



# **Naturally Splendid Enterprises Ltd.**

**Unaudited Condensed Consolidated Interim Financial Statements**

**September 30, 2014**

**Expressed in Canadian Dollars**

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## Naturally Splendid Enterprises Ltd.

### Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Note	As at September 30, 2014 \$	As at December 31, 2013 \$
<b>Assets</b>			
<b>Current</b>			
Cash		338,304	189,667
Trade and other receivables	5	80,990	119,304
Inventories	6	353,602	269,514
Advances and prepaid expenses		34,443	123,547
		<u>807,339</u>	<u>702,032</u>
<b>Deposit</b>		40,000	40,000
<b>Restricted cash</b>	9	17,310	17,368
<b>Property and equipment</b>	10	<u>107,143</u>	<u>71,160</u>
		<u>971,792</u>	<u>830,560</u>
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	12	75,165	196,199
Capital lease obligation current portion	11	<u>3,853</u>	<u>-</u>
		79,018	196,199
<b>Due to related parties</b>	7	-	3,675
<b>Capital lease obligation</b>	11	<u>10,021</u>	<u>-</u>
		<u>89,039</u>	<u>199,874</u>
<b>Equity</b>			
<b>Share capital</b>	13	6,370,519	4,853,214
<b>Reserves</b>	13	355,498	238,964
<b>Deficit</b>		<u>(5,843,264)</u>	<u>(4,461,492)</u>
		<u>882,753</u>	<u>630,686</u>
		<u>971,792</u>	<u>830,560</u>

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON November 27, 2014:

*"J. Craig Goodwin" (signed)*

J. Craig Goodwin

Director

*"Peter Hughes" (signed)*

Peter Hughes

Director

## Naturally Splendid Enterprises Ltd.

### Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Note	Three-month period ended Sept. 30,		Nine-month period ended Sept. 30,	
		2014 \$	2013 \$	2014 \$	2013 \$
<b>Revenue</b>		66,232	17,366	205,963	76,778
<b>Cost of sales</b>		77,486	10,404	176,010	51,778
<b>Gross profit (loss)</b>		(11,254)	6,962	29,953	25,000
<b>Selling and distribution expenses</b>					
Commissions and direct selling expenses		2,648	1,827	4,071	6,769
Product development, net of grants		3,429	18,220	7,843	83,120
Product promotion and trade shows		18,186	143,076	76,728	179,652
Salaries and wages		19,183	32,773	48,834	49,610
Bad debts		11,720	-	11,720	-
		55,166	195,896	149,826	319,151
<b>Administrative expenses</b>					
Accounting and audit		12,780	7,980	81,683	49,142
Amortization		8,272	5,262	21,876	11,176
Bank charges and interest		2,237	466	3,417	2,596
Consulting	8	99,675	25,134	120,675	74,634
Directors' fees	8	-	9,000	-	21,000
Legal fees		32,292	10,371	63,809	31,908
Management fees	8	66,000	49,500	198,000	108,000
Office and general		82,937	45,301	188,215	82,379
Promotion		104,940	56,432	287,252	103,249
Share-based payments	13	-	-	201,351	239,220
Transfer agent and filing fees		71,548	7,083	101,042	53,111
Travel		9,578	9,384	22,041	25,555
		490,259	225,913	1,289,361	801,967
		(556,679)	(414,847)	(1,409,234)	(1,096,118)
Foreign exchange		27	-	(365)	(71)
Gain on forgiveness of accounts payable		25,626	-	25,626	953
Interest income		1,305	2,795	2,201	5,540
Listing expense		-	(1,288)	-	(1,328,650)
<b>Net loss and comprehensive loss for the period</b>		(529,721)	(410,764)	(1,381,772)	(2,418,346)
Loss per share – basic and diluted		(0.015)	(0.02)	(0.042)	(0.09)
Weighted average number of common shares outstanding		36,455,521	22,735,516	33,171,110	25,895,282

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

	<b>Nine-month period ended Sept. 30,</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Cash flows used in operating activities</b>		
Net loss and comprehensive loss for the period	(1,381,772)	(2,418,346)
Adjustments to reconcile loss to net cash		
Amortization	21,875	11,176
Share-based payments	201,351	239,220
Forgiveness of accounts payable	(25,626)	5,703
Listing expense	-	1,328,650
Changes in non-cash working capital items		
Trade and other receivables	38,314	(58,351)
Inventories	(84,088)	(134,125)
Advances and prepaid expenses	89,104	(131,858)
Trade and other payables	(95,408)	137,571
	<u>(1,236,250)</u>	<u>(1,018,799)</u>
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment, net	(43,984)	(45,432)
Restricted cash	58	(17,271)
Cost of acquisition	-	(63,749)
	<u>(57,800)</u>	<u>(126,452)</u>
<b>Cash flows from financing activities</b>		
Repayments to related parties	(3,675)	(10,796)
Proceeds from issuance of shares, net	1,432,488	1,597,431
Repayment of loans payable	-	(183,764)
	<u>1,442,687</u>	<u>1,402,871</u>
<b>Increase (decrease) in cash</b>	148,637	257,620
<b>Cash obtained on acquisition</b>	-	24,010
<b>Cash, beginning of period</b>	<u>189,667</u>	<u>5,077</u>
<b>Cash, end of period</b>	<u>338,304</u>	<u>286,707</u>

**Naturally Splendid Enterprises Ltd.**  
Consolidated Statements of Changes in Equity  
(Unaudited - Expressed in Canadian Dollars)

	Class B common shares	Class C common shares	Common Shares	Share capital (\$)	Reserves (\$)	Deficit (\$)	Total equity (deficiency) (\$)
<b>Balance at December 31, 2012</b>	8,400,000	6,385,457	-	1,546,300	-	(1,716,425)	(170,125)
Exchange of shares on acquisition	(8,400,000)	(6,385,457)	11,599,971	1,274,540	-	-	1,274,540
Issued and outstanding shares of Race Capital Corp.	-	-	4,000,000	-	-	-	-
Private placement, net of share issue costs	-	-	10,000,000	1,500,947	54,000	-	1,554,947
Warrants exercised	-	-	328,480	42,484	-	-	42,484
Share-based payments	-	-	-	-	239,220	-	239,220
Net loss for the period	-	-	-	-	-	(2,418,346)	(2,418,346)
<b>Balance at September 30, 2013</b>	-	-	25,928,451	4,364,271	293,220	(4,134,771)	522,720
<b>Balance at December 31, 2013</b>	-	-	28,731,105	4,853,214	238,964	(4,461,492)	630,686
Private placement, net of share issue costs	-	-	6,843,500	1,266,369	-	-	1,266,369
Warrants exercised	-	-	424,394	78,619	-	-	78,619
Options exercised	-	-	500,000	87,500	-	-	87,500
Reclassify options and warrants exercised	-	-	-	84,817	(84,817)	-	-
Share-based payments	-	-	-	-	201,351	-	201,351
Net loss for the period	-	-	-	-	-	(1,381,772)	(1,381,772)
<b>Balance at September 30, 2014</b>	-	-	36,498,999	6,370,519	355,498	(5,843,264)	882,753

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, 2014**

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

Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp. (“Race”)) (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, 2014, the Company had a net loss of \$1,381,772 (2013 - \$2,418,346).

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, 2013 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, 2014**

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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 4. 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%

All intercompany balances and transactions are eliminated on consolidation.

### 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, 2013. The following accounting standard and amendment to existing standards was adopted effective January 1, 2014:

- Leases

Lease agreements are evaluated to determine whether they are capital or operating leases. When substantially all of the risks and benefits of property ownership have been transferred to the Company, the lease is recognized as a capital lease.

For capital leases, an asset is recorded at the lower of its fair market value or the net present value of the future minimum lease payments, with a corresponding obligation.

Assets under capital lease are amortized on a straight-line basis over the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

- IAS 32 *Financial Instruments: Presentation* – Amends presentation to clarify certain aspects of offsetting financial assets and financial liabilities.

The adoption of this standard had no effect on the Company's financial position or financial performance.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### 4. Financial Instruments

#### a) Categories of financial instruments

	September 30, 2014 \$	December 31, 2013 \$
FINANCIAL ASSETS		
Fair value through profit or loss, at fair value		
Cash	338,304	189,667
Loans and receivables, at amortized cost		
Trade and other receivables	63,538	92,018
Deposit	40,000	40,000
Restricted cash	17,310	17,368
Total financial assets	<u>476,604</u>	<u>339,053</u>
FINANCIAL LIABILITIES		
Other liabilities, at amortized cost		
Trade and other payables	75,165	196,199
Due to related parties	-	3,675
Total financial liabilities	<u>75,165</u>	<u>199,874</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 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.



## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### *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, 2014, the Company had working capital of \$728,321 (December 31, 2013 - \$505,833).

### *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.

## 5. 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>Sept. 30, 2014</b>	<b>December 31, 2013</b>
	\$	\$
GST/HST receivable	17,452	27,286
Trade receivables *	<u>63,538</u>	<u>92,018</u>
	<u>80,990</u>	<u>119,304</u>

\* 2014 are net of an allowance for bad debts of \$11,720. No allowance for doubtful accounts or impairment has been recognized for the December 31, 2013 trade receivables.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### 6. Inventories

	<b>Sept. 30, 2014</b>	<b>December 31, 2013</b>
	\$	\$
Seed and finished products for resale	177,287	35,916
Containers, labels and raw products	<u>176,315</u>	<u>233,598</u>
	<u>353,602</u>	<u>269,514</u>

### 7. Amounts Due to Related Parties

The Company's related parties consist of companies controlled by executive officers and directors.

As at September 30, 2014 and December 31, 2013, the amounts due to related parties include:

	<b>Sept. 30, 2014</b>	<b>December 31, 2013</b>
	\$	\$
Due to officers and directors	<u>-</u>	<u>3,675</u>

Amounts due to/from related parties are non-interest-bearing, unsecured and have no fixed terms of repayment.

### 8. Key Management Compensation

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

	<b>2014</b>	<b>2013</b>
	\$	\$
Management fees	198,000	58,500
Directors' fees	-	12,000
Consulting fees	31,500	-
Share-based payments (Note 13)	<u>201,351</u>	<u>239,220</u>
	<u>430,851</u>	<u>309,720</u>

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

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

### 9. Restricted Cash

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

### 10. Property and Equipment

The changes in the Company's property and equipment for the nine-month period ended September 30, 2014 and year ended December 31, 2013 are as follows:

	Computer equipment \$	Furniture and equipment \$	Leasehold improvements \$	Website development costs \$	Total \$
<b>COST</b>					
As at December 31, 2012	23,212	48,770	-	7,500	79,482
Additions	23,867	40,269	4,300	-	68,436
As at December 31, 2013	47,079	89,039	4,300	7,500	147,918
Additions	9,197	32,994	15,668	-	57,858
As at September 30, 2014	56,276	122,033	19,968	7,500	205,777
<b>AMORTIZATION AND IMPAIRMENT</b>					
As at December 31, 2012	22,521	30,575	-	5,625	58,721
Additions	9,707	6,025	430	1,875	18,037
As at December 31, 2013	32,228	36,600	430	7,500	76,758
Additions	10,480	9,881	1,515	-	21,876
As at September, 2014	42,708	46,481	1,945	7,500	98,634
<b>Net Book Value</b>					
December 31, 2013	14,851	52,439	3,870	-	71,160
September, 2014	13,568	75,552	18,023	-	107,143

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### 11. Capital Lease Obligation

During the nine-month period ended September 30, 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>Sept. 30, 2014</b>	<b>December 31, 2013</b>
	\$	\$
Lease payments due within one year	5,859	-
Lease payments due within two to five years	10,809	-
Total lease payments	<u>16,668</u>	<u>-</u>
Lease payment amounts representing interest	<u>(2,794)</u>	<u>-</u>
Present value of net minimum lease payments	13,874	-
Current portion	<u>(3,853)</u>	<u>-</u>
	<u>10,021</u>	<u>-</u>

### 12. Trade and Other Payables

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

	<b>Sept. 30, 2014</b>	<b>December 31, 2013</b>
	\$	\$
Trade payables	75,165	196,199
Other	<u>-</u>	<u>-</u>
	<u>75,165</u>	<u>196,199</u>

## **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### **13. 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 36,498,999 common shares without par value.

During the nine-month period ended September 30, 2014, the Company issued:

- 500,000 common shares were issued upon the exercise of 500,000 options at a price of \$0.175 per share, for gross proceeds of \$87,500.
- 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 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 \$102,331 plus 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.
- 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.
- 58,000 common shares upon the exercise of 58,000 warrants at a price of \$0.25 per share for gross proceeds of \$14,500.

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### c) Stock-based compensation

The following is a summary of changes in stock options for the nine-month period ended September 30, 2014 and the year ended December 31, 2013:

	<b>September 30, 2014</b>		<b>December 31, 2013</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Options outstanding, beginning of period	1,750,000	\$ 0.175	-	\$ -
Options granted	1,159,750	\$ 0.196	2,050,000	\$ 0.175
Options exercised	(500,000)	\$ 0.175	-	-
Options cancelled	-	\$ -	(300,000)	\$ 0.175
Options outstanding and exercisable, end of period	2,409,750	\$ 0.18	1,750,000	\$ 0.175

The following are the outstanding stock options as of September 30, 2014:

<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>
March 24, 2016	460,000	\$ 0.200	1.48
April 16, 2017	199,750	\$ 0.200	1.54
March 12, 2019	500,000	\$ 0.190	4.45
March 4, 2018	1,250,000	\$ 0.175	3.43
	2,409,750		

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

### Nine-Month Period Ended September 30, 2014

During the nine-month period ended September 30, 2014, the Company recognized share-based payments expense of \$201,351 (2013 - \$239,220) in relation to 1,159,750 (2013 - 2,050,000) 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:

	2014	2013
Risk-free interest rate	1.33%	1.30%
Expected life (years)	3.47	5
Annualized volatility	92.26%	90%
Expected dividends	-	N/A
Exercise price	\$0.20	\$0.175

#### d) Warrants

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

	<u>September 30, 2014</u>		
	<u>Number of warrants</u>	<u>Weighted average exercise price</u>	
Outstanding, beginning of period	3,372,774	\$ 0.24	
Issued	3,804,400	\$ 0.30	
Exercised	(424,394)	\$ 0.185	
Expired	(105,726)	\$ 0.175	
Outstanding, end of period	<u>6,647,054</u>	<u>\$ 0.279</u>	

  

	<u>Outstanding warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
Common share purchase warrants	2,802,654	\$ 0.25	November 1, 2015
	3,421,750	\$ 0.30	April 26, 2016
Agent warrants	40,000	\$ 0.25	November 1, 2015
	382,650	\$ 0.30	April 26, 2016
	<u>6,647,054</u>		

## Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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### e) Reserves

As of September 30, 2014 and December 31, 2013 the reserves of the Company were as follows:

	<b>Sept. 30, 2014</b>	<b>December 31, 2013</b>
	\$	\$
Stock option reserves	347,216	204,212
Warrant reserves	8,282	34,752
Total reserves	<u>355,498</u>	<u>238,964</u>

### 14. 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.

### 15. Events After the Reporting Period

The Company has evaluated the events occurring subsequent to September 30, 2014 and determined that the following were reportable events:

On November 20, 2014, the Company announced that Naturally Splendid USA Ltd., its wholly owned subsidiary, ("Naturally Splendid USA") had entered into a Novation Agreement with Full Spectrum Laboratories Limited ("FSL"), Boreal Technologies, Inc. ("Boreal") and Naturally Splendid whereby Boreal has agreed to assign, and Naturally Splendid USA has agreed to assume, all rights, title and interest in and to a Restated and Amended License Agreement between FSL and Boreal (the "License Agreement").

Under the terms of the Novation Agreement, Naturally Splendid USA has agreed to pay CAD \$725,000 to Boreal and Naturally Splendid has agreed to issue to Full Spectrum Partners, LLLP (an entity controlled by FSL) such number of common shares of Naturally Splendid equal to CAD \$1,025,000 divided by the greater of (i) CAD \$0.35, or (ii) a 20% premium above the closing price on closing of the transaction.

On closing of the Novation Agreement, Naturally Splendid USA will be the licensee under the License Agreement. The License Agreement provides that the licensee has a worldwide license to manufacture, commercialize and sell products based on the follow proprietary technology of Full Spectrum:

- (a) on an exclusive basis, (i) the terpene, hemp oil and cannabinoid formulation technology, (ii) the omega formulation technology, (ii) protein formulation technology, (iv) the cannabinoid technology, and the (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.

(the "License")



## **Naturally Splendid Enterprises Ltd.**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

**Nine-Month Period Ended September 30, 2014**

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

The Novation Agreement is subject to a number of conditions including acceptance of the above transaction by the TSX Venture Exchange and Naturally Splendid completing a minimum financing of CAD \$1,500,000. In the event that the transaction does not close by December 15, 2014, the Novation Agreement will be terminated and be of no further force or effect.

Charles R. Brink, the president of Naturally Splendid USA LTD., is a principal with Boreal and Full Spectrum. Accordingly, this transaction may be considered to be a related party transaction by the TSXV.

On November 27, 2014, the Company announced a proposed private placement offering of up to 6,000,000 units (the "Units") at a price of \$0.25 per Unit for gross proceeds of \$1,500,000 (the "Offering"). Each Unit will be comprised of one common share of Naturally Splendid and one-half of one common share purchase warrant ("Warrant"), with each whole Warrant entitling the holder to purchase one additional common share at \$0.40 per share for a period of two years from the date of the issue. Naturally Splendid will have the right to accelerate the expiry date of the Warrants if, at any time, the average closing price of Naturally Splendid'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 Naturally Splendid issues a news release announcing that it has elected to exercise this acceleration right. Subject to TSX Venture Exchange approval, Naturally Splendid may pay finders a fee consisting of cash and warrants from the proceeds of the proposed Offering.

Proceeds of the Offering will be used to satisfy the \$725,000 payment under the novation agreement with Full Spectrum Laboratories Ltd. ("FSL") and Boreal Technologies Inc. ("Boreal") (see news release dated November 20, 2014), product development as well as for general working capital and corporate purposes.

Closing of the proposed Offering is subject to a number of conditions, including receipt of all necessary corporate and regulatory approvals, including approval of the TSX Venture Exchange.