

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws. Accordingly, subject to certain exceptions, these securities may not be offered or sold in the United States of America and this short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the securities offered hereby within the United States of America or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the U.S. Securities Act). See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with certain securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Naturally Advanced Technologies Inc. at 4420 Chatterton Way, Suite 305, Victoria, British Columbia, V8X 5J2, telephone (250) 658-8582, and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

September 11, 2012



NATURALLY ADVANCED TECHNOLOGIES INC.

\$10,000,000

10% Convertible Secured Debentures

This short form prospectus qualifies the distribution (the "**Offering**") of \$10,000,000 aggregate principal amount of 10% convertible debentures (the "**Debentures**") of Naturally Advanced Technologies Inc. ("**NAT**" or the "**Company**") secured against certain assets of a U.S. subsidiary of NAT at a price of \$1,000 per Debenture (the "**Offering Price**") pursuant to an underwriting agreement dated August 29, 2012 (the "**Underwriting Agreement**") between the Company and Cormark Securities Inc. (the "**Underwriter**").

The Debentures will bear interest at an annual rate of 10% payable semi-annually in arrears on March 31st and September 30th in each year commencing on March 31, 2013 (each, an "**Interest Payment Date**"). The first Interest Payment Date shall be March 31, 2013 and will consist of interest accrued from and including the Closing Date (as defined below). The maturity date of the Debentures will be September 30, 2017 (the "**Maturity Date**"). See "Details of the Offering". Each Debenture will be convertible into freely tradable common shares of NAT (the "**Common Shares**") at the option of the Debenture holder at a conversion price of \$2.90 per Common Share (the "**Conversion Price**"), subject to adjustment in certain events, representing a conversion rate of approximately 344.8276 Common Shares per \$1,000 principal amount of Debentures, at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by NAT for redemption of the Debentures. Holders converting their Debentures will receive accrued and unpaid interest thereon up to, but excluding, the date of conversion.

The Debentures will be direct obligations of the Company. A U.S. subsidiary of the Company will provide a limited guarantee of the obligations of the Company under the Debentures and a security interest over certain assets of the U.S. subsidiary having an initial acquisition cost of approximately \$5,500,000. Recourse against the U.S. subsidiary of the Company under the guarantee and security will be limited to the Secured Assets (as defined below). See "Details of the Offering – Guarantee and Security". The payment of the principal and premium, if any, and interest on, the Debentures will be, except to the extent the Debentures are secured by the Secured Assets, unsecured and therefore subordinated in right of payment, as set forth in the Indenture (as defined below), to the prior payment in full of all Senior Indebtedness (as defined below) and will rank pari passu to all present and future unsecured indebtedness. See "Details of the Offering – Subordination".

The Common Shares are listed and posted for trading on the TSX Venture Exchange (the “**TSX-V**”) under the symbol “NAT” and quoted on the Over-the-Counter Bulletin Board (the “**OTCBB**”) under the symbol “NADVF”. The closing price of the Common Shares on the TSX-V and the OTCBB on August 22, 2012, the last trading day prior to the announcement of the Offering, was \$2.60 and US\$2.60, respectively. The Company has applied to list the Debentures and the Common Shares issuable upon conversion of the Debentures on the TSX-V. Approval of such listing will be subject to the Company fulfilling all of the listing requirements of the TSX-V.

PRICE: \$1,000 PER DEBENTURE

	Price to the Public	Underwriter’s Fee⁽¹⁾⁽²⁾	Net Proceeds to the Company⁽²⁾⁽³⁾⁽⁴⁾
Per Debenture.....	\$1,000	\$70	\$930
Total	\$10,000,000	\$700,000	\$9,300,000

- (1) Pursuant to the terms and conditions of the Underwriting Agreement, the Company has agreed to pay a cash commission to the Underwriter equal to 7.0% of the gross proceeds of the Offering (the “**Underwriter’s Fee**”). See “Plan of Distribution”.
- (2) Pursuant to the terms and conditions of the Underwriting Agreement, the Underwriter has agreed to receive a reduced Underwriter’s Fee of 3.5% in respect of 2,500 of the Debentures. Such reduced fee is not reflected in the values presented. See “Plan of Distribution”.
- (3) After deducting the Underwriter’s Fee, but before deducting the expenses of the Offering, estimated to be approximately \$300,000, which, together with the Underwriter’s Fee, will be paid by NAT from the proceeds of the Offering.
- (4) NAT has granted to the Underwriter an over-allotment option (the “**Over-Allotment Option**”) to purchase up to 15% of the principal amount of the Debentures issued at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the Over-Allotment Option) on the same terms and conditions as the Offering, exercisable in whole or in part, at the sole discretion of the Underwriter, at any time up until 30 days after the closing of the Offering for the purposes of covering the Underwriter’s over-allocation position. Debentures issuable upon exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and two business days following exercise of such option. If the Over-Allotment Option is exercised in full, the “Price to the Public”, “Underwriter’s Fee” and “Net Proceeds to the Company” (before deducting expenses of the Offering) will be \$11,500,000, \$805,000 and \$10,695,000, respectively (excluding accrued interest paid in respect of such Debentures). See “Plan of Distribution”. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Debentures pursuant to the exercise of the Over-Allotment Option. See “Plan of Distribution”.

A purchaser who acquires Debentures forming part of the Underwriter’s over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. The following table sets forth the number of Debentures issuable pursuant to the exercise of the Over-Allotment Option:

Underwriter’s Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	\$1,500,000	At any time until 30 days following the closing of the Offering.	\$1,000 per Debenture plus accrued interest

The terms and conditions of the Debentures will be governed by a debenture indenture between NAT and Computershare Trust Company of Canada, as trustee, (the “**Indenture**”) to be entered into on or before the closing of the Offering (the “**Closing**”). The Company may not redeem the Debentures prior to September 30, 2015 (the date of such redemption being the “**Redemption Date**”). On or after the Redemption Date and prior to the Maturity Date, the Debentures will be redeemable in whole or in part from time to time at NAT’s option, with required notice, at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Common Shares on the TSX-V during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. See “Details of the Offering”.

The Debentures are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under provisions of that Act or any other legislation.

For the twelve month periods ended December 31, 2011 and June 30, 2012, the Company experienced losses. As a result, the interest coverage ratios in respect of the Debentures, before any exercise of the Over-Allotment Option, for the twelve month periods ended December 31, 2011 and June 30, 2012 are negative (-7.02 and -7.43 to 1, respectively). See “Earnings Coverage Ratios”.

There is currently no market through which the Debentures may be sold and purchasers may not be able to sell the Debentures purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See “Risk Factors”.

The Underwriter, as principal, conditionally offers the Debentures, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriter in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” and subject to approval of certain legal matters on behalf of the Company by McMillan LLP and as to certain legal matters on behalf of the Underwriter by Borden Ladner Gervais LLP. The Debentures offered under this short form prospectus shall be taken up by the Underwriter, if at all, on or before a date not later than 42 days after the date of the receipt for the short form prospectus.

The Company has been advised by the Underwriter that, in connection with the Offering, the Underwriter may effect transactions which stabilize or maintain the market price of the Debentures or the Common Shares at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time. See “Plan of Distribution”.

The Underwriter proposes to offer the Debentures initially at the Offering Price specified above. After a reasonable effort has been made to sell all of the Debentures at the specified price, the Underwriter may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the Company. See “Plan of Distribution”.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates for the aggregate principal amount of the Debentures will be issued in registered form to CDS Clearing and Depository Services Inc. (“CDS”) or its nominee and will be deposited with CDS on Closing. The date of Closing is expected to occur on or about September 20, 2012, or such later date as the Company and the Underwriter may agree (the “Closing Date”). A purchaser of Debentures will receive only a customer confirmation from a registered dealer that is a participant in the CDS depository service and from or through whom a beneficial interest in the Debentures is purchased. See “Details of the Offering”.

The Debentures may be sold only in those jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Debentures in any jurisdiction where it is unlawful. The information contained in this short form prospectus is accurate only as of the date of this short form prospectus regardless of the time of delivery of this short form prospectus or of any sale of the Debentures, except in the case of documents incorporated or deemed to be incorporated by reference into this short form prospectus subsequent to the date hereof.

An investment in the Debentures and the Common Shares underlying the Debentures is subject to a number of risks. The risk factors identified under the heading “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” in this short form prospectus should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered under this short form prospectus.

You should rely only on the information contained in or incorporated by reference into this short form prospectus. The Company has not authorized anyone to provide you with different information. The Company is not making an offer of these securities in any jurisdiction where the offer is not permitted.

Kenneth C. Barker, the Chief Executive Officer and a director of the Company, resides outside of Canada. Although Mr. Barker has appointed McMillan LLP as his agent for service of process in each province of Canada in which the Debentures are to be distributed, it may not be possible for investors to enforce judgments obtained in Canada against Mr. Barker.

NAT's head office is located at 4420 Chatterton Way, Suite 305, Victoria, British Columbia, V8X 5J2, and its registered office is located at Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

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GENERAL MATTERS

In this short form prospectus, unless otherwise indicated or the context otherwise requires, the terms “NAT”, the “Company”, “we”, “us” and “our” are used to refer to Naturally Advanced Technologies Inc.

Unless otherwise indicated, all dollar amounts in this short form prospectus are expressed in Canadian dollars. United States dollars are stated as “US\$”. As of September 10, 2012, the Bank of Canada noon spot exchange rate for the purchase of one United States dollar using Canadian dollars was \$0.9762 (\$1.00=US\$1.0244).

The following table sets forth the rate of exchange for the Canadian dollar, expressed in U.S. dollars, (i) in effect at the end of the periods indicated, (ii) the average of exchange rates in effect on all days during the relevant period and (iii) the high and low exchange rates during such periods, each based on the noon rate of exchange as reported by the Bank of Canada.

	Years Ended December 31	
	2011	2010
Rate at end of period	0.9833	1.0054
Average rate for period	1.0109	0.9708
High for period	1.0583	1.0054
Low for period	0.9430	0.9278

The address of NAT’s website is www.naturallyadvanced.com. Information contained on NAT’s website does not form part of this short form prospectus and is not incorporated by reference herein. Prospective investors should rely only on the information contained or incorporated by reference in this short form prospectus. NAT has not authorized any person to provide different information.

The Debentures being offered for sale under this short form prospectus may only be sold in those jurisdictions in which offers and sales of the Debentures are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Debentures in any jurisdiction where it is unlawful. The information contained in this short form prospectus is accurate only as of the date of this short form prospectus, regardless of the time of delivery of this short form prospectus or of any sale of the Debentures.

The Company currently files reports and other information with the securities commissions and similar regulatory authorities in each of the provinces of Canada. The Company also files annual, quarterly, current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports and information are available to the public free of charge electronically at www.sedar.com and www.sec.gov.

FINANCIAL INFORMATION

The audited consolidated financial statements of the Company as at and for the years ended December 31, 2011 and 2010, incorporated by reference in this short form prospectus, are reported in United States dollars and have been prepared in accordance with United States General Accepted Accounting Principles (“U.S. GAAP”).

FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this short form prospectus constitute forward-looking statements within the meaning of Canadian and United States securities legislation. These statements relate to future events or the Company’s future performance, business prospects or opportunities and product development. All such statements other than statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. The Company believes that the expectations reflected in those forward-

looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements contained or incorporated by reference herein should not be unduly relied upon. Actual results and developments may differ, and may differ materially, from those expressed or implied by the forward-looking statements contained or incorporated by reference in this short form prospectus. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statement, including but not limited to risks related to:

- the Company being unable to raise additional funds to finance the development of its products;
- the success of the Company being dependent upon the acceptance of its products and technologies by the public;
- the ability of the Company to retain key employees;
- government regulation having a negative impact on the business of the Company;
- the ability of the Company to protect and defend its proprietary technology; and

such other risks detailed from time-to-time in the Company's quarterly filings, annual information forms, annual reports and annual filings with securities regulators and those which are discussed under the heading "Risk Factors".

Such information is included, among other places, in this short form prospectus under the headings "The Company", "Use of Proceeds", "Risk Factors" and in the Company's Annual Report on Form 10-K under the heading "Business" and "Risk Factors" and in the Management's Discussion and Analysis for the year ended December 31, 2011, each of such documents being incorporated by reference in this short form prospectus.

These factors should be considered carefully and readers are cautioned not to place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of risk factors is not exhaustive and it is recommended that prospective investors consult the more complete discussion of risks and uncertainties facing the Company included in this short form prospectus. See "Risk Factors" for a more detailed discussion of these risks.

Key assumptions upon which the Company's forward-looking statements are based include the following:

- the Company will be able to secure additional financing to continue to develop its products;
- there will be significant market acceptance of the Company's technology and products;
- the Company will be able to retain key employees and management personnel;
- the Company will continue on a going concern basis;
- government policies will not negatively impact the Company's business; and
- the Company will be able to protect its proprietary knowledge.

Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on the information available to it on the date such statements were made, no assurances can be given as to future results, approvals or achievements. Such forward-looking statements have been made for the purpose of assisting investors in understanding the Company's business, financial and operational performance and plans and may not be appropriate for other purposes. The forward-looking statements contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The Company disclaims any duty to update any of the forward-looking statements after the date of this short form prospectus to conform such statements to actual results or to changes in the Company's expectations except as otherwise required by applicable law.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar regulatory authorities in each of the Provinces of Canada are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

- the annual report on Form 10-K for the year ended December 31, 2011, which includes the audited consolidated financial statements of the Company for the financial years ended December 31, 2011 and 2010 at Item 8 of the Annual Report, and associated Management’s Discussion and Analysis of Financial Condition and Results of Operations (“**MD&A**”) at Item 7 of the Annual Report, excluding Item 15 Exhibits (the “**Annual Report**”);
- the management information circular dated June 26, 2012 in connection with an annual meeting of shareholders of the Company held on August 8, 2012;
- quarterly report on Form 10-Q for the quarter ended June 30, 2012, excluding Item 6 Exhibits, and associated MD&A;
- the material change report dated January 30, 2012 announcing the entering into of a non-exclusive, non-transferable spinning and trademark license agreement with Tuscarora Yarns;
- the material change report dated February 7, 2012 announcing the appointment of Scott Staff to the Company’s board of directors and the grant of 25,000 stock options to Mr. Staff;
- the material change report dated February 21, 2012 announcing that the Company has secured the services of Ralph Fisher as a regional agronomic advisor to the Company;
- the material change report dated February 22, 2012 announcing that the TSX Venture Exchange has named the Company to its 2012 TSX Venture 50 list;
- the material change report dated March 8, 2012 announcing the hiring of Steve Sandroni as Vice President, Agriculture and Greg Wright as Vice President, Strategic Fiber Markets;
- the material change report dated March 13, 2012 announcing the grant of 100,000 incentive stock options to certain officers and consultants of the Company;
- the material change report dated March 13, 2012 announcing key developments toward advancing the Company’s first full phase of production in order to supply its CRAiLAR fiber to global partners;
- the material change report dated March 26, 2012 announcing that the Company has partnered with Barnhardt Manufacturing Company to further expand its manufacturing capacity;
- the material change report dated April 9, 2012 announcing the entering into of a short term CRAiLAR Flax fiber development agreement with PVH Corp.;
- the material change report dated April 18, 2012 announcing that the Company has earned the USDA Certified Biobased Product Label for its CRAiLAR Flax Fiber;
- the material change report dated May 8, 2012 announcing that the Company will host a field day featuring demonstrations that will explain the double cropping opportunity of flax;
- the material change report dated May 10, 2012 announcing the entering into of a joint development agreement with Austria-based Lenzing Group to evaluate the blending of CRAiLAR Flax fibers with TENCEL® (Lyocell) and Lenzing Modal®;

- the material change report dated June 1, 2012 announcing that the Company has received and accepted the resignation of Scott Staff as a director of the Company;
- the material change report dated July 9, 2012 announcing that the Company has received confirmation from the Federal Trade Commission that merchandise content labels using CRAiLAR® Flax Fiber can be described as flax;
- the material change report dated July 12, 2012 announcing that the Company has launched a new web property www.Crailar.com;
- the material change report dated July 18, 2012 announcing the first retail partner order of an initial 100,000 pounds of CRAiLAR fiber;
- the material change report dated August 9, 2012 announcing the results of the Company's Annual General Meeting held on August 8, 2012;
- the material change report dated August 15, 2012 announcing that the Company will hold a conference call to provide an update on recent corporate developments;
- the material change report dated August 16, 2012 announcing that the Company completed its final large scale production and commercialization trial with Barnhardt Manufacturing; and
- the material change report dated August 23, 2012 announcing the \$10 million bought deal and \$8 million unit financings.

Material change reports (other than confidential reports), business acquisition reports, interim financial statements and all other documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* Item 11.1 to be incorporated by reference in a short form prospectus, filed by the Company with a securities commission or similar regulatory authority in Canada after the date of this short form prospectus and before completion or withdrawal of this Offering, will be deemed to be incorporated by reference into this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained in this short form prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this short form prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Copies of documents incorporated herein by reference may be obtained upon request without charge from the Corporate Secretary of NAT at 4420 Chatterton Way, Suite 305, Victoria, British Columbia, V8X 5J2. These documents are also available electronically on SEDAR which can be accessed at www.sedar.com and at www.sec.gov.

THE COMPANY

Naturally Advanced Technologies Inc. was incorporated under the laws of British Columbia, Canada on October 6, 1998 under the name “Hemptown Clothing Inc.” On March 21, 2006, the Company changed its name to “Naturally Advanced Technologies Inc.”

The Company's head office is located at 4420 Chatterton Way, Suite 305, Victoria, British Columbia, V8X 5J2, and our registered office is located at Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

The Company has the following wholly-owned subsidiaries:

CRAiLAR Fiber Technologies Inc.

CRAiLAR Fiber Technologies Inc. (“**CRAiLAR®**”) was incorporated under the laws of the Province of British Columbia on April 5, 2005 under the name “Crailer Fiber Technologies Inc.” On April 22, 2005, it changed its name to “CRAiLAR Fiber Technologies Inc.” CRAiLAR® was incorporated for the purpose of developing bast fiber technology for uses in textiles, cellulose pulp, paper and composites.

HTnaturals Apparel Corp.

HTnaturals Apparel Corp. (“**HTnaturals**”) was incorporated under the laws of the Province of British Columbia on December 7, 2007, for the purpose of carrying out the natural and sustainable apparel portion of its business. The Company, through its wholly owned subsidiary HTnaturals, was also a provider of environmentally sustainable hemp, bamboo, organic cotton and soy blended apparel.

During the fiscal year ended December 31, 2009, the Company discontinued its apparel division in order to focus its resources on our CRAiLAR® technology. This subsidiary is no longer active.

0697872 B.C. Ltd.

0697872 B.C. Ltd. was incorporated under the laws of the Province of British Columbia on June 18, 2004, and held the title to real property located in Craik, Saskatchewan. The Company decided against proceeding with the intended use of the property and returned all rights to the town of Craik. As a result, this subsidiary is no longer active.

Hemptown USA, Inc.

Hemptown USA, Inc. was incorporated under the laws of the State of Nevada, U.S.A., on November 22, 2004 for U.S. business purposes.

Naturally Advanced Technologies US Inc.

Naturally Advanced Technologies US Inc. (“**NAT US**”) was incorporated under the laws of the State of Nevada, U.S.A., on August 24, 2010, to manage U.S. business operations. This company was issued a Certificate of Authorization by the State of South Carolina to transact business on October 21, 2010.

SUMMARY DESCRIPTION OF BUSINESS

Overview

The Company is bringing sustainable bast fibre-based products to market, providing environmentally friendly natural fibre alternatives for a broad range of existing and emerging product applications, with performance characteristics equivalent or superior to cotton, wood or fossil-fuel based competitors. As of the date of this short form prospectus, the Company's business operations consist primarily of the deployment and execution of its proprietary and natural CRAiLAR® Flax Fibres, as well as its CRAiLEX™ dissolving pulp technology, which are bast fibre processing technologies targeted at the textile, pulping, composite and plastics industries.

In concert with its key technology partners, the National Research Council of Canada and Alberta Innovates-Technology Futures, the Company holds exclusive worldwide licenses to two primary proprietary technologies, the CRAiLAR® and CRAiLEX™ platforms. The Company processes bast feed-stocks (i.e. flax, kenaf and jute), into superior spinnable, knittable and weavable fibers, and dissolving pulp. All of the Company's final products can be processed and manufactured utilizing existing industry equipment. The Company, through its subsidiary, CRAiLAR®, holds the option to license from the Alberta Innovates – Technology Futures (formerly

Alberta Research Council Inc.) the global exclusive rights to any new and future intellectual property developed under this collaboration.

CRAiLAR® flax fibre is a clean, sustainable, environmentally responsible fibre which grows naturally, without excessive need for water and pesticide usage. CRAiLAR® flax fibre exhibits performance characteristics such as enhanced moisture management, durability, superior dye characteristics and is resistant to shrinkage.

The CRAiLAR® process removes the binding agents from flax that contribute to its stiff texture. The process bathes bast fibres in a proprietary, naturally occurring enzyme wash that transforms them into soft, yet strong and durable fibres, which can be used in many composite and textile applications.

RECONCILIATION OF USE OF PROCEEDS FROM JUNE 2011 OFFERING

In June 2011, the Company undertook an offering of approximately \$13 million of units, with net proceeds after commission and expenses being approximately \$12 million. The following table provides a comparison of how the funds raised in the June 2011 offering were used as compared to that which was previously stated in the Company's short form prospectus dated June 29, 2011:

Use of Proceeds	Projected Use in June 2011 Prospectus \$(millions)	Actual Use \$(millions)
Phase 1 of CRAiLAR® Flax Fibre Production – Securing Facilities and Equipment	\$5.25	\$2.67
Phase 1 of Agronomics – Seed Purchase and Fibre Contracting*	\$1.25	\$1.20
Debt repayment	\$1.25	\$1.25
Research and Development	\$0.40	\$0.45
Labour and Contracting Costs	\$1.10	\$1.20
Legal Expenses	\$0.20	\$0.21
General and Administrative Expenses	\$1.10	\$0.55
Working capital	\$1.42	\$4.44
TOTAL	\$11.97	\$11.97

* The June 2011 prospectus indicated that equipment deposits were contemplated for two 300,000 pound per week capacity facilities. Subsequent to closing of the June 2011 offering, the Company made one deposit for a 600,000 pound per week capacity facility.

In connection with the June 2011 offering, the underwriters' over-allotment option was partially exercised and, pursuant thereto, the underwriters purchased an additional 212,500 over-allotment units, at \$3.45 per unit, and 100,445 over-allotment warrants, at \$0.32 per warrant, for aggregate additional gross proceeds to the Company of approximately \$765,267. The Company indicated in the June 29, 2011 prospectus that proceeds from the exercise of the over-allotment option would be used for working capital and the proceeds were so applied.

The Company had projected at the time of the June 2011 prospectus requiring \$5.25 million to be used for securing facilities and equipment for Phase 1 of the CRAiLAR® flax fibre production. The Company initially

planned to secure and equip two integrated facilities, each capable of producing an estimated 300,000 lbs of CRAiLAR® flax fibre per week. The Company was able to secure one more efficient facility capable of producing an estimated 600,000 lbs of CRAiLAR® flax fibre per week, therefore the Company was able to retain cash that it had expected to use for the deposit on one of the two facilities and such cash was used for working capital.

DETAILS OF THE OFFERING

The Offering consists of 10,000 Debentures each in the principal amount, and at the Offering Price, of \$1,000 per Debenture. The Debentures will be issued under an Indenture to be entered into on or before the Closing Date between the Company and Computershare Trust Company of Canada, as trustee (the “**Debenture Trustee**”). The following description of the Debentures is a summary of their material attributes and characteristics. For a complete description of the Debentures, please refer to the detailed provisions of the Indenture.

The following summary uses words and terms which will be defined in the Indenture. For full particulars, reference is made to the Indenture. A copy of the Indenture (in draft form prior to the Closing Date) will be available for examination at the head office of the Company during the period of distribution and for a period of 30 days thereafter and will be filed on SEDAR at www.sedar.com from and after the Closing Date.

General

The aggregate principal amount of the Debentures authorized for issuance immediately will be limited to the aggregate principal amount of \$10,000,000 (\$11,500,000 in the event the Over-Allotment Option is exercised in full). However, the Company may, from time to time, without the consent of holders of Debentures, issue additional Debentures of the same series or of a different series under the Indenture. References in this section to “Debentures” are references to all debentures outstanding from time to time under the Indenture, as it may be further supplemented from time to time.

The Debentures will be dated as at the Closing Date and will be issuable only in denominations of \$1,000 and integral multiples thereof. The maturity date for the Debentures will be September 30, 2017. The Debentures will bear interest from the date of issuance at 10% per annum, which will be payable semi-annually in arrears on March 31st and September 30th in each year commencing March 31, 2013. The first interest payment will include interest accrued from the Closing to, but excluding, March 31, 2013.

The principal amount of, and interest on, the Debentures will be payable in lawful money of Canada.

The Debentures will be direct obligations of the Company. NAT US will provide a limited guarantee of the obligations of the Company under the Debentures and a security interest over the Secured Assets (as defined below) of NAT US having an initial acquisition cost of approximately \$5,500,000. Recourse against NAT US under the guarantee and security will be limited to the Secured Assets. The security granted in respect of the Debentures will be limited to the Secured Assets and the Debentures will otherwise rank subordinate in right of payment of principal and interest to all present and future Senior Indebtedness (as defined below) and rank equally with the Company’s unsecured indebtedness. See “Subordination” and “Guarantee and Security”.

The Indenture will not limit the ability of the Company to incur additional indebtedness, including indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Conversion Privilege

The Debentures will be convertible at the holder's option into fully paid and non-assessable Common Shares at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the Redemption Date, at a conversion price of \$2.90 per Common Share, subject to adjustment in certain events, being a conversion rate of approximately 344.8276 Common Shares for each \$1,000 principal amount of Debentures. Holders converting their Debentures will receive all accrued and unpaid interest thereon from and including the most recent Interest Payment Date up to, but excluding, the date of conversion. Holders converting their Debentures shall become holders of record of Common Shares of the Company on the business day

immediately after the conversion date and such Common Shares will be delivered to such holders as soon as practicable after the conversion date.

Subject to the provisions thereof and the requirements of the TSX-V, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (i) the subdivision or consolidation of the outstanding Common Shares; (ii) the distribution of Common Shares or securities convertible into Common Shares to holders of the outstanding Common Shares by way of dividend in the ordinary course, distribution or otherwise; (iii) the payment of a cash dividend or distribution to the holders of all or substantially all the outstanding Common Shares, provided that the adjusted Conversion Price is not less than \$2.58 which represents the volume-weighted average trading price of the Common Shares on the TSX-V for the five consecutive trading days prior to and including August 23, 2012, the date the Offering was announced, less the maximum permitted discount pursuant to TSX-V policies; (iv) the issuance of options, rights or warrants to all or substantially all holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than 95% of the then current market price (as defined below) of the Common Shares; and (v) the distribution to all or substantially all holders of Common Shares of any securities, evidences of indebtedness or assets (other than securities in respect of which the adjustment provisions described above apply or cash dividends in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (ii), (iv) or (v) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be. The Company will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

The term “current market price” will be defined in the Indenture to mean the volume-weighted average trading price of the Common Shares on the TSX-V for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Common Shares or in the case of any consolidation, amalgamation or merger of the Company with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding up of the Company, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, acquisition, sale or conveyance or liquidation, dissolution or winding up, be entitled to receive the number of Common Shares or other securities on the exercise of the conversion right such holder would be entitled to receive if on the effective date thereof, it had been the holder of the number of Common Shares into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, acquisition, sale or conveyance or liquidation, dissolution or winding up.

No fractional Common Shares will be issued on any conversion but in lieu thereof, the Company shall satisfy fractional interests by a cash payment equal to the current market price of any fractional interest provided, however, that the Company shall not be required to make any payment of less than \$5.00.

Redemption and Purchase

The Debentures will not be redeemable before September 30, 2015 (except in the event of certain circumstances described under “Change of Control of the Company”). On and after September 30, 2015, and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days’ and not less than 30 days’ prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Common Shares on the TSX-V during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis or in such other manner as the Debenture Trustee deems equitable.

The Company will have the right to purchase Debentures for cancellation in the market by tender or by private contract, subject to regulatory requirements.

Payment upon Redemption or Maturity

On redemption or at maturity, the Company will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured, together with accrued and unpaid interest thereon.

Subordination

The payment of the principal and premium, if any, of, and interest on, the Debentures will be, except to the extent the Debentures are secured by the Secured Assets, unsecured and therefore subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness and will rank *pari passu* to all present and future unsecured indebtedness. “**Senior Indebtedness**” of the Company will be defined in the Indenture as the principal of and premium, if any, and interest on and other amounts in respect of secured debt, statutory liens, secured bank or other institutional debt or renewals, extensions and refunding of such indebtedness of the Company (whether outstanding as at the date of Indenture or thereafter incurred). Subject to statutory or preferred exceptions or as may be specified by the terms of any particular securities, each Debenture issued under the Indenture will rank *pari passu* with each other Debenture. The Debentures, to the extent secured by the Secured Assets, will rank senior to present and future indebtedness of NAT US other than statutory or preferred exceptions.

The Indenture will provide that, in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Company, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy, or any marshaling of the assets and liabilities of the Company, then those holders of Senior Indebtedness, will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon.

The Indenture will provide that, except to the extent the Debentures are secured by the Secured Assets, in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to NAT US, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding up of NAT US, whether or not involving insolvency or bankruptcy, or any marshaling of the assets and liabilities of NAT US, then, except to the extent the Debentures are secured by the Secured Assets, the holders of any indebtedness of NAT US, will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon.

The Indenture will provide that the Company will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures: (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures; or (b) at any time when a default with respect to any Senior Indebtedness permitting the holders thereof to accelerate the maturity thereof has occurred under the Senior Indebtedness and is continuing and the notice of default has been given by or on behalf of the holders of Senior Indebtedness to the Company, unless the Senior Indebtedness has been repaid in full. Except to the extent the Debentures are secured by the Secured Assets, the Debentures will also be effectively subordinated to claims of creditors of the Company’s subsidiaries other than in the case where and to the extent the Company is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors.

Guarantee and Security

The Debentures will be guaranteed by NAT US and secured by certain assets of NAT US (as more particularly described below) (the “**Secured Assets**”) pursuant to a guaranty and security agreement to be entered into by NAT US in favour of the Trustee, on behalf of itself and the Debenture holders. Recourse against NAT US under the guaranty and security agreement shall be limited to the Secured Assets.

The Secured Assets include all harvesting and shive processing equipment of NAT US together with decortication lines and certain equipment to be acquired with the proceeds of the Offering for the Pamplico Facility (as defined below), which includes HVAC, humidifier and electrical systems, all of which is located in South Carolina, U.S.A. The Secured Assets are expected to have an initial acquisition cost of approximately \$5,500,000.

The security granted in respect of the Debentures will be limited to the Secured Assets and the Debentures will otherwise rank subordinate in right of payment of principal and interest to all present and future Senior Indebtedness and rank equally with the Company's unsecured indebtedness. See "Subordination".

Change of Control of the Company

Within 30 days following the occurrence of a Change of Control (as defined below), the Company will be required to make an offer in writing to holders of Debentures (the "**Debenture Offer**") to, at the Debenture holder's election, either: (i) purchase all of the holder's Debentures then outstanding at 100% of the principal amount thereof plus accrued and unpaid interest; or (ii) convert the holder's Debentures at the Change of Control Conversion Price (as defined below). No fractional Common Shares will be issued on a Change of Control but in lieu thereof the Company shall satisfy fractional interests by a cash payment equal to the current market price of any fractional interest provided, however, that the Company shall not be required to make any payment of less than \$5.00.

For the purpose of this short form prospectus and the Indenture, a "**Change of Control**" means: (i) any transaction (whether by purchase, merger or otherwise) whereby a person or persons acting jointly or in concert (within the meanings of Multilateral Instrument 62-104 – *Take-Over Bids and Issuer Bids*) directly or indirectly acquires the right to cast, at a general meeting of shareholders of the Company, more than 50% of the votes that may be ordinarily cast at a general meeting; (ii) the Company's amalgamation, consolidation or merger with or into any other person, any merger of another person into the Company, unless the holders of voting securities of the Company immediately prior to such amalgamation, consolidation or merger hold securities representing 50% or more of the voting control or direction in the Company or the successor entity upon completion of the amalgamation, consolidation or merger; and (iii) any conveyance, transfer, sale, lease or other disposition of more than 50% of the Company's and the Company's subsidiaries' assets and properties, taken as a whole, to another arm's length person whether in one or more transactions.

The Indenture will contain notification and repurchase provisions requiring the Company to give written notice to the Debenture Trustee of the occurrence of a Change of Control within 30 days of such event together with the Debenture Offer. The Debenture Trustee will thereafter promptly mail to each holder of Debentures a notice of the Change of Control together with a copy of the Debenture Offer to repurchase all the outstanding Debentures. If 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to the Company pursuant to the Debenture Offer, the Company will have the right to redeem all the remaining Debentures at the same price. Notice of such redemption must be given by the Company to the Debenture Trustee within ten days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered pursuant to the Debenture Offer.

The "**Change of Control Conversion Price**" will be calculated as follows:

$COCCP = ECP / (1 + (CP \times (c/t)))$ where:

COCCP is the Change of Control Conversion Price;

ECP = is the Conversion Price in effect on the date of the Change of Control event (the "**Effective Date**");

CP = initial premium 31.2%;

c = the number of days from and including the Effective Date to but excluding the Maturity Date; and

t = the number of days from and including the Closing Date to but excluding the Maturity Date.

Taxes

If the Company is required to withhold or deduct any amount for or on account of Canadian taxes from any payment of interest made under or with respect to the Debentures, the Company will, subject to limited exceptions, pay to each holder as additional interest such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amount received by each holder after such withholding or deduction (and after deducting any Canadian taxes on such Additional Amounts) will not be less than the amount the holder would have received if such Canadian taxes had not been withheld or deducted.

Events of Default

The Indenture will provide that an event of default (“**Event of Default**”) in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; (iii) certain events of bankruptcy, insolvency or reorganization of the Company or NAT US under bankruptcy or insolvency laws; (iv) default in the delivery, when due, of all cash and any Common Shares or other consideration, if any, payable upon conversion with respect to the Debentures, which default continues for 15 days; (v) default in the observance or performance of any material covenant or condition of the Indenture by the Company or of the NAT US guaranty and security agreement by NAT US which remains unremedied (or is not waived) for a period of 60 days after notice has been given by the Debenture Trustee or from holders of not less than 66 2/3% in aggregate principal amount of the Debentures to the Company specifying such default and requiring the Company or NAT US, as applicable, to rectify the same; or (vi) if a resolution is passed for the winding up or liquidation of the Company or NAT US except as permitted under the Indenture. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% in principal amount of the Debentures, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms as such holders shall prescribe.

Modification

The rights of the holders of the Debentures, as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all Debenture holders resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the Debentures. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of debentures of each particularly affected series.

Book-Entry System

The Debentures will be issued as a global certificate held in “book-entry only” form and must be purchased or transferred through a participant in the depository service of CDS (a “**Participant**”). On the Closing Date, a certificate representing such Debentures will be issued in registered form to CDS or its nominee and will be deposited with CDS pursuant to the book-entry only system.

Unless the book-entry only system is terminated as described below, a purchaser acquiring a beneficial interest in the Debentures (a “**Beneficial Owner**”) will not be entitled to receive a certificate for Debentures. Purchasers of Debentures will not be shown on the records maintained by CDS except through a Participant.

Beneficial interests in Debentures will be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the applicable Debentures are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below) may not: (i) have Debentures registered in their name; (ii) have physical certificates representing their interest in the Debentures; (iii) be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (iv) be able to pledge Debentures as security.

The Debentures will be issued to Beneficial Owners thereof in fully registered and certificate form (the “**Debenture Certificates**”) only if: (i) required to do so by applicable law including where a Debenture certificate requires the addition of a legend under applicable securities laws; (ii) the book-entry only system ceases to exist; (iii) the Company or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Debentures and the Company is unable to locate a qualified successor; (iv) the Company, at its option, decides to terminate the book-entry only system through CDS; or (v) after the occurrence of an Event of Default (as defined herein), Participants acting on behalf of Beneficial Owners of Debentures representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures (as applicable) then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Owners of Debentures, of the availability through CDS of Debenture Certificates. Upon surrender by CDS of the global certificates representing the Debentures, and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the Company will recognize the holders of such Debenture Certificates as Debenture holders under the Indenture.

Interest on the Debentures will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, interest will be paid by cheque drawn on the Company and sent by prepaid mail to the registered Debenture holder or by such other means as may become customary for the payment of interest. Payment of principal and the interest due, at maturity or on a redemption date, will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, payment of principal and interest due, at maturity or on a redemption date, will be paid upon surrender thereof at any office of the Debenture Trustee or as otherwise specified in the Indenture.

Neither the Company nor the Underwriter will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or any payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Debentures; or (iii) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a Participant. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Beneficial Owners must look solely to Participants for any payments relating to the Debentures, paid by or on behalf of the Company to CDS.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at June 30, 2012, the date of the Company’s most recently filed interim unaudited financial statements (the “**Interim Financials**”), before and after giving effect to the Offering. This table should be read in conjunction the Interim Financials and the related notes and management’s discussion and analysis in respect of those statements that are incorporated by reference in this short form prospectus.

	Outstanding as at June 30, 2012 before giving effect to the Offering	Outstanding as at June 30, 2012 after giving effect to the Offering	Outstanding as at June 30, 2012 after giving effect to the conversion of the Debentures
<i>(in thousands of \$, except share amounts)⁽¹⁾</i>			
Debentures ⁽²⁾⁽³⁾ (authorized: 10,000)	-	\$10,000	-
Common Shares ⁽³⁾⁽⁴⁾ (authorized: 100,000,000)	US\$29,328 (42,564,883 Common Shares)	US\$29,328 (42,564,883 Common Shares)	US\$39,141 (46,013,159 Common Shares)
Warrants ⁽⁴⁾	2,962,719	2,962,719	2,962,719
Stock Options	4,856,419	4,856,419	4,856,419

- (1) The US dollar amounts in the Consolidated Capitalization table are calculated using an exchange rate of \$0.9813 US dollar for each Canadian dollar being the Bank of Canada noon spot exchange rate as of June 29, 2012, the last business day prior to June 30, 2012.
- (2) Based on issuance of 10,000 Debentures for total gross proceeds of \$10,000,000 less Underwriter's commission of \$700,000 and the other expenses of the Offering estimated to be \$300,000 (inclusive of applicable taxes).
- (3) Excludes up to \$1,500,000 principal amount of Debentures which may be issued upon exercise of the Over-Allotment Option.
- (4) Excludes securities to be issued pursuant to the concurrent non-brokered private placement of up to 3,619,909 units (each, a "Unit") at a subscription price of US\$2.21 per Unit for gross proceeds of US\$8,000,000. Each Unit will be comprised of one common share in the capital of the Company and one-half of a transferable common share purchase warrant. The private placement is expected to close concurrently with the closing of the Offering.

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the Debentures pursuant to this short form prospectus (excluding exercise of the Over-Allotment Option) are estimated to be \$9,000,000 after deducting the Underwriter's Fee of \$700,000 and estimated expenses of the Offering of \$300,000 (inclusive of applicable taxes). If the Over-Allotment Option is exercised in full, the net proceeds of this Offering, after payment of the Underwriter's fee of approximately \$805,000 and expenses of this Offering estimated to be \$300,000, will be approximately \$10,395,000.

The Company intends to use the net proceeds from the Offering as follows:

Use of Proceeds	\$(millions)
Facility build out (includes demolition, design work, masonry, carpentry, plumbing, mechanical systems)	\$4.55
Equipment and equipment deposits	\$2.48
Agronomics – seed purchase and fibre contracting	\$0.67
Corporate development and working capital	\$1.30
TOTAL	\$9.00

If the Over-Allotment Option is exercised, the Company intends to use those additional proceeds for corporate development and working capital.

Although the Company intends to expend the net proceeds from the Offering as set forth above, there may be circumstances where for sound business reasons, a reallocation of funds may be deemed prudent or necessary, and may vary materially from that set forth above. Accordingly, management of the Company will have the broad

discretion in the application of the proceeds of the Offering. The Chief Financial Officer is responsible for following the investment policy of the Company.

As at September 10, 2012, the Company had a working capital balance of approximately \$1,042,000 which included a non-cash derivative liability of \$644,000. The Company's cash working capital balance was \$1,686,000. For the six months ended June 30, 2012, the operating cash used was (\$3,088,756) including a (\$1,152,509) increase in inventory. There will be no inventory purchases in the following six months other than amounts indicated under "Use of Proceeds" for \$667,000. The monthly burn rate of the Company will stay approximately the same when inventory is not included, that being \$448,683 per month, which includes \$365,350 plus interest of \$83,333.

Below is a breakdown of the amounts and nature of general and administrative expenses that are included in the "corporate development and working capital" amount included in the "Use of Proceeds".

Nature of Expense	\$/Month
Advertising and Promotion	\$20,000
Labour Costs	\$196,700
General Office and Administration	\$120,000
Research and Development	\$28,350
Interest	\$83,333
Total	\$448,683

While the Company presently has negative cash flow from operations and is not self-funding at this time, the Company anticipates that once the Pamplico Facility (as defined below) is operational proceeds from sales of CRAiLAR® fibre to several customers will bring the Company to a cash positive position by the third quarter of 2013.

The Company expects the proceeds of the Offering will be sufficient to provide corporate development and working capital for approximately three months before taking into consideration the concurrent non-brokered private placement of up to 3,619,909 units for gross proceeds of up to \$8 million previously announced on August 23, 2012.

Business Objectives and Milestones

The Company intended to complete installation of its 600,000 lbs per week capacity decortication facility located in Pamplico, South Carolina, U.S.A. (the "**Pamplico Facility**"), in the third quarter of 2012, but now expects the complete the installation during the fourth quarter of 2012 because of seismic issues with one of the buildings and a short delay in funding. At this time the Company will also commence commercial scale enzyme processing of its Crailar technology platform through its third party partners, namely Barnhardt Manufacturing Company, and Tintoria Piana U.S., Inc. Production is intended to satisfy demand from key partners Hanesbarnds Inc., Target Corp., Georgia Pacific and Brilliant Global Knitwear, and will ramp up to gradually over the following six months.

The total cost of the installation of the Pamplico Facility is expected to cost \$5.35 million, of which the Company has paid \$800,000, leaving a balance of \$4.55 million to complete, not including equipment. The proceeds raised under the Offering will be sufficient for the Company to complete the Pamplico Facility, to purchase equipment and to make deposits for wet processing equipment.

The Company intends to expand the Pamplico Facility in the second quarter of 2013 by installing additional decortication (dry) as well as enzyme processing (wet) capacity. Following this expansion, the Pamplico Facility will be a fully integrated CRAiLAR processing facility which, when combined with existing third party processing capacity, will bring its CRAiLAR processing capacity to 1 million lbs per week. This increased capacity is intended to satisfy demand from current partner brands (listed above) as well as new commercialization partners in the denim, casual wear and athletic industries expected to be confirmed by that time. Any such expansion would require additional financing. In the event the Company cannot raise the necessary funds to increase its in house capacity, the Company will continue to rely on third parties for CRAiLAR enzyme processing.

The Company will source fiber for this and future expansion from the winter growing region in South Carolina, by product from the linen industry in Western Europe, as well as new agricultural initiatives currently underway in Oregon and the Canadian prairies.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Company has agreed to issue and sell 10,000 Debentures to the Underwriter, and the Underwriter has agreed to purchase such Debentures on the Closing Date or on such other date as may be agreed between the Company and the Underwriter, at a price of \$1,000 per Debenture, payable in cash to the Company against delivery of the Debentures, subject to the terms and conditions stated therein. In consideration for its services in connection with the Offering, the Underwriter will be paid a fee of \$70 per Debenture, for an aggregate fee payable by the Company of \$700,000, subject to a reduced fee of 3.5% in respect of 2,500 of the Debentures as agreed to by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement. The Offering Price for the Debentures offered pursuant to this short form prospectus was determined by negotiation between the Company and the Underwriter.

The Company has granted to the Underwriter the Over-Allotment Option to purchase up to 15% of the principal amount of the Debentures issued (or up to an additional \$1,500,000 principal amount of Debentures) at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the Over-Allotment Option) on the same terms and conditions as the offering of the Debentures, exercisable in whole or in part, in the sole discretion of the Underwriter, at any time up until 30 days after the closing of the Offering for the purposes of covering the Underwriter's over-allocation position. Debentures issuable upon exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and two business days following exercise of such option. If the Over-Allotment Option is exercised in full, the price to the public, Underwriter's fee and proceeds to the Company (before deducting expenses of the Offering) will be \$11,500,000, \$805,000 and \$10,695,000, respectively (excluding accrued interest paid in respect of such Debentures) (subject to a reduced fee of 3.5% in respect of 2,500 of the Debentures as agreed to by the Underwriter pursuant to the Underwriting Agreement). This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Debentures pursuant to the exercise of the Over-Allotment Option.

A purchaser who acquires Debentures forming part of the Underwriter's over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Company has been advised by the Underwriter that, in connection with this Offering, the Underwriter may effect transactions that stabilize or maintain the market price of the Debentures or Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. The Underwriter proposes to offer the Debentures initially at the offering price specified above. After a reasonable effort has been made to sell all of the Debentures at the price specified, the Underwriter may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the Company.

The obligations of the Underwriter under the Underwriting Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets and may also be terminated upon the occurrence of certain other stated events. The Underwriter is obligated to take up and pay for all the Debentures offered by this short form prospectus if any Debentures are purchased under the Underwriting Agreement, subject to certain exceptions. The Company has agreed to indemnify the Underwriter and its respective affiliates and its respective directors, officers and employees against certain liabilities. The Company has also agreed in the Underwriting Agreement to reimburse the Underwriter for its legal fees and certain other expenses in connection with the Offering.

Each of the Company and the directors and senior officers of the Company has agreed with the Underwriter that, during a period ending 90 days after the Closing Date, each of the Company and the directors and senior officers of the Company will not, directly or indirectly, without the prior written consent of the Underwriter, such consent not to be unreasonably withheld, sell or issue, or negotiate or enter into any agreement to sell or issue, any securities of the Company, except pursuant to: (i) the exercise of currently outstanding rights or agreements,

including options, warrants and other convertible securities and any rights which have been granted or issued, which are subject to any necessary regulatory approval; (ii) the exercise of currently outstanding options granted to officers, directors, employees or consultants of the Company or any subsidiary thereof pursuant to the Company's option plan; (iii) the grant of options issued pursuant to and in accordance with the Company's option plan, provided that the number of Common Shares issuable pursuant to stock option grants does not exceed 10% of the basic shares outstanding of the Company immediately following the completion of the Offering; (iv) the Company's previously announced concurrent equity offering of up to \$8 million by way of private placement; and (v) the sale of an aggregate of up to 250,000 shares by executive officers of the Company.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without prior notice. Except in certain limited circumstances, the Debentures will be issued in "book-entry only" form and must be purchased or transferred through a Participant in the depository service of CDS. See "Details of the Offering".

The Company has applied to list the Debentures and the Common Shares issuable on the conversion of the Debentures on the TSX-V. Approval of such listing will be subject to the Company fulfilling all of the listing requirements of the TSX-V.

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this short form prospectus.

The Debentures and the Common Shares issuable pursuant to such securities (collectively, the "Securities") issued or made subject to issuance under this Offering have not been and will not be registered under the U.S. Securities Act or any state securities laws, and accordingly the Debentures may not be offered or sold within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

Except as permitted in the Underwriting Agreement and as expressly permitted by applicable laws of the United States, the Underwriters will not offer or sell the Debentures within the United States. The Underwriting Agreement permits the Underwriter or its United States broker-dealer affiliates to: (i) offer and resell the Debentures that they have acquired pursuant to the Underwriting Agreement to "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act ("**Rule 144A**")), in the United States, provided such offers and sales are made in transactions exempt from the registration requirements of the U.S. Securities Act in accordance with Rule 144A and in compliance with applicable state securities laws; and (ii) offer the Debentures in the United States to persons whom the Company will sell such securities to directly as substituted purchasers where such persons are "accredited investors", as such term is defined in Rule 501(a) of Regulation D promulgated under the U.S. Securities Act, in compliance with Rule 506 of Regulation D under the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriter will offer and sell the Debentures outside the United States only in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Debentures within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act.

The Closing is expected to take place on or about September 20, 2012 or on any other date which may be agreed upon by the Company and the Underwriter.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McMillan LLP, counsel to the Company, and Borden Ladner Gervais LLP, counsel to the Underwriter, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires the Debentures pursuant to this short form prospectus and who, for the purposes of the Income Tax Act (Canada) (the "**Tax Act**") and at all relevant times, (i) holds the Debentures and any Common Shares issuable under the terms of the Debentures as capital property, and (ii) deals at arm's length with, and is not affiliated with, the Company. A holder who meets all of the foregoing requirements is referred to as a "**Holder**" in this summary, and this summary only addresses such Holders. Generally, the Debentures and Common Shares will be considered to be capital property to a Holder provided that the Holder does

not hold the Debentures or Common Shares in the course of carrying on a business of trading or dealing in securities and has not acquired the Debentures or Common Shares in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to (i) a Holder that is a “financial institution”, as defined in the Tax Act for the purposes of the mark-to-market rules, (ii) a Holder that is a “specified financial institution” as defined in the Tax Act, (iii) a Holder an interest in which is a “tax shelter investment” as defined in the Tax Act, or (iv) a Holder that makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act. Any such Holder should consult its own advisor with respect to an investment in the Debentures and the Common Shares.

This summary is based on the provisions of the Tax Act and the regulation thereunder in force on the date hereof, all specific proposals to amend the Tax Act (or the regulations thereunder) publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of the prospectus (“**Tax Proposals**”), and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (“**CRA**”). This summary assumes that the Tax Proposals will be enacted in the form proposed. However, no assurance can be given that the Tax Proposals will be enacted in the form proposed or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative, governmental, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder and no representations with respect to the income tax consequences to any particular Holder or a prospective Holder is made. Prospective Holders should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of Debentures and Common Shares, having regard to their particular circumstances. The discussion below is qualified accordingly.

Residents of Canada

The following summary is generally applicable to a Holder (as defined above) who, for purposes of the Tax Act and at all relevant times, is or is deemed to be resident in Canada (herein, a “**Resident Holder**”).

Taxation of Interest on Debentures

A Resident Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on a Debenture that accrues or is deemed to accrue to the Resident Holder to the end of that taxation year or becomes receivable or is received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in the Resident Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing its income for a taxation year any interest on a Debenture that is received or receivable by such Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that such interest was included in the Resident Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract" as defined in the Tax Act in relation to a Resident Holder, such Resident Holder will be required to include in computing income for a taxation year any interest that accrues or is deemed to accrue to the Resident Holder on the Debenture up to the end of any "anniversary day" (as defined in the Tax Act) in that taxation year to the extent such interest was not otherwise included in the Resident Holder's income for that taxation year or a preceding taxation year.

On a disposition or deemed disposition of a Debenture, including a payment on purchase for cancellation, a Resident Holder will generally be required to include in income for the year in which the disposition occurs the amount of interest accrued on the Debenture from the date of the last interest payment to the date of disposition to the extent such amount has not otherwise been included in the Resident Holder's income for that or a preceding taxation year.

A Resident Holder that throughout the relevant taxation year is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional tax (refundable in certain circumstances) of 6 $\frac{2}{3}$ % on certain investment income, which is defined in the Tax Act to include interest.

Exercise of Conversion Privilege

A Resident Holder that converts a Debenture into Common Shares (or Common Shares and cash delivered in lieu of a fraction of a Common Share) pursuant to the conversion privilege will generally be deemed not to have disposed of the Debenture and, accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion. Under the current administrative practice of the CRA, a Resident Holder who, upon conversion of a Debenture, receives cash not in excess of \$200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby recognizing a capital gain (or capital loss), or may reduce the adjusted cost base of the Common Shares that the Resident Holder receives on the conversion by the amount received.

In general terms, Resident Holders that convert their Debentures will be required to include in income for the year in which the conversion occurs the amount of interest accrued on the Debenture up to the conversion, to the extent such amount has not otherwise been included in the Resident Holder’s income for that or a preceding taxation year.

The cost to a Resident Holder of the Common Shares acquired on the conversion of a Debenture will generally be equal to the Resident Holder's adjusted cost base of the Debenture immediately before the conversion (taking into account the discussion above regarding cash received in lieu of a fraction of a Common Share). The adjusted cost base to the Resident Holder of the Common Shares at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of all other Common Shares held by such Resident Holder as capital property at the time.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Resident Holder, including purchase for cancellation (but not a conversion of a Debenture into Common Shares pursuant to a Resident Holder's right of conversion) will generally give rise to a capital gain (or capital loss) equal to the amount by which the Resident Holder's proceeds of disposition, net of any amount otherwise required to be included in the Resident Holder's income as interest, exceed (or are less than) the total of the adjusted cost base of the Debenture and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under “*Taxation of Capital Gains and Capital Losses*”.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition will generally be included in computing the income of the Resident Holder's income as described above under the heading “*Taxation of Interest on Debentures*” and will generally be excluded in computing the Resident Holder's proceeds of disposition of the Debenture.

Dividends on Common Shares

A Resident Holder will be required to include in computing its income for a taxation year any taxable dividends received or deemed to be received on such Resident Holder's Common Shares. In the case of a Resident Holder who is an individual (other than certain trusts), such taxable dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations under the Tax Act. Taxable dividends received from a taxable Canadian corporation that are designated by such corporation as “eligible dividends” will be subject to an enhanced gross-up and dividend tax credit regime in accordance with the rules in the Tax Act. There may be restrictions on the ability of the Company to designate any dividends as “eligible dividends”, and the Company has made no commitments in this regard.

Taxable dividends received by a Resident Holder who is an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

A Resident Holder that is a corporation will be required to include any dividends received or deemed to be received on Common Shares in computing its income for purposes of the Tax Act and generally will also be entitled to deduct the amount of such dividends in computing its taxable income for that taxation year, subject to all rules and limitations under the Tax Act. The Tax Act also imposes a 33 $\frac{1}{3}$ % tax (refundable in certain circumstances) on dividends received (or deemed to be received) in a taxation year by a corporation that is a “private corporation” or “subject corporation” (as defined in the Tax Act) for purposes of Part IV of the Tax Act to the extent that such dividends are deductible in computing the Company’s taxable income for the year.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to the Company) will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Resident Holder’s adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under “*Taxation of Capital Gains and Capital Losses*”.

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a “**taxable capital gain**”) realized by a Resident Holder in a taxation year must be included in the Resident Holder’s income for the year, and one-half of any capital loss (an “**allowable capital loss**”) realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust. A Resident Holder that is, throughout the relevant taxation year, a “Canadian-controlled private corporation”, as defined in the Tax Act, may also be liable for a tax (refundable in certain circumstances) of 6 $\frac{2}{3}$ % on its “aggregate investment income”, which is defined in the Tax Act to include taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Non-Resident Holders

The following summary is generally applicable to a Holder (as defined above) who, for purposes of the Tax Act and any applicable income tax treaty, and at all relevant times, is neither a resident of Canada nor deemed to be resident in Canada and who does not use or hold and is not deemed to use or hold Debentures or Common Shares in, or in the course of carrying on a business in Canada (herein, a “**Non-Resident Holder**”). Special rules, which are not discussed in this summary, may apply to a non-resident insurer or an authorized foreign bank (as defined in the Tax Act), and this summary is not applicable to such holders.

The following portion of this summary is also not applicable to a Non-Resident Holder that is at any time a “specified shareholder” (as defined in subsection 18(5) of the Tax Act) of the Company or that does not at any time deal at arm’s length for purposes of the Tax Act with a “specified shareholder” of the Company. Generally, for this purpose, a “specified shareholder” is a shareholder that owns, has a right to acquire or is otherwise deemed to own, either alone or together with persons with whom such shareholder does not deal at arm’s length for purposes of the Tax Act, shares of the Company’s capital stock that either (i) give the shareholder 25% or more of the votes that could be cast at an annual meeting of the shareholders or (ii) have a fair market value of 25% or more of the fair market value of all of the issued and outstanding shares of the Company’s capital stock. Such Non-Resident Holders should consult and rely upon their own tax advisors.

Taxation of Interest on Debentures

A Non-Resident Holder should generally not be subject to Canadian withholding tax on amounts paid or credited, or deemed to have been paid or credited, as, on account or in lieu of payment of, or in satisfaction of, interest on the Debentures. This conclusion depends in part on an interpretation of CRA policy that is not fully clear or definitive, and no tax ruling has been sought or obtained, and counsel has not provided a legal opinion, in this regard. See also “*Risk Factors – Withholding Tax*”. However, if the Company is required to withhold or deduct any amount for or on account of Canadian taxes from any payment of interest made under or with respect to the Debentures, the Company will, subject to limited exceptions, pay to each holder as additional interest such additional amounts (“Additional Amounts”) as may be necessary so that the net amount received by each holder after such withholding or deduction (and after deducting any Canadian taxes on such Additional Amounts) will not be less than the amount the holder would have received if such Canadian taxes had not been withheld or deducted.

Exercise of Conversion Privilege

The conversion of a Debenture into Common Shares pursuant to the exercise of the conversion privilege by a Non-Resident Holder will generally be deemed not to constitute a disposition of the Debenture and, accordingly, a Non-Resident Holder will not generally recognize a gain or a loss on such conversion.

Disposition of Debentures and Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of a Debenture or a Common Share, as the case may be, unless the Debenture or Common Share constitutes “taxable Canadian property” (as defined in the Tax Act) to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention. As long as the Common Shares are at the time of disposition listed on a designated stock exchange (which currently includes the TSX-V), the Debentures and the Common Shares will generally not constitute taxable Canadian property to a Non-Resident Holder at such time unless, at any time during the sixty-month period that ends at that time, (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of any class or series of shares of the capital stock of the Company or an interest in, or an option in respect of such shares AND (b) more than 50% of the fair market value of the Common Shares was derived, directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) “Canadian resource properties” (as defined in the Tax Act), (iii) “timber resource properties” (as defined in the Tax Act), and (iv) options or interest in respect of property described in (i), (ii) and (iii). Securities may also be deemed to be “taxable Canadian property” under other provisions of the Tax Act.

In the event that the Debentures or the Common Shares constitute or are deemed to constitute taxable Canadian property to any Non-Resident Holder, the tax consequences of realizing a capital gain on the disposition of such securities as described above under the heading “*Residents of Canada – Disposition of Debentures*” and “*Residents of Canada – Disposition of Common Shares*” generally will apply, subject to any ability of the Non-Resident Holder to obtain relief (if at all) under the provisions of an applicable income tax treaty or convention. Non-Resident Holders whose Common Shares or Debentures may be taxable Canadian property should consult with their own tax advisors for advice having regard to their particular circumstances.

Dividends on Common Shares

Dividends paid or credited on the Common Shares, or deemed under the Tax Act to be paid or credited on the Common Shares, to a Non-Resident Holder will generally be subject to Canadian withholding tax at the rate of 25% on the gross amount of such dividends unless the rate is reduced under the provisions of an income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder. For example, under the Canada-United States Tax Convention (1980) (the “*Treaty*”), the withholding tax rate in respect of a dividend paid to a person who is the beneficial owner of the dividend and who is resident in the United States for the purposes of, and is entitled to full benefits under the Treaty, is generally reduced to 15% of the gross amount of the dividend (or 5% in the case of a qualifying holder resident in the United States that is a corporation that beneficially owns at least 10% of the Corporation’s voting shares). Non-Resident Holders should consult their own tax advisors in this regard.

EARNINGS COVERAGE RATIOS

The following earnings coverage calculations are calculated on a consolidated basis for the 12-month periods ended December 31, 2011 and June 30, 2012 and are derived from audited financial information in the case of the period ended December 31, 2011, and unaudited financial information in the case of the period ended June 30, 2012.

	12 Months Ended December 31, 2011 ⁽¹⁾	12 Months Ended June 30, 2012 ⁽¹⁾ ⁽²⁾
Earnings Coverage Ratio (Assuming no exercise of the Over-Allotment Option)	-7.02 ⁽³⁾	-7.43 ⁽³⁾
Earnings Coverage Ratio (Assuming exercise of the Over-Allotment Option in full)	-6.10 ⁽⁴⁾	-6.46 ⁽⁴⁾

Notes:

- (1) Calculated using an exchange rate of \$0.9833 US dollar for each Canadian dollar for the 12 months ended December 31, 2011 and \$0.9813 US dollar for each Canadian dollar for the 12 months ended June 30, 2012, being the Bank of Canada noon spot exchange rate as of December 30, 2011 and June 29, 2012, respectively.
- (2) Calculated based on the financial information set out in the audited financial statements of the Company for the 12 months ended December 31, 2011, but excluding the financial information set out in the unaudited financial statements of the Company for the six months ended June 30, 2011 and then adding the financial information set out in the unaudited financial statements of the Company for the six months ended June 30, 2012.
- (3) Calculated based on borrowing costs, after giving effect to the issuance of the Debentures, of US\$983,300 for the 12 months ended December 31, 2011, and US\$981,300 for the 12 months ended June 30, 2012.
- (4) Calculated based on borrowing costs, after giving effect to the issuance of the Debentures, of US\$1,130,795 for the 12 months ended December 31, 2011, and US\$1,128,495 for the 12 months ended June 30, 2012.

The Company’s interest requirements, after giving effect to this Offering and before any exercise of the Over-Allotment Option, will amount to \$1,000,000 for a 12 month period. The Company’s earnings for the 12 months ended December 31, 2011 and June 30, 2012 were net losses of US\$6,998,922 and US\$7,309,940, respectively, which are deficiencies of US\$7,885,247 and US\$8,273,125, respectively. The dollar amount of earnings before interest and income taxes required to achieve an earnings coverage ratio of one-to-one for the 12 months ended December 31, 2011 and June 30, 2012 would be \$1,000,000.

While the earnings coverage ratios for the Company are negative, the Company anticipates cash flow from the sales of CRAiLAR® starting in the first quarter of 2013, proceeds from the concurrent non-brokered private placement and cash from anticipated warrant exercises in September 2012 will contribute to the Company’s cash position and its ability to fund the interest payments of the Debentures.

PRIOR SALES

For the 12-month period before the date of this short form prospectus, NAT issued the following Common Shares and securities convertible into Common Shares:

Date of Issuance	Number and Type of Securities Issued	Issue or Exercise Price Per Security
September 29, 2011	260,000 options	US\$2.20
October 14, 2011	500,000 common shares	US\$1.45
October 17, 2011	50,000 options	\$2.21
October 18, 2011	20,000 common shares	US\$0.87
November 2, 2011	2,000 common shares	US\$1.02
November 14, 2011	3,750 common shares	US\$1.12
November 14, 2011	6,250 common shares	US\$0.87
November 17, 2011	2,000 common shares	US\$1.12
November 23, 2011	25,000 common shares	US\$0.95
December 5, 2011	10,000 common shares	US\$0.87
December 15, 2011	7,500 common shares	US\$0.87
December 19, 2011	1,400 common shares	US\$1.12
January 16, 2012	60,000 common shares	US\$1.12
January 23, 2012	196,900 common shares	US\$1.12
January 24, 2012	20,000 common shares	US\$0.87
February 7, 2012	25,000 options	\$1.91
February 7, 2012	1,100 common shares	\$0.87
February 16, 2012	2,100 common shares	\$1.05
February 20, 2012	10,000 common shares	US\$0.87
February 20, 2012	50,000 options	US\$2.14
February 24, 2012	10,000 common shares	US\$0.87
February 24, 2012	100,000 common shares	US\$1.01
February 28, 2012	5,000 common shares	US\$0.87
March 2, 2012	25,000 common shares	US\$0.95
March 2, 2012	25,000 common shares	\$1.50
March 6, 2012	5,000 common shares	US\$0.87
March 8, 2012	600 common shares	\$1.05

Date of Issuance	Number and Type of Securities Issued	Issue or Exercise Price Per Security
March 12, 2012	50,000 options	\$3.05
March 15, 2012	250,000 common shares	\$1.25
March 15, 2012	5,500 common shares	\$1.05
March 15, 2012	5,000 common shares	\$0.87
March 23, 2012	5,000 common shares	\$0.87
March 29, 2012	15,000 common shares	\$1.50
April 3, 2012	43,750 common shares	US\$0.96
April 3, 2012	14,585 common shares	\$2.74
April 3, 2012	20,000 common shares	\$1.50
April 4, 2012	9,994 common shares	US\$0.87
April 12, 2012	1,000 common shares	\$1.05
April 13, 2012	3,000 common shares	\$1.25
May 15, 2012	5,000 common shares	\$1.50
May 22, 2012	10,000 common shares	\$1.50
May 22, 2012	2,000 common shares	\$1.25
June 4, 2012	1,500 common shares	\$1.50
June 11, 2012	1,250 common shares	\$0.87
June 11, 2012	10,000 common shares	US\$1.03
July 4, 2012	7,500 common shares	US\$1.17
July 9, 2012	62,500 common shares	US\$1.01
July 13, 2012	62,500 common shares	US\$1.01
July 19, 2012	41,667 common shares	\$1.50
August 30, 2012	9,450 common shares	\$1.05
August 30, 2012	2,500 common shares	\$1.50
September 6, 2012	20,000 common shares	US\$0.96
September 6, 2012	10,000 common shares	US\$1.17

TRADING PRICE AND VOLUME

The Common Shares are listed on the TSX-V and quoted on the OTCBB under the symbol “NAT” and “NADVF”, respectively. The following tables set forth information relating to the trading and quotation of the Common Shares on the TSX-V for the months indicated.

Month	TSX-V Price Range (\$)		Total Volume
	High	Low	
September 2011	2.93	2.05	732,076
October 2011	2.66	1.89	438,311
November 2011	2.18	1.50	363,447
December 2011	2.40	1.81	481,811
January 2012	2.24	1.76	435,742
February 2012	2.25	1.77	595,942
March 2012	3.59	2.25	1,333,755
April 2012	3.50	2.87	235,640
May 2012	3.00	2.50	332,663
June 2012	2.95	2.28	343,099
July 2012	2.75	2.01	682,780
August 2012	2.74	2.08	398,285
September 4 - 10, 2012	2.44	2.28	49,157

RISK FACTORS

An investment in the Debentures and the underlying Common Shares involves a high degree of risk and should be regarded as speculative due to the nature of the business. NAT has incurred losses and expects to incur further losses in the foreseeable future. In addition to other information contained in this short form prospectus, investors should carefully consider the risk factors related to the business and operations of the Company set out in the documents that are incorporated by reference in this short form prospectus. Any one or more of such risk factors could materially affect the Company’s future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

Risks Associated With Our Business

Our success is dependent upon the acceptance of our CRAiLAR[®] and CRAiLEX[™] technologies and flax products.

Our success depends upon our achieving significant market acceptance of our CRAiLAR[®] and CRAiLEX[™] Technology and demand for flax products. Acceptance of our CRAiLAR[®] and CRAiLEX[™] Technology will depend on the success of our promotional and marketing efforts and our ability to attract customers or partners. To date, we have not spent significant funds on marketing and promotional efforts, although in order to increase awareness of our eco products we expect to spend a significant amount on promotion, marketing and advertising in the future. If these expenses fail to develop an awareness of our CRAiLAR[®] and CRAiLEX[™] Technology and flax products, these expenses may never be recovered and we may never be able to generate any

significant future revenues. In addition, even if awareness of our CRAiLAR[®] and CRAiLEX[™] Technology increases, we may not be able to produce enough product to meet demand.

We have a history of operating losses and there can be no assurance we will be profitable in the future; need to raise capital to continue our growth.

We have a history of operating losses, expect to continue to incur losses, may never be profitable, and must be considered to be in the development stage. Further, we have been dependent on sales of our equity securities and debt financing to meet our cash requirements. We have incurred losses totaling approximately US\$6,998,922 and US\$3,293,439, respectively, for fiscal years ended December 31, 2011 and 2010. As of December 31, 2011, we had accumulated deficits of US\$22,937,554. As at December 31, 2011 we had cash and cash equivalents of US\$6,340,505 and working capital of US\$5,932,991. As at June 30, 2012, we had cash and cash equivalents of US\$804,955 and working capital of US\$1,381,363. Further, we do not expect positive cash flow from operations in the near term. There is no assurance that actual cash requirements will not exceed our estimates.

We may need to raise capital to continue our growth.

Based upon our historical losses from operations, we will require additional funding in the future. If we cannot obtain capital through financings or otherwise, our ability to execute our development plans and achieve profitable operational levels will be greatly limited. Historically, we have funded our operations through the issuance of equity and short-term debt financing arrangements. We may not be able to obtain additional financing on favourable terms, if at all. Our future cash flows and the availability of financing will be subject to a number of variables, including demand for CRAiLAR[®] and CRAiLEX[™] technologies. Further, debt financing could lead to a diversion of cash flow to satisfy debt-servicing obligations and create restrictions on business operations. If we are unable to raise additional funds, it would have a material adverse effect upon our operations.

We may be unable to retain key employees or management personnel.

The loss of Messrs. Jason Finnis, Kenneth Barker, Guy Prevost or any of our key management personnel would have an adverse impact on our future development and could impair our ability to succeed. Our performance is substantially dependent upon the expertise of our Chief Innovation Officer, Mr. Jason Finnis, and our Chief Executive Officer, Mr. Kenneth Barker, and other key management personnel and our ability to continue to hire and retain such personnel. Messrs. Finnis, Barker and Prevost spend substantially all, or most, of their working time with us and our subsidiaries. It may be difficult to find sufficiently qualified individuals to replace Mr. Finnis, Mr. Barker, Mr. Prevost or other key management personnel if we were to lose any one or more of them. The loss of Mr. Finnis, Mr. Barker or Mr. Prevost, or any of our other key management personnel could have a material adverse effect on our business, development, financial condition, and operating results. We maintain “key person” life insurance on our senior executive officers.

Government regulation and trade restrictions could have a negative impact on our business.

Governments or special interest groups may attempt to protect existing industries through the use of duties, tariffs or public relations campaigns. These efforts may adversely affect interest in and demand for our CRAiLAR[®] and CRAiLEX[™] Technology.

Moreover, any negative changes to international treaties and regulations such as NAFTA and to the effects of international trade agreements and embargoes imposed by such entities such as the World Trade Organization which could result in a rise in trade quotas, duties, taxes and similar impositions or which could limit the countries from whom we can purchase component materials, or which could limit the countries where we or our customers might market and sell products created using CRAiLAR[®] Technology, which could have an adverse effect on our business.

The laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in the United States or any other jurisdiction, may be changed, applied or interpreted in a manner which will fundamentally alter our ability to carry on business. The actions, policies or regulations, or changes

thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on us. Any or all of these situations may have a negative impact on our ability to operate and/or our profitability.

If our competitors misappropriate unpatented proprietary know-how and our trade secrets, it may have a material adverse affect on our business.

The loss of or inability to enforce our trademark CRAiLAR[®] and other proprietary know-how, including our CRAiLAR[®] and CRAiLEX[™] process, and trade secrets could adversely affect our business. We depend heavily on trade secrets and the design expertise of our employees. If any of our competitors copies or otherwise gains access to our trade secrets or develops similar technologies or processes independently, we would not be able to compete as effectively. The measures we take to protect our trade secrets and design expertise may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights. We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding the rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate and therefore could have an adverse affect on our business.

Our officers and directors may be subject to conflicts of interest.

Certain of our officers and directors may be subject to conflicts of interest. Certain of our directors devote part of their working time to other business endeavors, including consulting relationships with other entities, and have responsibilities to other entities. Such conflicts include deciding how much time to devote to our affairs, as well as what business opportunities should be presented to us. Because of these relationships, certain of our directors may be subject to conflicts of interest. Currently, we have no policy in place to address such conflicts of interest. However, such directors have acknowledged their fiduciary duty to perform their duties in our best interest and those of our shareholders.

Currency fluctuations may cause translation gains and losses.

A significant portion of our expenses are incurred in Canadian dollars and our financial statements are prepared in US dollars. As a result, appreciation in the value of these currencies relative to the United States dollar could adversely affect our operating results. Foreign currency translation gains and losses arising from normal business operations are credited to or charged against other income for the period incurred. Fluctuations in the value of Canadian dollars relative to United States dollars may cause currency translation gains and losses.

Certain factors have historically caused volatility in agricultural commodity prices and markets and it is expected they will continue to do so.

The availability and prices of agricultural commodities are subject to wide fluctuations due to factors beyond the Company's control including but not limited to changes in weather conditions, crop failures, reduced harvests, disease, farmer planting decisions, government programs and policies, competition, changes in the biofuels industry, changes in global demand resulting from population growth and changes in standards of living, changes in eating patterns and global production of similar and competitive crops. These factors have historically caused volatility in agricultural commodity prices and markets and it is expected they will continue to do so. Reduced supply of agricultural commodities due to weather-related factors or other reasons could adversely affect the Company's profitability by increasing the cost of raw materials and/or limit the Company's ability to procure, transport, store, process, and merchandise agricultural commodities in an efficient manner.

Factors related to product quality and contamination may adversely affect the Company's revenues and operating results.

The Company is subject to risks which include, but are not limited to, spoilage, product quality or contamination; tampering or other adulteration of products, shifting consumer preferences; federal, state and local farm and agriculture regulations; socially unacceptable farming practices; and environmental, health and safety regulations. Such factors could adversely affect the Company's revenues and operating results.

The current and future operations of the Company and its suppliers will be subject to environmental laws and regulations with costs and significant consequences associated with compliance with such laws and regulations.

The current and future operations of the Company and its suppliers will be subject to laws and regulations governing pesticides, airborne emissions, pollution, occupational health, waste disposal, protection and remediation of the environment, toxic substances and other similar matters. The production of the Company's products will require the use of materials which can create emissions of certain regulated substances including greenhouse gas emissions. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties as well as a negative impact on the Company's reputation, business, cash flows, and results of operations. In addition, any change in or increase to environmental protection regulations and requirements may require the Company to modify existing processing facilities and/or processes or modify the design of the Company's processing and manufacturing plants, which could significantly increase operating costs and negatively impact operating results. Such changes could have a material effect on the capital expenditures, earnings and competitive position of the Company.

The Company is subject to wholesale price volatility.

The Company may export the majority of the products it processes and may therefore possibly be subject to the inconsistencies of the global marketplace. The world market for agricultural commodities is subject to numerous risks and uncertainties, including risks related to international trade and global political conditions. The Company's crop purchases will be made through production contracts, which fix a price at which the Company will purchase crops from a producer. In addition, a portion of the Company's crop purchases is made directly from local growers and crops are delivered at the time of purchase to be held in inventory. Should events occur after the price is fixed or after the date of purchase that increase the cost of production or the ability of the Company to sell the processed products at expected levels, the margins realized by the Company on such products could be lower than expected. As there is no significant market for flax fibre in North America, the market price depends on the price of other agricultural commodities and the growers achieving their maximum margin.

The Company is subject to risks associated with its distributors and suppliers.

The Company will purchase flax from growers throughout the year but may not enter into written long-term agreements with some of its clients, distributors or suppliers. As a result, such parties may, without notice or penalty, terminate their relationship with the Company at any time. In addition, even if such parties should decide to continue their relationship with the Company, there can be no guarantee that the consideration or other terms of such contracts will continue on the same basis. If one or more of the Company's key distributors or suppliers terminates or otherwise alters the terms of its relationship with the Company and/or if a number of smaller distributors or suppliers concurrently were to terminate or otherwise alter the terms of their relationship with the Company, that could have a material adverse effect on the business, financial condition and results of operations of the Company.

The Company will rely primarily on North American growers to supply flax to the Pamplico Facility supplemented with European fibre. In the event of termination of the growers contract or non-performance by the grower of such agreement, the Company would be required to source its flax supply from a number of other growers or through brokers at then current negotiated or market prices which may be affected by factors beyond the control of the Company. This, in turn, may affect the Company's ability to continue to have readily available access to low-cost flax. In addition, the Company would need to contract with a number of other suppliers to source the volume of flax that it would need, resulting in increased logistical and employee costs being diverted to sourcing flax, which could have a material adverse effect on the Company's profit margin.

Risks Related To Our Common Shares

Sales of a substantial number of shares of our common stock may result in significant downward pressure on the price of our common stock and could affect your ability to realize the current trading price of our common stock.

As of June 30, 2012, there were 42,564,883 shares of our common stock issued and outstanding. (As of August 28, 2012, there were 42,739,050 shares of our common stock issued and outstanding). Further, as of June 30, 2012 there were an aggregate of 4,856,419 Stock Options and 2,962,719 share purchase warrants outstanding that are exercisable into 4,856,419 shares of common stock (at a weighted average exercise price of US\$1.55) and 2,962,719 shares of common stock (at a weighted average exercise price of US\$3.82), respectively.

Any significant downward pressure on the price of our common stock as certain stockholders sell their shares of our common stock may encourage short sales. Any such short sales could place further downward pressure on the price of our common stock.

The trading price of our common stock on the OTC Bulletin Board has been and may continue to fluctuate significantly and stockholders may have difficulty reselling their shares.

During our fiscal year ended December 31, 2011, our common stock has traded as low as US \$1.03 and as high as US \$4.50. In addition to volatility associated with Bulletin Board securities in general, the value of your investment could decline due to the impact of any of the following factors upon the market price of our common stock:

- changes in the demand for flax and other eco-friendly products;
- disappointing results from our marketing and sales efforts;
- failure to meet our revenue or profit goals or operating budget;
- decline in demand for our common stock;
- downward revisions in securities analysts' estimates or changes in general market conditions;
- lack of funding generated for operations;
- investor perception of our industry or our business prospects; and
- general economic trends.

In addition, stock markets have experienced extreme price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, investors may be unable to sell their shares at a fair price and you may lose all or part of your investment.

Additional issuances of equity securities may result in dilution to our existing stockholders.

Our Articles of Incorporation authorize the issuance of 100,000,000 shares of common stock. The Board of Directors has the authority to issue additional shares of our capital stock to provide additional financing in the future and the issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance also will cause a reduction in the proportionate ownership and voting power of all other stockholders. As a result of such dilution, if you acquire shares of our common stock, your proportionate ownership interest and voting power could be decreased. Further, any such issuances could result in a change of control.

We are not authorized to issue shares of preferred stock. However, there are provisions of British Columbia law that permit a company's board of directors, without shareholder approval, to issue shares of preferred stock with rights superior to the rights of the holders of shares of common stock. As a result, shares of preferred stock could be issued quickly and easily, adversely affecting the rights of holders of shares of common stock and could be issued with terms calculated to delay or prevent a change in control or make removal of management more difficult. Although we have no present plans to issue any shares of preferred stock, the issuance of preferred stock in the future could adversely affect the rights of the holders of common stock and reduce the value of the common stock.

Our common stock is classified as a "Penny Stock" under SEC Rules which limits the market for our common stock.

Because our stock is not traded on the NASDAQ National Market or the NASDAQ Capital Market, and because the market price of the common stock is less than \$5 per share, the common stock is classified as a "penny stock." Our stock has not traded above \$5 per share. SEC Rule 15c-9 under the Exchange Act imposes additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an "established customer" or an "accredited investor." This includes the requirement that a broker-dealer must make a determination that investments in penny stocks are suitable for the customer and must make special disclosures to the customers concerning the risk of penny stocks. Many broker-dealers decline to participate in penny stock transactions because of the extra requirements imposed on penny stock transactions. Application of the penny stock rules to our common stock reduces the market liquidity of our shares, which in turn affects the ability of holders of our common stock to resell the shares they purchase, and they may not be able to resell at prices at or above the prices they paid.

We are a Canadian company and a majority of our directors and officers are Canadian citizens and/or residents, which could make it difficult for investors to enforce judgments against us in the United States.

We are a company incorporated under the laws of the Province of British Columbia, Canada and a majority of our directors and officers reside in Canada. Therefore, it may be difficult for investors to enforce within the United States any judgments obtained against us or any of our directors or officers. All or a substantial portion of such persons' assets may be located outside the United States. As a result, it may be difficult for investors to effect service of process on our directors or officers, or enforce within the United States or Canada any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against them. In addition, investors may not be able to commence an action in a Canadian court predicated upon the civil liability provisions of the securities laws of the United States. We have been advised by our Canadian counsel that there is doubt as to the enforceability, in original actions in Canadian courts, of liability based upon the U.S. federal securities laws and as to the enforceability in Canadian courts of judgments of U.S. courts obtained in actions based upon the civil liability provisions of the U.S. federal securities laws. Therefore, it may not be possible to enforce those actions against us or any of our directors or officers.

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.

A decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise additional capital for our operations. Because our operations to date have been principally financed through the sale of equity securities, a decline in the price of our common stock could have an adverse effect upon our liquidity and our continued operations. A reduction in our ability to raise equity capital in the future would have a material adverse effect upon our business plan and operations, including our ability to continue our current operations. If our stock price declines, we may not be able to raise additional capital or generate funds from operations sufficient to meet our obligations.

Risks Related to the Offering

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus.

Although the Company has made an application to list the Debentures on the TSX-V, there is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus, which may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop, or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including the liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Company's financial condition, historic financial performance and future prospects. In addition, the holders of the Common Shares may suffer dilution if the Company decides to redeem outstanding Debentures for Common Shares.

The market price for the Debentures may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond NAT's control.

The Debentures may trade at a discount from their respective offering prices.

The market price for the Debentures may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond NAT's control, including the following: (i) actual or anticipated fluctuations in NAT's results of operations, financial performance and future prospects; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to NAT; (iv) addition or departure of NAT's executive officers and other key personnel; (v) release or expiration of lock-up or other transfer restrictions on outstanding Common Shares; (vi) sales or perceived sales of additional Common Shares; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving NAT or its peers or competitors; (viii) news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in NAT's industry or target markets; (ix) liquidity of the Debentures; (x) prevailing interest rates; (xi) the market price of the Common Shares; (xii) commodity prices, and (xiii) general economic conditions.

In particular, prevailing interest rates will affect the market price or value of the Debentures. Assuming all other factors remain unchanged, the market price or value of the Debentures, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the Debentures may decline even if NAT's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of NAT's governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Debentures by those institutions, which could adversely affect the trading price of the Debentures. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, NAT's operations could be adversely impacted and the trading price of the Debentures and/or the underlying Common Shares may be adversely affected.

The Debentures will only be secured by the Secured Assets.

The Debentures will be unsecured obligations of the Company. NAT US will provide a limited guarantee of the obligations under the Debentures (with recourse limited to the Secured Assets) and provide a security interest over the Secured Assets. The costs of the Secured Assets of approximately \$5.5 million is less than the aggregate principal amount of the Debentures of \$10.0 million that will be outstanding upon completion of the Offering. The Secured Assets include equipment (but not real property) and are expected to depreciate in value over time. The Debentures will be, except to the extent secured by the Secured Assets, effectively subordinated to claims of creditors of the Company's subsidiaries, except to the extent that the Company is a creditor of such subsidiaries ranking at least *pari passu* with such creditors. As a holding company, our ability to meet our financial obligations, including servicing our debt under the Debentures, depends upon our receipt of funds from our subsidiaries. None of our subsidiaries has an obligation to make funds available to us to pay our obligations under the Debentures or to pay those obligations except, in the case of NAT US, to the extent it is guaranteeing the Debentures. In the event of the Company's insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, the Company's assets would be made available to satisfy the obligations of the creditors of such Senior Indebtedness before being available to pay the Company's obligations to the holders of the Debentures. Accordingly, all or a substantial portion of the Company's assets could be unavailable to satisfy the claims of the holders of the Debentures in which case the only recourse of the holders of the Debentures would be to the Secured Assets of NAT US.

The Company may be unable to pay interest or principal on the Debentures when due.

See "Earnings Coverage Ratios", which is relevant to the assessment of the risk that the Company may be unable to pay interest or principal on the Debentures when due.

The Company may not be able to refinance the principal amount of the Debentures in order to repay the principal outstanding.

The Company may not be able to refinance the principal amount of the Debentures in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. There is no guarantee that the Company will be able to repay the outstanding principal amount in cash upon maturity of the Debentures.

The Company may not be able to redeem the Debentures at the time of a Change of Control.

The Company may be required by Debenture holders to offer to purchase for cash all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the Company will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. In addition, the Company's ability to purchase the Debentures in such an event may be limited by law by the terms of other present or future agreements relating to indebtedness and agreements that the Company may enter into in the future which may replace, supplement or amend the Company's future debt. The Company's future credit agreements or other agreements may contain provisions that could prohibit the purchase of the Debentures by the Company. The Company's failure to purchase the Debentures would constitute an Event of Default under the Indenture, which might constitute a default under the terms of the Company's other indebtedness at that time.

Conversion privileges associated with certain Debentures may be eliminated.

Upon the occurrence of a Change of Control of NAT, Debenture holders will have the right to require NAT to redeem the Debentures in an amount equal to 100% of the principal amount of the Debentures, plus accrued and unpaid interest until the date of redemption. In the event that Debenture holders holding 90% or more of the Debentures exercise their right to require NAT to redeem the Debentures, NAT may acquire the remaining Debentures on the same terms. In such event, the conversion privilege associated with the Debentures would be eliminated, which may adversely affect some or all of the Debenture holders. See "Details of the Offering – Change of Control of the Company".

The Indenture will not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

The Indenture will not restrict the Company or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Indenture will not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

The Debentures may be redeemed, at the option of the Company, on or after September 30, 2015 and prior to the Maturity Date at any time and from time to time.

The Debentures may be redeemed, at the option of the Company, on or after September 30, 2015, and prior to the Maturity Date at any time and from time to time, at the redemption prices set out in this short form prospectus, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Company is able to refinance at a lower interest rate or it is otherwise in the interest of the Company to redeem the Debentures. NAT may determine to redeem outstanding Debentures for Common Shares. Accordingly, holders of Common Shares may suffer dilution.

Management of NAT will have discretion in the actual application of the net proceeds and failure by management to apply these funds effectively could have a material adverse effect on NAT's business.

NAT currently intends to allocate the net proceeds to be received from this Offering as described under the heading "Use of Proceeds". However, management of NAT will have discretion in the actual application of the net proceeds, and may elect to allocate net proceeds differently from that described under the heading "Use of Proceeds" if it believes it would be in NAT's best interest to do so. NAT's securityholders, including holders of the Debentures, may not agree with the manner in which management chooses to allocate and spend the net proceeds. The failure by management to apply these funds effectively could have a material adverse effect on NAT's business.

The Offering may result in dilution, on a per Common Share basis, to NAT's net income and other financial measures used by NAT.

While the net proceeds of the Offering will be applied towards the uses specified in "Use of Proceeds", to the extent that any of the net proceeds of the Offering remain uninvested pending their use or are used to pay down indebtedness with a low interest rate, the Offering may result in dilution, on a per Common Share basis, to NAT's net income and other financial measures used by NAT. NAT may determine to redeem outstanding Debentures or by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution. See "Details of the Offering – Payment Upon Redemption or Maturity".

The Company may be required to withhold or deduct an amount for or on account of Canadian taxes under or with respect to the Debentures.

Effective January 1, 2008, the Tax Act was amended to generally eliminate withholding tax on interest paid or credited to non-residents of Canada with whom the payor deals at arm's length. However, Canadian withholding tax continues to apply to payments of "participating debt interest".

Under the Tax Act, when a debenture or other debt obligation issued by a person resident in Canada is assigned or otherwise transferred by a non-resident person to a person resident in Canada (which would include a conversion of the obligation or payment upon maturity or redemption), the amount, if any, by which the price for which the obligation was assigned or transferred exceeds the price for which the obligation was issued is deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident (an "Excess").

This deeming rule does not apply in respect of certain "excluded obligations", and while the Company believes that the Debentures should qualify as an "excluded obligation", this depends in part on an interpretation of CRA policy that is not fully clear or definitive, and no tax ruling or legal opinion has been sought or obtained in this regard. If the Debentures are not an "excluded obligation", issues that arise include whether any Excess would be

considered to arise, the amount of any such Excess (also taking into account a conversion event), whether any such Excess that is deemed to be interest is “participating debt interest”, and if so, whether this results in such deemed interest, and all other interest on the Debentures, being considered to be “participating debt interest”.

The determination of these issues is unclear, and accordingly there is a risk that, in the event the Debentures are not an “excluded obligation”, amounts paid or payable by the Corporation to a non-resident holder of Debentures on account of interest or any Excess amount (including any Excess that may arise on conversion) may be subject to Canadian withholding tax at a rate of 25% (subject to any reduction in accordance with any applicable income tax treaty or convention).

No tax ruling or legal opinion has been sought or obtained in respect of any of the foregoing. However, if the Company is required to withhold or deduct any amount for or on account of Canadian taxes from any payment made under or with respect to the Debentures, the Company will, subject to limited exceptions, pay to each holder as additional interest such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amount received by each holder after such withholding or deduction (and after deducting any Canadian taxes on such Additional Amounts) will not be less than the amount the holder would have received if such Canadian taxes had not been withheld or deducted.

INTERESTS OF EXPERTS

Dale Matheson Carr-Hilton Labonte LLP, the Company’s external auditor, is independent within the meaning of the Rules of the Professional Conduct of the Institute of Chartered Accountants of British Columbia.

As at the date of this short form prospectus, the partners and associates of each of McMillan LLP, counsel to the Company, and Borden Ladner Gervais LLP, counsel to the Underwriter, as a group do not own, directly or indirectly more than 1% of the securities of the Company.

ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan LLP, counsel to NAT, and Borden Ladner Gervais LLP, counsel to the Underwriter, as of the date hereof, based on the current provisions of the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder, provided the Debentures and the Common Shares issuable under the terms of the Debentures are listed on a designated stock exchange (which includes the TSX-V Tiers 1 and 2), such securities would, if issued on the date hereof, be qualified investments for a trust governed by a registered retirement savings plan (“**RRSP**”), a registered retirement income fund (“**RRIF**”), a registered education savings plan, a deferred profit sharing plan (other than, in respect of Debentures, a deferred profit sharing plan to which payments are made by the Corporation or any other person with which the Corporation does not deal at “arm’s length” for purposes of the Tax Act), a registered disability savings plan and a tax-free savings account (“**TFSA**”), each as defined in the Tax Act, subject to the specific provisions of any such plan. The Debentures and the Common Shares will also be a qualified investment for such plans provided the Company is a “public corporation” (other than a mortgage investment corporation) as defined in the Tax Act.

In the case of an RRSP, RRIF or TFSA that holds Debentures or Common Shares, a penalty tax may be imposed on the holder of the TFSA or annuitant under the RRSP or RRIF, as the case may be, if such securities are a “prohibited investment” within the meaning of the Tax Act. The Debentures and Common Shares will generally be a “prohibited investment” if the holder or annuitant, as the case may be, does not deal at arm’s length with the Corporation for purposes of the Tax Act or has a “significant interest” (within the meaning of the Tax Act) in the Corporation or a corporation, partnership or trust with which the Corporation does not deal at arm’s length for purposes of the Tax Act.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some provinces, revisions of the price or damages if

the short form prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

We have read the short form prospectus of Naturally Advanced Technologies Inc. (the "**Company**") dated September 11, 2012 qualifying the distribution of \$10 million aggregate principal amount (\$11.5 million aggregate principal amount if the over-allotment option is exercised in full) of 10% convertible debentures of the Company secured against certain assets of a U.S. subsidiary of the Company. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the Stockholders and Board of Directors of the Company on the consolidated balance sheets of the Company as at December 31, 2011 and 2010 and the consolidated statements of operations, cash flows and stockholders' deficit for the years then ended and the period from October 1, 2009 (date of re-entry into the development stage) to December 31, 2011. Our report is dated March 19, 2012.

(Signed)

Dale Matheson Carr-Hilton Labonte LLP

Chartered Accountants

Vancouver, Canada
September 11, 2012

CERTIFICATE OF THE COMPANY

Dated: September 11, 2012

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia and New Brunswick.

(Signed) Kenneth C. Barker
Chief Executive Officer

(Signed) Guy Prevost
Chief Financial Officer

On Behalf of the Board of Directors

(Signed) Jason Finnis
Director

(Signed) Larisa Harrison
Director

CERTIFICATE OF THE UNDERWRITER

Dated: September 11, 2012

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia and New Brunswick.

CORMARK SECURITIES INC.

By: *(Signed)* Jeff Fallows