Naturally Splendid Enterprises Ltd.
(formerly Race Capital Corp.)

Consolidated Financial Statements

December 31, 2013

Expressed in Canadian Dollars

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NATURALLY SPLENDID ENTERPRISES LTD.
(Formerly Race Capital Corp.)

We have audited the accompanying consolidated financial statements of Naturally Splendid Enterprises Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Naturally Splendid Enterprises Ltd. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 28, 2014

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Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp.)

Consolidated Statements of Financial Position
As at December 31
(Expressed in Canadian Dollars)

	Note	2013 $	2012 $
Assets			
Current			
Cash		189,667	5,077
Trade and other receivables	6	119,304	28,535
Inventories	7	269,514	22,703
Advances and prepaid expenses		123,547	9,932
		702,032	66,247
Deposit		40,000	-
Restricted cash	10	17,368	-
Property and equipment	11	71,160	20,761
		830,560	87,008
Liabilities			
Current			
Trade and other payables	12	196,199	78,505
Loans payable	13	-	167,832
		196,199	246,337
Due to related parties	8	3,675	10,796
		199,874	257,133
Equity (deficiency)			
Share capital	14	4,853,214	1,546,300
Reserves	14	238,964	-
Deficit		(4,461,492)	(1,716,425)
		630,686	(170,125)
		830,560	87,008

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

"J. Craig Goodwin" (signed)	Director	*"Peter Hughes" (signed)*	Director
J. Craig Goodwin		Peter Hughes	

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

Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp.)

Consolidated Statements of Loss and Comprehensive Loss
Years ended December 31
(Expressed in Canadian Dollars)

	Note	2013 $	2012 $
Revenue		132,578	99,660
Cost of sales		107,910	69,789
Gross profit		24,668	29,871
Selling and distribution expenses			
Commissions and direct selling expenses		6,769	3,509
Product development, net of grants		24,298	18,752
Product promotion and trade shows		293,239	13,323
Salaries and wages		65,004	17,213
		389,310	52,797
Administrative expenses			
Accounting and audit		63,809	18,263
Amortization		17,412	6,642
Bank charges and interest		3,354	4,329
Consulting		89,134	46,326
Directors fees		27,000	-
Legal fees		45,263	60,561
Management fees		171,850	111,600
Office and general		142,106	48,761
Promotion		196,048	-
Share-based payments	14	204,212	-
Transfer agent and filing fees		59,832	-
Travel		38,262	3,759
		1,058,282	300,241
Loss from operations		(1,422,924)	(323,167)
Foreign exchange		(168)	(4)
Forgiveness of accounts payable	12	953	206,360
Interest income		5,722	-
Write-down of inventory		-	(10,463)
Listing expense	4	(1,328,650)	-
Net loss and comprehensive loss for the year		(2,745,067)	(127,274)
Loss per share – basic and diluted		(0.11)	(0.01)
Weighted average number of common shares outstanding		24,635,495	13,239,338

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

Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp.)
Consolidated Statements of Cash Flows
Years ended December 31
(Expressed in Canadian Dollars)

	Note	2013 $	2012 $
Cash flows used in operating activities			
Net loss and comprehensive loss for the year		(2,745,067)	(127,274)
Adjustments to reconcile loss to net cash			
Amortization		17,412	6,642
Share-based payments		204,212	-
Forgiveness of accounts payable		(953)	(206,360)
Write-down of inventory		-	10,463
Listing expense		1,328,650	-
Changes in non-cash working capital items			
Trade and other receivables		(90,769)	(3,336)
Inventories		(246,811)	(3,945)
Advances and prepaid expenses		(113,615)	3,505
Trade and other payables		117,866	202,532
		(1,529,075)	(117,773)
Cash flows used in investing activities			
Purchase of property and equipment, net		(67,811)	-
Rental deposit		(40,000)	-
Restricted cash		(17,368)	-
Cost of acquisition	4	(59,339)	-
		(184,518)	-
Cash flows from financing activities			
Repayments to related parties		(7,121)	10,039
Proceeds from issuance of shares		2,049,126	-
Repayment of loans payable		(167,832)	105,514
		1,874,173	115,553
Increase (decrease) in cash		160,580	(2,220)
Cash obtained on acquisition		24,010	-
Cash, beginning of year		5,077	7,297
Cash, end of year		189,667	5,077

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

Naturally Splendid Enterprises Ltd. (formerly Race Capital Corp.)

Consolidated Statements of Changes in Equity (Deficiency)
(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, 2011	8,400,000	4,657,857	-	1,114,400	-	(1,589,151)	(474,751)
Private placement, for cash	-	1,727,600	-	431,900	-	-	431,900
Net loss for the year	-	-	-	-	-	(127,274)	(127,274)
Balance at December 31, 2012	8,400,000	6,385,457		1,546,300	-	(1,716,425)	(170,125)
Exchange of shares on acquisition (Note 4)	(8,400,000)	(6,385,457)	11,599,971	1,274,540	18,000	-	1,292,540
Issued and outstanding shares of Race Capital Corp. (Note 4)	-	-	4,000,000	-	-	-	-
Private placement net of share issue costs (Note 14)	-	-	12,802,654	1,963,988	42,654	-	2,006,642
Shares issued pursuant to warrant exercise (Note 14)	-	-	328,480	42,484	-	-	42,484
Reclass warrants exercised				25,902	(25,902)		-
Share-based payments (Note 14)	-	-	-	-	204,212	-	204,212
Net loss for the year	-	-	-	-	-	(2,745,067)	(2,745,067)
Balance at December 31, 2013 (Note 14)	-	-	28,731,105	4,853,214	238,964	(4,461,492)	630,686

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

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 (Note 4).

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 year ended December 31, 2013, the Company had a net loss of $2,745,067 (2012 - $127,274) and working capital of $505,833 (2012 - working capital deficiency of $180,090) as at December 31, 2013.

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 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.

2. Basis of Presentation

a) Statement of compliance

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

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

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 3. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(Expressed in Canadian Dollars)

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

	Relationship	Percentage	Period
Naturally Splendid Enterprises Ltd.	Parent	100%	January 1, 2013 to December 31, 2013
Naturally Splendid Enterprises 2013 Ltd.	Subsidiary	100%	February 1, 2013 to December 31, 2013

All inter-company balances and transactions are eliminated on consolidation.

3. Significant Accounting Policies

a) Inventories

Inventories are stated at the lower of production cost and net realizable value, with cost being determined on a first in first out basis. The cost of inventories includes direct labour, operating materials and supplies. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

b) Property and equipment

Property and equipment are stated at cost less accumulated amortization and any 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.

Amortization is provided at rates calculated to write-off the cost of property and equipment, less their estimated residual value, using the declining balance or straight-line method over the following annual rates:

Computer equipment	55% declining balance
Furniture and equipment	20% declining balance
Website development costs	Straight-line, 6 years

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

c) Revenue recognition

Sales revenue is recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the fair value is reasonably determinable. The Company recognizes revenue upon shipment of the customer's order.

d) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

e) Share-based payments

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

f) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding. 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. The effect is to increase the number of shares used to calculate diluted loss per share and is only recognized when the effect is dilutive.

g) Warrants

Proceeds received on issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares, and any excess is allocated to warrants.

h) Research and development

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

i) Government grants and assistance

Government grants and assistance received specifically to fund current expenses is recorded in the consolidated statement of loss and comprehensive loss as a reduction of product development expenses. Government program credits are recognized only when there is reasonable assurance that the Company has complied with all conditions necessary to receive the credits and collectability is reasonably assured.

j) 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 policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the 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:

<u>Recoverability of accounts receivable</u>
Provision is 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.

<u>Share-based payments</u>
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.

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

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:

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

k) Income taxes

Deferred tax is calculated, using the financial position method, on all temporary differences at the consolidated 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.

l) 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 FVTPL. 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.

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 asset classified in this category is derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset.

Available-for-sale 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 (loss). 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.

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.

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 has 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.

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.

Impairment of financial assets

The Company assesses at each consolidated statement of financial position date whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an AFS financial asset is impaired, the cumulative loss previously recognized in equity is transferred to profit or loss. Any subsequent recovery in the fair value of the asset is recognized within other comprehensive income (loss).

Hierarchy

Financial instruments measures 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.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire, or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

m) 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. 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.

n) Provisions

Provisions are recognized when the Corporation 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.

o) Future accounting pronouncements

At the date of authorization of these consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee have issued the following new and revised standards, amendments and interpretations that are not yet effective during the year ended December 31, 2013.

IFRS 9 *Financial Instruments* (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely deferred the mandatory adoption date of this standard.

IFRS 9 *Financial Instruments* (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely deferred the mandatory adoption date of this standard.

IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (2013)

A revised version of IFRS 9 which:

- Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- Permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss
- Removes the mandatory effective date of IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

This standard has no stated effective date.

***Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)**

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of “currently has a legally enforceable right of set-off”
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after January 1, 2014.

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- IFRS 2 — Amends the definitions of “vesting condition” and ”market condition” and adds definitions for ”performance condition” and ”service condition”
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

Applicable to annual periods beginning on or after July 1, 2014.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Applicable to annual periods beginning on or after July 1, 2014.

The Company has not early-adopted these standards, amendments and interpretations, and anticipates that the application of these standards, amendments and interpretations will not have a material impact on the financial position and financial performance of the Company.

p) Adoption of recent accounting pronouncements

As of January 1, 2013, the Company adopted the following pronouncements:

- IFRS 10 *Consolidated Financial Statements* requires an entity to consolidate an investee when it has power over the investee, is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation — Special Purpose Entities*.

- IFRS 13 *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

- IAS 27 *Separate Financial Statements* (Amendment) prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

The adoption of these standards did not have an effect on the Company's consolidated financial statements for the year.

q) Comparative information

Certain comparative information has been reclassified to conform to the current year’s presentation.

4. Acquisition

On February 28, 2013, Race acquired all of the issued and outstanding shares of Naturally Splendid Enterprises Ltd. (“NS”) by completing a three-cornered amalgamation. Pursuant to the three-cornered amalgamation, NS and a wholly-owned subsidiary of Race, 0938215 B.C. Ltd., amalgamated to form a new company called “Naturally Splendid Enterprises 2013 Ltd.” (the “Amalgamation”), and in consideration the shareholders of NS exchanged all of their issued and outstanding shares for 11,599,971 shares of Race. Immediately following the Amalgamation, Race changed its name to “Naturally Splendid Enterprises Ltd.”

As a result of the transaction, the former shareholders of NS own in excess of 50% of the outstanding shares of the amalgamated entity. For accounting purposes NS is considered to be the accounting acquirer, and therefore, the corporate merger has been accounted for as a reverse takeover. For financial reporting purposes, the Company is considered a continuation of NS, the legal subsidiary, except with regard to authorized and issued share capital which is that of Race, the legal parent. Consequently, comparative amounts in these consolidated financial statements are those of NS only. Race was not considered to be an acquired business under accounting guidance as it was a CPC. Therefore, the corporate merger has been accounted for as a capital transaction and not a business combination. Further, in accordance with IFRS, as the transaction is not considered to be a business acquisition, IFRS 3 *Business Acquisitions* is not applicable, and such transactions have been accounted for pursuant to IFRS 2 *Share-based Payment*. Pursuant to IFRS 2, an equity-settled, share-based payment is to be measured based on the value of the goods or services received along with the corresponding increase in equity. If the value of the goods or services cannot be measured reliably, the fair value of the equity instruments given up should be used.

Prior to the transaction, Race had 200,000 share purchase warrants outstanding. These warrants have been revalued at the date of the transaction and the resulting fair value of $18,000 has been included as part of transaction costs (Note 14(d)).

As consideration for the transaction, Race issued 11,599,971 common shares in exchange for all of the issued and outstanding Class A and B common shares of NS.

(Expressed in Canadian Dollars)

The transaction was recorded as follows:

Fair value of shares issued	$1,274,540
Transaction costs	77,339
	1,351,879
Net assets acquired	(23,229)
Amount allocated as listing expense	$1,328,650

5. Financial Instruments

a) Categories of financial instruments

	2013 $	2012 $
FINANCIAL ASSETS		
FVTPL, at fair value		
Cash	189,667	5,077
Loans and receivables, at amortized cost		
Trade and other receivables	92,018	17,008
Deposit	40,000	-
Restricted cash	17,368	-
Total financial assets	339,053	22,085
FINANCIAL LIABILITIES		
Other liabilities, at amortized cost		
Trade and other payables	196,199	78,505
Loans payable	-	167,832
Due to related parties	3,675	10,796
Total financial liabilities	199,874	257,133

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 consolidated 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.

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 December 31, 2013, the Company had working capital of $505,833 (2012 - deficit of $180,090).

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.

(Expressed in Canadian Dollars)

6. Trade and Other Receivables

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

	2013 $	2012 $
GST/HST receivable	27,286	11,527
Trade receivables	*92,018	17,008
	119,304	28,535

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

7. Inventories

	2013 $	2012 $
Seed and finished products for resale	35,916	15,773
Containers, labels and raw products	233,598	6,930
	269,514	22,703

During the year ended December 31, 2013, the Company recorded a provision for write-down of inventory in the amount of $nil (2012 - $10,463).

8. Amounts Due to/from Related Parties

The Company's related parties consist of companies controlled by executive officers and directors. Transactions and balances in the normal course of operations in connection with those companies and key management personnel for the years ended December 31, 2013 and 2012 are as follows:

- On April 11, 2012, the Company issued 1,309,600 Class C common shares to settle trade and other payables due to officers and directors in the amount of $327,400 (Note 12).

- On June 30, 2012, the Company entered into an off-setting agreement with the officers and directors of the Company whereby advances receivable in the amount of $10,000 due from the officers and directors were offset against trade and other payables in the amount of $10,000 due to the same parties in relation to accrued wages.

(Expressed in Canadian Dollars)

As at December 31, 2013 and 2012, the amounts due to related parties include:

	2013 $	2012 $
Due to officers and directors	3,675	10,796

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

9. Key Management Compensation

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

	2013 $	2012 $
Management fees	171,850	111,600
Directors' fees	27,000	-
Share-based payments (Note 14)	204,212	-
	403,062	111,600

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the years ended December 31, 2013 and 2012.

10. Restricted Cash

The Company has deposited funds in an interest-bearing term deposit with its principal banker as security against corporate credit lines. The balance reported includes accrued interest of $1,531 (2012 - $nil).

11. Property and Equipment

The changes in the Company's property and equipment for the years ended December 31, 2013 and 2012 are as follows:

	Computer equipment $	Furniture and equipment $	Leasehold improvements $	Website development costs $	Total $
COST					
As at December 31, 2011	23,212	48,770	-	7,500	79,482
Additions	-	-	-	-	-
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

(Expressed in Canadian Dollars)

	Computer equipment	Furniture and equipment	Leasehold improvements	Website development costs	Total
	$	$		$	$
AMORTIZATION AND IMPAIRMENT					
As at December 31, 2011	21,677	26,027	-	4,375	52,079
Additions	844	4,548	-	1,250	6,642
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

	Computer equipment	Furniture and equipment	Leasehold improvements	Website development costs	Total
	$	$	$	$	$
Net Book Value					
December 31, 2012	691	18,195	-	1,875	20,761
December 31, 2013	14,851	52,439	3,870	-	71,160

12. Trade and Other Payables

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

	2013	2012
	$	$
Trade payables	196,199	72,985
Other	-	5,520
	196,199	78,505

The Company entered into a deed of forgiveness under which accrued compensation amounts for past services with a third party for $nil (2012 - $35,522), officers and directors for $nil (2012 - $108,960) and a company controlled by an officer for $nil (2012 - $47,400) owed by the Company was forgiven. During the year ended December 31, 2012, the Company wrote-off trade and other payables in the amount of $14,478. Management does not consider that the amounts are payable although there is no assurance that a formal claim will not be made against the Company for some or all of this balance in the future.

(Expressed in Canadian Dollars)

13. Loans Payable

	2013 $	2012 $
Non-interest-bearing loan from an unrelated party, unsecured, with no fixed terms of repayment	-	12,500
Non-interest-bearing loan due to an unrelated party, unsecured, with no fixed terms of repayment	-	22,500
Loan bearing interest at 8% per annum from an officer of the Company. The loan is unsecured and has no fixed terms of repayment	-	8,333
Non-interest-bearing loans from Race Capital Corp., unsecured, with no fixed terms of repayment	-	42,429
Non-interest-bearing loan from the spouse of an officer and director of the Company, unsecured, with no fixed terms of repayment	-	82,070
	-	167,832

14. Share Capital

a) Authorized

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

b) Issued and outstanding

The total issued and outstanding share capital consists of 28,731,105 common shares without par value.

A total of 8,345,574 common shares are held in escrow. A total of 1,500,000 common shares are to be released at a rate of 15% 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 6,845,574 of common shares are to be released at a rate of 15% 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 (Note 4).

During the year ended December 31, 2013 the Company completed the following transactions:

- In November 2013 the Company completed a brokered private placement issuing 2,802,654 units at a price of $0.175 per unit for gross proceeds of $490,465. Each unit was comprised of one common share of the Company and one common share purchase warrant ("warrant") with each warrant entitling the holder to purchase one additional common share of the Company at $0.25 until November 1, 2015. 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 $0.35 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 cash commissions totaling $20,770 and issued 98,000 non-transferable finder's warrants. These warrants have been valued at $6,654. Each finder's warrant is exercisable on the same terms as the warrants described above. The securities issued under the financing will be subject to a hold period expiring March 2, 2014 pursuant to applicable Canadian securities laws and the rules of the TSX Venture Exchange.

(Expressed in Canadian Dollars)

- During the year, 200,000 shares were issued pursuant to the exercise of 200,000 warrants at an exercise price of $0.10 per share for proceeds of $20,000.
- During the year, 128,480 shares were issued pursuant to the exercise of 128,480 warrants at an exercise price of $0.175 per share for proceeds of $22,484.
- In February 2013, the Company completed a brokered private placement issuing 10,000,000 common shares at a price of $0.175 per share for gross proceeds of $1,750,000 (the "Financing") less cash share issue costs of $213,053. Also granted were 600,600 non-transferable share purchase finder's warrants exercisable at a price of $0.175 per share for a period of twelve months from the date of closing of the Financing. These warrants have been valued at $36,000 and are included as part of share issue cost (Note 14(d)).
- 11,599,971 shares were issued in exchange for 8,400,000 Class B common shares and 6,385,457 Class C common shares of NS.

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.

The following is a summary of changes in stock options for the years ended December 31, 2013 and 2012:

	2013		2012	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Options outstanding, beginning of year	-	$ -	-	$ -
Options granted	2,050,000	$ 0.175	-	$ -
Options cancelled	(300,000)	$ 0.175	-	$ -
Options outstanding and exercisable, end of year	1,750,000	$ 0.175	-	$ -

(Expressed in Canadian Dollars)

The following are the outstanding stock options as of December 31, 2013:

Expiry Date	Number of options outstanding	Weighted Average Exercise price	Weighted Average Remaining contractual Life in years
March 4, 2018	1,750,000	$0.175	4.26

During the year ended December 31, 2013 the Company recognized share-based payments expense of $204,212 (2012 - $nil) in relation to 1,750,000 (2012 – nil) stock options issued during the year. 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:

	2013	2012
Risk-free interest rate	1.27%	N/A
Expected life	5 years	N/A
Annualized volatility	80.40%	N/A
Expected dividends	-	N/A
Exercise price	$0.175	N/A

d) Warrants

A summary of the Company's warrants for the years ended December 31, 2013 and 2012 is as follows:

	2013		2012	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	-	$ -	-	$ -
Race warrants	200,000	$ 0.10	-	$ -
Issued	3,501,254	$ 0.24	-	$ -
Exercised	(328,480)	$ 0.13	-	$ -
Outstanding, end of year	3,372,774	$ 0.24	-	$ -

	Outstanding warrants	Exercise price	Expiry date
Common share purchase warrants	2,802,654	$ 0.250	November 1, 2015
Agent warrants	472,120	$ 0.175	February 28, 2014
Agent warrants	98,000	$ 0.250	November 1, 2015
	3,372,774		

(Expressed in Canadian Dollars)

During the year ended December 31, 2013 the Company recognized share-based payments expense of $42,654 (2012 - $nil) in relation to 698,600 (2012 – nil) warrants issued as finder's fees during the year. The fair value of each warrant granted was estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	**2012**
Risk-free interest rate	1.27%	N/A
Expected life	1.14 years	N/A
Annualized volatility	90%	N/A
Expected dividends	-	N/A
Exercise price	$0.19	N/A

e) Reserves

As of December 31, 2013 and 2012 the reserves of the Company were as follows:

	2013 **$**	**2012** **$**
Stock option reserves	204,212	-
Warrant reserves	60,654	-
Total reserves	264,866	-

15. 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.

(Expressed in Canadian Dollars)

16. Income Taxes

A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2013 **$**	**2012** **$**
Loss before income taxes	(2,745,067)	(127,274)
Expected income tax recovery	(706,855)	(31,819)
Adjustment resulting from		
Effect of change in tax rates	(25,108)	-
Non deductible items	55,327	-
Temporary differences	(34,592)	
Unused tax losses	711,228	31,819
Income tax recovery	-	-

Effective January 1, 2013, the Canadian federal corporate tax rate remained constant at 15% and the British Columbia was 11%. Effective April 1, 2013, the British Columbia provincial tax rate increased from 10.0% to 11.0% with no change to the federal corporate tax rate.

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:

	2013 **$**	**2012** **$**
Deferred tax assets		
Non-capital losses	4,104,612	1,641,339
Share issue costs	187,058	
Property and equipment	68,635	51,223
Unrecognized deferred tax	4,360,305	1,692,562

As at December 31, 2013, the Company has non-capital losses carried forward for Canadian purposes aggregating approximately $4,104,612 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

Year	**Amount** **$**
2028	452,201
2029	228,860
2030	172,798
2031	666,847
2032	117,875
2033	2,466,031
	4,104,612

17. 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 amount of cash and investments.

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 year ended December 31, 2013.

The Company is not subject to externally imposed capital restrictions.

18. Subsequent Events

a) On February 28, 2014, warrants for 105,726 common shares, exercisable at $0.175 per share, expired unexercised, and 366,394 warrants were exercised for gross proceeds of $64,119.

b) On March 24, 2014, the Company granted 460,000 stock options to officers, directors, consultants and employees of the Company. The options have a two year life and are exercisable at $0.20 per option.

c) On April 28, 2014, the Company completed a private placement financing by issuing a total of 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 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 cash commissions of $81,530 and issued 382,650 finder's warrants in connection with this financing. Each finder's warrant is exercisable on the same terms as the warrants attached to the units issued in the private placement.