



Naturally Splendid Enterprises Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2016

Expressed in Canadian Dollars



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

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors. The Company's independent auditors have not performed a review of these unaudited condensed consolidated interim financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Note	As at March 31, 2016 \$	As at December 31, 2015 \$
Assets			
Current			
Cash		265,566	34,330
Trade and other receivables	7	603,842	264,128
Inventories	8	600,025	387,803
Advances and prepaid expenses	9	316,000	317,310
Deposit		1,260	1,260
		<u>1,786,693</u>	<u>1,004,831</u>
Due from related parties	16	371,403	414,326
Long-term deposits		36,000	36,000
Restricted cash		57,560	57,560
Property and equipment	11	428,373	445,392
Technology license	11 & 12	1,399,976	1,399,976
Website, technology and other intangibles	11	254,550	259,745
Goodwill		891,168	891,168
		<u>5,225,723</u>	<u>4,508,998</u>
Liabilities			
Current			
Trade and other payables	14	2,720,906	1,704,998
Current portion of capital lease obligation	13	4,096	4,927
Deferred revenues		50,000	50,000
		<u>2,775,002</u>	<u>1,759,925</u>
Capital lease obligation	13	2,914	2,914
Long-term debt	14	505,025	476,758
		<u>3,282,941</u>	<u>2,239,597</u>
Equity			
Share capital	18	12,596,412	12,459,312
Subscriptions received	18	-	52,500
Reserves	18	1,159,845	1,112,772
Deficit		(13,544,735)	(13,086,443)
Equity attributable to owners of the company		<u>211,522</u>	<u>538,141</u>
Non-controlling interest		1,731,260	1,731,260
		<u>1,942,782</u>	<u>2,269,401</u>
		<u>5,225,723</u>	<u>4,508,998</u>

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON May 30, 2016:

"Craig Goodwin"

Director

"Peter Hughes"

Director

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

Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

		Three month period ended March 31,	
	Note	2016	2015
		\$	\$
Revenue		1,440,028	39,493
Cost of sales		1,359,675	32,616
Gross Profit		80,353	6,877
Selling and distribution expenses			
Facility		54,664	-
Product development, net of grants		(28,704)	16,674
Product promotion and trade shows		96,127	26,388
Salaries and wages		56	25,749
		<u>122,143</u>	<u>68,811</u>
Administrative expenses			
Accounting and audit		29,341	9,800
Amortization	11	24,911	8,273
Bank charges, interest and accretion	15	31,168	2,302
Consulting	16	35,278	167,352
Legal		12,003	21,009
Management fees	16	94,920	69,279
Office, rent and salaries		150,592	92,557
Promotion		24,250	62,299
Share-based payments	18	47,073	792,980
Transfer agent and filing fees		20,599	26,444
Travel		1,679	20,778
		<u>471,814</u>	<u>1,273,073</u>
		(513,604)	(1,335,007)
Foreign exchange gain (loss)		4,006	35,204
Other income	16	51,306	-
Net loss and comprehensive loss for the year		(458,292)	(1,299,803)
Comprehensive loss attributed to:			
Owners of the company		(420,095)	(1,299,803)
Non-controlling interest		(38,198)	-
		<u>(458,293)</u>	<u>(1,299,803)</u>
Comprehensive income (loss) per share			
Basic and diluted		\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding			
Basic and diluted		57,043,105	47,613,537

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

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

	Three month period ended March 31,	
	2016	2015
	\$	\$
Operating activities		
Net loss for the year	(458,293)	(1,299,803)
Adjustments to reconcile loss to net cash		
Amortization	24,911	8,273
Interest and accretion expense on loan	25,571	-
Share-based payments	47,073	792,980
Changes in non-cash working capital:		
Trade and other receivables	(339,714)	(4,905)
Inventories	(212,222)	(74,454)
Advances and prepaid expenses and deposits	1,310	(522,245)
Trade and other payables	1,058,831	(16,622)
Cash used in operating activities	<u>147,467</u>	<u>(1,116,776)</u>
Investing activities		
Repayment of capital lease	(831)	(821)
Purchase of property and equipment, net	-	(12,078)
Acquisition of technology	-	(549,000)
Cash used in investing activities	<u>(831)</u>	<u>(561,899)</u>
Financing activities		
Repayments to related parties	-	-
Loans payable	-	-
Proceeds from issuance of shares, net	137,100	2,548,017
Subscriptions received	(52,500)	90,000
Cash provided by financing activities	<u>84,600</u>	<u>2,638,017</u>
Net change in cash and cash equivalents	231,236	959,342
Cash, beginning of year	<u>34,330</u>	<u>25,404</u>
Cash, ending of year	<u>265,566</u>	<u>984,746</u>
	2016	2015
Non-cash items:		
Shares issued for subscriptions received	52,500	106,920
Shares issued for technology license	-	761,428
	<u>52,500</u>	<u>868,348</u>

Naturally Splendid Enterprises Ltd.

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

	Common Shares	Share capital \$	Subscriptions received \$	Reserves \$	Deficit \$	Equity attributable to the owners of the company \$	Non- controlling interest \$	Total equity (deficit) \$
Balance at December 31, 2014	36,658,999	6,403,221	106,920	355,498	(6,257,249)	608,390	-	608,390
Private placement, net of share issuance costs	7,388,582	1,810,292	(106,920)	-	-	1,703,372	-	1,703,372
Technology licence acquisition	2,928,571	761,428	-	-	-	761,428	-	761,428
Warrants exercised	2,625,806	721,645	90,000	-	-	811,645	-	811,645
Options exercised	640,000	123,000	-	-	-	123,000	-	123,000
Reclassify warrants exercised	-	112,087	-	(112,087)	-	-	-	-
Share-based payments	-	-	-	792,980	-	792,980	-	792,980
Net loss for the period	-	-	-	-	(1,299,803)	(1,299,803)	-	(1,299,803)
Balance at March 31, 2015	50,241,958	9,931,673	90,000	1,036,391	(7,557,052)	3,501,012	-	3,501,012
Balance at December 31, 2015	56,780,523	12,459,312	52,500	1,112,772	(13,086,443)	538,141	1,731,260	2,269,401
Warrants exercised	282,000	84,600	-	-	-	84,600	-	84,600
Options exercised	300,000	52,500	(52,500)	-	-	-	-	-
Share-based payments	-	-	-	47,073	-	47,073	-	47,073
Net loss for the period	-	-	-	-	(458,292)	(458,292)	-	(458,292)
Balance at March 31, 2016	57,362,523	12,596,412	-	1,159,845	(13,544,735)	211,522	1,731,260	1,942,782

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

1. Nature of Operations and Going Concern

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

The Company is in the natural food industry and provides food supplements packaged for distribution through grocery stores, health and nutrition stores, and other outlets where consumers purchase health-related products. Materials are sourced in bulk and repackaged at the Company’s facility with its unique branding under the Company’s name. Current products are hemp-based food items that are both conventional and organic, including whole grains and protein powders. Product sales are supported through a combination of direct and online sales and distribution channels.

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

The Company’s unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the three month period ended March 31, 2016, the Company had a net loss of \$458,292 (2015 - \$1,299,803) and a working capital deficit of \$988,309 (December 31, 2015 – working capital deficit of \$755,094).

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 unaudited condensed consolidated interim 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.

2. Basis of Presentation

a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and follow the same accounting policies and methods of application as the Company’s most recent annual audited consolidated financial statements, except as outlined in note 3. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015 prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

b) Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in note 5. These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. These unaudited condensed consolidated interim financial statements include the accounts of the following entities:

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

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

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2015.

4. Estimates and Assumptions

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

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

Critical accounting estimates

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

Recoverability of accounts receivable

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

Share-based payments

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

Interest rates

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

Critical accounting judgments

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

Valuation of inventory

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

Useful lives of intangible assets and equipment

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

Impairment of goodwill and Licensed IP

Determining the amount of impairment of goodwill and Licensed IP requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many of factors used in assessing recoverable amounts are outside of the control of management

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company' long term assets such as investments or property and equipment.

Going concern

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

5. Financial instruments

Financial assets

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

Financial assets at fair value through profit or loss

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

Held-to-maturity and loans and receivables

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

AFS financial assets

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities measured at amortized cost

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

Hierarchy

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

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

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

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

6. Future accounting pronouncements

New accounting standards issued but not yet effective applicable to the Company are as follows:

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.

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

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

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9. However, for annual periods beginning before January 1, 2018, an entity may elect to apply those earlier versions instead of applying the final version of this new standard if its initial application date is before February 1, 2015.

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

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

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

7. Trade and Other Receivables

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

	March 31, 2016	December 31, 2015
	\$	\$
GST/HST receivable	21,967	14,108
Trade receivables *	<u>581,875</u>	<u>250,020</u>
	<u>603,842</u>	<u>264,128</u>

* Trade receivables are net of an allowance for bad debts of \$27,729 (December 31, 2015 - \$27,729).

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

8. Inventories

	March 31, 2016	December 31, 2015
	\$	\$
Seed and finished products for resale	189,271	182,499
Containers, labels and raw products	410,754	205,304
	<u>600,025</u>	<u>387,803</u>

9. Prepaid Expenses

	March 31, 2016	December 31, 2015
	\$	\$
Product research and development	232,590	232,590
Investor relations advances	42,250	63,000
Other	77,160	57,720
	<u>352,000</u>	<u>353,310</u>

During the year ended December 31, 2015, the Company advanced \$250,000 for services relating to research of hemp and hemp-based technologies to a related entity. The balance remaining at March 31, 2016 and December 31, 2015 is \$232,590.

During the year ended December 31, 2015, the Company paid \$655,000 for investor relation services to be provided over a period ranging from twelve months to five years. As at December 31, 2015, the unamortized portion is \$63,000. As at March 31, 2016 the balance is \$42,250.

10. Restricted Cash

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

11. Equipment and Intangibles

The changes in the Company's equipment for the three month period ended March 31, 2016 and December 31, 2015 are as follows:

	Computer equipment	Furniture and equipment	Leasehold Improvements	Manufacturing facility	Total
	\$	\$	\$	\$	\$
Cost					
December 31, 2014	56,472	122,420	19,968	-	206,360
Additions from acquisition of POS BPC Manufacturing Corp	-	-	-	332,505	332,505
Additions	13,447	33,349	-	35,765	82,560
December 31, 2015	69,919	155,769	19,968	368,270	621,425
Additions	-	-	-	-	-
March 31, 2016	69,919	155,769	19,968	368,270	621,425
Depreciation					
December 31, 2014	46,821	49,777	3,031	-	107,129
Acquisition of POS BPC Manufacturing Corp	-	-	-	23,290	23,290
Additions	13,433	17,600	4,342	10,240	45,614
December 31, 2015	60,254	67,377	7,373	33,530	176,033
Additions	1,330	3,864	6,298	5,527	17,019
March 31, 2016	61,584	71,241	13,671	39,057	193,052
Net Book Value					
December 31, 2015	9,665	88,392	12,595	334,740	445,392
March 31, 2016	8,335	84,528	6,297	329,213	428,373

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

The changes in the Company's technology license, website, technology and other intangibles for the three month period ended March 31, 2016 and December 31, 2015 are as follows:

	Licensed Technology	Website and Technology	Non-compete Clause	Licensed IP	Total
	\$	\$	\$		\$
Cost					
December 31, 2013 and 2014	-	-	-	-	-
Additions from acquisition of Chi and BPC (Note 4)	-	31,417	30,926	200,000	262,343
Additions	1,486,425	-	-	-	1,486,425
December 31, 2015	1,486,425	31,417	30,926	200,000	1,748,768
Additions	-	-	-	-	-
March 31, 2016	1,486,425	31,417	30,926	200,000	1,748,768
Depreciation					
December 31, 2013 and 2014	-	-	-	-	-
Additions	86,449	1,309	1,289	-	89,047
December 31, 2015	86,449	1,309	1,289	-	89,047
Additions	-	3,927	1,268	-	5,195
March 31, 2016	86,449	5,236	2,557	-	94,242
Net Book Value					
December 31, 2015	1,399,976	30,108	29,637	200,000	1,659,721
March 31, 2016	1,399,976	26,181	28,369	200,000	1,654,526

12. Technology License

During the year ended December 31, 2015, the Company completed the technology acquisition agreement, and subsequently amended that agreement.

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

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

Under the terms of the Novation Agreement, Naturally Splendid USA Ltd. paid \$725,000 to Boreal and the Company issued 2,928,571 common shares of the Company valued at the time of closing at \$761,428 for a total acquisition cost of \$1,486,425 of which \$176,000 was prepaid at December 31, 2014. The License

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

Agreement is amortized over a 15-year period representing the term of the agreement plus one renewal period. Amortization expense recorded for the year ended December 31, 2015 is \$86,449 (2014 - \$nil).

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

On September 23, 2015, as a result of the closing of a restated and amended licence agreement, Naturally Splendid acquired a 100% interest, without royalty, in FSL's omega technologies, including HempOmega and H2Omega. FSL removed the minimum annual royalty of US\$1.6 million noted above. In consideration of owning a 100% interest in the omega technologies and the removal of the minimum royalty, Naturally Splendid extinguished its non-exclusive licence of FSL's bioreactor technology, and changed its exclusive licence on certain analytical testing standard operating procedures ("SOPs") and GC-MS terpene analysis SOPs to a non-exclusive licence.

13. Capital Lease Obligation

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

The following table summarizes the outstanding obligation:

	March 31, 2016	December 31, 2015
	\$	\$
Lease payments due within one year	7,461	5,859
Lease payments due within two to five years	448	2,988
Total lease payments	<u>7,909</u>	<u>8,847</u>
Lease payment amounts representing interest	(899)	(1,006)
Present value of net minimum lease payments	7,010	7,841
Current portion	<u>(4,096)</u>	<u>(4,927)</u>
	<u>2,914</u>	<u>2,914</u>

14. Trade and Other Payables

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

	March 31, 2016	December 31, 2015
	\$	\$
Trade and other payables	<u>2,720,906</u>	<u>1,704,998</u>

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

15. Long-Term Debt

		March 31, 2016	December 31, 2015
		\$	\$
Loan payable to Saskatchewan Opportunities Corporation	1	152,777	143,500
Shareholder loan due September 29, 2017 bearing interest at 12.0%	2	79,360	79,360
Cumulative Interest and accretion expense		9,367	4,553
Shareholder loan due October 2, 2017 bearing interest at 12.0%	3	238,080	238,080
Cumulative Interest and accretion expense		25,441	11,265
		<u>505,025</u>	<u>476,758</u>

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

² On October 2, 2015, the Company entered into a loan agreement with Robert Schulz, whereby the lender agreed to loan the Company \$100,000 for a period of two years at an interest rate of 12% per annum. The Company has the right to repay all of the outstanding balance of the loan by paying the lender an amount equal to 124% of the loan less any accrued interest paid by Naturally Splendid, provided that either: (i) Naturally Splendid completes financings totalling at least \$1.5 million in the year following the date of acceptance by the TSX Venture Exchange of the loan; or (ii) Naturally Splendid exercises this right one year after the Exchange acceptance date. Further, the lender will also have the right to have Naturally Splendid repay the loan prior to the maturity date at the repayment price, provided that Naturally Splendid completes financings totalling at least \$1.5 million in the year following the Exchange acceptance date. As additional consideration of the loan, Naturally Splendid issued 95,238 common shares to the lender.

The loan payable was recognized initially at the fair value, which was calculated based on the application of a market interest rate of 25%. The difference between the face value of \$100,000 and the initial fair value of the loan payable has been recorded as equity.

³ On October 23, 2015, the Company closed on a loan agreement with Coast Mountain Aviation Inc. whereby the lender agreed to loan Naturally Splendid \$300,000 for a period of two years at an interest rate of 12% per annum. Prior to the maturity date, Naturally Splendid will have the right to repay all of the outstanding balance of the loan by paying the lender the loan plus any accrued and unpaid interest provided that either Naturally Splendid completes financings totalling at least \$1.5 million during the term of the loan, or Naturally Splendid exercises this right one year after the Exchange acceptance date. Further, the lender will also have the right to have Naturally Splendid repay the loan prior to maturity date at the repayment price provided that Naturally Splendid completes financings totalling at least \$1.5 million during the term of the loan. As additional consideration of the loan, Naturally Splendid issued 260,869 common shares to the lender.

The loan payable was recognized initially at the fair value, which was calculated based on the application of a market interest rate of 25%. The difference between the face value of \$300,000 and the initial fair value of the loan payable has been recorded as equity.

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

16. Key Management Compensation and Related Party Transactions

Key management compensation

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

	Three Month Period ended March 31,	
	2016	2015
	\$	\$
Management fees	79,920	69,279
Share-based payments	19,108	502,865
	<u>99,028</u>	<u>572,144</u>

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

Related party transactions:

Management fees were paid to a company controlled by the Company's Chief Financial Officer and consulting fees were paid to a company controlled by a director. Transactions with related parties were as follows:

	Three Month Period ended March 31,	
	2016	2015
	\$	\$
Management fees	15,000	15,000
Consulting fees	10,500	10,500
	<u>25,500</u>	<u>25,500</u>

POS Management Corporation is a company subject to common control. During the three month period ended March 31, 2016, the Company received contract services revenue from POS Management Corporation totaling \$51,302 (2015 - \$nil) and incurred management fees expense of \$36,000 (2015 - \$nil).

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

- \$nil (December 31, 2015 - \$5,879) due to management and consultants for fees outstanding.
- \$557,326 (December 31, 2015 - \$556,966) due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.
- \$371,403 (December 31, 2015 - \$414,326) due from POS Management Corp., a company subject to common control, of at December 31, 2015 relating to subcontractor fees.
- \$22,600 (December 31, 2015 - \$22,600) due to POS Holdings Corp., a company subject to common control, relating to consulting fees outstanding.

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

17. Financial Instruments

a) Categories of financial instruments

	March 31, 2016 \$	December 31, 2015 \$
Financial Assets		
Fair value through profit or loss, at fair value		
Cash	265,566	34,330
Loans and receivables, at amortized cost		
Trade and other receivables	581,875	250,020
Restricted cash	<u>57,560</u>	<u>57,560</u>
Total financial assets	<u>905,001</u>	<u>341,910</u>
Financial Liabilities		
Other liabilities, at amortized cost		
Trade and other payables	2,720,906	1,704,998
Long-term debt, including current portion	<u>505,025</u>	<u>476,758</u>
Total financial liabilities	<u>3,225,931</u>	<u>2,181,756</u>

b) Fair value

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

c) Management of financial risks

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and trade receivables. The Company deposits cash with major Canadian commercial banks. In order to reduce its credit risk in relation to trade receivables, the Company has adopted credit policies that include the analysis of the financial position of its customers and the regular review of their respective credit limits.

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

Liquidity risk

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

The Company has been successful in raising financing in the past; however, there is no assurance that it will be able to do so in the future. As at March 31, 2016, the Company had working capital deficit of \$988,309 (December 31, 2015 - working capital deficit of \$755,094).

Other risk

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

18. Share Capital

a) Authorized

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

b) Issued and outstanding

The total issued and outstanding share capital consists of 57,362,523 common shares without par value.

During the three month period ended March 31, 2016, the Company completed the following transactions:

- 282,000 shares were issued upon the exercise of 282,000 warrants at a price of \$0.30 per share for gross proceeds of \$84,600;
- 300,000 shares were issued upon the exercise of 300,000 options at a price of \$0.175 for gross proceeds of \$52,500 which was recorded as a subscription received in the previous year; and
- 1,237,450 warrants with an expiration date of April 26, 2016 were extended by one year and 158,935 agent's warrants expired unexercised. 310,000 options with an expiration date of March 24, 2016 were repriced from \$0.20 to \$0.285 and extended by three years. Stock based compensation of \$29,616 was recorded as a result of this extension.

During the year ended December 31, 2015, the Company completed the following transactions:

- 3,393,300 units were issued at a price of \$0.50 per unit for gross proceeds of \$1,696,650. Each unit comprised one common share of the Company and one-half of one common share purchase warrant (the "Warrant"), with each full Warrant entitling the holder to purchase one additional common share at \$0.75 for a period of two years from the date of the issue. The Company paid finder's cash commissions totaling \$104,884 and issued a finder 194,664 non-transferable warrants with a fair value of \$21,572.

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

- 7,388,582 units were issued at a price of \$0.25 per unit for gross proceeds of \$1,847,146. Each unit comprised one common share of the Company and one-half of one common share purchase warrant (the “Warrant”), with each full Warrant entitling the holder to purchase one additional common share at \$0.40 for a period of two years from the date of the issue. The Company will have the right to accelerate the expiry date of the Warrants if, at any time, the volume weighted average price of the Company’s common shares is equal to or greater than \$0.50 for ten consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. The Company paid finder’s cash commissions totaling \$36,720 and issued a finder 146,880 non-transferable warrants with a fair value of \$16,221.
- 2,928,571 common shares of the Company were issued for a fair value of \$761,428 to acquire technology (note 10).
- 367,647 common shares of the Company were issued at a fair value of \$165,441 for the acquisition of a processing facility (note 4).
- 319,148 common shares of the Company were issued at a fair value of \$116,489 for the acquisition of a subsidiary (note 4).
- 356,107 common shares of the Company were issued at a fair value of \$82,560 as bonuses to shareholders providing loan financing to the Company (note 13).
- 125,000 shares were issued for services to a related party at a fair value of \$49,375 (note 14).
- 764,500 common shares were issued upon the exercise of 764,500 options at a price of \$0.19 and \$0.20 per share, for gross proceeds of \$146,038.
- 4,478,669 common shares upon the exercise of 4,478,669 warrants at a price of \$0.25 and \$0.30 per share for gross proceeds of \$1,225,968.

c) Stock-based compensation

The following is a summary of changes in stock options for the periods ended March 31, 2016 and December 31, 2015:

	<u>March 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
Options outstanding, beginning of year	3,790,250	\$ 0.31	2,409,750	\$ 0.18
Options granted	305,000	\$ 0.295	2,445,000	\$ 0.38
Options exercised	(300,000)	\$ 0.175	(764,500)	\$ 0.19
Options cancelled	(35,000)	\$ 0.20	(300,000)	\$ 0.20
Options outstanding and exercisable, end of year	<u>3,760,250</u>	<u>\$ 0.30</u>	<u>3,790,250</u>	<u>\$ 0.31</u>

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

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

Expiry date	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
March 24, 2019	310,000	\$ 0.285	3.23
April 16, 2017	99,750	\$ 0.200	1.29
November 3, 2017	175,000	\$ 0.300	1.84
March 4, 2018	625,500	\$ 0.175	2.26
March 23, 2020	2,025,000	\$ 0.400	4.23
November 3, 2020	220,000	\$ 0.300	4.85
March 8, 2018	305,000	\$ 0.295	1.98
	3,760,250		2.99

The following are the outstanding stock options as of December 31, 2015:

Expiry date	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
March 24, 2016	345,000	\$ 0.200	0.23
April 16, 2017	99,750	\$ 0.200	1.29
November 3, 2017	175,000	\$ 0.300	1.84
March 4, 2018	925,500	\$ 0.175	2.26
March 23, 2020	2,025,000	\$ 0.400	4.23
November 3, 2020	220,000	\$ 0.300	4.85
	3,790,250		3.23

During the three month period ended March 31, 2016, the Company recognized share-based payments expense of \$47,073 (2015 - \$792,980) in relation to stock options granted during the period, of which \$29,616 relates to 310,000 options with an expiration date of March 24, 2016 being repriced from \$0.20 to \$0.285 and extended by three years.

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, 2016	December 31, 2015
Risk-free interest rate	0.50%	0.58%
Expected life (years)	2.0	4.79
Annualized volatility	55.88%	101.25%
Expected dividends	-	-
Exercise price	\$0.295	\$0.38

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

d) Warrants

A summary of the Company's warrants for the three month period ended March 31, 2016 and December 31, 2015 is as follows:

	December 31, 2015		December 31, 2015	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of period	7,410,870	\$ 0.459	6,487,054	\$ 0.279
Issued	-	\$ -	5,732,485	\$ 0.521
Exercised	(282,000)	\$ 0.30	(4,478,669)	\$ 0.273
Expired and cancelled	(158,935)	0.30	(330,000)	-
Outstanding, end of period	6,969,935	\$ 0.477	7,410,870	\$ 0.459

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

	Outstanding warrants	Exercise price	Expiry date
Common share purchase warrants	1,237,450	\$ 0.30	April 26, 2017
	3,694,291	\$ 0.40	February 23, 2017
	1,628,650	\$ 0.75	May 27, 2017
	68,000	\$ 0.75	July 14, 2017
	Agent warrants	146,880	\$ 0.40
	194,664	\$ 0.75	May 27, 2017
	6,969,935		

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

The following are the outstanding warrants as at December 31, 2015:

	Outstanding warrants	Exercise price	Expiry date
Common share purchase warrants			
	1,489,950	\$ 0.30	April 26, 2016
	3,694,291	\$ 0.40	February 23, 2017
	1,628,650	\$ 0.75	May 27, 2017
	68,000	\$ 0.75	July 14, 2017
Agent warrants	188,435	\$ 0.30	April 26, 2016
	146,880	\$ 0.40	February 23, 2017
	194,664	\$ 0.75	May 27, 2017
	7,410,870		

e) Reserves

As of March 31, 2016 and December 31, 2015, the reserves of the Company were as follows:

	March 31, 2016	December 31, 2015
	\$	\$
Stock option reserves	1,122,052	1,074,979
Warrant reserves	37,793	37,793
Total reserves	1,159,845	1,112,772

19. Commitments

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

20. Capital Disclosure

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

Naturally Splendid Enterprises Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Three Month Period ended March 31, 2016

There were no significant changes in the Company's approach or objectives and policies for managing its capital during the period ended March 31, 2016. The Company is not subject to externally imposed capital restrictions.

21. Events After the Reporting Period

The Company has evaluated the events occurring subsequent to March 31, 2016 and determined that the following were reportable events:

- 1) 49,750 options were exercised for gross proceeds of \$8,706.
- 2) The Company entered into an offer to lease new premises with a lease term commencement date of June 1, 2016, terminating June 30, 2026. The basic rent is payable in advance at a rate of \$8,408.63 per month plus the proportionate share of expenses in respect of operating costs and property taxes amounting to \$3,230.67 per month.