



Naturally Splendid Enterprises Ltd.

**Consolidated Interim Financial Statements
(Unaudited – Prepared by Management)**

March 31, 2020

(Expressed in Canadian Dollars)

NATERA™



Naturally Splendid Enterprises Ltd.

Dated July 15, 2020

Management's Comments on Unaudited Consolidated Interim Financial Statements

The accompanying unaudited consolidated interim financial statements of Naturally Splendid Enterprises Ltd. (the "Company") for the three months ended March 31, 2020 and 2019 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, 2020.

Naturally Splendid Enterprises Ltd.
Consolidated Interim Statements of Financial Position
As at March 31, 2020 and December 31, 2019
(Unaudited - Expressed in Canadian Dollars)

	March 31, 2020	December 31, 2019
ASSETS		
Current		
Cash	\$ 21,361	\$ 113,566
Trade and other receivables (Note 5)	219,372	410,860
Inventories (Note 6)	1,195,756	1,515,406
Advances, prepaids and deposit	233,924	290,025
Restricted cash (Note 7)	-	45,080
Assets held for sale (Notes 8 and 10)	214,000	214,000
	<u>1,884,413</u>	<u>2,588,937</u>
Long-term deposits	32,124	32,124
Restricted cash (Note 7)	34,500	34,500
Property and equipment (Notes 8, 10 and 11)	2,715,737	2,860,803
Technology license and other intangibles (Note 9)	77,333	84,583
	<u>4,744,107</u>	<u>5,600,947</u>
Total	\$ 4,744,107	\$ 5,600,947
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current		
Trade and other payables (Notes 11 and 12)	\$ 3,086,515	\$ 2,690,564
Loan from related party (Note 12)	55,000	55,000
Current portion of lease liabilities (Notes 8 and 10)	244,869	276,899
Lease liabilities for assets held for sale (Note 8)	22,845	22,845
Short-term loans (Note 11)	625,000	525,000
	<u>4,034,229</u>	<u>3,570,308</u>
Lease liabilities (Note 10)	1,312,545	1,312,545
Total liabilities	5,346,774	4,882,853
Shareholders' equity		
Share capital (Note 14)	25,533,987	25,533,987
Reserves (Note 14)	1,669,608	2,487,575
Deficit	(27,806,262)	(27,303,468)
Total shareholders' equity	(602,667)	718,094
	<u>4,744,107</u>	<u>5,600,947</u>
Total	\$ 4,744,107	\$ 5,600,947

Approved on July 15, 2020 on behalf of the Board:

<u>"Craig Goodwin"</u>	<u>"George Ragogna"</u>
Director	Director
Director	Director

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

Naturally Splendid Enterprises Ltd.

Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

	Three months ended March 31, 2020	Three months ended March 31, 2019
Revenue	\$ 720,255	\$ 772,803
Cost of sales	593,626	523,269
Gross profit	126,629	249,534
Selling and distribution expenses		
Bad debts and inventory write-down (Notes 5 and 6)	86,054	-
Facility	485,112	247,449
Freight and delivery	4,148	10,480
Product development, net of grants	-	348
Product promotion, net of grants	29,107	17,665
	604,421	275,942
Administrative expenses		
Accounting and audit	19,500	15,945
Amortization and depreciation (Notes 8 and 9)	152,316	186,435
Bank charges and interest	54,008	12,324
Corporate promotion	99,667	161,193
Directors' fees (Note 12)	10,000	16,025
Interest on lease liabilities (Note 10)	36,989	40,329
Legal	11,265	3,766
Management and consulting fees (Notes 12 and 14)	133,228	263,234
Office, rent and salaries	326,863	344,124
Transfer agent and filing fees	12,289	33,814
Travel	6,739	8,427
	862,864	1,085,616
Loss before other items and income tax	(1,340,656)	(1,112,024)
Other items		
Foreign exchange loss	(13,291)	(3,201)
Gain on sale of equipment (Notes 8)	19,750	-
Interest and other income	13,436	11,260
Loss before income tax	(1,320,761)	(1,103,965)
Deferred income tax recovery (Note 17)	-	-
Net loss and comprehensive loss for the period	\$ (1,320,761)	\$ (1,103,965)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding basic and diluted	141,438,513	105,444,409

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

Naturally Splendid Enterprises Ltd.

Consolidated Interim Statements of Changes in Cash Flow

(Unaudited - Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

	Three months ended March 31, 2020	Three months ended March 31, 2019
Operating activities		
Net loss for the year from continuing operations	\$ (1,320,761)	\$ (1,103,965)
Items not affecting cash:		
Amortization and depreciation	152,316	186,435
Shares issued for services	-	81,500
Interest on lease liabilities	38,093	40,329
Interest on short-term loan	9,073	-
Bad debts and inventory write-down	86,054	-
Gain on sale of equipment	(19,750)	-
	<u>(1,054,975)</u>	<u>(795,701)</u>
Changes in non-cash working capital:		
Trade and other receivables	162,912	46,078
Inventories	262,172	126,466
Advances, prepaids and deposits	56,101	72,356
Restricted cash	45,080	-
Trade and other payables	386,878	505,634
Cash used in operating activities	<u>(141,832)</u>	<u>(45,167)</u>
Investing activities		
Purchase of property and equipment, net	-	(81,809)
Disposal of property and equipment	19,750	-
Long term loan	-	780
Cash provided by (used in) investing activities	<u>19,750</u>	<u>(81,029)</u>
Financing activities		
Lease liabilities	(70,123)	(98,307)
Subscriptions received	-	134,490
Short term loan	100,000	-
Cash provided by financing activities	<u>29,877</u>	<u>36,183</u>
Net change in cash	(92,205)	(90,013)
Cash, beginning of period	113,566	188,814
Cash, end of period	<u>\$ 21,361</u>	<u>\$ 98,801</u>

Supplemental Cash Flow Information (Note 19)

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

Naturally Splendid Enterprises Ltd.

Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Common shares	Share capital	Option reserves	Warrant reserves	Deficit	Equity attributable to owners of the Company	Total equity
Balance at December 31, 2018	104,047,454	\$ 22,022,666	\$2,134,381	\$ 147,769	\$ (20,677,243)	\$ 3,627,573	\$ 3,627,573
Shares issued for services	600,000	81,500	-	-	-	81,500	81,500
Net loss for the period	-	-	-	-	(1,103,965)	(1,103,965)	(1,103,965)
Balance at March 31, 2019	104,647,454	\$ 22,104,166	\$2,134,381	\$ 147,769	\$ (21,781,208)	\$ 2,605,108	\$ 2,605,108
Private placement, net of costs	36,791,059	3,429,821	-	542,418	-	3,972,239	3,972,239
Share-based payments	-	-	66,852	-	-	66,852	66,852
Options expired	-	-	(60,331)	-	60,331	-	-
Options forfeited	-	-	(284,442)	-	284,442	-	-
Warrants expired or cancelled	-	-	-	(59,072)	59,072	-	-
Net loss for the period	-	-	-	-	(5,926,105)	(5,926,105)	(5,926,105)
Balance at December 31, 2019	141,438,513	\$ 25,533,987	\$1,856,460	\$ 631,115	\$ (27,303,468)	\$ 718,094	\$ 718,094
Options expired	-	-	(415,831)	-	415,831	-	-
Options forfeited	-	-	(402,136)	-	402,136	-	-
Net loss for the period	-	-	-	-	(1,320,761)	(1,320,761)	(1,320,761)
Balance at March 31, 2020	141,438,513	\$ 25,533,987	\$1,038,493	\$ 631,115	\$ (27,806,262)	\$ (602,667)	\$ (602,667)

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

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

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 three months ended March 31, 2020, the Company had a net loss and comprehensive loss of \$1,320,761 (2019 – \$1,103,965) and working capital deficit of \$2,149,816 (December 31, 2019 – \$981,371). The Company remains reliant on external sources of financing to fund operations and meet the Company’s obligations.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

In addition, the COVID-19 pandemic has created a dramatic slowdown in the global economy. The extent of the impact of COVID-19 on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. There can be no assurance that the Company will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic on global financial markets which may reduce share prices and financial liquidity, thereby severely limit the financing capital available.

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.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

2. Basis of Presentation

a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* (“IFRS 16”). IFRS 16 was adopted using the modified retrospective approach with no restatement of comparative periods, as permitted by the transition provisions of the standard. As a result of the application of IFRS 16, the Company changed its accounting policies for the recognition of leases as described in note 3.

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

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 14. These consolidated financial statements are presented in Canadian dollars, which is the Company’s and its subsidiaries’ functional currency. These consolidated financial statements include the accounts of the following entities:

	<u>Relationship</u>	<u>Percentage</u>
Naturally Splendid Enterprises Ltd.	Parent	100%
Naturally Splendid Enterprises 2013 Ltd.	Subsidiary	100%
Naturally Splendid Extracts Ltd. (“Extracts”)	Subsidiary	100%
Naturally Splendid USA Ltd.	Subsidiary	100%
Chi Hemp Industries Inc. (“Chi”)	Subsidiary	100%
Prosnack Natural Foods Inc. (“Prosnack”)	Subsidiary	100%
Naturally Splendid Hemp Processors Ltd. (“NSHP”)	Subsidiary	100%

All the entities above are incorporated in Canada, with the exception of Naturally Splendid USA Ltd., which is incorporated in the United States of America. The consolidated financial statements include the operating results of subsidiaries from the date of acquisition. 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.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

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 depreciation 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.

Depreciation 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:

Computer equipment	55% declining-balance
Computer software	30% declining-balance
Furniture and equipment	20% declining-balance
Manufacturing facility	Straight-line over lease term of 8-10 years
Leasehold improvements	Straight-line over 5 years
Manufacturing equipment	20% declining-balance
Vehicle	Straight-line over 1 year

Manufacturing facility includes the Company's operating premise leases which were capitalized in accordance with IFRS 16 (Note 10). These leases are depreciated over the term of the lease agreements.

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 co-packing revenues. Revenues from sale of goods via retailers, online web sales, bulk sales and co-packing have a single performance obligation and are recognized at the point in time when control transfers and the obligation has been fulfilled, which is upon shipment to the customer. The amount of revenue recognized is based on a contractual price and is recorded net of sales discounts, if any.

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. 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. For both employees and non-employees, the fair value of share-based expense is measured using the Black-Scholes option pricing model and is recognized in profit or loss, with a corresponding increase in reserves. When options expire unexercised or are cancelled, these amounts are reclassified into deficit.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

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.

f) Accounting for equity units

Proceeds received on the 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 that 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. Research and development expenses are included in product promotion costs under selling and distribution expenses.

h) Technology license and other intangibles

The Company's intangible assets include Exclusive License IP ("Licensed IP") acquired with the acquisition of POS BPC Manufacturing Corp., website, technology and non-compete clauses acquired with the acquisition of Chi; technology license agreements acquired from Full Spectrum Laboratories Limited ("FSL") (the "Technology License") (Note 9) and trademarks, customer lists and non-compete clauses related to the acquisition of Prosnack. Intangible assets acquired are recorded at cost less accumulated amortization and any impairment losses. Intangible assets are assessed for indicators of impairment at each reporting date, or more frequently if changes in circumstances indicate that the carrying value may be impaired. In addition to impairment indicator assessments, indefinite life intangibles must be tested annually for impairment. 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
Website and technology – 2 years
Non-compete clauses – 2 years
Licensed IP – 10 years
Brands and trademarks – 5 years
Customer lists – 5 years

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

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.

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 and judgment 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.

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 property, equipment and intangibles

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 liabilities and right-of-use assets. The determination of the market interest rate is subjective and could materially affect the fair value estimate.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

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. As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected volatility of the Company's share prices and expected forfeiture rates, changes in subjective input assumptions can materially affect the fair value estimate.

Determination of purchase price allocations and contingent consideration

Judgments 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, if any. 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.

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 tax assets and liabilities and applies tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Determination of cash-generating units ("CGU")

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash flows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users and the way in which management monitors the Company's operations.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

Impairment of property and equipment, technology license and other intangibles and goodwill

Judgment is required in determining whether property and equipment, technology license and other intangibles have indicators of impairment. Determining the amount of impairment of property and equipment, technology license and other intangibles and goodwill 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 discontinued operations

Judgment is required in determining whether an asset or disposal group should be classified as held for sale. An asset or disposal group should be classified as held for sale when it is available for immediate sale in its present condition and its sale is highly probable.

Management applies judgment to determine whether a component of the Company that either has been disposed of, or is classified as held for sale, meets the criteria for discontinued operations. The key area that involves management judgment in this determination is whether the component represents a separate major line of business or geographical area of operation. During the year ended December 31, 2018, the Company disposed of BPC and this was determined to be a discontinued operation as it is a separate component that represents a major line of business and geographical area of operation.

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.

Contingent liabilities

Judgement is required in determining whether a contingent liability should be accrued in the consolidated financial statements. The determination of whether there is a probable future outflow of resources requires significant judgement. Many factors in assessing the likelihood of a future outflow of resources are outside of the control of management.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

Application of IFRS 16

The Company applies judgment in determining whether the contract contains an identified asset, whether the Company has the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create economic incentive to exercise renewal options.

j) Income taxes

Deferred tax is calculated 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 Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

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

(i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

3. Significant Accounting Policies (Continued)

Financial assets measured at fair value through other comprehensive income (“FVTOCI”)

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income.

Financial assets measured at fair value through profit or loss (“FVTPL”)

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

Financial liabilities

(i) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(ii) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

(iii) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the profit or loss.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Fair value 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.

o) Accounting pronouncement adopted

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 *Leases* (“IFRS 16”). IFRS 16 specifies how to 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* (“IAS 17”).

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

3. Significant Accounting Policies (Continued)

The Company has recognized right-of-use assets and corresponding lease liabilities for its operating premise leases previously classified as operating leases under IAS 17. Upon transition to IFRS 16, these lease liabilities were measured at the present value of the remaining lease payments discounted using an incremental borrowing rate of 12% as of January 1, 2019. As a result, the Company, as a lessee has recognized \$1,353,021 as lease liabilities, representing its obligation to make lease payments. Right-of-use assets of the same amount were recognized, representing its right to use the underlying assets. The Company elected to adopt the standard using the modified retrospective approach and has not restated comparative information in accordance with the transitional provisions in IFRS 16. As a result, the comparative information continues to be presented in accordance with the Company's previous accounting policies.

The right-of-use assets will be depreciated on a straight-line basis over the remaining lease terms ending July 31, 2026.

Operating lease commitments as at December 31, 2019	\$ 1,810,325
Effect of discounting at incremental borrowing rate	567,538
Lease liabilities recognized as at January 1, 2020	\$ 1,242,787

Prior to the adoption of IFRS 16, the Company also has food packaging and production equipment leases. These leases were accounted for as capital lease obligations under IAS 17. The adoption of IFRS 16 did not have an impact on the measurement and presentation of the Company's existing food packaging and production equipment.

4. Acquisition of Naturally Splendid Hemp Processors Ltd.

On July 16, 2018, the Company acquired 100% of the issued and outstanding shares of Absorbent Concepts Inc. (now known as Naturally Splendid Hemp Processors Ltd ("NSHP")). Under the terms of the agreement, the Company paid \$1 cash and repaid loans of \$640,018.

As the business was closed for some time before acquisition and was not considered to have inputs and processes, the acquisition of NSHP was accounted for as an asset acquisition. The consideration paid was recorded in the accounts of the Company at its fair value determined as follows:

Cash	\$ 1
Repayment of bank loans	640,018
	\$ 640,019

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

4. Acquisition of Naturally Splendid Hemp Processors Ltd. (Continued)

The net assets acquired, and the purchase price allocation was:

Accounts receivable	\$	58,205
Inventory		212,498
Prepaid expenses		3,913
Property and equipment		805,568
Accounts payable		(164,067)
Long-term debt		(214,354)
Leases payable		(61,744)
	\$	640,019

Loan payable

On closing of the acquisition, NSHP entered into a long-term loan agreement with the seller of NSHP for \$200,000 (Note 12). The seller of the NSHP was also an officer of the Company. The repayment of the loan to the seller is dependent on satisfaction of 6 different milestones based on net income, the achievement of research and development milestones and continued employment. Should the milestones not be reached, the loan from the seller of NSHP will be forgiven and included in income.

As at December 31, 2018, \$20,000 is classified as current portion of loan payable for milestones achieved and \$180,000 is classified as long-term portion of loan payable for milestones not yet achieved and not expected to be achieved within twelve months.

During the year ended December 31, 2019, the seller of NSHP left the Company and the loan payable was settled for no additional consideration. A gain on settlement of loan payable of \$200,000 was recorded during the year ended December 31, 2019 in the consolidated statements of loss and comprehensive loss.

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:

	March 31, 2020	December 31, 2019
GST/HST receivable	\$ 52,656	\$ 146,061
Trade receivables	162,716	260,799
Due from related parties (Note 12)	4,000	4,000
	\$ 219,372	\$ 410,860

Included in trade receivables is an allowance for uncollectible accounts as at the periods ended March 31, 2020 of \$33,086 (December 31, 2019 - \$29,362).

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

6. Inventories

	March 31, 2020	December 31, 2019
Finished products for resale	\$ 236,413	\$ 384,276
Raw materials*	351,573	520,189
Containers, labels and packing materials	607,770	610,941
	\$ 1,195,756	\$ 1,515,406

During the three months ended March 31, 2020, the Company recorded a write-down to inventory of \$57,478 (December 31, 2019 – \$365,620) relating to expired goods and estimated net realizable value of inventories being lower than cost.

7. Restricted Cash

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

For the period ended March 31, 2020, the deposited funds earn an interest rate at 1.25%, and matures on July 9, 2020 and May 19, 2020 (subsequently reinvested to a maturity date of May 18, 2021 and July 8, 2021 at an interest rate at 0.60%), respectively.

For the year ended December 31, 2019, the deposited funds earn an interest rate at prime less 2.70% and prime less 2.65%, and matures on July 5, 2019 and May 21, 2019, respectively.

During the period ended March 31, 2020, the Company settled the outstanding payable of \$45,080 due to a former officer of the Company for management fees, which were garnished by the Bank of Montreal during the year ended December 31, 2019 (Note 12).

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

8. Property and Equipment

The changes in the Company's property and equipment for the periods ended March 31, 2020, December 31, 2019 and 2018 are as follows:

	Computer equipment and software	Furniture and equipment	Manufacturing facility and leasehold improvements	Manufacturing equipment	Vehicle	Total
Cost						
December 31, 2018	\$ 103,721	\$ 269,368	\$ 389,206	\$ 1,872,142	\$ -	\$ 2,634,437
Additions	1,326	39,548	246,434	394,396	9,576	691,280
Additions from adoption of IFRS 16 (Note 3)	-	-	1,353,021	-	-	1,353,021
Reclassification to asset held for sale	-	-	-	(410,544)	-	(410,544)
December 31, 2019	\$ 105,047	\$ 308,916	\$ 1,988,661	\$ 1,855,994	\$ 9,576	\$ 4,268,194
Disposition	-	-	-	(19,750)	-	(19,750)
March 31, 2020	\$ 105,047	\$ 308,916	\$ 1,988,661	\$ 1,836,244	\$ 9,576	\$ 4,248,444
Depreciation						
December 31, 2018	\$ 90,208	\$ 115,658	\$ 66,783	\$ 216,897	\$ -	\$ 489,546
Additions	7,633	28,978	101,233	381,461	9,576	528,881
Additions from adoption of IFRS 16 (Note 3)	-	-	178,420	-	-	178,420
Impairment	-	-	-	407,088	-	407,088
Reclassification to asset held for sale	-	-	-	(196,544)	-	(196,544)
December 31, 2019	\$ 97,841	\$ 144,636	\$ 346,436	\$ 808,902	\$ 9,576	\$ 1,407,391
Additions	1,018	7,441	31,469	60,533	-	100,461
Additions from adoption of IFRS 16 (Note 3)	-	-	44,605	-	-	44,605
Disposition	-	-	-	(19,750)	-	(19,750)
March 31, 2020	\$ 98,859	\$ 152,077	\$ 422,510	\$ 849,685	\$ 9,576	\$ 1,532,707
Net Book Value						
December 31, 2018	\$ 13,513	\$ 153,710	\$ 322,423	\$ 1,655,245	\$ -	\$ 2,144,891
December 31, 2019	\$ 7,206	\$ 164,280	\$ 1,642,225	\$ 1,047,092	\$ -	\$ 2,860,803
March 31, 2020	\$ 6,188	\$ 156,839	\$ 1,566,151	\$ 986,559	\$ -	\$ 2,715,737

Included within manufacturing facility are the right-of-use assets recognized for the Company's operating premise leases. Included within manufacturing equipment are food packaging and production equipment under lease (Note 10).

Depreciation expense recognized for the operating premise lease for the three months ended March 31, 2020 was \$44,605 (December 31, 2019 – \$178,420). The net carrying value of the operating premise lease as at March 31, 2020 was \$1,129,996 (December 31, 2019 – \$1,174,601).

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

8. Property and Equipment (Continued)

Depreciation expense recognized for food packaging and production equipment leases for the three months ended March 31, 2020 was \$26,305 (December 31, 2019 – \$140,182). The net carrying value of food packaging and production equipment leases as at March 31, 2020 was \$323,810 (December 31, 2019 – \$350,115).

During the year ended December 31, 2019, management made the decision to sell the manufacturing equipment acquired through the acquisition of NSHP in fiscal 2018 (Note 4). Management estimated the recoverable value based on a fair value less cost of disposal approach to be \$214,000. Accordingly, during the year ended December 31, 2019, the Company recognized an impairment expense of \$407,088 (2018 – \$nil) to decrease the carrying value of the manufacturing equipment to its estimated recoverable value. The fair value measurement is categorized within Level 3 of the fair value hierarchy. The remaining value of this equipment of \$214,000 was reclassified to asset held for sale. Of this amount, \$21,184 relates to an asset under lease. The remaining lease liability of \$22,845 is included in the current portion of lease liabilities on the consolidated statements of financial position. As at March 31, 2020, management remained in communication to sell the manufacturing equipment. The sale of this equipment has not been completed as of the date of these consolidated financial statements.

As at March 31, 2020, property and equipment with a carrying value of \$165,000 has been used as collateral for a short-term loan as detailed in Note 11.

9. Technology License and Other Intangibles

The changes in the Company's technology license and other intangibles for the periods ended March 31, 2020, December 31, 2019 and 2018 are as follows:

	Technology License	Website and Technology	Non-compete Clauses	Licensed IP	Brands & Trademarks	Customer Lists	Total
Cost							
December 31, 2018, 2019 and March 31, 2020	\$ 1,486,425	\$ 31,417	\$ 40,926	\$ 200,000	\$ 145,000	\$ 256,000	\$ 2,159,768
Amortization							
December 31, 2018	\$ 393,337	\$ 31,417	\$ 39,926	\$ 80,000	\$ 31,417	\$ 55,217	\$ 631,314
Additions	102,138	-	1,000	20,000	29,000	51,450	203,588
Impairment	990,950	-	-	100,000	-	149,333	1,240,283
December 31, 2019	\$ 1,486,425	\$ 31,417	\$ 40,926	\$ 200,000	\$ 60,417	\$ 256,000	\$ 2,075,185
Additions	-	-	-	-	7,250	-	7,250
March 31, 2020	\$ 1,486,425	\$ 31,417	\$ 40,926	\$ 200,000	\$ 67,667	\$ 256,000	\$ 2,082,435
Net Book Value							
December 31, 2018	\$ 1,093,088	\$ -	\$ 1,000	\$ 120,000	\$ 113,583	\$ 200,783	\$ 1,528,454
December 31, 2019	\$ -	\$ -	\$ -	\$ -	\$ 84,583	\$ -	\$ 84,583
March 31, 2020	\$ -	\$ -	\$ -	\$ -	\$ 77,333	\$ -	\$ 77,333

During 2015, Naturally Splendid USA Ltd. entered into a Novation Agreement with Full Spectrum Laboratories Limited ("FSL"), Boreal Technologies and the Company. Under this Novation Agreement, 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 Hemp Omega and H2Omega.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

9. Technology License and Other Intangibles (Continued)

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.

Actual revenues from the use of the technology license being significantly lower than management’s original forecast together with management’s current focus on other sources of revenues, resulted in an indicator of impairment. Management estimated the recoverable value based on a value-in-use calculation using pre-tax cash flow projections based on management’s best estimates, and a pre-tax discount rate of 15%, to be \$nil. Accordingly, during the year ended December 31, 2019, the Company recognized an impairment expense of \$990,950 (2018- \$nil) to decrease the carrying value of the technology license to its estimated recoverable value of \$nil.

Website and Technology

Website and Technology consist of sales website and platform acquired with the acquisition of Chi.

Non-compete Clauses

Non-compete Clauses consist of non-compete agreements the Company entered into with former owners of Chi and Prosnack.

Licensed IP

On the sale of BPC during the year ended December 31, 2018, the Company retained ownership and interests in the Licensed IP originally held in BPC. The net book value of the Licensed IP on the date of sale was deducted from the net assets sold.

Actual revenues from the use of the Licensed IP has been significantly lower than management’s original forecast, which resulted in an indicator of impairment. Management estimated the recoverable value based on a value-in-use calculation using pre-tax cash flow projections based on management’s best estimates, and a pre-tax discount rate of 15%, to be \$nil. Accordingly, during the year ended December 31, 2019, the Company recognized an impairment expense of \$100,000 (2018 - \$nil) to decrease the carrying value of the technology license to its estimated recoverable value of \$nil.

Brands and Trademarks

Brands and Trademarks were acquired together with the acquisition of Prosnack.

Customer Lists

During the year ended December 31, 2017, the Company acquired Prosnack. At acquisition, Prosnack had existing customer relationships which were determined to have a fair value of \$256,000 at the date of acquisition.

Actual revenues from the Customer lists has been significantly lower than management’s original forecast, which resulted in an indicator of impairment. Management estimated the recoverable value based on a value-in-use calculation using pre-tax cash flow projections based on management’s best estimates, and a pre-tax discount rate of 15%, to be \$nil. Accordingly, during the year ended December 31, 2019, the Company recognized an impairment expense of \$149,333 (2018 - \$nil) to decrease the carrying value of customer lists to its estimated recoverable value of \$nil.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

10. Leases

The following is the continuity of lease liabilities as at and for the periods ended March 31, 2020, December 31, 2019 and 2018:

	Equipment Leases	Operating Premise Lease	Total
Balance, December 31, 2018	\$ 411,949	\$ -	\$ 411,949
Additions	73,245	-	73,245
Additions from adoption of IFRS 16	-	1,353,021	1,353,021
Lease payments	(128,263)	(266,664)	(394,927)
Interest on lease liabilities	12,571	156,430	169,001
Balance, December 31, 2019	\$ 369,502	\$ 1,242,787	\$ 1,612,289
Lease payments	(3,457)	(66,666)	(70,123)
Interest on lease liabilities	1,105	36,989	38,094
Balance, March 31, 2020	\$ 367,150	\$ 1,213,110	\$ 1,580,260
Current portion	\$ 172,066	\$ 95,649	\$ 267,715
Long-term portion	195,084	1,117,461	1,312,545
Total	\$ 367,150	\$ 1,213,110	\$ 1,580,260

Equipment Leases

The Company has various lease contracts outstanding for food packaging equipment and production equipment. Following the final lease payments, the Company will own the equipment free and clear of all encumbrances. The aggregate interest expense recognized for these lease contracts is \$1,105 (2019 – \$3,546). These assets are included within manufacturing equipment under property and equipment on the consolidated statements of financial position.

As at March 31, 2020, the Company has the following four lease contracts for food packaging and production equipment:

- Food packaging equipment – monthly lease payments of \$9,765 (including GST) until May 2022;
- Food production equipment acquired from NHSP – monthly lease payments of \$3,141 (including GST) until September 2020;
- Food packaging equipment – monthly lease payments of \$851 (including GST) until March 22, 2024; and
- Food packaging equipment – monthly lease payments of \$643 (including GST) until August 2024.

Annual payments are due as follows:

	March 31, 2020
Within 1 year	\$ 176,186
Within 2 - 5 years	218,058
	\$ 394,244

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

10. Lease (continued)

Operating Premise Leases

The Company has three leases for contiguous space. The leases were entered in August 2016, December 2017 and October 2018. The combined basic rent is payable monthly in advance at a rate of \$13,497 per month plus the proportionate share of expenses in respect of operating costs and property taxes, currently amounting to \$7,823 per month.

The Company recognized right-of-use assets for its operating premise leases (Note 3). The aggregate interest expense recognized for these lease contracts is \$36,989 (2019 – \$40,329). These assets are included within manufacturing facility under property and equipment on the consolidated statements of financial position.

Annual payments are due as follows:

	March 31, 2020
Within 1 year	\$ 201,090
Within 2 - 5 years	1,098,602
More than 5 years	443,966
	\$ 1,743,658

11. Short-Term Loans

During the year ended December 31, 2019, a shareholder advanced \$500,000 to the Company as an unsecured, due-on-demand loan with interest at 6% per annum. During the period ended March 31, 2020, the Company incurred interest expense of \$7,510 (December 31, 2019, \$18,740) on this short-term loan, which is included in trade and other payable at March 31, 2020 and December 31, 2019. Subsequent to the period ended March 31, 2020, the outstanding loan balance of \$530,005 was settled by issuing shares for debt (Note 22).

During the year ended December 31, 2019, a shareholder advanced \$25,000 to the Company as a secured, due-on-demand loan with interest at 10% per annum commencing February 2020 with a maturity date of February 18, 2021. During the period ended March 31, 2020, the shareholder further advanced \$100,000. The Company incurred interest expense of \$1,563 (December 31, 2019, \$nil) on this short-term loan, which is included in trade and other payable at March 31, 2020. Subsequent to the period ended March 31, 2020, the outstanding loan balance of \$125,000 was settled by issuing shares for debt (Note 22).

The loan is secured by certain equipment with a net book value of \$165,000 (Note 8).

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

12. Key Management Compensation and Related Party Transactions

Key management compensation

	March 31, 2020	March 31, 2019
Management fees	\$ 90,000	\$ 168,000
Consulting fees	16,250	-
Shares issued for services	-	67,500
Directors' fees	10,000	13,025
	\$ 116,250	\$ 248,525

- i) Management fees of \$45,000 (December 31, 2019 – \$180,000) were accrued for 1105953 B.C. Ltd., a company controlled by the Company's Chief Executive Officer.
- ii) Management fees of \$45,000 (December 31, 2019 – \$180,000) were accrued for Kal-Mad Enterprises Ltd., a company controlled by the Company's Vice President of Operations and was appointed Chief Financial Officer on February 14, 2020.
- iii) Management fees of \$nil (December 31, 2019 – \$120,000) were accrued for Waterfront Capital Partners LLC, a company controlled by the Company's former Chief Executive Officer who resigned on August 27, 2019.
- iv) Management fees of \$nil (December 31, 2019 – \$60,000) were accrued for the Company's Chief Financial Officer. On January 6, 2020, the individual stepped down as Chief Financial Officer.
- v) Management fees of \$nil (December 31, 2019 – \$23,286) were accrued for the Company's Chief Operating Officer. On February 7, 2020, the individual resigned from the Company.
- vi) Management fees of \$nil (December 31, 2019 – \$60,900) were accrued for the Company's former Chief Financial Officer who resigned on June 25, 2019.
- vii) Consulting fees of \$nil (December 31, 2019 – \$57,500) were accrued for Agrinomics I.T. Consulting Ltd., a company controlled by a director of the Company. On March 31, 2020, the individual resigned as a consultant of the Company.
- viii) Consulting fees of \$16,250 (December 31, 2019 – \$14,833) were accrued for a director of the Company.
- ix) During the period ended March 31, 2020 \$nil (2019 - \$67,500) worth of shares were issued for services. During the year ended December 31, 2019, 500,000 common shares with a fair value of \$67,500 were issued to the former CEO and former CFO of the Company and recorded in management and consulting fees.

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the period ended March 31, 2020 and the year ended December 31, 2019.

During the year ended December 31, 2019, a claim was made against the Company by a former officer of the Company for constructive dismissal. During the period ended March 31, 2020, the Company and the former officer of the Company came to a mutual agreement to pay the outstanding balance of \$45,080 for services rendered during the year.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

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

Related party liabilities

The following amounts are included in accounts payable and accrued liabilities as at March 31, 2020 and December 31, 2019:

Amounts due to:	March 31, 2020	December 31, 2019
1105953 BC Ltd.	\$ 149,317	\$ 103,746
Kal-Mad Enterprises Ltd.	58,407	22,990
Agrinomics I.T. Consulting Ltd.	85,882	82,021
Former CFO	1,963	4,463
Former CEO	-	49,875
Former Directors	19,905	19,905
Directors	35,175	12,242
Total related party payables	\$ 350,649	\$ 295,242

As at March 31, 2020, \$nil (December 31, 2019 – \$nil) is due to the former owner of NSHP and former officer of the Company. During the year ended December 31, 2019, this loan payable was settled for no additional consideration. The Company recorded a gain of \$200,000 on the consolidated statements of loss and comprehensive loss.

As at March 31, 2020, \$55,000 (December 31, 2019 – \$55,000) is due to the CEO, President and director of the Company for a non-interest bearing, short-term loan.

During the year ended December 31, 2019, the Company entered consulting agreements with directors of the Company. The terms of these consulting agreements include 750,000 common shares and 600,000 stock options to be issued as consideration for provision of consulting services. During the period ended March 31, 2020, an additional 150,000 common shares are to be issued to directors of the Company pursuant to these consulting agreements. As of the date of these consolidated financial statements, authorization to issue these shares and stock options has not been received from the TSX-V Exchange and no accrual has been made for these common shares and stock options in these consolidated financial statements.

Related party receivables

As at December 31, 2019, \$nil (2018 – \$200,780) is due from the former owner of NSHP and former officer. The loan has an annual interest rate of 5.5% and is receivable on or before April 30, 2020. This loan receivable is secured by assignment of a \$200,000 of the former officer's life insurance policy for the benefit of NHSP and mortgage on the borrower's primary residence. During the year ended December 31, 2019, this loan receivable was settled for \$70,780, resulting in a loss of \$130,000 being recorded in the consolidated statements of loss and comprehensive loss.

As at March 31, 2020, a \$4,000 (December 31, 2019 – \$4,000) advance is due from the VP of Operations (Note 5).

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

13. Financial Instruments

a) Categories of financial instruments

Financial Assets	Fair Value Hierarchy	March 31, 2020	December 31, 2019
Fair value through profit or loss, at fair value			
Cash	Level 1	\$ 21,361	\$ 113,566
Restricted cash	Level 1	34,500	79,580
Loans and receivables, at amortized cost			
Trade and other receivables	Level 1	166,716	264,799
Advances and deposits	Level 1	233,924	30,408
		\$ 456,501	\$ 488,353

Financial Liabilities	Fair Value Hierarchy	March 31, 2020	December 31, 2019
Fair value through profit or loss, at fair value			
Contingent consideration payable	Level 3	\$ -	\$ -
Other liabilities, at amortized cost			
Trade and other payables	Level 1	3,086,515	2,690,564
Loan from related party	Level 1	55,000	55,000
Short-term loans	Level 1	625,000	525,000
Lease liabilities	Level 2	1,580,259	1,612,289
		\$ 5,346,774	\$ 4,882,853

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. The carrying value of cash, trade and other payables, loan from related party and short-term loans approximate their fair value due the short-term maturity of these instruments.

c) Management of financial risks

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

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

13. Financial Instruments (Continued)

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. The Company's trade and other payables are due within 90 days of March 31, 2020, loan from related party and short-term loans are due on demand. The Company's lease liabilities have payments due in accordance with the lease agreements (Note 15).

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, 2020, the Company had a working capital deficit of \$2,149,816 (December 31, 2019 – \$981,371).

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, 2020 and December 31, 2019, the Company is exposed to currency risk through the following financial instruments denominated in a currency other than the Canadian dollar:

	March 31, 2020		December 31, 2019	
	US \$	CDN \$	US \$	CDN \$
Cash	477	676	32,056	41,724
Trade receivables	22,490	31,868	19,914	25,919
Accounts payable and accrued liabilities	88,999	114,773	152,173	198,067

Based on the above, assuming all other variables remain constant, a 5% (December 31, 2019 – 5%) strengthening or weakening of the Canadian dollar against the US dollar would have decreased/increased the Company's loss and comprehensive loss by \$2,902 (December 31, 2019 – \$6,469).

Other risk

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

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

14. 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 141,438,513 common shares without par value.

During the period ended March 31, 2020, the Company completed no transactions.

During the year ended December 31, 2019, the Company completed the following transactions:

- 11,781,196 units at \$0.14 for total gross proceeds of \$1,649,368. Each unit is comprised of one common share and one-half common share purchase warrants, where each warrant is exercisable at \$0.21 for a period of two years. The warrants were allocated a value of \$253,795 under the residual method;
- 600,000 common shares with a fair value of \$81,500 were issued as consulting fees (Note 13);
- 6,019,571 units at \$0.14 per common share for total gross proceeds of \$842,740. Each unit is comprised of one common share and one-half common share purchase warrants, where each warrant is exercisable at \$0.21 for a period of two years. The warrants were allocated a value of \$240,783 under the residual method;
- 18,990,292 units at \$0.085 per common share for total gross proceeds of \$1,614,175. Each unit is comprised of one common share and one full common share purchase warrant exercisable at \$0.12 for a first year and \$0.20 for the second year from date of issuance. There was no value allocated to the warrants under the residual method; and
- Share issuance costs consisting of \$26,784, 1,131,323 finders' warrants with a fair value of \$47,840 and finders fees of \$107,260 were paid during the year for the closing of financings.

Subsequent to the period ended March 31, 2020, the Company closed a non-brokered private placement financing for a total of 42,857,159 units (the "Units") at \$0.035 per Unit, for total gross proceeds and debt settlement of \$1,500,000. Of the \$1,500,000, the Company settled loans and trade payables of \$720,005.

Each Unit consists of one common share of the Company and one common share purchase warrant (each a "Warrant"), with each Warrant entitling the holder to purchase one additional common share for a period of two years from the date of the issue at an exercise price of \$0.055 per share. The Company has the right to accelerate the expiry date of the Warrants if, at any time, the average closing price of the Company's common shares is equal to or greater than \$0.10 for 10 consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right.

In connection with the initial tranche of financing, the Company paid finders a cash commission totaling \$19,278 and issued a total of 550,800 finder's warrants. Each finder's warrant has the same terms and conditions as the Warrants.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

c) Options and share-based payments

The following is a summary of changes in stock options for the periods ended March 31, 2020 and December 31, 2019:

	March 31, 2020		December 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	8,640,000	\$ 0.26	9,606,232	\$ 0.26
Granted	-	\$ -	820,000	\$ 0.15
Expired	(1,075,000)	\$ 0.40	(200,000)	\$ 0.29
Forfeited	(2,150,000)	\$ 0.24	(1,586,232)	\$ 0.22
Total outstanding and exercisable, end of period	5,415,000	\$ 0.23	8,640,000	\$ 0.26

The following are the outstanding stock options as of March 31, 2020 and December 31, 2019:

Expiry date	Number of options outstanding March 31, 2020	Number of options outstanding December 31, 2019	Weighted average exercise price	Weighted average remaining contractual life in years March 31, 2020	Weighted average remaining contractual life in years December 31, 2019
March 23, 2020	-	1,075,000	\$0.400	-	0.23
November 3, 2020	220,000	220,000	\$0.300	0.59	0.84
January 27, 2022	1,350,000	1,740,000	\$0.350	1.83	2.07
November 27, 2022	190,000	340,000	\$0.250	2.66	2.91
January 7, 2023	585,000	1,235,000	\$0.310	2.77	3.02
January 31, 2023	30,000	30,000	\$0.350	2.84	3.09
February 21, 2023	150,000	150,000	\$0.310	2.90	3.15
February 28, 2023	40,000	40,000	\$0.265	2.92	3.16
July 11, 2023	60,000	60,000	\$0.180	3.28	3.53
September 17, 2023	1,970,000	2,930,000	\$0.150	3.47	3.72
February 4, 2024	60,000	60,000	\$0.150	3.85	4.10
February 6, 2024	60,000	60,000	\$0.150	3.85	4.10
June 24, 2024	700,000	700,000	\$0.150	4.24	4.48
	5,415,000	8,640,000		2.92	2.80

During the three months ended March 31, 2020, the Company recognized share-based payments expense of \$nil (December 31, 2019 – \$66,852), of stock options granted during the period. Subsequent to March 31, 2020, 450,000 options were forfeited.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

14. Share Capital (Continued)

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, 2020	December 31, 2019
Risk-free interest rate	-	1.41%
Expected life (years)	-	5.0
Annualized volatility	-	99.43%
Expected dividends	-	-
Exercise price	\$ -	\$ 0.15
Fair value	\$ -	\$ 0.08

d) Warrants

A summary of the Company's warrants for the periods ended March 31, 2020 and December 31, 2019 is as follows:

	March 31, 2020		December 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	31,164,963	\$ 0.16	11,021,189	\$ 0.22
Issued	-	\$ -	29,022,007	\$ 0.15
Cancelled/ expired	-	\$ -	(8,878,233)	\$ 0.24
Total outstanding, end of period	31,164,963	\$ 0.16	31,164,963	\$ 0.16

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

14. Share Capital (Continued)

The following are the outstanding warrants as at March 31, 2020 and December 31, 2019:

	Outstanding warrants March 31, 2020	Outstanding warrants December 31, 2019	Exercise price	Expiry date
Common share purchase warrants	1,773,981	1,773,981	\$0.27	August 14, 2020
	3,691,321	3,691,321	\$0.21	April 17, 2021
	908,565	908,565	\$0.21	April 30, 2021
	1,290,713	1,290,713	\$0.21	June 7, 2021
	3,009,793	3,009,793	\$0.21	September 6, 2021
	18,990,292	18,990,292	\$0.12*	September 27, 2021
	178,571	178,571	\$0.22	October 13, 2021
	190,404	190,404	\$0.22	November 1, 2021
	249,200	249,200	\$0.21	April 17, 2021
	120,800	120,800	\$0.21	April 30, 2021
	142,000	142,000	\$0.21	June 7, 2021
Agent warrants	10,500	10,500	\$0.21	September 6, 2021
	608,823	608,823	\$0.12	September 27, 2021
	31,164,963	31,164,963		

* These warrants are exercisable at \$0.12 in the first year and \$0.20 in the second year.

During the year ended December 31, 2019, the expiry date of 178,571 warrants with an exercise price of \$0.22 was extended from October 13, 2019 to October 13, 2021. Additionally, the expiry date of 190,404 warrants with an exercise price of \$0.22 was extended from November 1, 2019 to November 1, 2021. All other terms of the warrants remain the same.

The fair value of finders' warrants issued was estimated as at private placement closing date using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2020	December 31, 2019
Risk-free interest rate	-	1.57%
Expected life (years)	-	2.0
Annualized volatility	-	103.11%
Expected dividends	-	-
Exercise price	-	\$0.18
Fair value	-	\$0.04

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

15. Contingent Consideration Payable

Prosnack Natural Foods Inc.

On October 18, 2017, the Company entered into a business combination to acquire 100% of the issued and outstanding shares of Prosnack. 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.

As at December 31, 2018, the fair value of the contingent consideration payable was reassessed in accordance with IFRS 9 *Financial Instruments*, and a loss on revaluation of contingent consideration payable of \$565,000 was recorded in the consolidated statements of loss and comprehensive loss during the year ended December 31, 2018 due to a change in forecasted sales revenues. During the year ended December 31, 2019, the earn-out agreement was terminated, and the contingent consideration payable was revalued to \$nil resulting in a gain of contingent consideration payable of \$965,000 recorded in the consolidated statements of loss and comprehensive loss.

The changes in the contingent consideration payable for the periods ended March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
Balance, beginning of year	\$ -	\$ 965,000
Revaluation	-	(965,000)
Balance, end of year	\$ -	\$ -
Current portion	-	-
Long term portion	\$ -	\$ -

16. 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, 2020 and December 31, 2019. The Company is not subject to externally imposed capital restrictions.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

17. Income Taxes

The Company's combined statutory tax rate is currently at 27%, reflecting a combined federal corporate tax rate of 15% and BC corporate tax rate of 12%. A reconciliation of income tax provisions computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	December 31, 2019	December 31, 2018
Loss before income taxes	\$ (7,030,070)	\$ (1,611,361)
Expected income tax recovery	(1,898,119)	(435,067)
Adjustment resulting from		
Non-deductible items	21,016	773,856
Other	159,266	(1,246,178)
Under/over provided in prior years	(2,065,919)	1,888,988
Unused tax losses	3,783,756	(1,025,251)
Expected income tax recovery	\$ -	\$ (43,652)

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2019 and 2018 are presented below:

	December 31, 2019	December 31, 2018
Deferred income tax assets		
Non-capital losses carried forward	\$ 466,769	\$ 94,022
Deferred income tax liabilities		
Property and equipment	(114,207)	(8,873)
Right-of-use assets	(334,734)	-
Technology license and other intangibles	(17,828)	(85,149)
Deferred income tax liabilities, net	\$ -	\$ -

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:

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

17. Income Taxes (Continued)

	December 31, 2019	December 31, 2018
Deferred tax assets		
Non-capital losses	\$ 23,866,407	\$ 12,442,653
Share issue costs	322,296	458,564
Property and equipment	587,815	-
Lease liabilities	1,589,441	-
Technology license and other intangibles	140,000	-
Unrecognized deferred tax	\$ 26,505,959	\$ 12,901,217

The Company's unused tax losses as at December 31, 2019, have the following expiry dates:

2027	\$ 452,000
2028	229,000
2029	173,000
2030	667,000
2031	118,000
2032	67,000
2033	2,504,000
2034	1,841,000
2035	3,175,000
2036	2,891,000
2037	3,782,000
2038	4,768,000
2039	4,919,000
	\$ 25,586,000

18. Goodwill

Goodwill acquired through business combinations has been allocated to three cash-generating units ("CGU"). The breakdown of goodwill as at the periods ended March 31, 2020, December 31, 2019 and 2018 is as follows:

	BPC	Chi	Prosnack	Total
Balance, December 31, 2017	\$ 801,000	\$ 90,168	\$ 313,899	\$ 1,205,067
Disposition of BPC (Note 5)	(801,000)	-	-	(801,000)
Balance, December 31, 2018	\$ -	\$ 90,168	\$ 313,899	\$ 404,067
Impairment	-	(90,168)	(313,899)	(404,067)
Balance, December 31, 2019 and March 31, 2020	\$ -	\$ -	\$ -	\$ -

During the year ended December 31, 2018, the Company sold BPC and derecognized goodwill of \$801,000.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

18. Goodwill (Continued)

The Company performs an annual impairment test of goodwill at December 31 of each year. The recoverable amounts have been determined based on a value-in-use calculation using pre-tax cash flow projections based on management's best estimates and a pre-tax discount rate of 15%. During the year ended December 31, 2019, the recoverable value was determined to be \$nil resulting in an impairment charge of \$404,067. As at March 31, 2020, the Company recoverable value of goodwill remained to be \$nil.

19. Supplemental Cash Flow Information

	March 31, 2020	December 31, 2019
Non-cash items		
Shares issued under obligation	\$ -	\$ -
Property and equipment additions included in accounts payable and accrued liabilities	-	123,501
Assets acquired under leases	-	73,245
Total non-cash items	\$ -	\$ 196,746
Interest and taxes paid		
Interest paid on leases	\$ -	\$ -
Taxes	\$ -	\$ -

20. Contingent Liabilities

During the year ended December 31, 2018, a claim was made against the Company by a hemp seed supplier for breach of a service and supply agreement.

During the year ended December 31, 2019, a claim was made against the Company by an entity for trademark infringement and false designation of origin.

As at March 31, 2020, the Company and the Company's legal counsel is currently in process of defending these claims. An estimate of the contingent liabilities and likelihood of loss is unable to be determined at this time and no loss provision has been made in these consolidated financial statements. The Company intends to vigorously defend these claims. Should an adverse outcome result in the future, any amounts incurred may affect future results of operations and cash flows.

21. Segmented Information

The Company has one reportable operating segment, the sale of natural food and ingredients to commercial processors and consumers. All the Company's long-term assets are located in Canada.

Naturally Splendid Enterprises Ltd.

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the three months ended March 31, 2020 and 2019

22. Subsequent Events

- (a) On May 7, 2020, the Company entered a Letter of Intent (“LOI”) with Biologic Publishing Inc. (“Biologic”) to form a joint venture for the purpose of further developing and pursuing phase 2 clinical studies, utilizing one of Biologic’s patented technologies as a candidate for the potential COVID-19 treatment.

The Company will own 16% of the joint venture as well as be granted a 10% royalty on gross sales of all products and applications arising from the clinical study. Biologic will own 82% of the joint venture with the remaining 2% ownership assigned to key personnel within Biologic at their discretion.

The Company will invest \$500,000 into the joint venture for the purposes of preparing documentation for submission to Health Canada and/or the United States Food and Drug Administration for a clinical trial as well as conducting a parallel in-vitro study in conjunction with a clinical study conducted by Health Canada. The investment must be completed within fourteen days of executing the LOI (May 21, 2020) including regulatory approvals as required or prior to the commencement of a clinical study with Health Canada.

The joint venture will allocate \$33,000 for lab expenses and \$100,000 for ingredients. The Company shall issue 350,000 common shares to Biologic and 500,000 stock options to individuals of Biologic in consideration of Biologic entering into a definitive agreement

The LOI shall terminate on the earlier of 30 days from the date of LOI; the entering into the Definitive Agreement; or by mutual agreement of both parties.

On June 6, 2020, the Company and Biologic amended the initial LOI to extend the terms of the \$500,000 payment from May 21, 2020 to July 6, 2020. The LOI shall terminate on the earlier of 60 days from the date of the LOI; the entering into the Definitive Agreement; or by mutual agreement of both parties. As at the date of these financial statements, the Company has not yet entered into the Definitive agreement and are in process of amending the LOI to further extend the terms.

- b) On June 5, 2020, The Company closed a non-brokered private placement financing for a total of 42,857,159 units (the “Units”) at \$0.035 per Unit, for total gross proceeds and debt settlement of \$1,500,000. Of the \$1,500,000, the Company settled loans and trade payables of \$720,005.

Each Unit consists of one common share of the Company and one common share purchase warrant (each a “Warrant”), with each Warrant entitling the holder to purchase one additional common share for a period of two years from the date of the issue at an exercise price of \$0.055 per share. The Company has the right to accelerate the expiry date of the Warrants if, at any time, the average closing price of the Company’s common shares is equal to or greater than \$0.10 for 10 consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right.

In connection with the initial tranche of financing, the Company paid finders a cash commission totaling \$19,278 and issued a total of 550,800 finder’s warrants. Each finder’s warrant has the same terms and conditions as the Warrants.