



Naturally Splendid Enterprises Ltd.

Consolidated Interim Financial Statements
(Unaudited – Prepared by Management)

March 31, 2018

(Expressed in Canadian Dollars)

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Naturally Splendid Enterprises Ltd.

Dated May 29, 2018

Management's Comments on Unaudited Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of Naturally Splendid Enterprises Ltd. (the "Company") for the three months ended March 31, 2018 and 2017 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the three-month period ended March 31, 2018.

Naturally Splendid Enterprises Ltd.
Interim Consolidated Statements of Financial Position
As at March 31, 2018 and December 31, 2017
(Unaudited - Expressed in Canadian Dollars)

	March 31, 2018	December 31, 2017
ASSETS		
Current		
Cash	\$ 2,957,089	\$ 301,080
Trade and other receivables (Note 6)	221,305	229,790
Inventories (Note 7)	1,557,987	1,516,069
Advances, prepaids and deposit (Note 8)	93,329	153,302
	<u>4,829,710</u>	<u>2,200,241</u>
Long-term deposits (Notes 8 and 18)	21,051	21,051
Restricted cash (Note 9)	23,000	22,883
Property and equipment (Note 10)	1,329,157	1,500,851
Technology license and other intangibles (Notes 4 and 11)	1,684,326	1,735,950
Goodwill (Notes 4 and 21)	404,067	1,205,067
	<u>8,291,311</u>	<u>6,686,043</u>
Total assets	\$ 8,291,311	\$ 6,686,043
Liabilities and Shareholders' equity		
Liabilities		
Current		
Cheques issued in excess of bank deposits	\$ -	\$ 31,079
Trade and other payables	609,164	1,118,474
Current portion of capital lease obligation (Note 12)	88,379	111,609
Current portion of long-term loans payable (Note 13)	-	77,250
Due to related parties (Note 15)	-	593,417
Current portion of contingent consideration payable (Note 4)	57,000	57,000
Short-term loan (Note 14)	-	120,000
	<u>754,543</u>	<u>2,108,829</u>
Capital lease obligation (Note 12)	344,412	344,412
Long-term loan payable (Note 13)	-	90,467
Deferred income tax liability (Note 20)	43,652	43,652
Contingent consideration payable (Note 4)	343,000	343,000
Total liabilities	<u>1,485,607</u>	<u>2,930,360</u>
Shareholders' equity		
Share capital (Note 17)	20,869,875	20,260,759
Obligation to issue shares (Notes 4 and 17)	48,000	126,499
Reserves (Note 17)	2,144,960	1,858,575
Deficit	(16,257,131)	(19,828,259)
Equity attributable to owners of the company	<u>6,805,704</u>	<u>2,417,574</u>
Non-controlling interest	-	1,338,109
Total shareholders' equity	<u>6,805,704</u>	<u>3,755,683</u>
	<u>\$ 8,291,311</u>	<u>\$ 6,686,043</u>

Approved on March 29, 2018 on behalf of the Board:

"Douglas L. Mason"

Director

"Peter Hughes"

Director

Director

The accompanying notes are an integral part of these financial statements

Naturally Splendid Enterprises Ltd.

Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited – Expressed in Canadian Dollars)

Three months ended March 31, 2018 and 2017

	Three months ended March 31, 2018	Three months ended March 31, 2017
Revenue	\$ 320,827	\$ 587,203
Cost of Sales	217,523	435,766
Gross Profit	103,304	151,437
Selling and distribution expenses		
Facility	142,963	86,444
Freight and delivery	6,063	10,234
Product development	5,937	30,354
Product promotion, net of grants	73,759	13,211
	228,722	140,243
Administrative expenses		
Accounting and audit	24,540	35,257
Amortization (Notes 10 and 11)	102,386	82,469
Bank charges, interest and accretion (Note 13)	7,533	20,564
Consulting (Note 15)	279,366	177,973
Corporate promotion	25,280	105,241
Directors' fees (Note 15)	13,500	-
Legal	18,401	37,969
Management fees (Note 15)	21,000	36,000
Office, rent and salaries	440,620	197,985
Share-based payments (Notes 15 and 17)	443,698	239,359
Transfer agent and filing fees	29,131	16,669
Travel	13,192	15,931
	1,418,647	965,417
Loss before other items and income tax	(1,544,065)	(954,223)
Other items		
Foreign exchange gain (loss)	(4,778)	12,168
Gain on sale of shares in subsidiary (Note 5)	1,535,096	-
Interest income	350	-
Loss before income tax	(13,397)	(942,055)
Deferred income tax recovery (Note 20)	-	-
Net loss and comprehensive loss for the period	\$ (13,397)	\$ (942,055)
Comprehensive loss attributed to:		
Owners of the company	\$ 1,717	\$ (894,526)
Non-controlling interest	(15,114)	(47,529)
	\$ (13,397)	\$ (942,055)
Basic and diluted loss per common share	\$ 0.00	\$ (0.01)
Weighted average shares outstanding basic and diluted	97,201,003	74,317,291

The accompanying notes are an integral part of these financial statements

Naturally Splendid Enterprises Ltd.
Interim Consolidated Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)
Three months ended March 31, 2018 and 2017

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flows from operating activities		
Net loss for the period	\$ (13,397)	\$ (942,055)
Items not affecting cash:		
Amortization	102,386	82,469
Shares issued for services	66,250	-
Interest and accretion expense on loan	-	12,476
Share-based payments	443,698	239,359
Gain on sale of shares in subsidiary	(1,535,096)	-
	<u>(936,159)</u>	<u>(607,751)</u>
Changes in non-cash working capital:		
Trade and other receivables	8,484	249,524
Inventories	(41,918)	165,468
Advances, prepaids and deposits	59,973	(86,451)
Trade and other payables	(524,320)	(262,385)
Non-cash item effects on disposal of subsidiary	504,274	-
Cash used in operating activities	<u>(929,666)</u>	<u>(541,595)</u>
Investing activities		
Purchase of property and equipment, net	(191,281)	(785,563)
Proceeds on sale of shares in subsidiary	3,536,650	-
Long-term deposits	-	39,701
Cash used in investing activities	<u>3,345,369</u>	<u>(745,862)</u>
Financing activities		
Advances and loans from related parties	-	9,676
Lease payable	-	548,803
Repayment of long term loan payable	(120,000)	-
Repayment of capital lease	(23,230)	(23,823)
Proceeds from options exercised	71,750	26,250
Proceeds from warrants exercised	311,903	445,425
Restricted cash	(117)	37,552
Cash provided by financing activities	<u>240,306</u>	<u>1,043,883</u>
Net change in cash	2,656,009	(243,574)
Cash, beginning of period	301,080	314,599
Cash, end of period	<u>\$ 2,957,089</u>	<u>\$ 71,025</u>
Cash consists of:		
Cash	\$ 2,957,089	\$ 113,641
Cheques issued in excess of bank deposits	-	(42,616)
	<u>\$ 2,957,089</u>	<u>\$ 71,025</u>

The accompanying notes are an integral part of these financial statements

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

	Common Shares	Share Capital	Obligation to issue shares	Subscriptions received	Reserves	Deficit	Equity attributable to owners of the Company	Non-controlling interest	Total Equity
Balance at December 31, 2016	74,106,294	\$ 16,367,038	\$ -	\$ 900	\$ 1,424,659	\$ (15,421,689)	\$ 2,370,908	\$ 1,578,297	\$ 3,949,205
Shares issued for equipment	289,855	97,101	-	-	-	-	97,101	-	97,101
Options exercised	150,000	43,754	-	-	(17,504)	-	26,250	-	26,250
Warrants exercised	1,168,203	446,721	-	-	-	-	446,721	-	446,721
Share-based payments	-	-	-	-	358,063	-	358,063	-	358,063
Net loss for the period	-	-	-	-	-	(894,526)	(894,526)	(47,529)	(942,055)
Balance at March 31, 2017	75,714,352	16,954,614	-	900	1,765,218	(16,316,215)	2,404,517	1,530,768	3,935,285
Private placement, net of share issuance costs	17,359,202	2,644,445	-	(900)	61,229	-	2,704,774	-	2,704,774
Shares issued for debt	1,368,334	292,310	-	-	-	-	292,310	-	292,310
Prosnack acquisition (Note 4)	1,098,901	200,000	78,499	-	-	-	278,499	-	278,499
Options expired or cancelled	-	-	-	-	(38,130)	38,130	-	-	-
Warrants expired or cancelled	-	-	-	-	(131,658)	131,658	-	-	-
Restricted share units granted	212,500	169,390	48,000	-	-	-	217,390	-	217,390
Share-based payments	-	-	-	-	201,916	-	201,916	-	201,916
Net loss for the period	-	-	-	-	-	(3,681,832)	(3,681,832)	(192,659)	(3,874,491)
Balance at December 31, 2017	95,753,289	20,260,759	126,499	-	1,858,575	(19,828,259)	2,417,574	1,338,109	3,755,683
Prosnack acquisition – obligation to issue shares	246,851	78,499	(78,499)	-	-	-	-	-	-
Options exercised	410,000	119,652	-	-	(47,902)	-	71,750	-	71,750
Warrants exercised	910,350	345,615	-	-	(33,712)	-	311,903	-	311,903
Shares issued for fees	250,000	66,250	-	-	-	-	66,250	-	66,250
Share issue costs	-	(900)	-	-	-	-	(900)	-	(900)
Share-based payments	-	-	-	-	443,698	-	443,698	-	443,698
Options expired or cancelled	-	-	-	-	(75,699)	75,699	-	-	-
Elimination of non-controlling interest related to the sale of POS BPC Manufacturing Corp.	-	-	-	-	-	3,493,712	3,493,712	(1,322,995)	2,170,717
Net earnings (loss) for the period	-	-	-	-	-	1,717	1,717	(15,114)	(13,397)
Balance at March 31, 2018	97,570,490	20,869,875	48,000	-	2,144,960	(16,257,131)	6,805,704	-	6,805,704

The accompanying notes are an integral part of these financial statements

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

1. Nature of Operations and Going Concern

Naturally Splendid Enterprises Ltd. (“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 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 consolidated 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 period ended March 31, 2018, the Company had a net loss of \$13,397 (Year ended December 31, 2017 – loss of \$4,816,546) and working capital of \$4,075,167 (As at December 31, 2017 - \$91,412).

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 These interim consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these financial statements are based on IFRS issued and effective as of March 31, 2018. The Board of Directors approved the interim consolidated financial statements for issue on May 29, 2018.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

2. Basis of Presentation (Continued)

b) Basis of presentation

These consolidated 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 15. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. These consolidated 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%
Prosnack Natural Foods Inc. ("Prosnack")*	Subsidiary	100%
POS BPC Manufacturing Corp. ("BPC")**	Subsidiary	51%

* The Company acquired Prosnack on October 18, 2017 (note 4). These consolidated financial statements include Prosnack's operating results from that date through to December 31, 2017.

** The Company sold POS BPC Manufacturing Corp. on February 21, 2018.

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

a) Inventories

Inventories are stated at the lower of production cost and net realizable value. Production costs include direct and indirect labour, operating materials and supplies, transportation costs, and an appropriate portion of fixed and variable overhead expenses. Inventories are accounted for on a first-in, first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

b) Property and Equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

Amortization is provided at rates calculated to write-off the cost of property and equipment, less their estimated residual value, using the declining-balance or straight-line method at the following annual rates, with half the rate being applied in the year of acquisition:

Computer equipment	55% declining-balance
Furniture and equipment	20% declining-balance
Leasehold improvements	Straight-line over 5 years
Manufacturing equipment	Straight-line over 40 years

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

c) Revenue recognition

The Company generates its revenue from sales to retailers, online web sales, bulk sales, and copacking revenues. Revenues are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. The Company recognizes revenue from customer orders upon shipment of the order when risks and rewards have been transferred, and collection is reasonably assured.

d) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued at the grant date and recognized over the vesting periods using the graded vesting method. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based expense is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model. For both employees and non-employees, the fair value of share-based expense is recognized in profit or loss, with a corresponding increase in reserves. When options expire unexercised, these amounts are reclassified into deficit.

e) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. Diluted loss per share is not presented if the effects are anti-dilutive.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

f) Accounting for equity units

Proceeds received on issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares, and any excess is allocated to warrants. Share issue costs are deducted against share proceeds.

g) Research and development

Research costs are expensed as incurred. Product development expenditures are expensed as incurred until such time they meet certain specific criteria for deferral and amortization. Management assesses whether it has met such criteria at each reporting date. In making the assessment, management considers status of the product development, regulatory submissions, marketing and finance plans. The Company has not deferred any product development expenditures to date.

h) Intangible assets and Technology License

The Company's intangible assets include Exclusive License IP ("License IP") acquired with the acquisition of BPC, website, technology and non-compete clause acquired with the acquisition of Chi; technology license agreements acquired from Full Spectrum Laboratories Limited ("FSL") (the "Technology License") (note 10) and trademarks, customer lists and non-compete clauses related to the acquisition of Prosnack (note 4). Intangible assets obtained are recorded at cost less accumulated amortization and any impairment losses. Amortization for intangible assets with finite lives is calculated on a straight-line basis over the life of the asset less its residual value. The Company's amortization policy for intangible assets with finite lives is as follows:

Technology License – 15 years
Non-compete clauses – 2 years
Website and technology – 2 years
Licensed IP – 10 years
Brands and trademarks – 5 years
Customer Lists – 5 years

i) Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated 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.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

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 receivables

Provisions are made against accounts that, in the estimation of management, may be uncollectible. The recoverability assessment of trade and other receivables 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.

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 shelf-life of inventory and profitability of recent sales.

Useful lives of intangible assets and property 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.

Interest rates

The Company estimates a market interest rate in determining the fair value of its long-term loans payable. The determination of the market interest rate is subjective and could materially affect the fair value estimate.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

Critical accounting judgments

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

Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Impairment of property and equipment, goodwill and Licensed IP

Determining the amount of impairment of property and equipment, 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 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 changes may result in future impairments.

Assessment of the transactions as an asset acquisition or business combination

Management has had to apply judgment relating to acquisitions 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.

Determination of purchase price allocations and contingent consideration

Judgements are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. Further, estimates are made in determining the value of contingent consideration payments that should be recorded as part of the consideration on the date of acquisition and changes in contingent consideration payable in subsequent reporting periods. Contingent consideration payments are generally based on acquired businesses achieving certain performance targets. The estimates are based on management's best assessment of the related inputs used in the valuation models, such as future cash flows and discount rates. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay 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.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

j) Income taxes

Deferred tax is calculated, using the financial position method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

k) Impairment of non-financial assets

The carrying amount of the Company's assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

m) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange in effect at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All exchange differences are recorded in profit and loss.

n) 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 and restricted cash is 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 the categories are derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset. Trade and other receivables are classified as loans and receivables.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

3. Significant Accounting Policies (Continued)

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.

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. Contingent consideration payable is classified as financial liabilities at FVTPL.

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. Cheques issued in excess of bank deposits, trade and other payables, due to related parties, short term loan and long-term debt 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.

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March 31, 2018

3. Significant Accounting Policies (Continued)

o) 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 does not expect these new pronouncements to have a significant impact on its consolidated 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 period beginning January 1, 2019.

4. Acquisition of Prosnack Natural Foods Inc.

On October 18, 2017, the Company acquired 100% of the issued and outstanding shares of Prosnack. Prosnack is a company that distributes lifestyle and healthy meal replacement products throughout North America. Under the terms of the agreement, the Company paid \$101,000 cash and issued 1,098,901 common shares with a fair value of \$200,000 during the year ended December 31, 2017. The remaining 246,851 shares were issued subsequent to year-end and have been recorded as obligation to issue shares as at December 31, 2017 (note 23). On closing of the transaction, the sellers of Prosnack and the Company entered into a five year earn-out agreement. During the term of the earn-out agreement, the Company will pay a 25% commission on the sales exceeding a base rate generated by the Vice President of Sales and Marketing. This has been accounted for as contingent consideration payable and added to the purchase price.

The acquisition of Prosnack was accounted for as a business combination. The consideration paid was recorded in the accounts of the Company at its fair value determined as follows:

Cash	\$	101,000
Common shares issued		200,000
Common shares to be issued		78,499
Contingent consideration payable		400,000
	\$	779,499

Naturally Splendid Enterprises Ltd.

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March 31, 2018

4. Acquisition of Prosnack Natural Foods Inc. (Continued)

The net assets acquired and the purchase price allocation was:

Accounts receivable	\$	131,091
Inventory		224,651
Prepaid expenses		99,903
Property and equipment		264,535
Bank indebtedness		(235,048)
Accounts payable		(164,289)
Long-term debt		(178,783)
Brand and trademark (Note 10)		145,000
Customer lists (Note 10)		256,000
Non-compete clauses (Note 10)		10,000
Deferred income tax liability (Note 19)		(87,460)
Goodwill (Note 20)		313,899
	\$	779,499

Since the acquisition of Prosnack on October 18, 2017, Prosnack generated revenues for the period ended December 31, 2017 of \$102,705 and a net loss of \$120,348. The Company also repaid long-term debt of \$178,783 and bank indebtedness of \$235,048 subsequent to the acquisition of Prosnack.

5. Disposition of POS BPC Manufacturing Corp.

On February 21, 2018, the Company sold its 51% in POS BPC Manufacturing Corp. for gross proceeds of \$3,536,650 resulting in a gain of \$1,535,096.

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:

	March 31, 2018	December 31, 2017
GST/HST receivable	\$ 17,317	\$ 21,400
Trade receivables *	203,988	208,390
	\$ 221,305	\$ 229,790

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

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements
(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

7. Inventories

	March 31, 2018	December 31, 2017
Seed and finished products for resale	\$ 777,430	\$ 859,445
Raw materials	462,580	337,406
Containers, labels and packing materials	317,977	319,218
	<u>\$ 1,557,987</u>	<u>\$ 1,516,069</u>

During the period ended March 31, 2018, the Company recorded a write-down to inventory of \$Nil (Year ended December 31, 2017 - \$348,960) relating to expired goods and estimated net realizable value of inventories being lower than cost.

8. Advances, Prepaids and Deposit

	March 31, 2018	December 31, 2017
Prepays	\$ 93,329	\$ 153,302
Long-term deposits ¹	21,051	21,051
	<u>\$ 114,380</u>	<u>\$ 174,353</u>

¹ Included in long-term deposits is a deposit of \$nil (2016 - \$56,698) for the acquisition of packaging equipment (note 18).

9. Restricted Cash

The Company has deposited funds in an interest-bearing term deposit with its principal banker as security against corporate credit cards. The deposited funds earn an interest rate at prime less 2.1% (December 31, 2018 – prime less 2.1%) and matures on May 22, 2018.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

10. Property and Equipment

The changes in the Company's property and equipment for the periods ended March 31, 2018 and December 31, 2017 are as follows:

	Computer equipment	Furniture and equipment	Leasehold improvements	Manufacturing equipment	Total
Cost					
December 31, 2016	\$ 85,413	\$ 177,659	\$ 80,274	\$ 390,576	\$ 733,922
Additions	6,418	-	193,379	716,775	916,572
Additions from acquisition of Prosnack (Note 4)	2,753	2,098	8,097	251,587	264,535
December 31, 2017	94,584	179,757	281,750	1,358,938	1,915,029
Additions	1,223	860	48,710	140,488	191,281
Disposition of BPC	-	-	-	(390,675)	(390,675)
March 31, 2018	\$ 95,807	\$ 160,617	\$ 330,460	\$ 1,108,751	\$ 1,715,364
Depreciation					
December 31, 2016	\$ 68,687	\$ 84,594	\$ 22,893	\$ 56,506	\$ 232,680
Additions	11,577	19,544	39,596	110,781	181,498
December 31, 2017	80,264	104,138	62,489	167,287	414,178
Additions	2,492	13,555	4,557	30,158	50,762
Disposition of BPC	-	-	-	(78,462)	(78,462)
March 31, 2018	\$ 82,756	\$ 117,693	\$ 67,046	\$ 118,983	\$ 386,478
Net Book Value					
December 31, 2016	\$ 16,726	\$ 93,065	\$ 57,381	\$ 334,070	\$ 501,242
December 31, 2017	\$ 14,320	\$ 75,619	\$ 219,261	\$ 1,191,651	\$ 1,500,851
March 31, 2018	\$ 13,051	\$ 42,924	\$ 263,414	\$ 989,768	\$ 1,329,157

Depreciation expense for assets held under capital lease as at March 31, 2018 was \$17,797 (December 31, 2017 - \$71,190). The net carrying value of assets held under capital lease was \$450,799 (December 31, 2017 - \$468,596).

Naturally Splendid Enterprises Ltd.

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March 31, 2018

11. Technology License and Other Intangibles

The changes in the Company's technology license and other intangibles for the years ended December 31, 2017 and 2016 are as follows:

	Technology License	Website and Technology	Non-compete Clauses	Licensed IP	Brands & Trademarks	Customer Lists	Total
Cost							
December 31, 2016	\$ 1,486,425	\$ 31,417	\$ 30,926	\$ 200,000	\$ -	\$ -	\$ 1,748,768
Additions from acquisition of Prosnack (Note 4)	-	-	10,000	-	145,000	256,000	411,000
December 31, 2017	1,486,425	31,417	40,926	200,000	145,000	256,000	2,159,768
Additions	-	-	-	-	-	-	-
March 31, 2018	\$ 1,486,425	\$ 31,417	\$ 40,926	\$ 200,000	\$ 145,000	\$ 256,000	\$ 2,159,768
Depreciation							
December 31, 2016	\$ 188,745	\$ 17,018	\$ 16,752	\$ 40,000	\$ -	\$ -	\$ 262,515
Additions	102,296	14,399	18,174	20,000	2,417	4,017	161,303
December 31, 2017	291,041	31,417	34,926	60,000	2,417	4,017	423,818
Additions	25,574	-	1,000	5,000	7,250	12,800	51,624
March 31, 2018	\$ 316,615	\$ 31,417	\$ 35,926	\$ 65,000	\$ 9,667	\$ 16,817	\$ 475,442
Net Book Value							
December 31, 2016	\$ 1,297,680	\$ 14,399	\$ 14,174	\$ 160,000	\$ -	\$ -	\$ 1,486,253
December 31, 2017	\$ 1,195,384	\$ -	\$ 6,000	\$ 140,000	\$ 142,583	\$ 251,983	\$ 1,735,950
March 31, 2018	\$ 1,169,810	\$ -	\$ 5,000	\$ 135,000	\$ 135,333	\$ 239,183	\$ 1,684,326

Technology License

During 2015, Naturally Splendid USA Ltd. entered into a Novation Agreement with Full Spectrum Laboratories Limited ("FSL"), Boreal Technologies and the Company where Boreal assigned, and Naturally Splendid USA Ltd. assumed, all rights, title and interest in and to a License Agreement between FSL and Boreal. As a result, Naturally Splendid acquired a 100% interest, without royalty, in FSL's omega technologies, including HempOmega and H2Omega. The License Agreement provides that the licensee has a worldwide license to manufacture, commercialize and sell products based on certain proprietary technology of FSL and has a non-exclusive license on certain analytical testing standard operating procedures ("SOPs") and GC-MS terpene analysis SOPs.

Naturally Splendid Enterprises Ltd.

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12. Capital Lease Obligations

In January 2017, the Company entered into a lease contract to acquire food packaging equipment. Under this lease, the Company is required to make monthly lease payments of \$9,765 (including GST) until May 2022. Following the final lease payment, the Company will own the equipment free and clear of all encumbrances. The Company has accounted this as capital lease obligations and recognized interest expense of \$4,672 (December 31, 2017 - \$18,543) in the consolidated statements of loss and comprehensive loss.

	March 31, 2018	December 31, 2017
Lease payments due in:		
2018	\$ 88,379	\$ 111,609
2019	111,609	111,609
2020	111,609	111,609
2021	111,609	111,609
2022	46,506	46,506
Total lease payments	469,712	492,942
Lease payment amounts representing interest	(36,921)	(36,921)
Present value of net minimum lease payments	432,791	456,021
Current Portion	(88,379)	(111,609)
	\$ 344,412	\$ 344,412

13. Long-Term Loan Payable

	March 31, 2018	December 31, 2017
Loan payable to Saskatchewan Opportunities Corporation ¹	\$ -	\$ 167,717
Current Portion	-	(77,250)
	\$ -	\$ 90,467

¹ Non-interest-bearing loan for \$309,000 with monthly payments of \$6,438 beginning April 1, 2017. The loan was repaid during the period. A general security agreement on BPC assets is pledged as security, including the following:

	March 31, 2018	December 31, 2017
Accounts receivable	\$ -	\$ 5,406
Prepays and deposits	-	26,218
Property, plant & equipment	-	312,113
	\$ -	\$ 343,737

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

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March 31, 2018

13. Long-Term Loan Payable (Continued)

The loan is due March 2021. The fair value of the loan was calculated using a market interest rate of 25%. The loan was recorded at fair value at the date of acquisition of POS at \$125,850. Interest accretion of \$Nil (December 31, 2017 - \$41,885) has been recognized in the consolidated statements of loss and comprehensive loss and the loan has been recorded at \$Nil at (December 31, 2017 - \$167,717).

14. Short-term loan

During the second quarter of 2017, a shareholder advanced \$150,000 to the Company as an unsecured demand loan with interest at 6%. During the year ended December 31, 2017, \$30,000 of the loan balance outstanding was settled by issuing private placement units (note 17). As at December 31, 2017, the loan balance outstanding is \$120,000 and was repaid in full in February 2018.

15. Key Management Compensation and Related Party Transactions

Related parties

During the period ended March 31, 2018, the Company recovered, paid or accrued the following amounts to directors, companies or former directors:

	March 31, 2018	March 31, 2017
Management and consulting fees	\$ 190,071	\$ 148,388
Directors' fees	13,500	-
Share-based payments (Note 16)	445,011	178,617
	\$ 648,582	\$ 327,002

POS Management Corporation is associated (by common management and shareholders) with the non-controlling interest shareholder of BPC. During the period ended March 31, 2018, the Company received contract services revenue from POS Management Corporation totaling \$Nil (2017 - \$Nil) and incurred management fees expense of \$Nil (2017 - \$36,000).

As at March 31, 2018, the following amounts are due to related parties:

- \$Nil (December 31, 2017 - \$20,271) is due to management, directors and consultants for fees outstanding.
- \$Nil (December 31, 2017 - \$1,167) is due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.
- \$Nil (December 31, 2017 - \$571,979 due from) due to POS Management Corp., a company subject to common control, relating to subcontractor fees.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

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March 31, 2018

15. Key Management Compensation and Related Party Transactions (Continued)

Key management compensation

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

	March 31, 2018	March 31, 2017
Management and consulting fees	\$ 142,071	\$ 148,388
Directors' fees	13,500	-
Share-based payments (Note 16)	438,998	178,617
	<u>\$ 594,569</u>	<u>\$ 327,002</u>

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

During the period ended March 31, 2018, \$66,250 (December 31, 2017 - \$83,510) of management fees payable were settled through the issuance of 250,000 shares (December 31, 2017 - 508,334 units, from the private placements (Note 17)).

16. Financial Instruments

a) Categories of financial instruments

Financial Assets	March 31, 2018	December 31, 2017
Fair value through profit or loss, at fair value		
Cash	\$ 2,957,089	\$ 301,080
Restricted cash	23,000	22,883
Loans and receivables, at amortized cost		
Trade and other receivables	203,988	208,390
	<u>\$ 3,184,077</u>	<u>\$ 532,353</u>

Naturally Splendid Enterprises Ltd.

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March 31, 2018

16. Financial Instruments (Continued)

Financial Liabilities	March 31, 2018	December 31, 2017
Fair value through profit or loss, at fair value		
Contingent consideration payable	\$ 400,000	\$ 400,000
Other liabilities, at amortized cost	-	-
Cheques issued in excess of bank deposits	-	31,079
Trade and other payables	609,165	1,118,474
Due to related parties	-	593,417
Short-term loan	-	120,000
Long-term loan payable (Note 13)	-	251,058
	\$ 1,009,165	\$ 2,514,028

b) Fair value

The fair value recorded on initial recognition 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. With the exception of long-term loans, the Company considers the carrying amounts of all its financial assets and financial liabilities recognized at amortized cost in these consolidated financial statements to approximate their fair values due to the short-term maturity of these instruments. Long-term loan is recognized at amortized cost using the effective interest rate method (Note 12).

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, trade and other receivables, and restricted cash. 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.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

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March 31, 2018

16. Financial Instruments (Continued)

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, 2018, the Company had a working capital of \$4,075,167 (December 31, 2017 - \$91,412).

Currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. A significant change in the exchange rate between the Canadian dollar relative to the US dollar could have an effect on the Company's future results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at March 31, 2018 and December 31, 2017, the Company is exposed to currency risk through the following financial assets denominated in a currency other than the Canadian dollar:

	March 31, 2018		December 31, 2017	
	US \$	CDN \$	US \$	CDN \$
Cash	13,084	16,871	10,482	13,150
Trade receivables	963	1,242	159	199
Trade payables	45,378	58,510	15,696	19,691

Based on the above, assuming all other variables remain constant, a 10% (December 31, 2017 - 10%) strengthening or weakening of the Canadian dollar against the US dollar would have decreased/increased the Company's loss and comprehensive loss by \$5,900 (December 31, 2017 - \$700).

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.

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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 97,570,490 common shares without par value.

During the period ended March 31, 2018, the Company completed the following transactions:

- 910,350 warrants with exercise prices of \$0.27 - \$0.35 were exercised for gross proceeds of \$311,903;
- 410,000 options with an exercise price of \$0.175 were exercised for gross proceeds of \$71,750;
- 246,851 common shares were issued under obligation with a fair value at the time of the obligation of \$78,499
- 250,000 common shares with a fair value of \$66,250 were issued as consulting fees;

During the year ended December 31, 2017, the Company completed the following transactions:

- 289,855 common shares with a fair value of \$97,101 were issued in relation to the purchase of packing equipment (note 11);
- 1,168,203 warrants with exercise prices of \$0.30 - \$0.40 were exercised for gross proceeds of \$446,721 and 300,000 warrants with an exercise price of \$0.40 were exercised for settlement of \$120,000 in accounts payable and due to related parties;
- 212,500 common shares with a fair value of \$169,390 were issued relating to the vesting of Restricted Share Units ("RSUs") granted to an executive (note 16c);
- \$48,000 was recorded as the fair value of obligation to issue 150,000 common shares relating to the vesting of Restricted Share Units ("RSUs") granted to an executive (note 16c);
- 5,095,916 units were issued at a price of \$0.18 per unit for gross proceeds of \$917,265 and 402,000 units were issued for settlement of \$72,360 in accounts payable and due to related parties. Each unit comprises one common share of the Company and one-half common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at \$0.27 for a period of two years from the date of issue. The warrants issued in connection with the units were allocated a residual value of \$55,469 and recorded in warrants reserve. The Company paid finder's cash commissions totaling \$13,217 and issued 93,440 finder's warrants with a fair value of \$3,728. The finder's warrants are exercisable for two years at \$0.27 per share;
- On October 13, 2017, the Company entered into a non-binding agreement for a draw-down equity facility of up to \$6,000,000 with Alumina Partners (Ontario) Ltd., a subsidiary of Alumina Partners LLC, a New York-based private equity firm. The agreement provides for equity private placement offerings (the "Offerings"), to be conducted in draw downs made at the sole discretion of the Company over a period of 24 months. During the year ended December 31, 2017, 737,951 units were issued to Alumina Partners for gross proceeds of \$100,000. Each unit comprises one common share of the Company and one-half common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at \$0.22 for a period of two years from the date of issue. The Company paid finder's cash commissions totaling \$11,622;
- On October 18, 2017 the Company issued 1,098,901 common shares with a fair value of \$200,000 and recorded \$78,499 as the fair value of obligation to issue 246,851 common shares relating to the acquisition of Prosnack (note 4);

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March 31, 2018

17. Share Capital (Continued)

During the year ended December 31, 2017, the Company completed the following transactions:

- 11,525,335 units were issued at a price of \$0.15 per unit for gross proceeds of \$1,728,800 and 666,334 units were issued for the settlement of \$69,950 in accounts payable and due to related parties and \$30,000 short-term loan (note 13). Each unit comprises one common share of the Company and one-half common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at \$0.22 for a period of two years from the date of issue. The Company paid finder's cash commissions totaling \$15,552 and issued 24,000 finder's warrants with a fair value of \$2,032. The finder's warrants are exercisable for two years at \$0.22 per share; and
- 150,000 options were exercised for gross proceeds of \$26,250 at an exercise price of \$0.175. Share-based payments previously recognized of \$17,504 have been reclassified from reserves to share capital.

c) Options and share-based payments

The following is a summary of changes in stock options for the periods ended March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	5,595,500	\$ 0.34	2,900,500	\$ 0.33
Options granted	1,981,232	\$ 0.309	3,440,000	\$ 0.34
Options exercised	(410,000)	\$ 0.175	(150,000)	\$ 0.175
Options cancelled/ expired	(200,500)	\$ 0.33	(595,000)	\$ 0.35
Total options outstanding	6,966,232	\$ 0.34	5,595,500	\$ 0.34
Unvested options	(2,712,690)	\$ 0.34	(2,752,000)	\$ 0.34
Options outstanding and exercisable, end of year	4,253,542	\$ 0.34	2,843,500	\$ 0.34

Naturally Splendid Enterprises Ltd.

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March 31, 2018

17. Share Capital (Continued)

The following are the outstanding stock options as of March 31, 2018 and December 31, 2017:

Expiry date	Number of options outstanding March 31, 2018	Number of options outstanding December 31, 2017	Weighted average exercise price	Weighted average remaining contractual life in years
March 8, 2018	-	30,000	\$ 0.295	-
April 3, 2018	-	410,500	\$ 0.175	-
December 1, 2018	150,000	150,000	\$ 0.300	0.67
March 24, 2019	200,000	200,000	\$ 0.285	0.98
March 23, 2020	1,275,000	1,325,000	\$ 0.400	1.98
November 3, 2020	220,000	220,000	\$ 0.300	2.60
January 27, 2022	2,800,000	2,920,000	\$ 0.350	3.83
November 27, 2022	340,000	340,000	\$ 0.250	4.66
January 7, 2023	1,701,232	-	\$ 0.310	4.78
January 31, 2023	30,000	-	\$ 0.350	4.84
February 21, 2023	210,000	-	\$ 0.310	4.90
February 28, 2023	40,000	-	\$ 0.265	4.92
	6,966,232	5,595,500		3.62

During the year ended March 31, 2018, the Company recognized share-based payments expense of \$443,698 (December 31, 2017 - \$559,979) in relation to 1,981,232 (December 31, 2017 - 3,440,000) stock options granted during the year.

During year ended December 31, 2017 – 1,000,000 RSUs were granted to an executive. These RSUs vest 100,000 on grant date, then 150,000 every 6 months thereafter. Share-based payments of \$Nil (December 31, 2017 - \$217,390) in relation to Nil (December 31, 2017 – 400,000) RSUs that vested were recognized. At March 31, 2018 150,000 (December 31, 2017 - 150,000) shares valued at \$48,000 (December 31, 2017 - \$40,000) relating to the 400,000 RSUs vested remain outstanding and is recorded in obligation to issue shares.

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, 2018	December 31, 2017
Risk-free interest rate	0.55%	0.58%
Expected life (years)	5.0	5.0
Annualized volatility	92.59%	89.74%
Expected dividends	-	-
Exercise price	\$0.28	\$0.33

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

17. Share Capital (Continued)

d) Warrants

A summary of the Company's warrants for the periods ended March 31, 2018 and December 31, 2017 is as follows:

	December 31, 2017		December 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	17,790,591	\$ 0.289	14,861,777	\$ 0.406
Issued	-	\$ -	9,331,208	\$ 0.237
Exercised	(910,000)	\$ 0.340	(1,468,203)	\$ 0.380
Expired and cancelled	-	\$ -	(4,934,191)	\$ 0.521
Outstanding, end of year	16,880,241	\$ 0.287	17,790,591	\$ 0.289

The following are the outstanding warrants as at March 31, 2018 and December 31, 2017:

	Outstanding warrants March 31, 2018	Outstanding warrants December 31, 2018	Exercise price	Expiry date
Common share purchase warrants	1,311,825	1,311,825	\$ 0.35	August 22, 2018
	210,000	210,000	\$ 0.35	August 30, 2018
	5,166,358	5,917,358	\$ 0.35	November 7, 2018
	1,746,638	1,821,638	\$ 0.27	August 22, 2019
	178,571	178,571	\$ 0.22	October 13, 2019
	927,321	927,321	\$ 0.27	October 19, 2019
	190,404	190,404	\$ 0.22	November 3, 2019
	6,095,834	6,095,834	\$ 0.22	November 23, 2019
Agent warrants	135,150	135,150	\$ 0.35	August 22, 2018
	17,500	17,500	\$ 0.35	August 30, 2018
	792,200	867,550	\$ 0.35	November 7, 2018
	39,000	48,000	\$ 0.27	August 22, 2019
	45,440	45,440	\$ 0.27	October 19, 2019
	24,000	24,000	\$ 0.22	November 23, 2019
	16,880,241	17,790,591		

During the year ended December 31, 2016, 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 warrants 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.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

17. Share Capital (Continued)

e) Reserves

As at March 31, 2018 and December 31, 2017, the reserves of the Company were as follows:

	March 31, 2018	December 31, 2017
Stock option reserves	\$ 1,618,019	\$ 1,297,922
Warrant reserves	526,941	560,653
	<u>\$ 2,144,960</u>	<u>\$ 1,858,575</u>

18. Commitments

In 2016, the Company entered into an office and warehouse space lease agreement commencing August 1, 2016 and terminating July 31, 2026. In December 2017 the Company entered into a lease for additional contiguous space which also expires on July 31, 2026. The combined basic rent is payable monthly in advance at a rate of \$13,247 per month plus the proportionate share of expenses in respect of operating costs and property taxes, currently amounting to \$5,243 per month.

In September 2016, the Company signed an agreement with Eat Real Snack Food Canada Ltd. ("ERSF") to acquire food packaging equipment and assume the related lease agreement. Under the lease agreement, Naturally Splendid is making monthly lease payments of \$9,765 until May 2022. Following the final lease payment, Naturally Splendid will own the equipment free and clear of all encumbrances. In addition, ERSF entered into a three-year agreement to commit to a guaranteed monthly minimum of \$14,500 in packaging for their line of snacks. The acquisition of the food packaging equipment was completed in January 2017. Related to this, a cash payment of \$56,698 is included in long-term deposits at December 31, 2016.

19. Capital Disclosure

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued share capital, subscriptions received, reserves 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 conditions 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, or acquire or dispose of assets. 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 periods ended March 31, 2018 and December 31, 2017. The Company is not subject to externally imposed capital restrictions.

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

20. Income Taxes

The Company's combined statutory tax rate is currently at 26%, reflecting a combined federal corporate tax rate of 15% and BC corporate tax rate of 11%. A reconciliation of income tax provisions computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	December 31, 2017
Loss before income taxes	\$ (4,860,354)
Expected income tax recovery	(1,263,692)
Adjustment resulting from	
Non-deductible items	206,215
Other	63,915
Under/over provided in prior years	48,669
Effect of change in tax rates	(164,206)
Unused tax losses	1,065,291
Expected income tax recovery	\$ (43,808)

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2017 is presented below:

	December 31, 2017
Deferred income tax assets	
Non-capital losses carried forward	\$ 51,409
Property and equipment	13,092
	<u>64,501</u>
Deferred income tax liabilities	
Intangible assets	(108,153)
Deferred income tax liabilities, net	\$ (43,652)

Naturally Splendid Enterprises Ltd.

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(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

20. Income Taxes (Continued)

The Company recognizes tax benefits on losses or other deductible amounts generated where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2017
Deferred tax assets	
Non-capital losses	\$ 15,753,954
Share issue costs	698,264
Property and equipment	191,261
Unrecognized deferred tax	\$ 16,643,479

The Company's unused tax losses for the year ended December 31, 2017, have the following expiry dates:

2028	\$ 452,000
2029	229,000
2030	173,000
2031	672,000
2032	228,000
2033	2,724,000
2034	1,570,000
2035	3,382,000
2036	2,554,000
2037	4,313,000
	\$16,297,000

21. Goodwill

Goodwill acquired through business combinations has been allocated to three cash-generating units ("CGU"). The breakdown of goodwill as at March 31, 2018 and December 31, 2017 is as follows:

	BPC	Chi	Prosnack	Total
Balance, December 31, 2017	\$ 801,000	\$ 90,168	\$ 313,899	\$ 1,205,067
Disposition of BPC	\$ (801,000)	\$ -	\$ -	\$ (801,000)
Balance, March 31, 2018	\$ -	\$ 90,168	\$ 313,899	\$ 404,067

During the year ended December 31, 2015, the Company acquired BPC and Chi, which resulted in goodwill of \$3,585,017 and \$90,168 being recorded on acquisition respectively. During the year ended December 31, 2015, an impairment expense of \$2,784,017 was recorded against the BPC goodwill, resulting in an opening carrying value of \$801,000. The Company performs an annual impairment test of goodwill at December 31. The recoverable amounts have been determined using Level 3 inputs, based on a value-in-use calculation using pre-tax cash flow projections from financial budgets approved by senior management, forecasts over a five-year period based on management's best estimates, and a pre-tax discount rate of 15% (2016 - 18%).

Naturally Splendid Enterprises Ltd.

Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

March 31, 2018

21. Goodwill (Continued)

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

	March 31, 2018	December 31, 2017
Non-cash items:		
Shares issued for services	\$ 66,250	\$ -
Shares issued under obligation	78,499	-
Shares issued for acquisition of Prosnack	-	200,000
Shares issued for purchase of equipment	-	97,101
Shares issued for settlement of accounts payable	-	178,800
Shares to for settlement of amounts due to related parties	-	83,510
Shares issued to settle short term loan	-	30,000
Property and equipment acquired through capital lease	-	539,786
Prior year deposit applied to purchase property and equipment	-	56,989
	\$ 144,749	\$ 1,186,186
Interest and taxes paid:		
Interest	\$ -	\$ -
Taxes	\$ -	\$ -

23. Comparative Figures

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

24. Events After the Reporting Period

- On April 11, 2018 the Company agreed to vest all 3,096,985 unvested options.
- On April 24, 2018, the Company acquired all the issued and outstanding shares of Absorbent Concepts Inc. ("ACI"), an organic hemp processor located in Abbotsford, Canada in exchange for assuming all the outstanding bank loans of ACI as at the acquisition date. Concurrent with the closing of the share purchase agreement, the Company entered into a \$200,000 non-interest-bearing loan agreement with the seller of ACI where repayments will be contingent upon achieving milestones related to net income and other qualitative performance targets.