



# Naturally Splendid Enterprises Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2017

Expressed in Canadian Dollars



**Notice of No Auditor Review of these  
Unaudited Condensed Consolidated Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of Naturally Splendid Enterprises Ltd. (the “Company”) for the period ended March 31, 2017 have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

# Naturally Splendid Enterprises Ltd.

## Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Note	As at March 31, 2017 \$	As at December 31, 2016 \$
<b>Assets</b>			
<b>Current</b>			
Cash		113,641	362,649
Trade and other receivables	7	186,499	436,023
Inventories	8	2,023,696	2,189,164
Advances, prepaids and deposits	9	168,556	82,105
		<u>2,492,392</u>	<u>3,069,941</u>
<b>Due from related parties</b>		-	-
<b>Long-term deposits</b>	9	36,002	75,703
<b>Restricted cash</b>		22,883	60,435
<b>Property and equipment</b>		1,344,120	501,242
<b>Technology license and other intangibles</b>	11	1,442,887	1,486,254
<b>Goodwill</b>	11 & 12	891,168	891,168
		<u>6,229,452</u>	<u>6,084,743</u>
<b>Liabilities</b>			
<b>Current</b>			
Cheques issued in excess of bank deposits		42,616	48,050
Trade and other payables		1,325,527	1,707,912
Current portion of capital lease obligation	13	95,629	2,885
Current portion of long-term loan	15	36,809	16,064
Due to related parties		203,341	193,665
		<u>1,703,922</u>	<u>1,968,576</u>
<b>Capital lease obligation</b>	13	431,541	-
<b>Long-term loan</b>	15	158,703	166,962
		<u>2,294,166</u>	<u>2,135,538</u>
<b>Equity</b>			
Share capital	18	17,084,815	16,367,038
Subscriptions received	18	900	900
Reserves	18	1,635,018	1,424,659
Deficit		(16,316,215)	(15,421,689)
		<u>2,404,518</u>	<u>2,370,908</u>
<b>Equity attributable to owners of the Company</b>			
<b>Non-controlling interest</b>		1,530,768	1,578,297
		<u>3,935,286</u>	<u>3,949,205</u>
		<u>6,229,452</u>	<u>6,084,743</u>

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON May 17, 2017:

"Dave Eto"

Director

"Peter Hughes"

Director

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

## Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
(Unaudited - Expressed in Canadian Dollars)

	Note	Three months ended March 31,	
		2017	2016
		\$	\$
<b>Revenue</b>		<b>587,203</b>	<b>1,440,028</b>
<b>Cost of sales</b>		<b>435,766</b>	<b>1,359,675</b>
<b>Gross Profit</b>		<b>151,437</b>	<b>80,353</b>
<b>Selling and distribution expenses</b>			
Facility		86,444	54,664
Freight and delivery		10,234	(28,704)
Product development, net of grants		30,354	96,127
Product promotion and trade shows		13,211	56
		<u>140,243</u>	<u>122,143</u>
<b>Administrative expenses</b>			
Accounting and audit		35,257	29,341
Depreciation and amortization	11	82,469	24,911
Bank charges, interest and accretion	13	20,564	31,168
Consulting	16	177,973	35,278
Legal		37,969	12,003
Management fees	16	36,000	94,920
Office, rent and salaries		197,985	150,592
Corporate promotion		105,241	24,250
Share-based payments	16 and 18	239,359	47,073
Transfer agent and filing fees		16,669	20,599
Travel		15,931	1,679
		<u>965,417</u>	<u>471,814</u>
		(954,223)	(513,604)
Foreign exchange gain		12,168	4,006
Other income	16	-	51,306
<b>Net loss and comprehensive loss for the year</b>		<b>(942,055)</b>	<b>(458,292)</b>
<b>Comprehensive loss attributed to:</b>			
Owners of the company		<b>(894,526)</b>	<b>(420,095)</b>
Non-controlling interest		<b>(47,529)</b>	<b>(38,198)</b>
		<u><b>(942,055)</b></u>	<u><b>(458,293)</b></u>
Comprehensive income (loss) per share			
Basic and diluted		\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding			
Basic and diluted		74,317,291	57,043,105

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

**Naturally Splendid Enterprises Ltd.**  
Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited - Expressed in Canadian Dollars)

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(942,055)	(458,292)
Adjustments to reconcile loss to net cash		
Depreciation and amortization	82,469	24,911
Interest accretion expense on loan	12,476	25,571
Share-based payments	239,359	47,073
<b>Changes in non-cash working capital:</b>		
Trade and other receivables	249,524	(339,714)
Inventories	165,468	(212,222)
Advances, prepaid expenses and deposits	(86,451)	1,310
Trade and other payables	(262,385)	1,058,831
<b>Cash used in operating activities</b>	<u>(541,595)</u>	<u>147,468</u>
<b>Investing activities</b>		
Repayment of capital lease	(23,823)	(831)
Purchase of equipment and leaseholds, net	(785,563)	-
Long-term deposits	39,701	-
<b>Cash used in investing activities</b>	<u>(769,685)</u>	<u>(831)</u>
<b>Financing activities</b>		
Advances from related parties	9,676	-
Lease payable	548,803	-
Proceeds from options exercised	26,250	-
Proceeds from warrants exercised	445,425	-
Restricted cash	37,552	-
Proceeds from issuance of shares, net	-	137,100
Subscriptions received	-	(52,500)
<b>Cash provided by financing activities</b>	<u>1,067,706</u>	<u>84,600</u>
<b>Net change in cash and cash equivalents</b>	(243,574)	231,237
<b>Cash, beginning of period</b>	<u>314,599</u>	<u>34,330</u>
<b>Cash, end of period</b>	<u>71,025</u>	<u>265,567</u>
<b>Cash consists of:</b>		
Cash	113,641	265,567
Cheques issued in excess of bank deposits	(42,616)	-
	<u>71,025</u>	<u>265,567</u>

## Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Changes in Equity  
(Unaudited - Expressed in Canadian Dollars)

	Common Shares	Share capital \$	Subscriptions received \$	Reserves \$	Deficit \$	Equity attributable to the owners of the company \$	Non- controlling interest \$	Total equity \$
<b>Balance at December 31, 2015</b>	56,780,523	12,459,312	52,500	1,112,772	(13,086,443)	538,141	1,731,260	2,269,401
Warrants exercised	282,000	84,600	-	-	-	84,600	-	84,600
Options exercised	300,000	52,500	(52,500)	-	-	-	-	-
Share-based payments	-	-	-	47,073	-	47,073	-	47,073
Net loss for the period	-	-	-	-	(458,292)	(458,292)	-	(458,292)
<b>Balance at March 31, 2016</b>	<b>57,362,523</b>	<b>12,596,412</b>	<b>-</b>	<b>1,159,845</b>	<b>(13,544,735)</b>	<b>211,522</b>	<b>1,731,260</b>	<b>1,942,782</b>
<b>Balance at December 31, 2016</b>	74,106,294	16,367,038	900	1,424,659	(15,421,689)	2,370,908	1,578,297	3,949,205
Warrants exercised	1,464,500	565,425	-	-	-	565,425	-	565,425
Options exercised	150,000	26,250	-	-	-	26,250	-	26,250
Share-based payments	389,855	126,101	-	210,359	-	336,460	-	336,460
Net loss for the period	-	-	-	-	(894,526)	(894,526)	(47,529)	(942,055)
<b>Balance at March 31, 2017</b>	<b>76,110,649</b>	<b>17,084,814</b>	<b>900</b>	<b>1,635,018</b>	<b>(16,316,215)</b>	<b>2,404,517</b>	<b>1,530,768</b>	<b>3,935,285</b>

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

# **Naturally Splendid Enterprises Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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## **1. Nature of Operations and Going Concern**

Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp.) (“Naturally Splendid” or the “Company”) was incorporated under the laws of the province of British Columbia on December 21, 2010.

The Company is in the natural food industry and sells food and ingredients to commercial processors and to consumers by distribution through grocery stores, health and nutrition stores and online. Materials are sourced in bulk and repackaged at the Company’s facility with its unique branding under the Company’s name. Current products are hemp-based food items that are both conventional and organic, including whole grains and protein powders. Product sales are supported through a combination of direct and online sales and distribution channels.

The head office, principal address, and registered and records office is located at 108-19100 Airport Way Pitt Meadows, British Columbia, Canada V3Y 0E2.

The Company’s unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the three month period ended March 31, 2017, the Company had a net loss of \$942,055 (2016 - \$458,293) and working capital of \$788,470 (December 31, 2016 - working capital of \$1,101,366).

Management cannot provide assurance that the Company will ultimately achieve profitable operations or positive cash flow. The Company’s continuation as a going concern is dependent on its ability to attain profitable operations and raise additional capital. These matters indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and consolidated statement of financial position classifications that would be necessary if the going concern assumption was inappropriate. Such adjustments could be material.

## **2. Basis of Presentation**

### **a) Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and follow the same accounting policies and methods of application as the Company’s most recent annual audited consolidated financial statements, except as outlined in note 3. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016 prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on the date noted on the condensed consolidated interim statements of financial position.

## Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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### b) Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in note 17. These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. These unaudited condensed consolidated interim financial statements include the accounts of the following entities:

	Relationship	Percentage
Naturally Splendid Enterprises Ltd.	Parent	100%
Naturally Splendid Enterprises 2013 Ltd.	Subsidiary	100%
Naturally Splendid USA Ltd.	Subsidiary	100%
Chi Hemp Industries Inc. ("Chi")	Subsidiary	100%
POS BPC Manufacturing Corp. ("BPC")	Subsidiary	51%

All intercompany balances and transactions are eliminated on consolidation. Control is based on whether an investor has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of returns.

### 3. Significant Accounting Policies

The significant accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016.

### 4. Estimates and Assumptions

The preparation of these unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the unaudited condensed consolidated interim financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and further periods if the revision affects both current and future periods.

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

#### *Critical accounting estimates*

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and include, but are not limited to, the following:



## **Naturally Splendid Enterprises Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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### Recoverability of accounts receivable

Provisions are made against accounts that, in the estimation of management, may be uncollectible. The recoverability assessment of accounts receivable is based on a range of factors, including the age of the receivable and the creditworthiness of the customer. The provision is assessed monthly with a detailed formal review of balances and security being conducted annually. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payments. To the extent that future events impact the financial condition of the customers these provisions could vary significantly.

### Share-based payments

The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

### Interest rates

The Company estimates a fair value interest rate in determining the bifurcation of the loans payable into its liability and equity components.

### *Critical accounting judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited condensed consolidated interim financial statements include, but are not limited to, the following:

### Valuation of inventory

Management makes estimates of future customer demand for products when establishing appropriate provisions for inventory obsolescence. In making these estimates management considers the life of inventory and profitability of recent sales.

### Useful lives of intangible assets and equipment

Depreciation and amortization of the Company's equipment and intangible assets incorporate estimates of useful lives and residual values. These estimates may change as market conditions change and the future economic benefits from the use of the asset changes, thereby impacting the useful life and residual value of the equipment or intangible asset. Any revisions to useful life are accounted for prospectively.

### Impairment of goodwill and Licensed IP

Determining the amount of impairment of goodwill and Licensed IP requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many of factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These

## **Naturally Splendid Enterprises Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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changes may result in future impairments in the Company' long term assets such as investments or property and equipment.

### Allocation of fair value of assets acquired

The determination of fair value of assets acquired requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the assets and liabilities acquired require judgment and include estimates of future cash flows.

### Assessment of the transactions as an asset acquisition or business combination

Management has had to apply judgment relating to the Transaction with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

### Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

## **5. Financial instruments**

### **Financial assets**

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), loans and receivables, available-for-sale ("AFS") or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets are classified as held-for-trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments are also categorized as held-for-trading. These assets are carried at fair value with gains or losses recognized in profit or loss. Transaction costs associated with financial assets at FVTPL are expensed as incurred. Cash are included in this category of financial assets.

#### *Held-to-maturity and loans and receivables*

HTM and loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the financial assets classified in this category are derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset. Advances and trade and other receivables are classified as loans and receivables.

## **Naturally Splendid Enterprises Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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### *AFS financial assets*

AFS financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, AFS financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Transaction costs are included in the initial carrying amount of the asset. AFS assets include short-term investments in equities of other entities.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost. The Company does not have any assets classified as AFS financial assets.

### **Financial liabilities**

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL have two subcategories, comprised of financial liabilities held-for-trading and those designated by management on initial recognition. Transaction costs on financial liabilities at FVTPL are expensed as incurred. These liabilities are carried at fair value with gains or losses recognized in profit or loss. Trade and other payables are included in this category of financial liabilities.

#### *Financial liabilities measured at amortized cost*

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized, respectively, in interest, other revenues and finance costs. Loans payable are included in this category of financial liabilities.

### **Hierarchy**

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

## **Naturally Splendid Enterprises Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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### **6. Future accounting pronouncements**

The following are accounting pronouncements that have not been early-adopted by the Company. At this time, management has reviewed these pronouncements and has yet to assess their full impact on the Company's unaudited condensed consolidated interim financial statements.

#### **IFRS 16 Leases**

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

This standard is effective for the Company's annual periods beginning January 1, 2019.

#### **IFRS 9 Financial Instruments**

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*  
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*  
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*  
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*  
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

This standard is effective for the Company's annual periods beginning January 1, 2018.

## Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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### **IFRS 15 Revenue from Contracts with Customers**

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRSs are as follows:

- Revenue is recognized based on a five-step model:
  1. Identify the contract with customer;
  2. Identify the performance obligations;
  3. Determine the transaction price;
  4. Allocate the transaction price to the performance obligations; and
  5. Recognize revenue when (or as) the performance obligations are satisfied.
- New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

This standard is effective for the Company's annual periods beginning January 1, 2018.

### **7. Trade and Other Receivables**

The Company's trade and other receivables arise from two main sources: trade receivables due from customers and Goods and Services Tax/Harmonized Sales Tax ("GST/HST") due from the government authorities. These are as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
GST/HST receivable	25,035	79,507
Trade receivables *	<u>161,464</u>	<u>356,516</u>
	<u>186,499</u>	<u>436,023</u>

\* Trade receivables are net of an allowance for bad debts of \$121,984 (December 31, 2016 - \$121,984).

### **8. Inventories**

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Seed and finished products for resale	1,401,929	1,360,644
Raw materials	530,593	737,593
Containers, labels and packing materials	<u>91,174</u>	<u>90,927</u>
	<u>2,023,696</u>	<u>2,189,164</u>

## Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

### 9. Advances, Prepaids and Deposits

	March 31, 2017	December 31, 2016
	\$	\$
Product research and development	116,574	61,574
Deposit	19,005	-
Other	32,977	20,531
	<u>168,556</u>	<u>82,105</u>
Long-term deposits	36,002	75,703
	<u>204,558</u>	<u>157,808</u>

1. During 2015, the Company advanced \$250,000 for services relating to research of hemp and hemp-based technologies to a related entity. The balance remaining at March 31, 2017 is \$41,574 (December 31, 2016 \$61,574).

### 10. Restricted Cash

The Company has deposited funds in an interest-bearing term deposit with its principal banker as security against corporate credit lines.

### 11. Equipment and Intangibles

The changes in the Company's equipment for the three months ended March 31, 2017 and the year ended December 31, 2016 are as follows:

	Computer equipment	Furniture and equipment	Leasehold Improvements	Manufacturing facility	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
December 31, 2015	69,919	155,768	19,968	368,270	613,925
Additions	15,494	21,891	60,306	22,306	119,997
<b>December 31, 2016</b>	85,413	177,659	80,274	390,576	733,922
Additions	1,360	-	168,718	711,904	881,982
<b>March 31, 2017</b>	86,773	177,659	248,992	1,102,480	1,615,904
<b>Depreciation</b>					
December 31, 2015	60,253	67,377	7,373	33,530	168,533
Additions	8,434	17,217	15,520	22,976	64,147
<b>December 31, 2016</b>	68,687	84,594	22,893	56,506	232,680
Additions	3,155	2,664	9,766	23,518	39,104
<b>March 31, 2017</b>	71,842	87,258	32,659	80,024	271,784
<b>Net Book Value</b>					
December 31, 2016	16,726	93,065	57,381	334,070	501,242
March 31, 2017	14,931	90,401	216,333	1,022,456	1,344,120

## Naturally Splendid Enterprises Ltd.

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The changes in the Company's technology license, website, technology and other intangibles for the three months ended March 31, 2017 and the year ended December 31, 2016 are as follows:

	Licensed Technology	Website and Technology	Non-compete Clause	Licensed IP	Total
	\$	\$	\$		\$
<b>Cost</b>					
<b>December 31, 2015 and 2016</b>	1,486,425	31,417	30,926	200,000	1,748,768
Additions	-	-	-	-	-
<b>March 31, 2017</b>	1,486,425	31,417	30,926	200,000	1,748,768
<b>Depreciation</b>					
December 31, 2015	86,449	1,309	1,289	-	89,047
Additions	102,296	15,709	15,463	40,000	173,468
<b>December 31, 2016</b>	188,745	17,018	16,752	40,000	262,515
Additions	25,574	3,927	3,866	10,000	43,367
<b>March 31, 2017</b>	214,319	20,945	20,618	50,000	305,882
<b>Net Book Value</b>					
December 31, 2016	1,297,680	14,399	14,174	160,000	1,486,253
March 31, 2017	1,272,106	10,472	10,308	150,000	1,442,886

### 12. Technology License

During the year ended December 31, 2015, the Company completed the technology acquisition agreement, and subsequently amended that agreement. Naturally Splendid USA Ltd. entered into a Novation Agreement with FSL, Boreal and the Company whereby Boreal assigned, and Naturally Splendid USA Ltd. assumed, all rights, title and interest in and to a Restated and Amended License Agreement between FSL and Boreal (the "License Agreement"). The License Agreement provides that the licensee has a worldwide license to manufacture, commercialize and sell products based on the following proprietary technology of FSL:

- a) on an exclusive basis, (i) the terpene, hemp oil and cannabinoid formulation technology, (ii) omega formulation technology, (iii) protein formulation technology, (iv) cannabinoid technology, and (v) the tongkat ali formulations; and
- b) on a non-exclusive basis, (i) the Supercritical CO2 and plant oil extraction technology, (ii) genetic plant and artificial seed technology, (iii) biosynthesis of cannabinoids, and (iv) microencapsulation of cannabinoid oils.

Under the terms of the Novation Agreement, Naturally Splendid USA Ltd. paid \$725,000 to Boreal and the Company issued 2,928,571 common shares of the Company valued at the time of closing at \$761,428 for a total acquisition cost of \$1,486,425 of which \$176,000 was prepaid at December 31, 2014. The Company was required to pay to FSL an annual minimum gross revenue royalty of US\$1.6 million.

In September, 2015, as a result of the closing of a restated and amended licence agreement, Naturally Splendid acquired a 100% interest, without royalty, in FSL's omega technologies, including HempOmega and H2Omega. FSL removed the minimum annual royalty of US\$1.6 million noted above. In consideration of owning a 100% interest in the omega technologies and the removal of the minimum royalty, Naturally Splendid extinguished its non-exclusive licence of FSL's bioreactor technology, and changed its exclusive licence on certain analytical testing standard operating procedures ("SOPs") and GC-MS terpene analysis SOPs to a non-exclusive licence.

## Naturally Splendid Enterprises Ltd.

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### 13. Capital Lease Obligations

During 2014, the Company entered into a lease contract for equipment used in operations and in January 2017, the Company entered into a lease contract to acquire food packaging equipment. The Company is required to make monthly lease payments of \$9,765 (including GST) until May 2022. Following the final lease payment, Naturally Splendid will own the equipment free and clear of all encumbrances. The Company has accounted for these as capital lease obligations.

The following table summarizes the outstanding obligations:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Lease payments due within one year	113,103	2,988
Lease payments due within two to six years	465,036	-
Total lease payments	<u>578,139</u>	<u>2,988</u>
Lease payment amounts representing interest	<u>(50,969)</u>	<u>(103)</u>
Present value of net minimum lease payments	527,170	2,885
Current portion	<u>(95,629)</u>	<u>(2,885)</u>
	<u>431,541</u>	<u>-</u>

### 14. Trade and Other Payables

At March 31, 2017, trade and other payables totaled \$1,325,527 (December 31, 2016 - \$1,707,911). Trade and other payables are non-interest-bearing, unsecured and have settlement dates within one year.

### 15. Long-Term Loan Payable

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Loan payable to Saskatchewan Opportunities Corporation <sup>1</sup>	125,850	125,850
Interest and accretion expense	69,662	57,176
	<u>195,512</u>	<u>183,026</u>
Less current portion	<u>(36,809)</u>	<u>(16,064)</u>
	<u>158,703</u>	<u>166,962</u>

<sup>1</sup> Monthly payments of \$6,438 beginning April 1, 2017. The loan bears no interest; however, if the loan goes in default, interest will accrue at 5%. A general security agreement on BPC assets is pledged as security. The loan is due March 2021.



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**Three Month Period ended March 31, 2017**

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### 16. Key Management Compensation and Related Party Transactions

#### Key management compensation

The remuneration of directors and other members of key management were as follows:

	Three months ended March 31,	
	2017	2016
	\$	\$
Management fees	148,388	79,920
Share-based payments	178,614	19,108
	<u>327,002</u>	<u>99,028</u>

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the period.

#### Related party transactions

Consulting fees were paid to a company controlled by a director and in 2015, management fees were also paid to a company controlled by the Company's Chief Financial Officer. Transactions with related parties were as follows:

	Three months ended March 31,	
	2017	2016
	\$	\$
Management fees	-	15,000
Consulting fees	10,500	10,500
	<u>10,500</u>	<u>25,500</u>

POS Management Corporation is a company subject to common control. During the three month period ended March 31, 2017, the Company received contract services revenue from POS Management Corporation totaling \$nil (2016 - \$nil) and incurred management fees expense of \$36,000 (2016 - \$36,000).

Included in accounts payable and accrued liabilities are the following amounts due to/from related parties:

- \$9,962 (December 31, 2016 - \$3,754) due to management and consultants for fees outstanding.
- \$129,770 (December 31, 2016 - \$126,785) due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.
- \$73,571 (December 31, 2016 - \$66,880) due from POS Management Corp., a company subject to common control, of at December 31, 2015 relating to subcontractor fees.

## Naturally Splendid Enterprises Ltd.

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### 17. Financial Instruments

#### a) Categories of financial instruments

	March 31, 2017	December 31, 2016
	\$	\$
<b>Financial Assets</b>		
Fair value through profit or loss, at fair value		
Cash	113,641	362,649
Loans and receivables, at amortized cost		
Trade and other receivables	186,499	356,516
Restricted cash	22,883	60,435
Long-term deposits	36,002	75,703
Total financial assets	<u>359,025</u>	<u>855,303</u>
<b>Financial Liabilities</b>		
Other liabilities, at amortized cost		
Cheques issued in excess of bank deposits	42,616	48,050
Trade and other payables	1,325,527	1,636,250
Due to related parties	203,341	193,665
Long-term loan and capital lease obligation	590,244	183,026
Total financial liabilities	<u>2,161,728</u>	<u>2,060,991</u>

#### b) Fair value

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers the carrying amounts of all its financial assets and financial liabilities recognized at amortized cost in these unaudited condensed consolidated interim financial statements to approximate their fair values due to the short-term maturity of these instruments.

#### c) Management of financial risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of these risks. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The risks associated with these consolidated financial instruments and the policies on how to mitigate these risks are set out below.

##### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and trade receivables. The Company deposits cash with major Canadian commercial banks. In order to reduce its credit risk in relation to trade receivables, the Company

## **Naturally Splendid Enterprises Ltd.**

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(Unaudited - Expressed in Canadian Dollars)

**Three Month Period ended March 31, 2017**

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has adopted credit policies that include the analysis of the financial position of its customers and the regular review of their respective credit limits.

### *Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is reliant upon equity issuances and loans as its main sources of cash. The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company continuously reviews its actual expenditures, forecasts cash flows and matches the maturity dates of its cash to capital and operating needs.

The Company has been successful in raising financing in the past; however, there is no assurance that it will be able to do so in the future. As at March 31, 2017, the Company had working capital of \$788,585 (December 31, 2016 - working capital of \$1,101,366).

### *Other risk*

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or other risk. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments in the management of foreign currency, commodity price or interest rate market risks.

## **18. Share Capital**

### **a) Authorized**

Unlimited number of common shares and preferred shares without par value.

### **b) Issued and outstanding**

The total issued and outstanding share capital consists of 76,110,649 common shares without par value.

During the three-month period ended March 31, 2017, the Company completed the following transactions:

- In January 2017, the Company issued 289,855 common shares for \$97,101 (a deemed price of \$0.335 per share) related to the purchase of packing equipment (note 13);
- On January 27, 2017, the Company issued 3,040,000 common share purchase options to employees Directors and consultants of the Company. The options are exercisable into common shares of the Company at \$0.35 per share, with 20% vesting on issue and 40% vesting on each of the first and second anniversaries of issue; and
- In March 2017, 1,464,500 warrants with exercise prices of \$0.30 - \$0.40 were exercised for gross proceeds of \$445,425 in cash plus settlement of \$120,000 in accounts payable. 2,380,427 warrants expired unexercised.
- In March 2017, the Company issued 100,000 common shares at a deemed price of \$0.29 per share as compensation to an executive.

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**Three Month Period ended March 31, 2017**

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During the year ended December 31, 2016, the Company completed the following transactions:

- 657,000 shares were issued upon the exercise of 657,000 warrants at \$0.30 per share for proceeds of \$197,100 and 203,744 shares were issued upon exercise of 203,744 warrants at \$0.40 per share for proceeds of \$81,498;
- 719,750 shares were issued upon the exercise of 719,750 options at prices from \$0.175 to \$0.31 for gross proceeds of \$141,150, \$52,500 of which was recorded as a subscription received in the previous year. Share-based payments previously recognized of \$102,846 have been reclassified from reserves to share capital;
- 150,000 shares at a fair value of \$39,750 calculated based on fair value of shares at \$0.265 per share were issued to a contractor for consulting services;
- 1,237,450 warrants with an expiration date of April 26, 2016 were extended by one year and 158,935 agent warrants expired unexercised; 345,000 options with an expiration date of March 24, 2016 were repriced from \$0.20 to \$0.285 and extended by three years. Share-based payment of \$46,355 was recorded as a result of this extension; and
- 14,900,777 units were issued as part of a private placement for gross proceeds of \$4,023,209. Each unit comprises one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each whole Warrant entitling the holder to purchase one additional common share at \$0.35 for a period of two years from the date of issue; 694,500 shares at a fair value of \$360,060 were issued to a broker as a finder fee for the private placement. The warrants issued in connection with the units were allocated a residual value of \$43,366 and recorded in warrants reserve. The Company paid finder's cash commissions totaling \$178,066 and issued 1,020,200 finder's warrants with a fair value of \$456,395. The finder's warrants are exercisable for one year at \$0.35 per share.

### c) Stock-based compensation

The following is a summary of changes in stock options for the periods ended March 31, 2017 and December 31, 2016:

	March 31, 2016		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	2,900,500	\$ 0.33	3,790,250	\$ 0.31
Options granted	3,040,000	\$ 0.35	530,000	\$ 0.27
Options exercised	(150,000)	\$ 0.175	(719,750)	\$ 0.20
Options cancelled	-	-	(700,000)	\$ 0.43
Total options outstanding	5,790,500	\$ 0.34	2,900,500	\$ 0.33
Unvested options	(2,432,000)	\$ 0.35	-	-
Options outstanding and exercisable, end of period	3,358,500	\$ 0.34	2,900,500	\$ 0.33

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The following are the outstanding stock options as of March 31, 2017:

<b>Expiry date</b>	<b>Number of options outstanding</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual life in years</b>
April 16, 2017	50,000	\$ 0.200	0.04
June 19, 2017	225,000	\$ 0.400	0.22
November 3, 2017	250,000	\$ 0.300	0.59
March 8, 2018	30,000	\$ 0.295	0.93
April 3, 2018	410,500	\$ 0.175	1.01
March 24, 2019	240,000	\$ 0.285	1.98
March 23, 2020	1,325,000	\$ 0.400	2.98
November 3, 2020	220,000	\$ 0.300	3.59
January 27, 2022	3,040,000	\$ 0.350	4.83
	<b>5,790,500</b>		<b>3.55</b>

The following are the outstanding stock options as of December 31, 2016:

<b>Expiry date</b>	<b>Number of options outstanding</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual life in years</b>
April 16, 2017	50,000	\$ 0.200	0.29
June 19, 2017	225,000	\$ 0.400	0.47
November 3, 2017	250,000	\$ 0.300	0.84
March 8, 2018	30,000	\$ 0.295	1.18
April 3, 2018	560,500	\$ 0.175	1.26
March 24, 2019	240,000	\$ 0.285	2.23
March 23, 2020	1,325,000	\$ 0.400	3.23
November 3, 2020	220,000	\$ 0.300	3.84
	<b>2,900,500</b>		<b>2.32</b>

During the three-month period ended March 31, 2017, the Company recognized share-based payments expense of \$239,359 (2016 - \$47,073) in relation to stock options granted during the period. The 2016 total includes \$29,616 relating to 310,000 options with an expiration date of March 24, 2016 being repriced from \$0.20 to \$0.285 and extended by three years.

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The fair value of each option granted was estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2017	December 31, 2016
Risk-free interest rate	0.58%	0.55%
Expected life (years)	5.0	1.63
Annualized volatility	89.73%	92.59%
Expected dividends	-	-
Exercise price	\$0.222	\$0.28

### d) Warrants

A summary of the Company's warrants for the three-month period ended March 31, 2017 and December 31, 2016 is as follows:

	March 31, 2017		December 31, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	14,861,777	\$ 0.406	7,410,870	\$ 0.459
Issued	-	\$ -	8,470,586	\$ 0.350
Exercised	(1,464,500)	\$ 0.380	(860,744)	\$ 0.324
Expired and cancelled	(2,380,427)	\$ 0.300	(158,935)	\$ 0.300
Outstanding, end of period	11,016,850	\$ 0.411	14,861,777	\$ 0.406

The following are the outstanding warrants as at March 31, 2017:

	Outstanding warrants	Exercise price	Expiry date
Common share purchase warrants	662,450	\$ 0.30	April 25, 2017
	1,628,650	\$ 0.75	May 27, 2017
	68,000	\$ 0.75	July 14, 2017
	1,525,528	\$ 0.35	August 22-30, 2018
	5,917,358	\$ 0.35	November 7, 2018
Agent warrants	194,664	\$ 0.75	May 27, 2017
	1,020,200	\$ 0.35	November 7, 2018
	11,016,850		

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The following are the outstanding warrants as at December 31, 2016:

	<b>Outstanding warrants</b>	<b>Exercise price</b>	<b>Expiry date</b>
Common share purchase warrants	3,490,547	\$ 0.40	February 23, 2017
	862,450	\$ 0.30	April 25, 2017
	1,628,650	\$ 0.75	May 27, 2017
	68,000	\$ 0.75	July 14, 2017
	1,533,028	\$ 0.35	August 22-30, 2018
	5,917,358	\$ 0.35	November 7, 2018
Agent warrants	146,880	\$ 0.30	February 23, 2017
	194,664	\$ 0.75	May 27, 2017
	1,020,200	\$ 0.35	November 7, 2018
	<b>14,861,777</b>		

### e) Reserves

As at March 31, 2017 and December 31, 2016, the reserves of the Company were as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Stock option reserves	1,097,464	887,105
Warrant reserves	537,554	537,554
Total reserves	<b>1,635,018</b>	<b>1,424,659</b>

### 19. Commitments

In April 2016, the Company entered into a premises lease agreement with term commencing August 1, 2016 and terminating July 31, 2026. The basic rent is payable in advance at a rate of \$8,093 per month plus the proportionate share of expenses in respect of operating costs and property taxes amounting to \$2,572 per month.

### 20. Capital Disclosure

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued capital and deficit. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity. The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amounts of cash and investments. The Company's policy is to invest its excess cash in highly-liquid, guaranteed, bank-sponsored instruments.

There were no significant changes in the Company's approach or objectives and policies for managing its capital during the period ended March 31, 2017. The Company is not subject to externally imposed capital

## Naturally Splendid Enterprises Ltd.

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restrictions.

### 21. Goodwill

Goodwill acquired through business combinations has been allocated to two cash-generating units (“CGU”). The breakdown of goodwill as at March 31, 2017 and December 31, 2016 is as follows:

#### BPC

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Balance, beginning of the period	\$ 801,000	\$ 801,000
Balance, end of the year	<u>\$ 801,000</u>	<u>\$ 801,000</u>

#### Chi

Balance, beginning of the period	\$ 90,168	\$ 90,168
Balance, end of the period	<u>\$ 90,168</u>	<u>\$ 90,168</u>

The Company performs an annual impairment test of goodwill at December 31. The recoverable amounts have been determined using Level 3 inputs, based on value-in-use calculation using pre-tax cash flow projections from financial budgets approved by senior management for 2017, forecasts over a five-year period based on management’s best estimates, and a pre-tax discount rate of 18% (2015 - 22.5%).

The most significant assumptions used in the impairment calculation are the discount rate and the estimates used in determining future expected cash flows. The Company performed a sensitivity analysis by changing the pre-tax discount rates by +/- 1% and noted no material impact on the recoverable amount.

### 22. Supplemental Cash Flow Information

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Non-cash items:		
Shares issued for purchase of equipment	97,101	-
Warrants exercised to settle accounts payable	120,000	-
	<u>217,101</u>	<u>-</u>
<b>Interest and taxes paid</b>		
Interest	4,887	399
Taxes	-	-

### 23. Litigation

In August 2016, a claim was filed against the Company and other defendants seeking an injunction, alleging a breach of confidential information. The Company filed a statement of defense in September 2016 and intends to defend the claim. Any possible likelihood of loss cannot be estimated by the Company at this time.



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### **24. Comparative Figures**

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

### **25. Events After the Reporting Period**

Subsequent to March 31, 2017, the Company received a \$150,000 advance from related parties. The loan bears interest at 6% and is repayable on demand.