



Naturally Splendid Enterprises Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2014

Expressed in Canadian Dollars

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Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Note	As at June 30, 2014 \$	As at December 31, 2013 \$
Assets			
Current			
Cash		747,368	189,667
Trade and other receivables	5	85,817	119,304
Inventories	6	315,477	269,514
Advances and prepaid expenses		196,316	123,547
		<u>1,344,978</u>	<u>702,032</u>
Deposit		40,000	40,000
Restricted cash	9	17,269	17,368
Property and equipment	10	98,576	71,160
		<u>1,500,823</u>	<u>830,560</u>
Liabilities			
Current			
Trade and other payables	12	161,007	196,199
Capital lease obligation current portion	11	3,853	-
		<u>164,860</u>	<u>196,199</u>
Due to related parties	7	-	3,675
Capital lease obligation	11	10,989	-
		<u>175,849</u>	<u>199,874</u>
Equity			
Share capital	13	6,224,673	4,853,214
Reserves	13	413,844	238,964
Deficit		(5,313,543)	(4,461,492)
		<u>1,324,974</u>	<u>630,686</u>
		<u>1,500,823</u>	<u>830,560</u>

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON August 28, 2014:

"J. Craig Goodwin" (signed)

J. Craig Goodwin

Director

"Peter Hughes" (signed)

Peter Hughes

Director

Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2014 \$	2013 \$	2014 \$	2013 \$
Revenue		68,056	43,421	139,731	59,412
Cost of sales		40,559	29,583	98,524	41,374
Gross profit		27,497	13,838	41,207	18,038
Selling and distribution expenses					
Commissions and direct selling expenses		1,597	3,592	2,053	4,942
Product development, net of grants		994	28,000	4,414	64,900
Product promotion and trade shows		16,848	29,400	58,542	36,576
Salaries and wages		15,220	12,669	29,651	16,837
		34,659	73,661	94,660	123,255
Administrative expenses					
Accounting and audit		60,224	32,713	68,903	41,162
Amortization		7,363	4,597	13,603	5,914
Bank charges and interest		741	1,052	1,181	2,130
Consulting	8	10,500	30,605	21,000	49,500
Directors' fees	8	-	9,000	-	12,000
Legal fees		28,473	12,560	31,517	21,537
Management fees	8	66,000	44,500	132,000	58,500
Office and general		58,987	28,925	105,278	37,078
Promotion		81,237	37,311	182,312	46,814
Share-based payments	13	32,009	-	201,351	239,220
Transfer agent and filing fees		16,096	11,892	29,494	46,028
Travel		9,123	12,516	12,463	16,171
		370,753	225,671	799,102	576,054
		(377,915)	(285,494)	(852,555)	(681,271)
Foreign exchange		(314)	(60)	(392)	(71)
Forgiveness of accounts payable		-	6,656	-	953
Interest income		473	2,281	896	2,745
Listing expense		-	1,561	-	(1,329,938)
Net loss and comprehensive loss for the period		(377,756)	(275,056)	(852,051)	(2,007,582)
Loss per share – basic and diluted		(0.01)	(0.01)	(0.03)	(0.09)
Weighted average number of common shares outstanding		34,117,004	25,775,645	31,501,685	21,129,604

Naturally Splendid Enterprises Ltd.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Cash flows used in operating activities				
Net loss and comprehensive loss for the period	(377,756)	(275,056)	(852,051)	(2,007,582)
Adjustments to reconcile loss to net cash				
Amortization	7,363	4,597	13,603	5,914
Share-based payments	32,009	-	201,351	239,220
Forgiveness of accounts payable	-	-	-	5,703
Listing expense	-	-	-	1,331,499
Changes in non-cash working capital items				
Trade and other receivables	9,607	(62,301)	33,487	(47,847)
Inventories	(2,775)	23,999	(45,963)	(22,387)
Advances and prepaid expenses	(152,550)	(89,490)	(72,769)	(116,012)
Trade and other payables	(93,328)	53,858	(35,192)	(45,520)
	(577,430)	(344,393)	(757,534)	(657,012)
Cash flows used in investing activities				
Purchase of property and equipment, net	(12,274)	(44,968)	(26,177)	(48,274)
Restricted cash	99	(11,521)	99	(11,521)
Cost of acquisition	-	(1,561)	-	(63,749)
	(12,175)	(58,050)	(26,078)	(123,544)
Cash flows from financing activities				
Repayments to related parties	-	-	(3,675)	(10,796)
Proceeds from issuance of shares, net	1,280,869	28,996	1,344,988	1,574,051
Repayment of loans payable	-	-	-	(167,832)
	1,280,869	28,996	1,341,313	1,395,423
Increase (decrease) in cash	691,264	(373,447)	557,701	614,867
Cash obtained on acquisition	-	-	-	24,010
Cash, beginning of period	56,104	1,017,401	189,667	5,077
Cash, end of period	747,368	643,954	747,368	643,954

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

	Class B common shares	Class C common shares	Common Shares	Share capital (\$)	Reserves (\$)	Deficit (\$)	Total equity (deficiency) (\$)
Balance at December 31, 2012	8,400,000	6,385,457	-	1,546,300	-	(1,716,425)	(170,125)
Exchange of shares on acquisition	(8,400,000)	(6,385,457)	11,599,971	1,274,540	-	-	1,274,540
Issued and outstanding shares of Race Capital Corp.	-	-	4,000,000	-	-	-	-
Private placement, net of share issue costs	-	-	10,000,000	1,500,947	54,000	-	1,554,947
Warrants exercised	-	-	266,880	36,324	-	-	36,324
Share-based payments	-	-	-	-	239,220	-	239,220
Net loss for the period	-	-	-	-	-	(2,007,582)	(2,007,582)
Balance at June 30, 2013	-	-	25,866,851	4,358,111	293,220	(3,724,007)	927,324
Balance at December 31, 2013	-	-	28,731,105	4,853,214	238,964	(4,461,492)	630,686
Private placement, net of share issue costs	-	-	6,843,500	1,266,369	-	-	1,266,369
Warrants exercised	-	-	424,394	78,619	-	-	78,619
Reclassify warrants exercised	-	-	-	26,471	(26,471)	-	-
Share-based payments	-	-	-	-	201,351	-	201,351
Net loss for the period	-	-	-	-	-	(852,051)	(852,051)
Balance at June 30, 2014	-	-	35,998,999	6,224,673	413,844	(5,313,543)	1,324,974

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

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

1. Nature of Operations and Going Concern

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

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

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

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

The Company’s condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the six-month period ended June 30, 2014, the Company had a net loss of \$852,051 (2013 - \$2,007,582).

Management cannot provide assurance that the Company will ultimately achieve profitable operations or positive cash flow. The Company’s continuation as a going concern is dependent on its ability to attain profitable operations and raise additional capital. These matters indicate the existence of material uncertainties that may cast substantial doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and condensed consolidated interim statement of financial position classifications that would be necessary if the going concern assumption was inappropriate.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and follow the same accounting policies and methods of application as the Company’s most recent annual audited consolidated financial statements, except as outlined in note 3. These condensed consolidated interim financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013 prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 28, 2014.

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

b) Basis of presentation

These condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in note 3. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

These condensed consolidated interim financial statements include the accounts of the following entities:

	Relationship	Percentage
Naturally Splendid Enterprises Ltd.	Parent	100%
Naturally Splendid Enterprises 2013 Ltd.	Subsidiary	100%

All intercompany balances and transactions are eliminated on consolidation.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2013. The following accounting standard and amendment to existing standards was adopted effective January 1, 2014:

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

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

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

4. Financial Instruments

a) Categories of financial instruments

	June 30, 2014 \$	December 31, 2013 \$
FINANCIAL ASSETS		
Fair value through profit or loss, at fair value		
Cash	747,368	189,667
Loans and receivables, at amortized cost		
Trade and other receivables	77,431	92,018
Deposit	40,000	40,000
Restricted cash	17,269	17,368
Total financial assets	<u>882,068</u>	<u>339,053</u>
FINANCIAL LIABILITIES		
Other liabilities, at amortized cost		
Trade and other payables	161,007	196,199
Due to related parties	-	3,675
Total financial liabilities	<u>161,007</u>	<u>199,874</u>

b) Fair value

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

c) Management of financial risks

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that potentially subject the Company to credit risk consist of cash and trade receivables. The Company deposits cash with major Canadian commercial banks. In order to reduce its credit risk in relation to trade receivables, the Company has adopted credit policies that include the analysis of the financial position of its customers and the regular review of their respective credit limits.

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

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 June 30, 2014, the Company had working capital of \$1,180,118 (December 31, 2013 - \$505,833).

Other risk

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or other risk.

The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments in the management of foreign currency, commodity price or interest rate market risks.

5. Trade and Other Receivables

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

	June 30, 2014	December 31, 2013
	\$	\$
GST/HST receivable	8,386	27,286
Trade receivables *	<u>77,431</u>	<u>92,018</u>
	<u>85,817</u>	<u>119,304</u>

*No allowance for doubtful accounts or impairment has been recognized for these amounts, as the amounts are all considered recoverable.

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

6. Inventories

	June 30, 2014	December 31, 2013
	\$	\$
Seed and finished products for resale	149,831	35,916
Containers, labels and raw products	<u>165,646</u>	<u>233,598</u>
	<u>315,477</u>	<u>269,514</u>

7. Amounts Due to Related Parties

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

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

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

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

8. Key Management Compensation

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

	2014	2013
	\$	\$
Management fees	132,000	58,500
Directors' fees	-	12,000
Consulting fees	21,000	-
Share-based payments (Note 13)	<u>201,351</u>	<u>239,220</u>
	<u>354,351</u>	<u>309,720</u>

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

9. 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 Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

10. Property and Equipment

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

	Computer equipment \$	Furniture and equipment \$	Leasehold improvements \$	Website development costs \$	Total \$
COST					
As at December 31, 2012	23,212	48,770	-	7,500	79,482
Additions	23,867	40,269	4,300	-	68,436
As at December 31, 2013	47,079	89,039	4,300	7,500	147,918
Additions	8,026	32,993	-	-	41,019
As at June 30, 2014	55,105	122,032	4,300	7,500	188,937
AMORTIZATION AND IMPAIRMENT					
As at December 31, 2012	22,521	30,575	-	5,625	58,721
Additions	9,707	6,025	430	1,875	18,037
As at December 31, 2013	32,228	36,600	430	7,500	76,758
Additions	6,392	6,781	430	-	13,603
As at June 30, 2014	38,620	43,381	860	7,500	90,361
Net Book Value					
December 31, 2013	14,851	52,439	3,870	-	71,160
June 30, 2014	16,485	78,651	3,440	-	98,576

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

11. Capital Lease Obligation

During the six-month period ended June 30, 2014, the Company entered into a lease contract for equipment used in operations. The Company has accounted for this as a capital lease obligation.

The following table summarizes the outstanding obligation:

	June 30, 2014	December 31, 2013
	\$	\$
Lease payments due within one year	5,859	-
Lease payments due within two to five years	11,777	-
Total lease payments	<u>17,636</u>	<u>-</u>
Lease payment amounts representing interest	<u>(2,794)</u>	<u>-</u>
Present value of net minimum lease payments	14,842	-
Current portion	<u>(3,853)</u>	<u>-</u>
	<u>10,989</u>	<u>-</u>

12. Trade and Other Payables

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

	June 30, 2014	December 31, 2013
	\$	\$
Trade payables	161,007	196,199
Other	<u>-</u>	<u>-</u>
	<u>161,007</u>	<u>196,199</u>

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

13. Share Capital

a) Authorized

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

b) Issued and outstanding

The total issued and outstanding share capital consists of 35,998,999 common shares without par value.

A total of 6,676,446 common shares are held in escrow. A total of 1,200,000 common shares are to be released at a rate of 300,000 common shares every six-month period following March 4, 2013. These shares were part of 2,000,000 common shares placed into escrow by Race as at March 4, 2013. The remaining 5,476,446 common shares are to be released at a rate of 1,369,128 common shares every six-month period following March 4, 2013. These shares were part of 9,127,410 financing shares placed in escrow as part of the amalgamation occurring February 28, 2013.

During the six-month period ended June 30, 2014, the Company issued:

- 6,843,500 units at \$0.20 per unit for gross proceeds of \$1,368,700. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share at \$0.30 for a period of two years from date of issue. The Company will have the right to accelerate the expiry of the warrants if at any time the average closing price of the Company's shares is equal to or greater than \$0.40 per share for 10 consecutive trading days. In the event of acceleration, the expiry date shall be accelerated to 30 days after the Company issues a news release announcing its election to exercise the acceleration right. The Company paid \$102,331 plus issued 382,650 finders warrants as finders' fees for the private placement. Each finders warrant is exercisable on the same terms as the warrants attached to the units issued.
- 366,394 common shares upon the exercise of 366,394 warrants at a price of \$0.175 per share for gross proceeds of \$64,119.
- 58,000 common shares upon the exercise of 58,000 warrants at a price of \$0.25 per share for gross proceeds of \$14,500.

c) Stock-based compensation

The Company has a stock option plan (the "Plan") in place under which it is authorized to grant options to directors, officers, employees and consultants. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued and outstanding common shares of the Company at any time. Under the Plan, the exercise price of each option will be determined by the Board of Directors, subject to TSX Venture Exchange approval, and the term of the options will be determined by the Board of Directors and will not exceed the maximum term permitted by the TSX Venture Exchange.

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

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

	June 30, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	1,750,000	\$ 0.175	-	\$ -
Options granted	1,159,750	\$ 0.196	2,050,000	\$ 0.175
Options cancelled	-	\$ -	(300,000)	\$ 0.175
Options outstanding and exercisable, end of period	2,909,750	\$ 0.18	1,750,000	\$ 0.175

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

Expiry date	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
March 24, 2016	460,000	\$ 0.200	1.73
April 16, 2017	199,750	\$ 0.200	1.79
March 12, 2019	500,000	\$ 0.190	4.70
March 4, 2018	1,750,000	\$ 0.175	3.68
	2,909,750		

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

During the six-month period ended June 30, 2014, the Company recognized share-based payments expense of \$201,351 (2013 - \$239,220) in relation to 1,159,750 (2013 - 2,050,000) stock options granted during the period. The fair value of each option granted was estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

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

d) Warrants

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

	<u>June 30, 2014</u>		
	Number of warrants	Weighted average exercise price	
Outstanding, beginning of period	3,372,774	\$ 0.24	
Issued	3,804,400	\$ 0.30	
Exercised	(424,394)	\$ 0.185	
Expired	(105,726)	\$ 0.175	
Outstanding, end of period	<u>6,647,054</u>	<u>\$ 0.279</u>	
	Outstanding warrants	Exercise price	Expiry date
Common share purchase warrants	2,802,654	\$ 0.25	November 1, 2015
	3,421,750	\$ 0.30	April 26, 2016
Agent warrants	40,000	\$ 0.25	November 1, 2015
	382,650	\$ 0.30	April 26, 2016
	<u>6,647,054</u>		

Naturally Splendid Enterprises Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

Six-Month Period Ended June 30, 2014

e) Reserves

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

	June 30, 2014	December 31, 2013
	\$	\$
Stock option reserves	405,563	204,212
Warrant reserves	8,281	34,752
Total reserves	<u>413,844</u>	<u>238,964</u>

14. Commitments

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

15. Events After the Reporting Period

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

- 500,000 common shares were issued upon the exercise of 500,000 options at a price of \$0.175 per share, for gross proceeds of \$87,500.