA DEVELOPER TO ENTER INTO THIS AGREEMENT EXCEPT AS SPECIFICALLY INCLUDED HEREIN FRANCHISOR HAS NOT MADE ANY REPRESENTATION, WARRANTY OR GUARANTY, EXPRESS OR IMPLIED, AS TO THE POTENTIAL REVENUES, PROFITS OR EXPENSES OF THE BUSINESS VENTURE TO AREA DEVELOPER AND CANNOT, EXCEPT UNDER THE TERMS OF THIS AGREEMENT, EXERCISE CONTROL OVER AREA DEVELOPER'S BUSINESS AREA DEVELOPER ACKNOWLEDGES AND AGREES THAT IT HAS NO KNOWLEDGE OF ANY REPRESENTATION MADE BY FRANCHISOR OR ITS REPRESENTATIVES OF ANY INFORMATION THAT IS CONTRARY TO THE TERMS CONTAINED HEREIN

[REMAINDER OF PAGE LEFT BLANK]

**IN WITNESS WHEREOF**, the parties hereto have duly signed and delivered this Agreement on the day and year first written above

**FRANCHISOR**

**MODO YOGA INTERNATIONAL INC ,**
**a British Colombia corporation**

By _____
Its _____

**AREA DEVELOPER**

_____
a(n) _____

By _____
Name _____
Title _____

# AREA DEVELOPER AGREEMENT
# ATTACHMENT A

## DEVELOPMENT TERRITORY

## ATTACHMENT A

## DESCRIPTION OF THE DEVELOPMENT TERRITORY

_____

_____

_____

_____

_____

_____

FRANCHISOR

Initials_____ Date_____

AREA DEVELOPER

Initials_____ Date_____

# AREA DEVELOPER AGREEMENT
# ATTACHMENT B

# DEVELOPMENT SCHEDULE
# AND DEVELOPMENT FEE

## ATTACHMENT B

## DEVELOPMENT SCHEDULE

| Opening Date | Development Period | Franchise Agreement Execution Deadline | Projected Opening |
|---|---|---|---|
| 1 | _____ to _____ | | |
| 2 | _____ to _____ | | |
| 3 | _____ to _____ | | |
| 4 | _____ to _____ | | |

## DEVELOPMENT FEE

Number of Studios _____

Development Fee _____

FRANCHISOR

Initials_____ Date_____

AREA DEVELOPER

Initials_____ Date_____

# AREA DEVELOPER AGREEMENT

## ATTACHMENT C

## PERSONAL GUARANTY

## ATTACHMENT C

## PERSONAL GUARANTY

In consideration of, and as an inducement to, the execution of that certain Area Developer Agreement, and any revisions, modifications, addenda and amendments thereto (hereinafter collectively the "**Agreement**") dated _____ ___, 20____, by and between Modo Yoga International, a British Colombia corporation ("**Franchisor**") and _____, a _____ ("**Area Developer**"), each of the undersigned Personal Guarantors agrees as follows

1 The Personal Guarantors do hereby jointly and severally unconditionally guaranty the full, prompt and complete performance of the Area Developer under the terms, covenants and conditions of the Agreement, including without limitation, compliance with all confidentiality requirements, protection and preservation of confidential information, compliance with all non-compete provisions, compliance with the terms of any and all other agreements signed by Area Developer in order to open and operate the Studios (as defined in the Agreement), and the complete and prompt payment of all indebtedness to Franchisor under the Agreement The word "**indebtedness**" is used herein in its most comprehensive sense and includes, without limitation, any and all advances, debts, obligations and liabilities of the Area Developer, now or hereafter incurred, either voluntarily or involuntarily, and whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, or whether recovery thereof may be now or hereafter barred by any statute of limitation or is otherwise unenforceable

2 The obligations of the Personal Guarantors are independent of the obligations of the Area Developer and a separate action or actions may be brought and prosecuted against any or all of the Personal Guarantors, whether or not actions are brought against the Area Developer or whether the Area Developer is joined in any action

3 Franchisor shall not be obligated to inquire into the power or authority of the Area Developer or its partners or the officers, directors, agents, members or managers acting or purporting to act on the Area Developer's behalf and any obligation or indebtedness made or created in reliance upon the exercise of this power and authority shall be guaranteed hereunder Where the Personal Guarantors are corporations, limited liability companies, or partnerships it shall be conclusively presumed that the Personal Guarantors and the shareholders, members, partners, agents, officers and directors acting on their behalf have the express authority to bind these corporations, limited liability companies, or partnerships and that these corporations, limited liability companies, or partnerships have the express power to act as the Personal Guarantors pursuant to this Personal Guaranty and that this action directly promotes the business and is in the interest of these corporations, limited liability companies, or partnerships

4 Franchisor, its successors and assigns, may occasionally, without notice to the undersigned (a) resort to the undersigned for payment of any of the indebtedness, whether or not it or its successors have resorted to any property securing any of the indebtedness or proceeded against any other of the undersigned or any party primarily or secondarily liable on any of the indebtedness, (b) release or compromise any indebtedness of any of the undersigned hereunder or any indebtedness of any party or parties primarily or secondarily liable on any of the indebtedness, (c) extend, renew or credit any of the indebtedness for any period (whether or not longer than the original period), (d) alter, amend or exchange any of the indebtedness, or (e) give any other form of indulgence, whether under the Agreement or otherwise

5 The undersigned further waive presentment, demand, notice of dishonor, protest, nonpayment and all other notices whatsoever, including without limitation notice of acceptance hereof, notice of all contracts and commitments, notice of the existence or creation of any liabilities under the Agreement and of the amount and terms thereof, and notice of all defaults, disputes or controversies between the Area Developer and Franchisor resulting from the Agreement or otherwise, and the settlement, compromise or adjustment thereof

6 This Personal Guaranty shall be enforceable by and against the respective administrators, executors, successors and assigns of the Personal Guarantors and the death of any Personal Guarantor shall not terminate the liability of the Personal Guarantor or limit the liability of the other Personal Guarantors hereunder

7 If more than one person has signed this Personal Guaranty, the term "the undersigned," as used herein shall refer to each person, and the liability of each of the undersigned hereunder shall be joint and several and primary as sureties

[Remainder of Page Left Blank]

IN WITNESS WHEREOF, each of the undersigned has signed this Personal Guaranty under seal effective as of the _____day of _____, 20___

| | |
|---|---|
| [Signature] | [Signature] |
| [Printed Name] | [Printed Name] |
| Home Address | Home Address |
| Home Telephone | Home Telephone |
| Business Telephone | Business Telephone |
| Date | Date |

| | |
|---|---|
| [Signature] | [Signature] |
| [Printed Name] | [Printed Name] |
| Home Address | Home Address |
| Home Telephone | Home Telephone |
| Business Telephone | Business Telephone |
| Date | Date |

# AREA DEVELOPER AGREEMENT

## ATTACHMENT D

## STATEMENT OF SHAREHOLDERS/

## MEMBERS/PARTNERS

## ATTACHMENT D

## STATEMENT OF SHAREHOLDERS/MEMBERS/PARTNERS

The shareholders, members, or partners (collectively the '**Shareholders**") of the Area Developer and their respective shareholdings are as follows

| NAME OF SHAREHOLDER | NUMBER AND DESIGNATION OF SHARES | OWNERSHIP PERCENTAGE |
|---|---|---|

# EXHIBIT G

**EXHIBIT G**

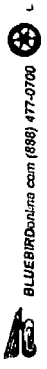

**EXHIBIT G**

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[See Attached]

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**EXHIBIT H**

**STATE ADDENDA**

[See Attached]

**ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT OF MODO YOGA INTERNATIONAL INC REQUIRED BY THE STATE OF CALIFORNIA**

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT

Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise

Neither the franchisor nor any person in Item 2 of the Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U S C A § 78a et seq , suspending or expelling these persons from membership in this association or exchange

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise If the franchise agreement contains a provision that is inconsistent with the law, the law will control

The franchise agreement provides for termination upon bankruptcy This provision may not be enforceable under federal bankruptcy law (11 U S C A Sec 101 et seq )

The franchise agreement contains a liquidated damages clause Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable

Items 5 and 7 of the Franchise Disclosure Document are amended to add the following after the last sentence

> "The Commissioner of Business Oversight requires us to defer receipt of the initial franchise fee and other initial payments owed by franchisees until after we have completed pre-opening obligations under the franchise agreement and until the franchisee is open for business "

You must sign a general release if you transfer your franchise California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516) Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043)

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT ANY COMPLAINTS CONCERNING THE CONTENT OF OUR WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT http //www dbo ca gov/

**ADDENDUM TO THE FRANCHISE AGREEMENT OF MODO YOGA INTERNATIONAL INC REQUIRED BY THE STATE OF CALIFORNIA**

The following is added to Section 6(a) of the Franchise Agreement

"The Commissioner of Business Oversight requires Franchisor to defer receipt of the initial franchise fee and other initial payments owed by Franchisee until after Franchisor has completed pre-opening obligations under this Agreement and until the franchisee is open for business."

Except as modified herein, the Franchise Agreement continues in full force and effect in accordance with its terms

MODO YOGA INTERNATIONAL, INC

By _____
Title _____
Print Name _____

_____

By _____
Title _____
Print Name _____

## STATUTORY AND REGULATORY PROVISIONS AND REQUIREMENTS OF THE STATE OF NEW YORK APPLICABLE TO THE FRANCHISE DISCLOSURE DOCUMENT

Item 3 – Litigation The following language is added to Item 3

Neither the franchisor nor a predecessor, person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark,

has pending against that person

An administrative, criminal, or civil action alleging a felony, a violation of a franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations

Civil actions, other than ordinary routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature, or financial condition of the franchise system or its business operations

has been convicted of or pleaded nolo contendere to a felony charge, or in the 10-year period immediately preceding the application for franchise registration

Has been convicted of or pleaded nolo contendere to a misdemeanor charge

Has been the subject of a civil action alleging violation of a franchise, antifraud or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices, or comparable allegations

is subject to

A currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency

Any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange

A currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent

Item 4 – Bankruptcy The following language is added to Item 4

Neither the franchisor nor its affiliates, predecessor, officers, or general partner has, during the 10-year period immediately before the date of this disclosure document

Filed as debtor (or had filed against it) a petition to start an action under the United States Bankruptcy Code ("Bankruptcy Code")

Obtained a discharge of its debts under the Bankruptcy Code

Been a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition under the Bankruptcy Code, or that obtained a discharge of its debts under the Bankruptcy Code while, or within one year after, the officer or general partner of the franchisor held this position in the company or partnership

Item 5 – Initial Franchise Fee The following language is added to Item 5

"The initial franchise fee will be used to perform pre-opening obligations to the franchisee "

Item 17 (d) – Termination by you The following language is added to Item 17(d)

"The franchisee may terminate the agreement upon any grounds available by law "

Item 17 (j) – Assignment of Contract by 1AREF The following language is added to Item 17(j)

"However, no assignment will be made except to an assignee who, in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor's obligations under the franchise agreement "

Item 17(w) – Choice of Law The following language is added to Item 17(w)

"The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York "

## STATUTORY AND REGULATORY PROVISIONS AND REQUIREMENTS OF THE STATE OF NEW YORK APPLICABLE TO THE FRANCHISE AGREEMENT

1 The following provision is hereby added to the Franchise Agreement

"Franchisee may terminate this Agreement upon any grounds available by law"

2 The following provision is hereby added to the Franchise Agreement

"No Transfer by Franchisor will be made except to an transferee who, in good faith and judgment of Franchisor, is willing and financially able to assume Franchisor's obligations under this Agreement"

3 The following provision is hereby added to the Franchise Agreement

"The foregoing choice of law should not be considered a waiver of any right conferred upon Franchisor or upon Franchisee by Article 33 of the General Business Law of the State of New York"

The provisions of this Addendum only apply if the jurisdictional requirements of the New York franchise law and regulations are met independently without reference to this Addendum and to the extent they are then valid requirements of the statute

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed

| | |
|---|---|
| **DATED** _____ | **DATED** _____ |
| FRANCHISOR | FRANCHISEE |
| _____ (Company) | _____ (Company) |
| By _____ | By _____ |
| By _____ | By _____ |

**ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT OF MODO YOGA INTERNATIONAL INC REQUIRED BY THE STATE OF WASHINGTON**

The state of Washington has a statute, RCW 19 100 180 which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19 100 RCW shall prevail

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer

The undersigned does hereby acknowledge receipt of this addendum

Dated this _____ day of _____, _____

Franchisor MODO YOGA INTERNATIONAL INC

_____ _____

By Franchisee

**ADDENDUM TO FRANCHISE AGREEMENT**
**OF MODO YOGA INTERNATIONAL INC**
**REQUIRED BY THE STATE OF WASHINGTON**

The state of Washington has a statute, RCW 19 100 180 which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19 100 RCW shall prevail

A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer

Section 6(a) of the Franchise Agreement is revised to include the following

"The Department of Financial Institutions requires Franchisor to defer receipt of the initial franchise fee, the development fee and other initial payments owed by the Franchisee until after the Franchisor has completed pre-opening obligations under this Agreement and until the Franchisee is open for business "

| | |
|---|---|
| **DATED** _____ | **DATED** _____ |
| FRANCHISOR | FRANCHISEE |
| MODO YOGA INTERNATIONAL INC | |
| By _____ | _____ (Company) |
| By _____ | By _____ |
| | By _____ |

# EXHIBIT I

EXHIBIT 1

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**EXHIBIT I**

**COMPLIANCE QUESTIONNAIRE**

[See Attached]

# Modo Yoga Compliance Questionnaire

As you know, you and Modo Yoga International, Inc (the **"Franchisor"**) are preparing to enter into a Franchise Agreement for the establishment and operation of a "Modo Yoga" franchised business (a **"Modo Yoga Studio"**) The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Franchisor has not authorized and that may be untrue, inaccurate, or misleading Please review each of the following questions and statements carefully and provide honest and complete responses to each

1 The following dates and information are true and correct

a _____, 20__ Initials _____ — The date of my first face-to-face meeting with any person to discuss the possible purchase of a Modo Yoga Studio franchise

b _____, 20__ Initials _____ — The date on which I received Franchisor's Franchise Disclosure Document ("FDD")

c _____, 20__ Initials _____ — The date when I received a fully completed copy (other than signatures) of the Franchise Agreement and Addenda (if any) and all other documents I later signed

d _____, 20__ Initials _____ — The date on which I signed the Franchise Agreement

2 Have you received and personally reviewed the Franchise Agreement and each addendum and related agreement attached to it?

Yes _____ No _____

3 Do you understand all of the information contained in the Franchise Agreement, and each addendum and related agreement provided to you?

Yes _____ No _____

If No, what parts of the Franchise Agreement, addendum, and/or related agreement do you not understand? (Attach additional pages, as needed )

4 Have you received and personally reviewed the FDD that was provided to you?

Yes _____ No _____

5 Did you sign a receipt for the FDD indicating the date you received it?

Yes _____ No _____

6 Do you understand all of the information contained in the FDD and any state-specific addendum to the FDD?

Yes _____ No _____

If No, what parts of the FDD and/or addendum do you not understand? (Attach additional pages, as needed )

7 Have you discussed the benefits and risks of establishing and operating a Modo Yoga Studio with an attorney, accountant, or other professional advisor?

Yes _____ No _____

Have you had the FDD and Franchise Agreement reviewed by an attorney, accountant, or other professional advisor?

Yes _____ No _____

If No to either question, do you wish to have more time to do so?

Yes _____ No _____

8 Do you understand that the success or failure of your Modo Yoga Studio will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms, and other economic and business factors?

Yes _____ No _____

9 Do you understand that no agreement or addendum is effective until it is also signed and dated by the Franchisor?

Yes _____ No _____

10 Do you understand that there are no promises, representations (other than in the franchise disclosure document) agreements, "side deals," or other arrangements, written or oral, that are not in the Franchise Agreement?

Yes _____ No _____

11 If you have answered "No" to any one of questions 8–10, please provide a full explanation of each No answer in the following blank lines (Attach additional pages, as needed, and refer to them below) If you have answered ' Yes" to each of questions 8–10, please leave the following lines blank

12 Has any employee or other person speaking for the Franchisor made any statement or promise concerning the revenues, profits, or operating costs of a Modo Yoga Studio operated by the Franchisor or its franchisees, that is contrary to the information contained in the FDD?

Yes _____ No _____

13 Has any employee or other person speaking for the Franchisor made any statement or promise regarding the amount of money you may earn in operating the Modo Yoga Studio that is contrary to the information contained in the FDD?

Yes _____ No _____

14 Has any employee or other person speaking for the Franchisor made any statement or promise concerning the total amount of revenue the Modo Yoga Studio will generate, that is contrary to the information contained in the FDD?

Yes _____ No _____

15 Has any employee or other person speaking for the Franchisor made any statement or promise regarding the costs you may incur in operating the Modo Yoga Studio that is contrary to or different from, the information contained in the FDD?

Yes _____ No _____

16 Has any employee or other person speaking for the Franchisor made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Modo Yoga Studio?

Yes _____ No _____

17 Has any employee or other person speaking for the Franchisor made any statement, promise, or agreement concerning the advertising, marketing, training, support service, or assistance that the Franchisor will furnish to you that is contrary to, or different from, the information contained in the FDD?

Yes _____ No _____

18 Have you entered into any binding agreement with the Franchisor concerning the purchase of this franchise before today?

Yes _____ No _____

19 Have you paid any money to the Franchisor concerning the purchase of this franchise before today?

Yes _____ No _____

20 If you have answered "Yes" to any one of questions 12–19, please provide a full explanation of each Yes answer in the following blank lines (Attach additional pages, as needed, and refer to them below) If you have answered "No" to each of questions 12–19, please leave the following lines blank

21 Do you understand that all disputes and claims you may have under the Franchise Agreement and the Personal Guarantee must be heard in California (if they cannot be informally resolved)?

Yes _____ No _____

22 Do you understand that the Franchise Agreement and the Personal Guarantee provides that you can only collect compensatory damages on any claim under or related to the Franchise Agreement and not any consequential or punitive damages?

Yes _____ No _____

23 Do you understand that the Franchise Agreement and the Personal Guarantee both include a waiver of jury trials?

Yes _____ No _____

24 I have spoken with current and former *Modo Yoga Studio* franchisees, and I chose which franchisees, and how many franchisees, to speak with

Yes _____ No _____

25 During my negotiations and evaluations leading up to my decision to buy a *Modo Yoga* franchise business, I communicated with the following individuals from Modo Yoga International, Inc or its affiliates _____

Name _____ Address _____

Your responses to these questions are important to us and we will rely on them By signing this Questionnaire, you are representing to us that you have responded honestly, accurately, and completely to each of the above questions

_____

**MODO YOGA**
**RECEIPT**

The disclosure document summarizes certain provisions of the franchise agreement and other information in plain language Read this disclosure document and all agreements carefully

If we offer you a franchise, we must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to us in connection with the proposed franchise sale

Maryland, New York and Rhode Island require that we give you this disclosure document at the earliest of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship

If we do not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D C 20580 and the applicable state agency listed in Exhibit A

Following is information about the franchise seller(s) involved in this transaction

Ted Grand
301 Epron Road
Salt Spring Island, B C
V8K 1C7 Canada
888-966-9642

Jessica Robertson
301 Epron Road
Salt Spring Island, B C
V8K 1C7 Canada
888-966-9642

We authorize the agents listed in Exhibit B to this disclosure document to receive service of process

I received a disclosure document issued May 10, 2017 that included the following Exhibits

A List of State Franchise Administrators
B List of Agents for Service of Process
C Lists of Current Licensees and Franchisees, and Former Franchisees
D Financial Statements
E Franchise Agreement
F Area Development Agreement
G Operations Manual Table of Contents
H State Addenda
I Compliance Questionnaire

_____
Date

_____
Franchisee

_____
Print Name

individually and as an officer, partner or member
of _____
a (_____ corporation)
a (_____partnership)
a (_____ limited liability company)
which has been or will be formed to act as franchisee

_____
Street Address

_____
City State Zip Code

_____
Area Code Phone Number

**MODO YOGA**
**RECEIPT**

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F Area Development Agreement
G Operations Manual Table of Contents
H State Addenda
I Compliance Questionnaire

_____ Date

_____ Franchisee

_____ Print Name

individually and as an officer, partner or member
of _____
a (_____ corporation)
a (_____ partnership)
a (_____ limited liability company)
which has been or will be formed to act as franchisee

_____ Street Address

_____ City State Zip Code

_____ Area Code Phone Number