# Naturally Splendid Enterprises Ltd.

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

**March 31, 2019**

**(Expressed in Canadian Dollars)**

# Naturally Splendid Enterprises Ltd.

## Dated May 27, 2019

**Management's Comments on Unaudited Interim Consolidated Financial Statements**

The accompanying unaudited interim consolidated financial statements of Naturally Splendid Enterprises Ltd. (the "Company") for the three months ended March 31, 2019 and 2018 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the three-month period ended March 31, 2019.

## Naturally Splendid Enterprises Ltd.

Consolidated Statements of Financial Position
As at March 31, 2019 and December 31, 2018
(Unaudited - Expressed in Canadian Dollars)

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 98,801 | $ 188,814 |
| Trade and other receivables (Note 6) | 329,054 | 375,132 |
| Inventories (Note 7) | 1,445,472 | 1,571,938 |
| Advances, prepaids and deposit | 16,596 | 88,952 |
| | 1,889,923 | 2,224,836 |
| **Long-term deposits** (Note 18) | 32,124 | 32,124 |
| **Loan receivable** (Note 14) | 200,000 | 200,780 |
| **Restricted cash** (Note 8) | 34,500 | 34,500 |
| **Right of use assets** (Note 3(o)) | 1,308,416 | - |
| **Property and equipment** (Note 9) | 2,135,695 | 2,144,891 |
| **Technology license and other intangibles** (Notes 4 and 10) | 1,477,629 | 1,528,454 |
| **Goodwill** (Notes 4 and 20) | 404,067 | 404,067 |
| **Total assets** | **$ 7,482,354** | **$ 6,569,652** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| **Current** | | |
| Trade and other payables (Note 14) | $ 1,815,764 | $ 1,310,130 |
| Current portion of capital lease obligation (Note 11) | 111,012 | 142,653 |
| Current portion of long-term loans payable (Notes 4, 12 and 14) | 20,000 | 20,000 |
| Due to related parties (Note 14) | 55,000 | 55,000 |
| Current portion of contingent consideration payable (Note 4) | 271,000 | 271,000 |
| Current portion of lease liabilities (Note 3(o)) | 83,897 | - |
| | 2,356,673 | 1,798,783 |
| **Capital lease obligation** (Note 11) | 269,296 | 269,296 |
| **Long-term loan payable** (Notes 4, 12 and 14) | 180,000 | 180,000 |
| **Contingent consideration payable** (Note 4) | 694,000 | 694,000 |
| **Lease liabilities** (Note 3(0)) | 1,242,787 | - |
| **Total liabilities** | 4,742,756 | 2,942,079 |
| **Shareholders' equity** | | |
| Share capital (Note 16) | 22,104,166 | 22,022,666 |
| Subscriptions received (Note 24) | 134,490 | - |
| Reserves (Note 16) | 2,282,150 | 2,282,150 |
| Deficit | (21,781,208) | (20,677,243) |
| **Total shareholders' equity** | 2,739,598 | 3,627,573 |
| | **$ 7,482,354** | **$ 6,569,652** |

**Approved on May 27, 2019 on behalf of the Board:**

*"Douglas L. Mason"* Director    Director

*"Peter Hughes"* Director    Director

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

**Naturally Splendid Enterprises Ltd.**

Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited – Expressed in Canadian Dollars)

For the three months ended March 31, 2019 and 2018

| | Three months ended March 31, 2019 | Three months ended March 31, 2018 |
|---|---|---|
| **Revenue** | $ 772,803 | $ 320,827 |
| **Cost of Sales** | 523,269 | 217,523 |
| **Gross Profit** | **249,534** | **103,304** |
| **Selling and distribution expenses** | | |
| Facility | 247,449 | 142,963 |
| Freight and delivery | 10,480 | 6,063 |
| Product development, net of grants | 348 | 5,937 |
| Product promotion, net of grants | 17,665 | 73,759 |
| | **275,942** | **228,722** |
| **Administrative expenses** | | |
| Accounting and audit | 15,945 | 24,540 |
| Amortization and depreciation (Notes 9 and 10) | 141,830 | 102,386 |
| Bank charges, interest and accretion (Note 12) | 12,324 | 7,533 |
| Consulting (Note 14) | 313,434 | 279,366 |
| Corporate promotion | 110,993 | 25,280 |
| Depreciation on right of use assets (Note 3(o)) | 44,605 | - |
| Directors' fees (Note 14) | 16,025 | 13,500 |
| Interest accretion on lease liabilities (Note 3(o)) | 40,329 | - |
| Legal | 3,766 | 18,401 |
| Office, rent and salaries | 344,124 | 461,620 |
| Share-based payments (Notes 14 and 16) | - | 443,698 |
| Transfer agent and filing fees | 33,814 | 29,131 |
| Travel | 8,427 | 13,192 |
| | **1,085,616** | **1,418,647** |
| **Loss before other items and income tax** | **(1,112,024)** | **(1,544,065)** |
| **Other items** | | |
| Foreign exchange loss | (3,201) | (4,778) |
| Interest and other income | 11,260 | 350 |
| **Net loss before discontinued operations** | **(1,103,965)** | **(1,548,493)** |
| **Discontinued operations** (Note 5) | - | 5,101,713 |
| **Net earnings (loss) and comprehensive (earnings) loss for the period** | **$ (1,103,965)** | **$ 3,553,220** |
| **Comprehensive loss attributed to:** | | |
| Owners of the Company | $ (1,103,965) | $ 3,568,334 |
| Non-controlling interest | - | (15,114) |
| | **$ (1,103,965)** | **$ 3,553,220** |
| Basic and diluted loss per common share from continuing operations | $ (0.01) | $ (0.02) |
| Basic and diluted earnings (per common share from discontinued operations (note 5) | $ 0.00 | $ 0.04 |
| Basic and diluted earnings (loss) per common share | $ (0.01) | $ 0.04 |
| Weighted average shares outstanding - basic and diluted | 105,444,409 | 97,201,003 |

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

## Naturally Splendid Enterprises Ltd.

Interim Consolidated Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)
For the three months ended March 31, 2019 and 2018

| | Three months ended March 31, 2019 | Three months ended March 31, 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the period from continuing operations | $ (1,103,965) | $ (1,548,493) |
| Items not affecting cash: | | |
| Amortization and depreciation | 141,830 | 102,386 |
| Depreciation on right of use assets | 44,605 | - |
| Shares issued for services | 81,500 | 66,250 |
| Interest accretion on lease liabilities | 40,329 | - |
| Share-based payments | - | 443,698 |
| | (795,701) | (936,159) |
| Changes in non-cash working capital: | | |
| Trade and other receivables | 46,078 | 8,484 |
| Inventories | 126,466 | (41,918) |
| Advances, prepaids and deposits | 72,356 | 59,973 |
| Trade and other payables | 505,634 | (20,046) |
| **Cash used in operating activities from continuing operations** | (45,167) | (929,666) |
| **Cash provided by operating activities from discontinued operations** | - | - |
| **Cash used in operating activities** | (45,167) | (929,666) |
| **Investing activities** | | |
| Purchase of property and equipment, net | (81,809) | (191,281) |
| Long term loan | 780 | - |
| **Cash used in investing activities from continuing operations** | (81,029) | (191,281) |
| **Cash provided by investing activities from discontinued operations** | - | 3,536,650 |
| **Cash provided by (used in) investing activities** | (81,029) | 3,345,369 |
| **Financing activities** | | |
| Repayment of long term loan payable | - | (120,000) |
| Repayment of capital lease | (31,641) | (23,230) |
| Payments on lease liabilities | (66,666) | - |
| Subscriptions received | 134,490 | - |
| Proceeds from options exercised | - | 71,750 |
| Proceeds from warrants exercised | - | 311,903 |
| Restricted cash | - | (117) |
| **Cash provided by financing activities from continuing operations** | 36,183 | 240,306 |
| **Cash used in financing activities from discontinued operations** | - | - |
| **Cash provided by financing activities** | 36,183 | 240,306 |
| **Decrease in cash from continuing operations during the period** | (90,013) | (880,641) |
| **Increase in cash from discontinued operations during the period** | - | 3,536,650 |
| **Net change in cash** | (90,013) | 2,656,009 |
| **Cash, beginning of year** | 188,814 | 301,080 |
| **Cash, end of period** | $ 98,801 | $ 2,957,089 |

Supplemental Cash Flow Information (Note 21)

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

**Naturally Splendid Enterprises Ltd.**

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

| | Common Shares | Share Capital | Obligation to issue shares | Subscriptions received | Option Reserves | Warrant Reserves | Deficit | Equity attributable to owners of the Company | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2017** | **95,753,289** | **$ 20,260,759** | **$ 126,499** | **$ -** | **$1,297,921** | **$ 560,654** | **$(19,828,259)** | **$2,417,574** | **$ 1,338,109** | **$ 3,755,683** |
| Prosnack acquisition – obligation to issue shares | 246,851 | 78,499 | (78,499) | - | - | - | - | - | - | - |
| Options exercised | 410,000 | 119,652 | - | - | (47,902) | - | - | 71,750 | - | 71,750 |
| Warrants exercised | 910,350 | 345,615 | - | - | - | (33,712) | - | 311,903 | - | 311,903 |
| Shares issued for services | 250,000 | 66,250 | - | - | - | - | - | 66,250 | - | 66,250 |
| Share-based payments | - | - | - | - | 443,698 | - | - | 443,698 | - | 443,698 |
| Share issue costs | - | (900) | - | - | | - | - | (900) | - | (900) |
| Options expired or cancelled | - | - | - | - | (75,699) | - | 75,699 | - | - | - |
| Elimination of non-controlling interest related to the sale of POS BPC Manufacturing Corp. | - | - | - | - | - | - | (72,905) | (72,905) | (1,322,995) | (1,395,900) |
| Net loss for the period | - | - | - | - | - | - | 3,568,334 | 3,568,334 | (15,114) | 3,553,220 |
| **Balance at March 31, 2018** | **97,570,490** | **$ 20,869,875** | **$ 48,000** | **$ -** | **$ 1,618,018** | **$ 526,942** | **$ (16,257,131)** | **$ 6,805,704** | **$ -** | **$ 6,805,704** |
| Private placement, net of costs | 6,047,964 | 1,040,334 | - | - | - | 88,700 | - | 1,129,034 | - | 1,129,034 |
| Warrants exercised | 29,000 | 12,307 | - | - | - | (2,157) | - | 10,150 | - | 10,150 |
| Shares issued for restricted share units | 150,000 | 48,000 | (48,000) | - | - | - | - | - | - | - |
| Shares issued for services | 250,000 | 51,250 | - | - | - | - | - | 51,250 | - | 51,250 |
| Share-based payments | - | - | - | - | 795,116 | - | - | 795,116 | - | 795,116 |
| Share issue costs | - | 900 | - | - | | - | - | 900 | - | 900 |
| Options expired or cancelled | - | - | - | - | (278,753) | - | 278,753 | - | - | - |
| Warrants expired or cancelled | - | - | - | - | - | (465,716) | 465,716 | - | - | - |
| Net loss for the period | - | - | - | - | - | - | (5,164,581) | (5,164,581) | - | (5,164,581) |
| **Balance at December 31, 2018** | **104,047,454** | **$ 22,022,666** | **$ -** | **$ -** | **$ 2,134,381** | **$ 147,769** | **$ (20,677,243)** | **$ 3,627,573** | **$ -** | **$ 3,627,573** |
| Private placement, net of costs | - | - | - | - | - | - | - | - | - | - |
| Subscriptions received (Note 24) | - | - | - | 134,490 | - | - | - | 134,490 | - | 134,490 |
| Shares issued for services | 600,000 | 81,500 | - | - | - | - | - | 81,500 | - | 81,500 |
| Options expired or cancelled | - | - | - | - | - | - | - | - | - | - |
| Warrants expired or cancelled | - | - | - | - | - | - | - | - | - | - |
| Net loss for the period | - | - | - | - | - | - | (1,103,965) | (1,103,965) | - | (1,103,965) |
| **Balance at March 31, 2019** | **104,647,454** | **$ 22,104,166** | **$ -** | **$ 134,490** | **$ 2,134,381** | **$ 147,769** | **$ (21,781,208)** | **$ 2,739,598** | **$ -** | **$ 2,739,598** |

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

## 1. Nature of Operations and Going Concern

Naturally Splendid Enterprises Ltd. ("Naturally Splendid" or the "Company") was incorporated under the laws of the province of British Columbia on December 21, 2010.

The Company is in the natural food industry and sells food and ingredients to commercial processors and consumers by distribution through grocery stores, health and nutrition stores and online. Materials are sourced in bulk and repackaged at the Company's facility with its unique branding under the Company's name. Current products are hemp-based food items that are both conventional and organic, including whole grains and protein powders. Product sales are supported through a combination of direct and online sales and distribution channels.

The head office, principal address, and registered and records office is located at 108-19100 Airport Way Pitt Meadows, British Columbia, Canada V3Y 0E2.

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the period ended March 31, 2019, the Company had a loss before discontinued operations of $1,103,965 and a net loss of $1,103,965 (year ended December 31, 2018, the Company had a loss before discontinued operations of $6,682,584; net loss of $1,611,361) and working capital deficit of $466,750 (December 31, 2018 - $426,053). The Company remains reliant on external sources of financing to fund operations and meet the Company's obligations.

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 cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and consolidated statement of financial position classifications that would be necessary if the going concern assumption was inappropriate. Such adjustments could be material.

## 2. Basis of Presentation

### a) Statement of compliance

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

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

## 2. Basis of Presentation (Continued)

### b) Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in note 15. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. These consolidated financial statements include the accounts of the following entities:

| | Relationship | Percentage |
|---|---|---|
| Naturally Splendid Enterprises Ltd. | Parent | 100% |
| Naturally Splendid Enterprises 2013 Ltd. | Subsidiary | 100% |
| Naturally Splendid Extracts Ltd. ("Extracts") (1) | Subsidiary | 100% |
| Naturally Splendid USA Ltd. | Subsidiary | 100% |
| Chi Hemp Industries Inc. ("Chi") | Subsidiary | 100% |
| Prosnack Natural Foods Inc. ("Prosnack") (2) | Subsidiary | 100% |
| Naturally Splendid Hemp Processors Ltd. ("NSHP") (3) | Subsidiary | 100% |
| POS BPC Manufacturing Corp. ("BPC") (4) | Subsidiary | 0% |

*(1) Naturally Splendid Extracts Ltd. was incorporated on May 17, 2018. These consolidated financial statements include Extracts operating results from that date.*

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

*(3) The Company acquired Absorbent Concepts Inc. on July 16, 2018 (note 4). On August 1, 2018 the name has been changed to "Naturally Splendid Hemp Processors Ltd." Prior to the acquisition, the Company provided NSHP with a short-term loan of $218,810. These consolidated financial statements include NSHP operating results from the date of acquisition.*

*(4) The Company sold POS BPC Manufacturing Corp. on February 21, 2018 (note 5). These consolidated financial statements include BPC operating results up to the date of sale.*

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

## 3. Significant Accounting Policies

### a) Inventories

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

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

**3. Significant Accounting Policies** (Continued)

**b) Property and Equipment**

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

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

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

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**

*Change in accounting policy*

The Company adopted the requirements of IFRS 15 *Revenue from Contracts with Customers* effective January 1, 2018, which replaces IAS 18 *Revenue* using the modified retrospective approach. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model as follows:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price, which is the total consideration provided by the customer;
- allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- recognize revenue when the relevant criteria are met for each performance obligation.

The adoption of IFRS 15 did not result in any changes to the Company’s accounting policies for revenue recognition and therefore, did not result in any transitional adjustments to the Company’s consolidated financial statements.

The Company generates its revenue from sales to retailers, online web sales, bulk sales, and copacking revenues. Revenues from sale of goods via retailers, online web sales, bulk sales and copacking are recognized when the Company’s performance obligation is met, which is upon shipment of the order.

**3. Significant Accounting Policies** (Continued)

**d) Share-based payments**

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

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

**e) Loss per share**

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

**f) Accounting for equity units**

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

**g) Research and development**

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

## 3. Significant Accounting Policies (Continued)

### h) Intangible assets and Technology License

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

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

### i) Significant accounting judgments, estimates and assumptions

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

*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 receivables</u>

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

## 3. Significant Accounting Policies (Continued)

Valuation of inventory

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

Useful lives of intangible assets and property and equipment

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

Interest rates

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

Share-based payments

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

*Critical accounting judgments*

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

Recovery of deferred tax assets

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

Determination of cash-generating units ("CGU")

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

## 3. Significant Accounting Policies (Continued)

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

Determining the amount of impairment of property and equipment, technology license and other intangibles and goodwill requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

Assessment of the transactions as an asset acquisition or business combination

Management has had to apply judgment relating to acquisitions with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

Determination of purchase price allocations and contingent consideration

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

Determination of discontinued operations

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

Management applies judgement to determine whether a component of the Company that either has been disposed of, or is classified as held for sale, meets the criteria for discontinued operations. The key area that involves management judgement in this determination is whether the component represents a separate major line of business or geographical area of operation. This determination applied to BPC in 2017, as it was a component of the Company. As at December 31, 2017, the Company determined that BPC did not meet the definition to be classified as held for sale and was not classified as such on the consolidated statements of financial position. During the year ended December 31, 2018, the Company disposed of BPC and this was determined to be a discontinued operation as it is a separate component that represents a major line of business and geographical area of operation.

**3. Significant Accounting Policies** (Continued)

Going concern

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

**j) Income taxes**

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

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

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

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

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

**k) Impairment of non-financial assets**

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

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

## 3. Significant Accounting Policies (Continued)

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.

### l) Provisions

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

### m) Foreign currency translation

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

### n) Financial instruments

*Change in accounting policy*

The Company adopted IFRS 9 effective January 1, 2018 using the modified retrospective approach. IFRS 9 provides a revised model for classification and measurement of financial assets, including a new expected credit loss ("ECL") impairment model. The revised model for classifying financial assets results in classification according to their contractual cash flow characteristics and the business model under which they are held. IFRS 9 also introduces a reformed approach to hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for the classification of financial liabilities.

As a result of the adoption of IFRS 9, the Company has changed its accounting policy for financial instruments retrospectively. There were no material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption. IFRS 9 does not require restatement of comparative periods.

## 3. Significant Accounting Policies (Continued)

The Company's financial instruments are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39:

| | January 1, 2018 | |
|---|---|---|
| | **IAS 39** | **IFRS 9** |
| **Financial Asset** | | |
| Cash | Fair value through profit and loss ("FVTPL") | FVTPL |
| Trade and other receivables | Amortized cost | Amortized cost |
| Advances and deposits | Amortized cost | Amortized cost |
| Loan receivable | Amortized cost | Amortized cost |
| Restricted cash | FVTPL | FVTPL |
| **Financial Liability** | | |
| Cheques issued in excess of bank deposits | Amortized cost | Amortized cost |
| Trade and other payables | Amortized cost | Amortized cost |
| Due to related parties | Amortized cost | Amortized cost |
| Short-term loan payable | Amortized cost | Amortized cost |
| Long-term loan payable | Amortized cost | Amortized cost |
| Contingent consideration payable | FVTPL | FVTPL |

### Financial assets

(i) Recognition and measurement of financial assets

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

(ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss. The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

*Financial assets measured at amortized cost*

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

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

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

**3. Significant Accounting Policies** (Continued)

*Financial assets measured at fair value through other comprehensive income ("FVTOCI")*

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to deficit when the financial instrument is derecognized or its fair value substantially decreases.

*Financial assets measured at fair value through profit or loss ("FVTPL")*

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

(iii) Derecognition of financial assets

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

**Financial liabilities**

(i) Recognition and measurement of financial liabilities

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

(ii) Classification of financial liabilities

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

*Financial liabilities measured at amortized cost*

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

**3. Significant Accounting Policies** (Continued)

*Financial liabilities measured at fair value through profit or loss*

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

(iii) Derecognition of financial liabilities

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

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

Impairment of financial assets

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

**Fair value hierarchy**

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

(Expressed in Canadian Dollars)

## 3. Significant Accounting Policies (Continued)

### o) Accounting pronouncements adopted

The following are accounting pronouncements that have been adopted by the Company.

**IFRS 16 *Leases***

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases.*

This standard became effective for the Company's annual period beginning January 1, 2019 for leases where the Company is the lessee. It recognizes a right-of-use asset and a lease liability for its operating premises leases previously classified as operating leases. The Company chose to adopt the modified retrospective approach on transition to IFRS 16 on January 1, 2019 and has chosen not to restate comparative information in accordance with the transitional provisions in IFRS16. As a result, the comparative information continues to be presented in accordance with the Company's previous accounting policies.

The impact of adopting this new standard resulted in an additional right of use asset of $1,353,021 capitalized and a corresponding lease liability of the same amount included as a liability in the consolidated statements of financial position. The assets will be amortized on a straight-line basis over the term of the remaining lease period and the lease liability is measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rates and reported as follows:

| | January 1, 2019 |
|---|---|
| Operating lease commitments as at December 31, 2018 | $ 2,076,989 |
| Discount of future commitments as at January 1, 2019 | 723,968 |
| Lease liabilities recognized as at January 1, 2019 | $ 1,353,021 |

(Expressed in Canadian Dollars)

## 3. Significant Accounting Policies (Continued)

### o) Accounting pronouncements adopted (Continued)

**Right-of-use assets**

The following is the continuity of the cost and accumulated depreciation of right-of-use assets (operating premise leases) as at and for the period ended March 31, 2019:

| | March 31, 2019 |
|---|---|
| **Cost** | |
| **Balance, January 1, 2019 and March 31, 2019** | **$ 1,353,021** |
| **Accumulated depreciation** | |
| Balance, January 1, 2019 | $ - |
| Depreciation | 44,605 |
| **Balance, March 31, 2019** | **$ 44,605** |
| **Carrying amount as at March 31, 2019** | **$ 1,308,416** |

**Lease liabilities**

The following is the continuity of lease liabilities (operating premise leases) as at and for the period ended March 31, 2019:

| | March 31, 2019 |
|---|---|
| **Cost** | |
| **Balance, January 1, 2019** | **$ 1,353,021** |
| Lease payments | (66,666) |
| Interest accretion on lease liabilities | 40,329 |
| **Balance, March 31, 2019** | **1,326,684** |
| Current portion | 83,897 |
| **Non-current portion** | **$ 1,242,787** |

(Expressed in Canadian Dollars)

## 4. Acquisitions

### Prosnack Natural Foods Inc.

On October 18, 2017, the Company acquired 100% of the issued and outstanding shares of Prosnack. Prosnack is a company that distributes lifestyle and healthy meal replacement products throughout North America. Under the terms of the agreement, the Company paid $101,000 cash and issued 1,098,901 common shares with a fair value of $200,000 during the year ended December 31, 2017. The remaining 246,851 shares were recorded as an obligation to issue shares as at December 31, 2017 and were issued during the year ended December 31, 2018.

The acquisition of Prosnack was accounted for as a business combination. The resulting goodwill represents he established growth potential and synergies between Prosnack and the Company.

On closing of the transaction, the sellers of Prosnack and the Company entered into a five year earn-out agreement. During the term of the earn-out agreement, the Company will pay a 25% commission on the sales exceeding a base rate generated by the Vice President of Sales and Marketing. This has been accounted for as contingent consideration payable and added to the purchase price. No payments have been made to date.

As at December 31, 2018, the fair value of the contingent consideration payable was reassessed in accordance with IFRS 9, and a loss on revaluation of contingent consideration payable of $565,000 was recorded in the consolidated statements of loss and comprehensive loss during the year ended December 31, 2018 due to a change in forecasted sales revenues. The changes in the contingent consideration payable for the year ended March 31, 2019 and December 31, 2018 are as follows:

| | | **March 31, 2019** | | **December 31, 2018** |
|---|---|---|---|---|
| Balance, beginning of year | $ | 400,000 | $ | 400,000 |
| Acquisition of Prosnack | | - | | - |
| Revaluation | | 565,000 | | 565,000 |
| Balance, end of year | **$** | 965,000 | **$** | 965,000 |
| Current portion | | (271,000) | | (271,000) |
| Long term portion | **$** | 694,000 | **$** | 694,000 |

### Naturally Splendid Hemp Processors Ltd. ("NSHP")

On July 16, 2018, the Company acquired 100% of the issued and outstanding shares of Absorbent Concepts Inc. (now known as Naturally Splendid Hemp Processors Ltd). NSHP is a company that previously produced organic hemp products. Under the terms of the agreement, the Company paid $1 cash and repaid loans of $640,018.

(Expressed in Canadian Dollars)

## 4. **Acquisitions** (Continued)

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

| | | |
|---|---|---|
| Cash | **$** | 1 |
| Repayment of bank loans | | 640,018 |
| | $ | 640,019 |

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

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

NSHP entered into a loan agreement with the seller of NSHP for $200,000. The repayment of the loan is dependent on satisfaction of 6 different milestones based on net income, achievement of research and development milestones. Should the milestones not be reached, the loan from the seller of NSHP will be forgiven and included in income. As at December 31, 2018, $20,000 is classified as current portion of loan payable for milestones achieved and $180,000 is classified as long-term portion of loan payable for milestones not yet achieved and not expected to be achieved within twelve months.

## 5. **Disposition of POS BPC Manufacturing Corp.**

On February 21, 2018, the Company sold its 51% in POS BPC Manufacturing Corp. for gross proceeds of $3,536,650. The cash proceeds received, offset by the net liabilities on the date of disposition and elimination of non-controlling interest of $1,322,995 resulted in a gain of $5,102,068. As BPC represents a separate major line of business and geographical area of operations, the operating results of BPC have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

**5. Disposition of POS BPC Manufacturing Corp.** (Continued)

The results of operations of BPC for the period ended February 21, 2018, the date of sale are as follows:

| | **2018** |
|---|---|
| **Administrative expenses** | |
| Management fees | $ 21,000 |
| Office | 4,287 |
| Wages and benefits | 5,558 |
| **Loss before other items and income tax** | **(30,845)** |
| **Other items** | |
| Foreign exchange gain | - |
| Gain on sale of BPC | 5,102,068 |
| **Net income (loss) and comprehensive income (loss) for the period** | **$ 5,071,223** |

| | |
|---|---|
| **Comprehensive income (loss) attributed to:** | |
| Owners of the company | $ 5,086,337 |
| Non-controlling interest | (15,114) |
| | **$ 5,071,223** |

The cash flows for BPC for the period ended February 21, 2018, the date of sale, are as follows:

| | **2018** |
|---|---|
| **Cash flows from operating activities** | |
| Net income (loss) for the period | $ 5,071,223 |
| Items not affecting cash: | |
| Gain on sale of subsidiary | (5,102,068) |
| | (30,845) |
| Changes in non-cash working capital: | |
| Due to related parties | 30,845 |
| **Cash provided by operating activities** | - |
| **Investing activity** | |
| Proceeds from the sale of subsidiary | 3,536,650 |
| **Cash provided by investing activity** | 3,536,650 |
| **Net change in cash** | 3,536,650 |
| **Bank indebtedness, beginning of period** | (31,078) |
| **Cash (bank indebtedness), end of period** | $ 3,505,572 |

(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") due from the government authorities. These are as follows:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| GST/HST receivable | $ 19,694 | $ 2,485 |
| Trade receivables * | 305,360 | 368,647 |
| Due from related parties (Note 14) | 4,000 | 4,000 |
| | $ 329,054 | $ 375,132 |

* Trade receivables are net of an allowance for bad debts of $nil (2018 - $nil).

## 7. Inventories

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Finished products for resale | $ 523,417 | $ 345,338 |
| Raw materials | 605,266 | 800,395 |
| Containers, labels and packing materials | 316,789 | 426,205 |
| | $ 1,445,472 | $ 1,571,938 |

During the period ended March 31, 2019, the Company recorded a write-down to inventory of $nil (December 31, 2018 - $266,479) relating to expired goods and estimated net realizable value of inventories being lower than cost.

## 8. Restricted Cash

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

For the period ended and as at March 31, 2019, the deposited funds earn an interest rate at prime less 2.45% and prime less 2.65%, and matures on July 5, 2019 and May 21, 2019, respectively.

For the year ended and as at December 31, 2018, the deposited funds earn an interest rate at prime less 2.45% and prime less 2.65%, and matures on July 5, 2019 and May 21, 2019, respectively.

(Expressed in Canadian Dollars)

## 9. Property and Equipment

The changes in the Company's property and equipment for the periods ended March 31, 2019, December 31, 2018 and 2017 are as follows:

| | Computer equipment | Furniture and equipment | Leasehold improvements | Manufacturing facility and equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **December 31, 2017** | **$ 94,584** | **$ 179,757** | **$ 281,750** | **$ 1,358,938** | **$ 1,915,029** |
| Additions | 9,137 | 89,611 | 107,456 | 194,202 | 400,406 |
| Disposition | - | - | - | (95,891) | (95,891) |
| Additions from acquisition of NSHP (Note 4) | - | - | - | 805,568 | 805,568 |
| Disposition of BPC | - | - | - | (390,675) | (390,675) |
| **December 31, 2018** | **$ 103,721** | **$ 269,368** | **$ 389,206** | **$ 1,872,142** | **$ 2,634,437** |
| Additions | - | - | 67,869 | 11,471 | 79,340 |
| **March 31, 2019** | **$ 103,721** | **$ 269,368** | **$ 457,075** | **$ 1,883,613** | **$ 2,713,777** |
| **Depreciation** | | | | | |
| **December 31, 2017** | **80,264** | **104,138** | **62,489** | **167,287** | **414,178** |
| Additions | 9,944 | 11,520 | 4,294 | 219,481 | 245,239 |
| Disposition | - | - | - | (91,409) | (91,409) |
| Disposition of BPC | - | - | - | (78,462) | (78,462) |
| **December 31, 2018** | **$ 90,208** | **$ 115,658** | **$ 66,783** | **$ 216,897** | **$ 489,546** |
| Additions | 1,860 | 7,685 | 21,050 | 57,941 | 88,536 |
| **March 31, 2019** | **$ 92,068** | **$ 123,343** | **$ 87,833** | **$ 274,838** | **$ 578,082** |
| **Net Book Value** | | | | | |
| **December 31, 2017** | **$ 14,320** | **$ 75,619** | **$ 219,261** | **$ 1,191,651** | **$ 1,500,851** |
| **December 31, 2018** | **$ 13,513** | **$ 153,710** | **$ 322,423** | **$ 1,655,245** | **$ 2,144,891** |
| **March 31, 2019** | **$ 11,653** | **$ 146,025** | **$ 369,242** | **$ 1,608,775** | **$ 2,135,695** |

Depreciation expense for assets held under capital lease as at March 31, 2019 was $20,852 (December 31, 2018 - $104,263). The net carrying value of assets held under capital lease as at March 31, 2019 was $396,200 (December 31, 2018 - $417,052).

(Expressed in Canadian Dollars)

## 10. Technology License and Other Intangibles

The changes in the Company's technology license and other intangibles for the periods ended March 31, 2019, December 31, 2018 and 2017 are as follows:

| | Technology License | Website and Technology | Non-compete Clauses | Licensed IP | Brands & Trademarks | Customer Lists | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **December 31, 2017** | **$ 1,486,425** | **$ 31,417** | **$ 40,926** | **$ 200,000** | **$ 145,000** | **$ 256,000** | **$ 2,159,768** |
| Additions | - | - | - | - | - | - | - |
| **December 31, 2018** | **$ 1,486,425** | **$ 31,417** | **$ 40,926** | **$ 200,000** | **$ 145,000** | **$ 256,000** | **$ 2,159,768** |
| Additions | - | - | - | - | - | - | - |
| **March 31, 2019** | **$ 1,486,425** | **$ 31,417** | **$ 40,926** | **$ 200,000** | **$ 145,000** | **$ 256,000** | **$ 2,159,768** |
| **Amortization** | | | | | | | |
| **December 31, 2017** | **$ 291,041** | **$ 31,417** | **$ 34,926** | **$ 60,000** | **$ 2,417** | **$ 4,017** | **$ 423,818** |
| Additions | 102,296 | - | 5,000 | 20,000 | 29,000 | 51,200 | 207,496 |
| **December 31, 2018** | **$ 393,337** | **$ 31,417** | **$ 39,926** | **$ 80,000** | **$ 31,417** | **$ 55,217** | **$ 631,314** |
| Additions | 24,775 | - | 1,000 | - | 7,250 | 12,800 | 45,825 |
| **December 31, 2018** | **$ 418,112** | **$ 31,417** | **$ 40,926** | **$ 80,000** | **$ 38,667** | **$ 68,017** | **$ 677,139** |
| **Net Book Value** | | | | | | | |
| **December 31, 2017** | **$ 1,195,384** | **$ -** | **$ 6,000** | **$ 140,000** | **$ 142,583** | **$ 251,983** | **$ 1,735,950** |
| **December 31, 2018** | **$ 1,093,088** | **$ -** | **$ 1,000** | **$ 120,000** | **$ 113,583** | **$ 200,783** | **$ 1,528,454** |
| **March 31, 2019** | **$ 1,068,313** | **$ -** | **$ -** | **$ 120,000** | **$ 106,333** | **$ 187,983** | **$ 1,482,629** |

### Technology License

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

### Licensed IP

On the sale of BPC during the year ended December 31, 2018 (note 5), the Company retained ownership and interests in the Licensed IP originally held in BPC. The net book value of the Licensed IP on the date of sale, was deducted from the net assets sold.

(Expressed in Canadian Dollars)

## 11. Capital Lease Obligations

In January 2017, the Company entered into a lease contract to acquire food packaging equipment. Under this lease, the Company is required to make monthly lease payments of $9,765 (including GST) until May 2022. The Company has accounted for this as a capital lease obligation and recognized interest expense of $4,672 (December 31, 2018 - $19,697) in the consolidated statements of loss and comprehensive loss.

In July 2018, the Company acquired NSHP which had a lease contract for production equipment. Under the lease, the Company is required to make monthly lease payments of $2,804 (including GST) until September 2020. Following the final lease payments, the Company will own the equipment free and clear of all encumbrances. The Company has accounted for this as a capital lease obligation and recognized interest expense of $561 (December 31, 2018 - $4,500) in the consolidated statements of loss and comprehensive loss.

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Lease payments due in: | | |
| 2019 | $ 112,018 | $ 143,659 |
| 2020 | 135,643 | 135,643 |
| 2021 | 111,609 | 111,609 |
| 2022 | 46,506 | 46,506 |
| Total lease payments | 405,776 | 437,417 |
| Lease payment amounts representing interest | (25,468) | (25,468) |
| Present value of net minimum lease payments | 380,308 | 411,949 |
| Current Portion | (111,012) | (142,653) |
| | $ 269,296 | $ 269,296 |

## 12. Long-Term Loan Payable

Non-interest-bearing loan payable to Saskatchewan Opportunities Corporation for $309,000 with monthly payments of $6,438 beginning April 1, 2017. A general security agreement on BPC assets was pledged as security.

The loan was due March 2021. The fair value of the loan was calculated using a market interest rate of 25%. The loan was recorded at fair value at the date of acquisition of POS at $125,850. Interest accretion of $nil (2018 - $nil) has been recognized in the consolidated statements of loss and comprehensive loss and the loan has been recorded at $nil at (2018 - $nil). This loan payable was derecognized on sale of BPC (Note 5).

(Expressed in Canadian Dollars)

## 13. Short-Term Loan

During the second quarter of 2017, a shareholder advanced $150,000 to the Company as an unsecured demand loan with interest at 6%. During the year ended December 31, 2017, $30,000 of the loan balance outstanding was settled by issuing private placement units (note 16). As at December 31, 2017, the loan balance outstanding is $120,000 and was repaid in full in February 2018.

## 14. Key Management Compensation and Related Party Transactions

### Related parties

During the period ended March 31, 2019 and 2018, remuneration of key management was as follows:

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Management and consulting fees | $ 235,500 | $ 190,071 |
| Directors' fees | 13,025 | 13,500 |
| Share-based payments (Note 16) | - | 445,011 |
| | $ 248,525 | $ 648,582 |

As at March 31, 2019, the following amounts are due to related parties:

- $349,376 (December 31, 2018 – $157,854) is due to management, directors and consultants for fees outstanding.
- $200,000 (December 31, 2018 – $200,000) is due to an officer from a loan in the NSHP subsidiary (note 4).
- $55,000 (December 31, 2018 – $55,000) is due to a member of management and director of the Company for a non-interest bearing, short-term loan.

As at March 31, 2019, the following amounts are due from related parties:

- $200,000 (December 31, 2018 – $200,000) is due from a loan to an officer by the Parent in the acquisition of NSHP. The loan has an annual interest rate of 5.5% and is receivable on or before April 30, 2020. This loan receivable is secured by the officer by assignment of a $200,000 life insurance policy for the benefit of NHSP and mortgage on the borrower's primary residence.
- $4,000 (December 31, 2018 – $4,000) advance due from a member of management (note 6).

### Key management compensation

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

During the period ended March 31, 2019, $67,500 (December 31, 2018 – $117,500) of management fees payable were settled through the issuance of 500,000 shares ((December 31, 2018 – 500,000 shares) (Note 16)).

(Expressed in Canadian Dollars)

## 15. Financial Instruments

### a) Categories of financial instruments

| **Financial Assets** | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Fair value through profit or loss, at fair value | | |
| Cash | $ 98,801 | $ 188,814 |
| Restricted cash | 34,500 | 34,500 |
| Loans and receivables, at amortized cost | | |
| Trade and other receivables | 309,360 | 372,647 |
| Advances and deposits | 12,826 | 30,408 |
| Loans receivable | 200,000 | 200,780 |
| | $ 655,487 | $ 827,149 |

| **Financial Liabilities** | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Fair value through profit or loss, at fair value | | |
| Contingent consideration payable | $ 965,000 | $ 965,000 |
| Other liabilities, at amortized cost | - | - |
| Cheques issued in excess of bank deposits | - | - |
| Trade and other payables | 1,813,264 | 1,310,340 |
| Due to related parties | 55,000 | 55,000 |
| Short-term loan | - | - |
| Long-term loan payable | 200,000 | 200,000 |
| | $ 3,033,264 | $ 2,530,340 |

### b) Fair value

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

## 15. Financial Instruments (Continued)

### c) Management of financial risks

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

*Credit risk*

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

*Liquidity risk*

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

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, 2019, the Company had a working capital deficit of $466,750 (December 31, 2018 – $426,053).

*Currency risk*

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. A significant change in the exchange rate between the Canadian dollar relative to the US dollar could have an effect on the Company's future results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at March 31, 2019 and December 31, 2018, the Company is exposed to currency risk through the following financial assets denominated in a currency other than the Canadian dollar:

(Expressed in Canadian Dollars)

**15. Financial Instruments** (Continued)

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | US $ | CDN $ | US $ | CDN $ |
| Cash | 6,094 | 8,144 | 5,252 | 7,086 |
| Trade receivables | 35,550 | 47,506 | 43,123 | 58,829 |
| Trade payables | 44,778 | 59,837 | 35,289 | 48,141 |

Based on the above, assuming all other variables remain constant, a 10% (December 31, 2018 – 10%) strengthening or weakening of the Canadian dollar against the US dollar would have decreased/increased the Company's loss and comprehensive loss by $200 (December 31, 2018 – $1,300).

*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.

## 16. 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 104,647,454 common shares without par value.

During the period ended March 31, 2019, the Company completed the following transactions:
- 600,000 common shares with a fair value of $81,500 were issued as consulting fees;

During the year ended December 31, 2018, the Company completed the following transactions:
- 1,944,444 common shares at $0.18 per common share for total gross proceeds of $350,000;
- 555,556 common shares at $0.27 per common share for total gross proceeds of $150,000;
- 3,547,964 units at $0.18 per unit for total gross proceeds of $638,633. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at $0.27 per common share for a period of two years from the date of the issue.
  The Company has the right to accelerate the expiry date of the warrants if, at any time, the average closing price of the Company's common shares is equal to or greater than 35 cents for 10 consecutive trading days. Directors and officers of the company subscribed for 1,310,186 units under the financing.
  The warrants were allocated a value of $88,700 under the residual method. Share issue costs of $9,600 were paid for the closing of this financing.;
- 939,350 warrants with exercise prices of $0.27 - $0.35 were exercised for gross proceeds of $322,053. On exercise, $35,869 was reclassified from warrant reserves to share capital. The weighted average share price on the date of exercise of these warrants was $0.40.;

(Expressed in Canadian Dollars)

**16. Share Capital** (Continued)

- 410,000 options with an exercise price of $0.175 were exercised for gross proceeds of $71,750. On exercise, $47,902 was reclassified from option reserves to share capital. The weighted average share price on the date of exercise of these options was $0.45.;
- 246,851 common shares owed to the selling shareholders of Prosnack (Note 4) were issued. The fair value of these shares at the time of acquisition of Prosnack was $78,499.;
- 500,000 common shares with a fair value of $117,500 were issued as consulting fees; and
- 150,000 common shares with a fair value of $48,000 were issued to fulfill the obligation to issue shares.
- 150,000 options were exercised for gross proceeds of $26,250 at an exercise price of $0.175. Share-based payments previously recognized of $17,504 have been reclassified from reserves to share capital.

**c) Options and share-based payments**

The following is a summary of changes in stock options for the periods ended March 31, 2019 and December 31, 2018:

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning of period | 9,606,232 | $ 0.26 | 5,595,500 | $ 0.34 |
| Options granted | - | $ - | 5,941,232 | $ 0.20 |
| Options exercised | - | $ - | (410,000) | $ 0.175 |
| Options cancelled/ expired | (200,000) | $ 0.285 | (1,520,500) | $ 0.36 |
| Total options outstanding | 9,406,232 | $ - | 9,606,232 | $ 0.26 |
| Unvested options | - | $ - | - | $ - |
| Options outstanding and exercisable, end of year | 9,406,232 | $ 0.26 | 9,606,232 | $ 0.26 |

(Expressed in Canadian Dollars)

**16. Share Capital** (Continued)

The following are the outstanding stock options as of March 31, 2019 and December 31, 2018:

| **Expiry date** | **Number of options outstanding March 31, 2019** | **Number of options outstanding December 31, 2018** | | **Weighted average exercise price** | **Weighted average remaining contractual life in years March 31, 2019** | **Weighted average remaining contractual life in years December 31, 2018** |
|---|---|---|---|---|---|---|
| March 24, 2019 | - | 200,000 | $ | 0.285 | - | 0.48 |
| March 23, 2020 | 1,075,000 | 1,075,000 | $ | 0.400 | 0.98 | 1.48 |
| November 3, 2020 | 220,000 | 220,000 | $ | 0.300 | 1.60 | 2.10 |
| January 27, 2022 | 1,890,000 | 1,890,000 | $ | 0.350 | 2.83 | 3.33 |
| November 27, 2022 | 340,000 | 340,000 | $ | 0.250 | 3.66 | 4.16 |
| January 7, 2023 | 1,701,232 | 1,701,232 | $ | 0.310 | 3.78 | 4.27 |
| January 31, 2023 | 30,000 | 30,000 | $ | 0.350 | 3.84 | 4.34 |
| February 21, 2023 | 150,000 | 150,000 | $ | 0.310 | 3.90 | 4.40 |
| February 28, 2023 | 40,000 | 40,000 | $ | 0.265 | 3.92 | 4.42 |
| July 11, 2023 | 60,000 | 60,000 | $ | 0.180 | 4.28 | 4.78 |
| September 17, 2023 | 3,900,000 | 3,900,000 | $ | 0.150 | 4.47 | 4.97 |
| | **9,406,232** | **9,606,232** | | | 3.50 | 3.86 |

During the period ended March 31, 2019, the Company recognized share-based payments expense of $Nil (December 31, 2018 – $1,238,814), $nil (December 31, 2018 - $213,522) in relation to the vesting of stock options and $nil (December 31, 2018 - $1,025,292 due to the 5,941,232) 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:

| | **December 31, 2018** |
|---|---|
| Risk-free interest rate | 2.01% |
| Expected life (years) | 5.0 |
| Annualized volatility | 87.15% |
| Expected dividends | - |
| Exercise price | $0.20 |

(Expressed in Canadian Dollars)

## 16. Share Capital (Continued)

### d) Warrants

A summary of the Company's warrants for the periods ended March 31, 2019 and December 31, 2018 is as follows:

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | **Number of warrants** | **Weighted average exercise price** |
| Outstanding, beginning of year | 11,021,189 | $ 0.224 | 17,790,591 | $ 0.289 |
| Issued | - | $ - | 1,773,981 | $ 0.270 |
| Exercised | - | $ - | (939,350) | $ 0.343 |
| Expired and cancelled | - | $ - | (7,604,033) | $ 0.350 |
| **Outstanding, end of period** | **11,021,189** | **$ 0.224** | **11,021,189** | **$ 0.224** |

The following are the outstanding warrants as at March 31, 2019 and December 31, 2018:

| | Outstanding warrants March 31, 2019 | Outstanding warrants December 31, 2018 | Exercise price | Expiry date |
|---|---|---|---|---|
| Common share purchase warrants | 1,746,639 | 1,746,639 | $ 0.27 | August 22, 2019 |
| | 178,571 | 178,571 | $ 0.22 | October 13, 2019 |
| | 927,321 | 927,321 | $ 0.27 | October 19, 2019 |
| | 190,404 | 190,404 | $ 0.22 | November 3, 2019 |
| | 6,095,833 | 6,095,833 | $ 0.22 | November 23, 2019 |
| | 1,773,981 | 1,773,981 | $ 0.27 | August 14, 2020 |
| Agent warrants | 39,000 | 39,000 | $ 0.27 | August 22, 2019 |
| | 45,440 | 45,440 | $ 0.27 | October 19, 2019 |
| | 24,000 | 24,000 | $ 0.22 | November 23, 2019 |
| | **11,021,189** | **11,021,189** | | |

### e) Reserves

As at March 31, 2019 and December 31, 2018, the reserves of the Company were as follows:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Stock option reserves | $ 2,134,381 | $ 2,134,381 |
| Warrant reserves | 147,769 | 147,769 |
| | $ 2,282,150 | $ 2,282,150 |

(Expressed in Canadian Dollars)

## 17. Commitments

The Company has three leases for contiguous space. The leases were entered into in August 2016, December 2017 and October 2018 respectively. The combined basic rent is payable monthly in advance at a rate of $13,497 per month plus the proportionate share of expenses in respect of operating costs and property taxes, currently amounting to $4,874 per month.

| | March 31, 2019 |
|---|---|
| Within 1 year | $ 199,999 |
| Within 2 - 5 years | 1,087,332 |
| More than 5 years | 722,993 |
| | $ 2,010,324 |

In September 2016, the Company signed an agreement with Eat Real Snack Food Canada Ltd. ("ERSF") to acquire food packaging equipment and assume the related lease agreement. In July 2018, the Company acquired NSHP which had a lease contract for production equipment (Note 11).

## 18. Capital Disclosure

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

There were no significant changes in the Company's approach or objectives and policies for managing its capital during the periods ended March 31, 2019 and December 31, 2018. The Company is not subject to externally imposed capital restrictions.

(Expressed in Canadian Dollars)

## 19. Income Taxes

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

| | December 31, 2018 |
|---|---|
| Loss before income taxes | $ (1,611,361) |
| Expected income tax recovery | (435,067) |
| Adjustment resulting from | |
| Non-deductible items | 773,856 |
| Other | (1,246,178) |
| Under/over provided in prior years | 1,888,988 |
| Effect of change in tax rates | - |
| Unused tax losses | (1,025,251) |
| Expected income tax recovery | $ (43,652) |

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

| | December 31, 2018 |
|---|---|
| Deferred income tax assets | |
| Non-capital losses carried forward | $ 94,022 |
| Property and equipment | - |
| | 94,022 |
| Deferred income tax liabilities | |
| Property and equipment | (8,873) |
| Intangible assets | (85,149) |
| Deferred income tax liabilities, net | $ - |

(Expressed in Canadian Dollars)

## 19. Income Taxes (Continued)

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

| | December 31, 2018 |
|---|---|
| Deferred tax assets | |
| Non-capital losses | $ 12,442,653 |
| Share issue costs | 458,564 |
| Property and equipment | - |
| Unrecognized deferred tax | $ 12,901,217 |

The Company's unused tax losses for the year ended December 31, 2018, have the following expiry dates:

| | |
|---|---|
| 2028 | $ 452,000 |
| 2029 | 229,000 |
| 2030 | 173,000 |
| 2031 | 672,000 |
| 2032 | 228,000 |
| 2033 | 2,724,000 |
| 2034 | 912,000 |
| 2035 | 1,579,000 |
| 2036 | 1,715,000 |
| 2037 | 1,779,000 |
| 2038 | 2,328,000 |
| | **$12,791,000** |

## 20. Goodwill

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

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

(Expressed in Canadian Dollars)

## 20. **Goodwill** (Continued)

During the year ended December 31, 2015, the Company acquired BPC and Chi, which resulted in goodwill of $3,585,017 and $90,168 being recorded on acquisition respectively. During the year ended December 31, 2018, the Company sold BPC and derecognized the goodwill (Note 5).

The Company performs an annual impairment test of goodwill at December 31 of each year. The recoverable amounts have been determined using Level 3 inputs, based on a value-in-use calculation using pre-tax cash flow projections from financial budgets approved by senior management.

## 21. Supplemental Cash Flow Information

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **Non-cash items:** | | |
| Shares issued for services | $ 81,500 | $ 117,500 |
| Shares issued under obligation | - | 126,499 |
| Interest paid on capital lease | - | 16,390 |
| | **$ 81,500** | **$ 260,389** |
| **Interest and taxes paid:** | | |
| Interest | **$ -** | **$ -** |
| Taxes | **$ -** | **$ -** |

## 22. Contingent Liability

During the year ended December 31, 2018, a claim was made against the Company by a hemp seed supplier for breach of a service and supply agreement. The Company and the Company's legal counsel is currently in process of defending the claim. An estimate of the contingent liability and likelihood of loss is unable to be determined at the time. The Company intends to vigorously defend the claim. Should an adverse outcome result in the future, any amounts incurred may affect future results of operations and cash flows.

## 23. Segmented Information

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

## 24. Subsequent Events

On April 17, 2019, the Company closed a first tranche of its private placement issuing 7,382,642 units for gross proceeds of $1,033,570. Each unit is comprised of one common share and one-half common share purchase warrants exercisable at $0.21 for a period of 2 years. Additionally, the Company completed a Gypsy Swap where certain directors, officers and close associates collectively sold 1,750,000 shares and used the proceeds from the sale of shares to subscribe for 1,750,000 units of the private placement.

On April 30, 2019, the Company closed a second tranche of its private placement issuing 1,817,128 units for gross proceeds of $254,398. Each unit is comprised of one common share and one-half common share purchase warrants exercisable at $0.21 for a period of 2 years.