



# Naturally Splendid Enterprises Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

September 30, 2015

Expressed in Canadian Dollars



## Naturally Splendid Enterprises Ltd.

### Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Note	As at September 30, 2015 \$	As at December 31, 2014 \$
<b>Assets</b>			
<b>Current</b>			
Cash		76,333	25,404
Trade and other receivables	6	229,568	58,266
Inventories	7	264,545	277,773
Advances and prepaid expenses	9	685,172	230,382
Deposit		-	40,000
		<u>1,255,618</u>	<u>631,825</u>
<b>Restricted cash</b>	12	57,560	17,310
<b>Equipment</b>	13 and 16	506,048	99,231
<b>Technology license</b>	4 and 8	1,561,654	-
<b>Goodwill</b>	4	3,868,164	-
		<u><b>7,249,044</b></u>	<u><b>748,366</b></u>
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	15	1,119,696	126,882
Current portion of capital lease obligation	14	4,540	4,182
		<u>1,124,236</u>	<u>131,064</u>
<b>Capital lease obligation</b>	14	5,497	8,912
<b>Long-term debt</b>	4 and 16	309,000	-
		<u>314,497</u>	<u>8,912</u>
		<u><b>1,438,733</b></u>	<u><b>139,976</b></u>
<b>Equity</b>			
Share capital	17	12,287,648	6,403,221
Subscriptions received		-	106,920
Reserves	17	1,036,391	355,498
Deficit		(9,290,369)	(6,257,249)
<b>Equity attributable to owners of the company</b>		<u>4,033,670</u>	<u>608,390</u>
<b>Non-controlling interest</b>		1,776,641	-
		<u>5,810,311</u>	<u>608,390</u>
		<u><b>7,249,044</b></u>	<u><b>748,366</b></u>

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON November 30, 2015 :

"J. Craig Goodwin"

Director

"Bryan Carson"

Director

# Naturally Splendid Enterprises Ltd.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Note	Three-month period ended September 30,		Nine-month period ended September 30,	
		2015	2014	2015	2014
		\$	\$	\$	\$
<b>Revenue</b>		<b>200,571</b>	<b>66,232</b>	<b>310,523</b>	<b>205,963</b>
<b>Cost of sales</b>		<b>161,813</b>	<b>77,486</b>	<b>300,451</b>	<b>176,010</b>
<b>Gross Profit</b>		<b>38,758</b>	<b>(11,254)</b>	<b>10,072</b>	<b>29,953</b>
<b>Selling and distribution expenses</b>					
Commissions and direct selling		-	2,648	-	4,071
Facility expenses		73,435		73,435	
Product development, net of grants		89,257	3,429	129,877	7,843
Product promotion and trade shows		64,789	18,186	187,327	77,358
Salaries and wages		41,220	19,193	100,667	48,834
Bad debts		-	11,720	-	11,720
		<u>268,701</u>	<u>55,176</u>	<u>491,306</u>	<u>149,826</u>
<b>Administrative expenses</b>					
Accounting and audit		63,730	12,780	124,120	81,683
Amortization		42,382	8,272	61,898	21,876
Bank charges and interest		7,308	2,237	12,189	3,417
Consulting	11	60,738	99,675	291,175	120,675
Legal		98,717	32,292	172,708	63,809
Management fees	10 and 11	116,409	66,000	339,539	198,000
Office, rent and salaries		101,864	82,937	343,353	188,215
Promotion		172,805	104,940	369,595	287,252
Share-based payments	17	-	-	792,980	201,351
Transfer agent and filing fees		3,368	71,548	61,720	101,042
Travel		15,120	9,578	56,631	22,041
		<u>682,441</u>	<u>490,259</u>	<u>2,625,908</u>	<u>1,289,361</u>
		(912,384)	(556,689)	(3,107,142)	(1,409,234)
Foreign exchange gain (loss)		19,844	27	8,605	(365)
Gain on forgiveness of accounts payable		-	25,626	-	25,626
Interest income		1,507	1,305	1,732	2,201
<b>Net loss and comprehensive loss for the period</b>		<b>(891,033)</b>	<b>(529,731)</b>	<b>(3,096,805)</b>	<b>(1,381,772)</b>
<b>Comprehensive loss attributed to:</b>					
Owners of the company		<b>(827,348)</b>	<b>(529,731)</b>	<b>(3,033,120)</b>	<b>(1,381,772)</b>
Non-controlling interest		<b>(63,685)</b>	<b>-</b>	<b>(63,685)</b>	<b>-</b>
		<u>(891,033)</u>	<u>(529,731)</u>	<u>(3,096,805)</u>	<u>(1,381,772)</u>
Comprehensive income (loss) per share					
Basic and diluted		\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ (0.04)
Weighted average number of common shares outstanding					
Basic and diluted		55,943,815	36,455,521	49,968,009	33,171,110

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

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	<b>Nine-month period ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(3,096,805)	(1,381,772)
Adjustments to reconcile loss to net cash		
Amortization	61,898	21,875
Forgiveness of accounts payable	-	(25,626)
Shares issued for services	49,375	-
Share based payments	792,980	201,351
<b>Changes in non-cash working capital:</b>		
Trade and other receivables	(140,829)	38,314
Inventories	13,228	(84,088)
Advances and prepaid expenses and deposits	(552,090)	89,104
Restricted cash	(40,250)	-
Trade and other payables	711,407	(95,408)
<b>Cash used in operating activities</b>	<u>(2,201,086)</u>	<u>(1,236,250)</u>
<b>Investing activities</b>		
Repayment of capital lease	(3,057)	-
Purchase of property and equipment, net	(135,104)	(57,800)
Acquisition of technology license	(549,000)	-
Acquisition of POS BPC	(1,750,000)	-
<b>Cash used in investing activities</b>	<u>(2,437,161)</u>	<u>(57,800)</u>
<b>Financing activities</b>		
Repayments to related parties	-	(3,675)
Proceeds from issuance of shares, net	4,689,176	1,446,362
<b>Cash provided by financing activities</b>	<u>4,689,176</u>	<u>1,442,687</u>
<b>Net change in cash and cash equivalents</b>	50,929	148,637
<b>Cash and cash equivalents, beginning balance</b>	<u>25,404</u>	<u>189,667</u>
<b>Cash and cash equivalents, ending balance</b>	<u>76,333</u>	<u>338,304</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 (deficit) \$
<b>Balance at December 31, 2013</b>	28,731,105	4,853,214	-	238,964	(4,461,492)	630,686	-	630,686
Private placement, net of share issuance costs	6,843,500	1,266,369	-	-	-	1,266,369	-	1,266,369
Warrants exercised	424,394	78,619	-	-	-	78,619	-	78,619
Options exercised	500,000	87,500	-	-	-	87,500	-	87,500
Reclassify warrants exercised	-	84,817	-	(84,817)	-	-	-	-
Share-based payments	-	-	-	201,351	-	201,351	-	201,351
Net loss for the period	-	-	-	-	(1,381,772)	(1,381,772)	-	(1,381,772)
Non-controlling interest	-	-	-	-	-	-	-	-
<b>Balance at September 30, 2014</b>	<b>36,498,999</b>	<b>6,370,519</b>	<b>-</b>	<b>355,498</b>	<b>(5,843,264)</b>	<b>882,753</b>	<b>-</b>	<b>882,753</b>
<b>Balance at December 31, 2014</b>	36,658,999	6,403,221	106,920	355,498	(6,257,249)	608,390	-	608,390
Private placement, net of share issuance costs	10,781,882	3,410,456	(106,920)	-	-	3,303,536	-	3,303,536
Technology license acquisition	2,928,571	761,428	-	-	-	761,428	-	761,428
BPC acquisition	367,647	165,441	-	-	-	165,441	-	165,441
Shares issued for services	125,000	49,375	-	-	-	49,375	-	49,375
Warrants exercised	4,465,194	1,262,640	-	-	-	1,262,640	-	1,262,640
Options exercised	640,000	123,000	-	-	-	123,000	-	123,000
Reclassify warrants and options exercised	-	112,087	-	(112,087)	-	-	-	-
Share-based payments	-	-	-	792,980	-	792,980	-	792,980
Net loss for the period	-	-	-	-	(3,033,120)	(3,033,120)	(63,685)	(3,096,805)
Non-controlling interest	-	-	-	-	-	-	1,840,326	1,840,326
<b>Balance at September 30, 2015</b>	<b>55,967,293</b>	<b>12,287,648</b>	<b>-</b>	<b>1,036,391</b>	<b>(9,290,369)</b>	<b>4,033,670</b>	<b>1,776,641</b>	<b>5,810,311</b>

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

# **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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

Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp.) (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 provides food supplements packaged for distribution through grocery stores, health and nutrition stores, and other outlets where consumers purchase health-related products. 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 sales and distribution channels.

The head office, principal address, and registered and records office is located at 605 - 1166 Alberni Street, Vancouver, British Columbia, Canada V6E 3Z3.

In February 2013, the Company acquired all the issued and outstanding shares of Naturally Splendid Enterprises Ltd. by amalgamation.

The Company’s 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 nine-month period ended September 30, 2015, the Company had a net loss of \$3,096,805 (2014 - \$1,381,772).

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 substantial doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and condensed consolidated interim statement of financial position classifications that would be necessary if the going concern assumption was inappropriate.

## **2. Basis of Presentation**

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

These 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 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, 2014 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 Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### b) Basis of presentation

These 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 5. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

These 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%
POS BPC Manufacturing Corp.	Subsidiary	51%

All intercompany balances and transactions are eliminated on consolidation.

### c) Significant accounting judgments, estimates and assumptions

The preparation of these 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 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 review 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:

#### 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.

## **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### 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.

### Estimated fair value of assets acquired

The fair value of tangible and intangible assets and goodwill acquired with the purchase of POS (Note 4) were valued based on the estimates made by management and for which consideration was paid. Goodwill and intangible assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount.

### *Critical accounting judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the 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.

### Asset acquisition or business acquisition

Management uses judgment in determining whether the acquired entity meets the criteria required for the purchase to be considered a business acquisition. In making this judgment, management considers whether the entity has established inputs, processes and outputs required for the acquisition to be considered a business acquisition.

## **3. Significant Accounting Policies**

The significant accounting policies used in the preparation of these 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, 2014.

### Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.



## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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The following accounting standard and amendment to existing standards was adopted effective January 1, 2015:

### *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments*: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting focused on four main areas:

- the meaning of “currently has a legally enforceable right of set-off”
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

#### **4. Acquisition of POS BPC Manufacturing Corp.**

During the period, the Company completed the acquisition of 51% of POS BPC Manufacturing Corp. (“BPC”) in accordance with the terms of a securities purchase agreement with POS Management Corp. and POS Holdings Corp. (together “POS”). In consideration of the BPC shares, the Company paid \$1.75 million to POS and issued 367,647 common shares of the Company, which shares are subject to a trading restriction for a period of 12 months from the date of issue. The Company, POS and BPC entered into a unanimous shareholders agreement that provides, among other things, equal board representation for each of the Company, which will hold 51 Class A shares of BPC, and POS, which will hold 49 Class A shares of BPC. Certain directors and officers of the Company and POS were appointed to serve as directors and officers of BPC. BPC operates a 12,000-square-foot facility containing the equipment required to process a variety of products including the suite of plant-based omega technologies such as HempOmega that the Company has licensed from Full Spectrum Laboratories Limited (“FSL”).

The Company also entered into a license agreement with POS whereby the Company has the right to sell and market, on an exclusive basis, five ingredients created using POS technology and sell and market, on a non-exclusive basis, additional ingredients created using POS technologies. In consideration of the license, the Company has agreed to pay POS a 5% net revenue royalty. The ingredients included in this licensing arrangement are of high-quality sourced plant and marine extracts in the form of powder or oil and will be marketed through the Company’s recently launched BC Ingredients (BCI) division.

The acquisition of BPC was accounted for as a business combination and recorded in the accounts of the Company at the fair value of the identifiable assets and liabilities with the residual allocated as goodwill, as follows:

Cash				\$	1,750,000
Shares - fair value closing price	367,647	\$	0.45		165,441
Fair value					<u>1,915,441</u>

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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The fair value assets and liabilities acquired were:

	\$
Cash	-
Accounts receivable	3,019
Prepaid expenses	38,700
Due from related Parties	27,454
Property, plant and equipment	308,837
Technology license	100,000
Bank indebtedness	(8,099)
Accounts payable	(273,308)
Long-term debt	(309,000)
	<u>(112,397)</u>

The \$1,915,441 purchase price for the 51% controlling interest in BPC was accordingly allocated as follows:

	\$
Net assets	(112,397)
NCI (49 shares)	(1,840,326)
Goodwill	3,868,164
Purchase price	<u>1,915,441</u>

The non-controlling interest of \$1,840,326 represents the 49% of BPC held by POS and presented in the condensed consolidated interim financial statements of the Company.

### 5. Financial Instruments

#### a) Categories of financial instruments

	September 30, 2015	December 31, 2014
	\$	\$
<b>Financial Assets</b>		
Fair value through profit or loss, at fair value		
Cash	76,333	25,404
Loans and receivables, at amortized cost		
Trade and other receivables	206,448	44,699
Restricted cash	57,560	17,310
Total financial assets	<u>340,341</u>	<u>87,413</u>
<b>Financial Liabilities</b>		
Other liabilities, at amortized cost		
Trade and other payables	1,119,696	126,882
Long-term debt, including current portion	309,000	-
Total financial liabilities	<u>1,428,696</u>	<u>126,882</u>

## **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### **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 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 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 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 September 30, 2015, the Company had working capital of \$131,382 (December 31, 2014 - \$500,761).

#### *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.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### 6. 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>September 30, 2015</b>	<b>December 31, 2014</b>
	\$	\$
GST/HST receivable	23,120	13,567
Trade receivables *	206,448	44,699
	<u>229,568</u>	<u>58,266</u>

\* 2014 are net of an allowance for bad debts of \$27,729. No allowance for doubtful accounts or impairment has been recognized for the September 30, 2015 trade receivables.

### 7. Inventories

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Seed and finished products for resale	23,097	137,427
Containers, labels and raw products	241,448	140,346
	<u>264,545</u>	<u>277,773</u>

### 8. Technology License

During the nine-month period ended September 30, 2015, the Company closed on the technology acquisition agreement previously announced in November, 2014, and subsequently amended that agreement.

Naturally Splendid USA Ltd. entered into a Novation Agreement with FSL, Boreal Technologies, Inc. ("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 provides that the licensee has a worldwide license to manufacture, commercialize and sell products based on the follow 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.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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Under the terms of the Novation Agreement, Naturally Splendid USA Ltd. paid CDN \$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 \$1,486,428 of which \$176,000 was prepaid at December 31, 2014. The License Agreement will be amortized over a 15-year period representing the term of the agreement plus one renewal period.

The Company will be required to pay to FSL a 4.5% gross revenue royalty. Commencing on November 17, 2016 and each year thereafter, the Company will be obligated to pay a minimum gross revenue royalty of US\$1.6 million. Notwithstanding the foregoing, no royalties will be payable to FSL on the first C\$1,750,000 of royalties payable under the License Agreement.

On September 23, 2015, as a result of the closing of a restated and amended licence agreement, Naturally Splendid acquired a 100-per-cent 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-per-cent 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 SOPs (standard operating procedures) and GC-MS terpene analysis SOPs to a non-exclusive licence.

### 9. Prepaid expenses

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
License technology advance <sup>1</sup>	-	176,000
Product research and development <sup>2</sup>	232,590	-
Investor relations advances <sup>3</sup>	328,750	-
Other	123,832	54,382
	<u>685,172</u>	<u>230,382</u>

<sup>1</sup> As at December 31, 2014, the Company had advanced \$176,000 for the acquisition of the License Technology from Boreal (Note 8).

<sup>2</sup> During the nine-month period ended September 30, 2015, the Company advanced \$250,000 for services relating to research of hemp and hemp-based technologies.

<sup>3</sup> During the nine-month period ended September 30, 2015, the Company paid \$567,500 for investor relation services to be provided over a period of twelve months. As at September 30, 2015, the unamortized portion is \$328,750.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### 10. Key Management Compensation

The remuneration of directors and other members of key management for the three- and nine-month periods ended September 30 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Management fees	101,409	66,000	294,539	198,000
Share-based payments (Note 17)	-	-	502,865	201,351
	<u>101,409</u>	<u>66,000</u>	<u>797,404</u>	<u>399,351</u>

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

### 11. Related Party Transactions

Management fees paid to a company controlled by an officer and consulting fees paid to a company controlled by a director for the three- and nine-month periods ended September 30 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Management fees	15,000	15,000	45,000	45,000
Consulting fees	<u>10,500</u>	<u>10,500</u>	<u>21,000</u>	<u>31,500</u>
	<u>25,500</u>	<u>25,500</u>	<u>66,000</u>	<u>76,500</u>

### 12. Restricted Cash

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

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

### 13. Property and Equipment

The changes in the Company's property and equipment for the nine-month period ended September 30, 2015 and year ended December 31, 2014 are as follows:

	Computer equipment	Furniture and equipment	Leasehold Improvements	Manufacturing facility	Website development costs	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
December 31, 2013	47,079	89,039	4,300	-	7,500	147,918
Additions	9,393	33,381	15,668	-	-	58,442
December 31, 2014	56,472	122,420	19,968	-	7,500	206,360
Additions	13,447	121,658	-	308,836	-	443,941
<b>September 30, 2015</b>	<b>69,919</b>	<b>244,078</b>	<b>19,968</b>	<b>308,836</b>	<b>7,500</b>	<b>650,301</b>
<b>Depreciation</b>						
December 31, 2013	32,228	36,600	430	-	7,500	76,758
Additions	14,593	13,177	2,601	-	-	30,371
December 31, 2014	46,821	49,777	3,031	-	7,500	107,129
Additions	10,281	19,134	3,256	4,453	-	37,124
<b>September 30, 2015</b>	<b>57,102</b>	<b>68,911</b>	<b>6,287</b>	<b>4,453</b>	<b>7,500</b>	<b>144,253</b>
<b>Net Book Value</b>						
December 31, 2014	9,651	72,643	16,937	-	-	99,231
September 30, 2015	12,817	175,167	13,681	304,383	-	506,048

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### 14. Capital Lease Obligation

During the year ended December 31, 2014, the Company entered into a lease contract for equipment used in operations. The Company has accounted for this as a capital lease obligation.

The following table summarizes the outstanding obligation:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Lease payments due within one year	5,859	5,859
Lease payments due within two to five years	5,578	8,848
Total lease payments	<u>11,437</u>	<u>14,707</u>
Lease payment amounts representing interest	<u>(1,400)</u>	<u>(1,613)</u>
Present value of net minimum lease payments	10,037	13,094
Current portion	<u>(4,540)</u>	<u>(4,182)</u>
	<u>5,497</u>	<u>8,912</u>

### 15. Trade and Other Payables

Trade and other payables are non-interest-bearing, unsecured and have settlement dates within one year.

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Trade and other payables	<u>1,119,696</u>	<u>126,882</u>

### 16. Long-Term Debt

Loan payable to Saskatchewan Opportunities Corporation in monthly payments of \$6,438 beginning April 1, 2017. The loan bears no interest; however, if at any time the loan goes in default, interest will accrue at 5%. A general security agreement on POS BPC Manufacturing Corp. assets is pledged as security. The loan is due March 2021.

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Loan payable to Saskatchewan Opportunities Corporation	309,000	-
	<u>309,000</u>	<u>-</u>



## **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### **17. 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 55,967,293 common shares without par value.

During the nine-month period ended September 30, 2015, the Company completed the following transactions:

- 3,393,300 units were issued at a price of \$0.50 per unit for gross proceeds of \$1,696,650. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each full Warrant entitling the holder to purchase one additional common share at \$0.75 for a period of two years from the date of the issue. The Company paid finder's cash commissions totaling \$96,612 and issued a finder 340,520 non-transferable warrants. Each finder's warrant is exercisable on the same terms as the Warrants described above.
- 7,388,582 units were issued at a price of \$0.25 per unit for gross proceeds of \$1,847,138. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each full Warrant entitling the holder to purchase one additional common share at \$0.40 for a period of two years from the date of the issue. The Company will have the right to accelerate the expiry date of the Warrants if, at any time, the volume weighted average price of the Company's common shares is equal to, or greater than \$0.50 for 10 consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. The Company paid finder's cash commissions totaling \$36,720 and issued a finder 146,880 non-transferable warrants. Each finder's warrant is exercisable on the same terms as the Warrants described above.
- 2,928,571 common shares of the Company were issued for a fair value of \$761,428 to acquire technology (Note 8).
- 367,647 common shares of the Company were issued at a fair value of \$165,441 for the acquisition of a processing facility.
- 125,000 shares were issued for services at a fair value of \$49,375.
- 640,000 common shares were issued upon the exercise of 640,000 options at a price of \$0.19 and \$0.20 per share, for gross proceeds of \$123,000.
- 4,465,194 common shares upon the exercise of 4,465,194 warrants at a price of \$0.25 and \$0.30 per share for gross proceeds of \$1,262,640.

During the year ended December 31, 2014 the Company completed the following transactions:

- 6,843,500 units at \$0.20 per unit for gross proceeds of \$1,368,700. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share at \$0.30 for a period of two years from date of issue. The Company will have the right to accelerate the expiry of the warrants if at any time the average closing price of the Company's shares is equal to or greater

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

than \$0.40 per share for 10 consecutive trading days. In the event of acceleration, the expiry date shall be accelerated to 30 days after the Company issues a news release announcing its election to exercise the acceleration right. The Company paid \$109,614 and issued 382,650 finders warrants as finders' fees for the private placement. Each finders warrant is exercisable on the same terms as the warrants attached to the units issued.

- 500,000 common shares upon the exercise of 500,000 options at a price of \$0.175 per share for gross proceeds of \$87,500.
- 366,394 common shares upon the exercise of 366,394 warrants at a price of \$0.175 per share for gross proceeds of \$64,119.
- 218,000 common shares upon the exercise of 218,000 warrants at a price of \$0.25 per share for gross proceeds of \$54,485.

### c) Stock-based compensation

The following is a summary of changes in stock options for the nine-month period ended September 30, 2015 and the year ended December 31, 2014:

	September 30, 2015		December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,409,750	\$ 0.18	1,750,000	\$ 0.175
Options granted	2,050,000	\$ 0.40	1,159,750	\$ 0.196
Options exercised	(640,000)	\$ 0.19	(500,000)	\$ 0.175
Options outstanding and exercisable, end of period	3,819,750	\$ 0.30	2,409,750	\$ 0.18

The following are the outstanding stock options as of September 30, 2015:

Expiry date	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
March 24, 2016	370,000	\$ 0.200	0.48
April 16, 2017	149,750	\$ 0.200	1.55
March 4, 2018	1,250,000	\$ 0.175	2.51
March 23, 2020	2,050,000	\$ 0.400	4.48
	3,819,750		

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

### Nine-Month Period Ended September 30, 2015

During the nine-month period ended September 30, 2015, the Company recognized share-based payments expense of \$792,980 (2014 - \$201,351) in relation to 2,050,000 (2014 - 960,000) stock options granted during the period. 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:

	2015	2014
Risk-free interest rate	0.56%	1.33%
Expected life (years)	5.00	3.47
Annualized volatility	101.27%	92.26%
Expected dividends	-	-
Exercise price	\$0.40	\$0.20

#### d) Warrants

A summary of the Company's warrants for the nine-month period ended September 30, 2015 and the year ended December 31, 2014 is as follows:

	<u>September 30, 2015</u>		<u>December 31, 2014</u>	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of period	6,487,054	\$ 0.279	3,372,774	\$ 0.240
Issued	5,878,341	\$ 0.521	3,804,400	\$ 0.300
Exercised	(4,465,194)	\$ 0.273	(584,394)	\$ 0.203
Expired and cancelled	-	-	(105,726)	\$ 0.175
Outstanding, end of period	7,900,201	\$0.459	6,487,054	\$0.279

	<u>Outstanding warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
Common share purchase warrants	130,000	\$ 0.25	November 1, 2015
	1,891,860	\$ 0.30	April 26, 2016
	3,694,291	\$ 0.40	February 23, 2017
	1,696,650	\$ 0.75	July 15, 2017
Agent warrants	146,880	\$ 0.40	February 23, 2017
	340,520	\$ 0.75	July 15, 2017
	<u>7,900,201</u>		

Subsequent to the period end, 130,000 warrants with a strike price of \$0.25 expired unexercised.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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### e) Reserves

As of September 30, 2015 and December 31, 2014 the reserves of the Company were as follows:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Stock option reserves	1,024,172	343,279
Warrant reserves	<u>12,219</u>	<u>12,219</u>
Total reserves	<u>1,036,391</u>	<u>355,498</u>

### 18. Commitments

On May 23, 2013, the Company entered into an offer to lease new premises with a lease term commencement date of June 1, 2013, terminating July 31, 2018. The basic rent is payable in advance at a rate of \$3,656 per month plus the proportionate share of expenses in respect of operating costs and property taxes amounting to \$2,072 per month.

### 19. Events After the Reporting Period

The Company has evaluated the events occurring subsequent to September 30, 2015 and determined that the following were reportable events:

- On October 2, 2015, the Company entered into a loan agreement with Robert Schulz, whereby the lender has agreed to loan Naturally Splendid \$100,000 for a period of two years at an interest rate of 12 per cent per annum. The Company has the right to repay all of the outstanding balance of the loan by paying the lender an amount equal to 124 per cent of the loan less any accrued interest paid by Naturally Splendid, provided that either: (i) Naturally Splendid completes financings totalling at least \$1.5-million in the year following the date of acceptance by the TSX Venture Exchange of the loan; or (ii) Naturally Splendid exercises this right one year after the exchange acceptance date. Further, the lender will also have the right to have Naturally Splendid repay the loan prior to the maturity date at the repayment price, provided that Naturally Splendid completes financings totalling at least \$1.5-million in the year following the exchange acceptance date. As additional consideration of the loan, Naturally Splendid has agreed to issue 95,238 common shares to the lender. The loan will be used for working capital.
- On October 19, 2015, the Company entered into a letter of intent with Chi Hemp Industries Inc. (CHII) and the shareholders of CHII whereby Naturally Splendid has agreed to negotiate the terms of a definitive agreement to acquire all of the issued and outstanding shares of CHII. The definitive agreement was signed on November 4, 2015 and accepted by the TSX Venture Exchange on November 24<sup>th</sup>. Under the terms of the agreement, the CHII shareholders will sell the CHII shares to Naturally Splendid and, in consideration of which, Naturally Splendid will issue \$75,000 of common shares of Naturally Splendid to the CHII shareholders and pay \$75,000 to the CHII shareholders. The cash payment will be made in three separate tranches: \$25,000 within three months of closing, \$25,000 within six months of closing and \$25,000 within nine months of closing. On closing of the transaction, the CHII shareholders will enter into a one-year consulting agreement with Naturally Splendid. The CHII shareholders will receive a 12-per-cent gross sales commission on any lines of business that are directly benefited from their services. Closing of the transaction is subject to acceptance by the TSX Venture Exchange and completion of satisfactory due diligence by Naturally Splendid.

## **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2015**

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- On October 23, 2015 the Company closed on a loan agreement with Coast Mountain Aviation Inc. whereby the lender has agreed to loan Naturally Splendid \$300,000 for a period of two years at an interest rate of 12 per cent per annum. Prior to the maturity date, Naturally Splendid will have the right to repay all of the outstanding balance of the loan by paying the lender the loan plus any accrued and unpaid interest provided that either Naturally Splendid completes financings totalling at least \$1.5-million during the term of the loan, or Naturally Splendid exercises this right one year after the exchange acceptance date. Further, the lender will also have the right to have Naturally Splendid repay the loan prior to maturity date at the repayment price provided that Naturally Splendid completes financings totalling at least \$1.5-million during the term of the loan. As additional consideration of the loan, Naturally Splendid has agreed to issue 260,869 common shares to the lender. The loan will be used for acquisitions and operations.