Naturally Splendid Enterprises Ltd.

Consolidated Financial Statements

December 31, 2017

Expressed in Canadian Dollars

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NATURALLY SPLENDID ENTERPRISES LTD.

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, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity 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, 2017 and 2016, 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 LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 25, 2018

Naturally Splendid Enterprises Ltd.

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

	Note	2017 $	2016 $
Assets	12		
Current			
Cash		301,080	362,649
Trade and other receivables	5	229,790	436,023
Inventories	6	1,516,069	2,189,164
Advances, prepaids and deposit	7	153,302	82,105
		2,200,241	3,069,941
Long-term deposits	7 and 17	21,051	75,703
Restricted cash	8	22,883	60,435
Property and equipment	9	1,500,851	501,242
Technology license and other intangibles	4 and 10	1,735,950	1,486,253
Goodwill	4 and 20	1,205,067	891,168
		6,686,043	**6,084,742**
Liabilities			
Current			
Cheques issued in excess of bank deposits		31,079	48,050
Trade and other payables		1,118,474	1,707,911
Current portion of capital lease obligation	11	111,609	2,885
Current portion of long-term loans payable	12	77,250	16,064
Due to related parties	14	593,417	193,665
Current portion of contingent consideration payable	4	57,000	-
Short-term loan	13	120,000	-
		2,108,829	1,968,575
Capital lease obligation	11	344,412	-
Long-term loan payable	12	90,467	166,962
Deferred income tax liability	19	43,652	-
Contingent consideration payable	4	343,000	-
		2,930,360	**2,135,537**
Equity			
Share capital	16	20,260,759	16,367,038
Obligation to issue shares	4, 16	126,499	-
Subscriptions received	16	-	900
Reserves	16	1,858,575	1,424,659
Deficit		(19,828,259)	(15,421,689)
Equity attributable to owners of the company		2,417,574	2,370,908
Non-controlling interest		1,338,109	1,578,297
		3,755,683	3,949,205
		6,686,043	**6,084,742**

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON April 25, 2018:

"Doug Mason"	***"Peter Hughes"***
Director	Director

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

Naturally Splendid Enterprises Ltd.

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

	Note	2017	2016
		$	$
Revenue		1,773,327	7,346,746
Cost of sales		1,509,408	6,112,175
Gross Profit		263,919	1,234,571
Selling and distribution expenses			
Facility		314,354	317,168
Freight and delivery		49,554	172,581
Product development		167,316	36,007
Product promotion, net of grants		69,634	284,528
Bad debts and inventory write-down	5 and 6	348,690	157,759
		949,548	968,043
Administrative expenses			
Accounting and audit		128,378	86,758
Amortization	9 and 10	342,801	237,615
Bank charges, interest and accretion	12	100,321	269,261
Consulting	14	802,133	560,022
Corporate promotion		373,865	254,287
Directors' fees	14	13,667	-
Legal		179,887	78,739
Management fees	14	144,000	540,754
Office, rent and salaries		1,354,081	730,130
Share-based payments	14 and 16	777,369	202,342
Transfer agent and filing fees		54,197	67,244
Travel		59,412	84,702
		4,330,111	3,111,854
		(5,015,740)	(2,845,326)
Foreign exchange gain (loss)		(6,343)	17,534
Other income	14	-	51,306
Gain on write off of accounts payable		161,729	-
Interest income		-	907
Loss before income tax		(4,860,354)	(2,775,579)
Deferred income tax recovery	19	43,808	-
Net Loss and Comprehensive Loss for the Year		(4,816,546)	(2,775,579)
Comprehensive loss attributed to:			
Owners of the company		(4,576,358)	(2,622,616)
Non-controlling interest		(240,188)	(152,963)
		(4,816,546)	(2,775,579)
Comprehensive loss per share			
Basic and diluted		$ (0.06)	$ (0.05)
Weighted average number of common shares outstanding			
Basic and diluted		77,563,126	60,490,006

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

Naturally Splendid Enterprises Ltd.

Consolidated Statements of Cash Flows
Years ended December 31
(Expressed in Canadian Dollars)

	Year ended December 31, 2017 $	2016 $
Operating activities		
Net loss for the year	(4,816,546)	(2,775,579)
Adjustments to reconcile loss to net cash		
Amortization	342,801	237,615
Shares issued for services	-	39,750
Interest and accretion expense on loan	61,176	173,073
Share-based payments	777,369	202,342
Bad debt and inventory write-down	348,690	157,759
Deferred income tax recovery	(43,808)	-
Gain on write-off of accounts payable	161,729	-
Changes in non-cash working capital:		
Trade and other receivables	337,324	(293,879)
Inventories	549,056	(1,837,136)
Advances, prepaids and deposits	28,706	236,465
Trade and other payables	(736,655)	588,358
Deferred revenues	-	(50,000)
Cash used in operating activities	(2,990,158)	(3,321,232)
Investing activities		
Purchase of property and equipment, net	(222,696)	(119,997)
Long-term deposits	(2,337)	(39,703)
Acquisition of Prosnack	(101,000)	-
Cash used in investing activities	(326,033)	(159,700)
Financing activities		
Subscriptions received	-	900
Advances and loans from related parties	483,262	22,546
Proceeds from short term loan payable	150,000	-
Repayment of long term loan payable	(57,942)	(466,805)
Repayment of capital lease	(105,193)	(4,956)
Repayment of of bank indebtedness from Prosnack	(235,048)	-
Repayment of loans acquired from Prosnack	(178,783)	-
Proceeds from issuance of shares, net	2,704,774	3,845,143
Proceeds from options exercised	26,250	88,650
Proceeds from warrants exercised	446,721	278,598
Restricted cash	37,552	(2,875)
Cash provided by financing activities	3,271,593	3,761,201
Net change in cash	(44,598)	280,269
Cash, beginning of year	314,599	34,330
Cash, ending of year	270,001	314,599
Cash consists of:		
Cash	301,080	362,649
Cheques issued in excess of bank deposits	(31,079)	(48,050)
	270,001	314,599

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	Reserves	Deficit	Equity attributable to the owners of the company	Non-controlling interest	Total equity
		$	$	$	$	$	$	$	$
Balance at December 31, 2015	56,780,523	12,459,312	-	52,500	1,112,772	(13,086,443)	538,141	1,731,260	2,269,401
Private placement, net of share issuance costs	15,595,277	3,345,382	-	-	499,761	-	3,845,143	-	3,845,143
Shares issued for services	150,000	39,750	-	-	-	-	39,750	-	39,750
Warrants exercised	860,744	278,598	-	-	-	-	278,598	-	278,598
Options exercised	719,750	243,996	-	(52,500)	(102,846)	-	88,650	-	88,650
Options expired or cancelled	-	-	-	-	(287,370)	287,370	-	-	-
Subscriptions received	-	-	-	900	-	-	900	-	900
Share-based payments	-	-	-	-	202,342	-	202,342	-	202,342
Net loss for the year	-	-	-	-	-	(2,622,616)	(2,622,616)	(152,963)	(2,775,579)
Balance at December 31, 2016	**74,106,294**	**16,367,038**	**-**	**900**	**1,424,659**	**(15,421,689)**	**2,370,908**	**1,578,297**	**3,949,205**
Balance at December 31, 2016	74,106,294	16,367,038	-	900	1,424,659	(15,421,689)	2,370,908	1,578,297	3,949,205
Private placement, net of share issuance costs	17,359,202	2,644,445	-	(900)	61,229	-	2,704,774	-	2,704,774
Shares issued for debt	1,368,334	292,310	-	-	-	-	292,310	-	292,310
Prosnack acquisition (note 4)	1,098,901	200,000	78,499	-	-	-	278,499	-	278,499
Shares issued for equipment	289,855	97,101	-	-	-	-	97,101	-	97,101
Options expired or cancelled	-	-	-	-	(38,130)	38,130	-	-	-
Warrants expired or cancelled	-	-	-	-	(131,658)	131,658	-	-	-
Options exercised	150,000	43,754	-	-	(17,504)	-	26,250	-	26,250
Warrants exercised	1,168,203	446,721	-	-	-	-	446,721	-	446,721
Restricted share units granted	212,500	169,390	48,000	-	-	-	217,390	-	217,390
Share-based payments	-	-	-	-	559,979	-	559,979	-	559,979
Net loss for the year	-	-	-	-	-	(4,576,358)	(4,576,358)	(240,188)	(4,816,546)
Balance at December 31, 2017	**95,753,289**	**20,260,759**	**126,499**	**-**	**1,858,575**	**(19,828,259)**	**2,417,574**	**1,338,109**	**3,755,683**

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 year ended December 31, 2017, the Company had a net loss of $4,816,546 (2016 - $2,775,579) and working capital of $91,412 (2016 - $1,101,366) as at December 31, 2017.

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

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 the date noted on the consolidated statements of financial position.

b) Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in note 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 USA Ltd.	Subsidiary	100%
Chi Hemp Industries Inc. ("Chi")	Subsidiary	100%
Prosnack Natural Foods Inc. ("Prosnack")*	Subsidiary	100%
POS BPC Manufacturing Corp. ("BPC")	Subsidiary	51%

** The Company acquired Prosnack on October 18, 2017 (note 4). These consolidated financial statements include Prosnack's operating results from that date through to December 31, 2017.*

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.

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, with half the rate being applied in the year of acquisition:

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

The Company generates its revenue from sales to retailers, online web sales, bulk sales, and copacking revenues. Revenues are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. The Company recognizes revenue from customer orders upon shipment of the order when risks and rewards have been transferred, and collection is reasonably assured.

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 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 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.

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 obtained 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
Non-compete clauses – 2 years
Website and technology – 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:

Recoverability of receivables

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

Share-based payments

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

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 loans payable. The determination of the market interest rate is subjective and could 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 assets and liabilities and applies tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Impairment of property and equipment, goodwill and Licensed IP

Determining the amount of impairment of property and equipment, goodwill and Licensed IP requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many 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. 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.

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

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

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

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

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

k) Impairment of non-financial assets

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

l) Provisions

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

m) Foreign currency translation

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

n) Financial instruments

Financial assets

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

Financial assets at fair value through profit or loss

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

financial assets at FVTPL are expensed as incurred. Cash and restricted cash is included in this category of financial assets.
Held-to-maturity and loans and receivables

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

AFS financial assets

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL have two subcategories, comprised of financial liabilities held-for-trading and those designated by management on initial recognition. Transaction costs on financial liabilities at FVTPL are expensed as incurred. These liabilities are carried at fair value with gains or losses recognized in profit or loss. Contingent consideration payable is classified as financial liabilities at FVTPL.

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. Cheques issued in excess of bank deposits, trade and other payables, due to related parties, short term loan and long-term debt are included in this category of financial liabilities.

Hierarchy

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

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

o) Future accounting pronouncements

The following are accounting pronouncements that have not been early-adopted by the Company. At this time, management has reviewed these pronouncements and does not expect these new pronouncements to have a significant impact on its consolidated financial statements.

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 is effective for the Company's annual period beginning January 1, 2019.

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

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

- *Classification and measurement of financial assets:*
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease

receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

- Revenue is recognized based on a five-step model:
  1. Identify the contract with customer;
  2. Identify the performance obligations;
  3. Determine the transaction price;
  4. Allocate the transaction price to the performance obligations; and
  5. Recognize revenue when (or as) the performance obligations are satisfied.

- New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

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

4. Acquisition of 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 issued subsequent to year-end and have been recorded as obligation to issue shares as at December 31, 2017 (note 23). 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.

(Expressed in Canadian Dollars)

The acquisition of Prosnack was accounted for as a business combination. The consideration paid was recorded in the accounts of the Company at its fair value determined as follows:

Cash	$	101,000
Common shares issued		200,000
Common shares to be issued		78,499
Contingent consideration payable		400,000
	$	779,499

The net assets acquired and the purchase price allocation was:

Accounts receivable	$	131,091
Inventory		224,651
Prepaid expenses		99,903
Property and equipment		264,535
Bank indebtedness		(235,048)
Accounts payable		(164,289)
Long-term debt		(178,783)
Brand and trademark (note 10)		145,000
Customer lists (note 10)		256,000
Non-compete clauses (note 10)		10,000
Deferred income tax liability (note 19)		(87,460)
Goodwill (note 20)		313,899
	$	779,499

Since the acquisition of Prosnack on October 18, 2017, Prosnack generated revenues of $102,705 and a net loss of $120,348. The Company also repaid long-term debt of $178,783 and bank indebtedness of $235,048 subsequent to the acquisition of Prosnack.

5. Trade and Other Receivables

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

		2017		2016
GST/HST receivable	$	21,400	$	79,507
Trade receivables *		208,390		356,516
	$	229,790	$	436,023

* Trade receivables are net of an allowance for bad debts of $nil (2016 - $121,984).

(Expressed in Canadian Dollars)

6. Inventories

	2017	2016
Seed and finished products for resale	$ 859,445	$ 1,360,644
Raw materials	337,406	737,593
Containers, labels and packing materials	319,218	90,927
	$ 1,516,069	$ 2,189,164

During the year ended December 31, 2017, the Company recorded a write-down to inventory of $348,690 (2016 - $35,775) relating to expired goods and estimated net realizable value of inventories being lower than cost.

7. Advances, Prepaids and Deposit

	2017	2016
Prepaids	$ 153,302	$ 20,531
Advances for product research and development [1]	-	61,574
	153,302	82,105
Long-term deposits [2]	21,051	75,703
	$ 174,353	$ 157,808

[1] During 2015, the Company advanced $250,000 for services relating to research of hemp and hemp-based technologies to a related entity. The balance remaining at December 31, 2017 is $nil (2016 - $61,574).

[2] Included in long-term deposits is a deposit of $nil (2016 - $56,698) for the acquisition of packaging equipment (note 17).

8. Restricted Cash

The Company has deposited funds in an interest-bearing term deposit with its principal banker as security against corporate credit cards. The deposited funds earn an interest rate at prime less 2.1% (2016 – prime less 2.1%) and matures on May 22, 2018.

(Expressed in Canadian Dollars)

9. Property and Equipment

The changes in the Company's property and equipment for the years ended December 31, 2017 and 2016 are as follows:

	Computer equipment	Furniture and equipment	Leasehold improvements	Manufacturing equipment	Total
	$	$	$	$	$
Cost					
December 31, 2015	69,919	155,768	19,968	368,270	613,925
Additions	15,494	21,891	60,306	22,306	119,997
December 31, 2016	85,413	177,659	80,274	390,576	733,922
Additions from acquisition of Prosnack (note 4)	2,753	2,098	8,097	251,587	264,535
Additions	6,418	-	193,379	716,775	916,572
December 31, 2017	94,584	179,757	281,750	1,358,938	1,915,029

	Computer equipment	Furniture and equipment	Leasehold improvements	Manufacturing equipment	Total
Depreciation					
December 31, 2015	60,253	67,377	7,373	33,530	168,533
Additions	8,434	17,217	15,520	22,976	64,147
December 31, 2016	68,687	84,594	22,893	56,506	232,680
Additions	11,577	19,544	39,596	110,781	181,498
December 31, 2017	80,264	104,138	62,489	167,287	414,178
Net Book Value					
December 31, 2016	16,726	93,065	57,381	334,070	501,242
December 31, 2017	14,320	75,619	219,261	1,191,651	1,500,851

Depreciation expense for assets held under capital lease as at December 31, 2017 was $71,190 (2016 - $nil). The net carrying value of assets held under capital lease was $468,596 (2016 - $nil).

(Expressed in Canadian Dollars)

10. Technology License and Other Intangibles

The changes in the Company's technology license and other intangibles for the years ended December 31, 2017 and 2016 are as follows:

	Technology License	Website and Technology	Non-compete Clauses	Licensed IP	Brands & Trademarks	Customer Lists	Total
	$	$	$	$	$	$	$
Cost							
December 31, 2015 and 2016	1,486,425	31,417	30,926	200,000	-	-	1,748,768
Additions from acquisition of Prosnack (note 4)	-	-	10,000	-	145,000	256,000	411,000
December 31, 2017	1,486,425	31,417	40,926	200,000	145,000	256,000	2,159,768

	Licensed Technology	Website and Technology	Non-compete Clause	Licensed IP	Brands & Trademarks	Customer Lists	Total
	$	$	$	$	$	$	$
Depreciation							
December 31, 2015	86,449	1,309	1,289	-	-	-	89,047
Additions	102,296	15,709	15,463	40,000	-	-	173,468
December 31, 2016	188,745	17,018	16,752	40,000	-	-	262,515
Additions	102,296	14,399	18,174	20,000	2,417	4,017	161,303
December 31, 2017	291,041	31,417	34,926	60,000	2,417	4,017	423,818
Net Book Value							
December 31, 2016	1,297,680	14,399	14,174	160,000	-	-	1,486,253
December 31, 2017	1,195,384	-	6,000	140,000	142,583	251,983	1,735,950

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.

(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. Following the final lease payment, the Company will own the equipment free and clear of all encumbrances. The Company has accounted this as capital lease obligations and recognized interest expense of $18,543 (2016 - $nil) in the consolidated statements of loss and comprehensive loss

	2017	2016
Lease payments due in:		
2017	$ -	$ 2,988
2018	111,609	-
2019	111,609	-
2020	111,609	-
2021	111,609	-
2022	46,506	-
Total lease payments	492,942	2,988
Lease payment amounts representing interest	(36,921)	(103)
Present value of net minimum lease payments	456,021	2,885
Current Portion	(111,609)	(2,885)
	$ 344,412	$ -

(Expressed in Canadian Dollars)

12. Long-Term Loan Payable

		2017	2016
Loan payable to Saskatchewan Opportunities Corporation	[1]	$ 167,717	$ 183,026
Less current portion		(77,250)	(16,064)
		$ 90,467	$ 166,962

[1] Non-interest-bearing loan for $309,000 with monthly payments of $6,438 beginning April 1, 2017. The loan bears no interest, but if the loan goes in default, interest will accrue at 5%. A general security agreement on BPC assets is pledged as security, including the following:

	2017	2016
Accounts receivable	$ 5,406	$ 8,392
Prepaids and deposits	26,218	18,808
Property, plant & equipment	312,113	334,070
	$ 343,737	$ 361,270

The loan is 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 $41,885 (2016 - $39,526) has been recognized in the consolidated statements of loss and comprehensive loss and the loan has been recorded at $167,717 at December 31, 2017 (2016 - $183,026).

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.

(Expressed in Canadian Dollars)

14. Key Management Compensation and Related Party Transactions

Key management compensation

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

	2017	2016
Management and consulting fees	$ 592,274	$ 275,168
Directors' fees	13,667	-
Share-based payments (note 16)	355,213	31,575
	$ 961,154	$ 306,743

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

During the year ended December 31, 2017, $83,510 (2016 - $nil) of management fees payable were settled through the issuance of 508,334 units from the private placements (note 16).

Related party transactions:

Consulting fees were paid to a company controlled by a director. In 2016 management fees were paid to a company controlled by the Company's former Chief Financial Officer. Transactions with related parties were as follows:

	2017	2016
Management fees	$ -	$ 50,000
Consulting fees	40,314	42,000
	$ 40,314	$ 92,000

POS Management Corporation is associated (by common management and shareholders) with the non-controlling interest shareholder of BPC. During the year ended December 31, 2017, the Company received contract services revenue from POS Management Corporation totaling $nil (2016 - $51,306) and incurred management fees expense of $144,000 (2016 - $144,000).

As at December 31, 2017, the following amounts are due to related parties:

- $20,271 (2016 - $nil) is due to management, directors and consultants for fees outstanding.
- $1,167 (2016 - $126,785) is due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.
- $571,979 (2016 - $66,880 due from) due to POS Management Corp., a company subject to common control, relating to subcontractor fees.

(Expressed in Canadian Dollars)

15. Financial Instruments

a) Categories of financial instruments

		2017		2016
Financial Assets				
Fair value through profit or loss, at fair value				
Cash	$	301,080	$	362,649
Restricted cash		22,883		60,435
Loans and receivables, at amortized cost				
Trade and other receivables		208,390		356,516
Total financial assets	$	532,353	$	779,600
Financial Liabilities				
Fair value through profit or loss, at fair value				
Contingent consideration payable	$	400,000	$	-
Other liabilities, at amortized cost				
Cheques issued in excess of bank deposits		31,079		48,050
Trade and other payables		1,118,474		1,636,250
Due to related parties		593,417		193,665
Short-term loan		120,000		-
Long-term loan payable (note 12)		251,058		309,000
Total financial liabilities	$	2,514,028	$	2,186,965

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. Long-term loan is recognized at amortized cost using the effective interest rate method (note 12).

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.

(Expressed in Canadian Dollars)

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 December 31, 2017, the Company had a working capital of $91,412 (2016 - $1,101,366).

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 December 31, 2017 and 2016, the Company is exposed to currency risk through the following financial assets denominated in a currency other than the Canadian dollar:

	2017		**2016**	
	US $	CDN $	US $	CDN $
Cash	10,482	13,150	49,907	67,010
Trade receivables	159	199	133,423	179,147
Trade payables	15,696	19,691	169,970	228,218

Based on the above, assuming all other variables remain constant, a 10% (2016 - 20%) strengthening or weakening of the Canadian dollar against the US dollar would have decreased/increased the Company's loss and comprehensive loss by $700 (2016 - $18,300).

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 95,753,289 common shares without par value.

During the year ended December 31, 2017, the Company completed the following transactions:

- 289,855 common shares with a fair value of $97,101 were issued in relation to the purchase of packing equipment (note 11);
- 1,168,203 warrants with exercise prices of $0.30 - $0.40 were exercised for gross proceeds of $446,721 and 300,000 warrants with an exercise price of $0.40 were exercised for settlement of $120,000 in accounts payable and due to related parties;
- 212,500 common shares with a fair value of $169,390 were issued relating to the vesting of Restricted Share Units ("RSUs") granted to an executive (note 16c);
- $48,000 was recorded as the fair value of obligation to issue 150,000 common shares relating to the vesting of Restricted Share Units ("RSUs") granted to an executive (note 16c);
- 5,095,916 units were issued at a price of $0.18 per unit for gross proceeds of $917,265 and 402,000 units were issued for settlement of $72,360 in accounts payable and due to related parties. Each unit comprises one common share of the Company and one-half common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at $0.27 for a period of two years from the date of issue. The warrants issued in connection with the units were allocated a residual value of $55,469 and recorded in warrants reserve. The Company paid finder's cash commissions totaling $13,217 and issued 93,440 finder's warrants with a fair value of $3,728. The finder's warrants are exercisable for two years at $0.27 per share;
- On October 13, 2017, the Company entered into a non-binding agreement for a draw-down equity facility of up to $6,000,000 with Alumina Partners (Ontario) Ltd., a subsidiary of Alumina Partners LLC, a New York-based private equity firm. The agreement provides for equity private placement offerings (the "Offerings"), to be conducted in draw downs made at the sole discretion of the Company over a period of 24 months. During the year ended December 31, 2017, 737,951 units were issued to Alumina Partners for gross proceeds of $100,000. Each unit comprises one common share of the Company and one-half common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at $0.22 for a period of two years from the date of issue. The Company paid finder's cash commissions totaling $11,622;
- On October 18, 2017 the Company issued 1,098,901 common shares with a fair value of $200,000 and recorded $78,499 as the fair value of obligation to issue 246,851 common shares relating to the acquisition of Prosnack (note 4);

- 11,525,335 units were issued at a price of $0.15 per unit for gross proceeds of $1,728,800 and 666,334 units were issued for the settlement of $69,950 in accounts payable and due to related parties and $30,000 short-term loan (note 13). Each unit comprises one common share of the Company and one-half common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at $0.22 for a period of two years from the date of issue. The Company paid finder's cash commissions totaling $15,552 and issued 24,000 finder's warrants with a fair value of $2,032. The finder's warrants are exercisable for two years at $0.22 per share; and
- 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.

During the year ended December 31, 2016, the Company completed the following transactions:

- 657,000 shares were issued upon the exercise of 657,000 warrants at $0.30 per share for proceeds of $197,100 and 203,744 shares were issued upon exercise of 203,744 warrants at $0.40 per share for proceeds of $81,498;
- 719,750 shares were issued upon the exercise of 719,750 options at prices from $0.175 to $0.31 for gross proceeds of $141,150, $52,500 of which was recorded as a subscription received in the previous year. Share-based payments previously recognized of $102,846 have been reclassified from reserves to share capital;
- 150,000 shares at a fair value of $39,750 calculated based on fair value of shares at $0.265 per share were issued to a contractor for consulting services;
- 14,900,777 units were issued as part of a private placement for gross proceeds of $4,023,209. Each unit comprises one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each whole Warrant entitling the holder to purchase one additional common share at $0.35 for a period of two years from the date of issue; 694,500 shares at a fair value of $360,060 were issued to a broker as a finder fee for the private placement. The warrants issued in connection with the units were allocated a residual value of $43,366 and recorded in warrants reserve. The Company paid finder's cash commissions totaling $178,066 and issued 1,020,200 finder's warrants with a fair value of $456,395. The finder's warrants are exercisable for one year at $0.35 per share.

(Expressed in Canadian Dollars)

c) Options and share-based payments

The following is a summary of changes in stock options for the years ended December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	2,900,500	$ 0.33	3,790,250	$ 0.31
Options granted	3,440,000	$ 0.34	530,000	$ 0.27
Options exercised	(150,000)	$ 0.175	(719,750)	$ 0.20
Options cancelled/ expired	(595,000)	$ 0.35	(700,000)	$ 0.43
Total options outstanding	5,595,500	$ 0.34	2,900,500	$ 0.33
Unvested options	(2,752,000)	$ 0.34	-	-
Options outstanding and exercisable, end of year	2,843,500	$ 0.34	2,900,500	$ 0.33

The following are the outstanding stock options as of December 31, 2017:

Expiry date	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
March 8, 2018	30,000	$ 0.295	0.18
April 3, 2018	410,500	$ 0.175	0.26
March 24, 2019	200,000	$ 0.285	1.23
March 23, 2020	1,325,000	$ 0.40	2.23
November 3, 2020	220,000	$ 0.30	2.84
December 1, 2018	150,000	$ 0.30	0.92
January 27, 2022	2,920,000	$ 0.35	4.08
November 27, 2022	340,000	$ 0.25	4.91
	5,595,500		3.15

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

Expiry date	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
April 16, 2017	50,000	$ 0.200	0.29
June 19, 2017	225,000	$ 0.400	0.47
November 3, 2017	250,000	$ 0.300	0.84
March 8, 2018	30,000	$ 0.295	1.18
April 3, 2018	560,500	$ 0.175	1.26
March 24, 2019	240,000	$ 0.285	2.23
March 23, 2020	1,325,000	$ 0.400	3.23
November 3, 2020	220,000	$ 0.300	3.84
	2,900,500		2.32

(Expressed in Canadian Dollars)

During the year ended December 31, 2017, the Company recognized share-based payments expense of $559,979 (2016 - $155,987) in relation to 3,440,000 (2016 - 530,000) stock options granted during the year.

During the year ended December 31, 2017, 1,000,000 RSUs were granted to an executive. These RSUs vest 100,000 on grant date, then 150,000 every 6 months thereafter. Share-based payments of $217,390 (2016 - $nil) in relation to 400,000 (2016 – nil) RSUs that vested were recognized. At December 31, 2017, 150,000 shares valued at $48,000 relating to the 400,000 RSUs vested remain outstanding and is recorded in obligation to issue shares.

An additional $nil (2016 - $46,355) was recognized as share-based payment expense in relation to the repricing of 345,000 options in 2016.

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, 2017	**December 31, 2016**
Risk-free interest rate	0.58%	0.55%
Expected life (years)	5.0	1.63
Annualized volatility	89.74%	92.59%
Expected dividends	-	-
Exercise price	$0.33	$0.28

d) Warrants

A summary of the Company’s warrants for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2017		**December 31, 2016**	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
Outstanding, beginning of year	14,861,777	$ 0.406	7,410,870	$ 0.459
Issued	9,331,208	$ 0.237	8,470,586	$ 0.350
Exercised	(1,468,203)	$ 0.380	(860,744)	$ 0.324
Expired and cancelled	(4,934,191)	$ 0.521	(158,935)	$ 0.300
Outstanding, end of year	17,790,591	$ 0.289	14,861,777	$ 0.406

(Expressed in Canadian Dollars)

The following are the outstanding warrants as at December 31, 2017:

	Outstanding warrants	**Exercise price**	**Expiry date**
Common share purchase warrants	1,311,825	$ 0.35	August 22, 2018
	210,000	$ 0.35	August 30, 2018
	5,917,358	$ 0.35	November 7, 2018
	1,821,638	$ 0.27	August 22, 2019
	178,571	$ 0.22	October 13, 2019
	927,321	$ 0.27	October 19, 2019
	190,404	$ 0.22	November 3, 2019
	6,095,834	$ 0.22	November 23, 2019
Agent warrants	135,150	$ 0.35	August 22, 2018
	17,500	$ 0.35	August 30, 2018
	867,550	$ 0.35	November 7, 2018
	48,000	$ 0.27	August 22, 2019
	45,440	$ 0.27	October 19, 2019
	24,000	$ 0.22	November 23, 2019
	17,790,591		

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

	Outstanding warrants	**Exercise price**	**Expiry date**
Common share purchase warrants	3,490,547	$ 0.40	February 23, 2017
	862,450	$ 0.30	April 25, 2017
	1,628,650	$ 0.75	May 27, 2017
	68,000	$ 0.75	July 14, 2017
	1,533,028	$ 0.35	August 22-30, 2018
	5,917,358	$ 0.35	November 7, 2018
Agent warrants	146,880	$ 0.30	February 23, 2017
	194,664	$ 0.75	May 27, 2017
	1,020,200	$ 0.35	November 7, 2018
	14,861,777		

During the year ended December 31, 2016, 1,237,450 warrants with an expiration date of April 26, 2016 were extended by one year and 158,935 agent warrants expired unexercised; 345,000 warrants with an expiration date of March 24, 2016 were repriced from $0.20 to $0.285 and extended by three years. Share-based payment of $46,355 was recorded as a result of this extension; and

(Expressed in Canadian Dollars)

e) Reserves

As at December 31, 2017 and 2016, the reserves of the Company were as follows:

		2017		2016
Stock option reserves	$	1,297,922	$	887,105
Warrant reserves		560,653		537,554
Total reserves	$	1,858,575	$	1,424,659

17. Commitments

In 2016, the Company entered into an office and warehouse space lease agreement commencing August 1, 2016 and terminating July 31, 2026. In December 2017 the Company entered into a lease for additional contiguous space which also expires on July 31, 2026. The combined basic rent is payable monthly in advance at a rate of $13,247 per month plus the proportionate share of expenses in respect of operating costs and property taxes, currently amounting to $5,243 per month.

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. Under the lease agreement, Naturally Splendid is making monthly lease payments of $9,765 until May 2022. Following the final lease payment, Naturally Splendid will own the equipment free and clear of all encumbrances. In addition, ERSF entered into a three-year agreement to commit to a guaranteed monthly minimum of $14,500 in packaging for their line of snacks. The acquisition of the food packaging equipment was completed in January 2017. Related to this, a cash payment of $56,698 is included in long-term deposits at December 31, 2016.

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 year ended December 31, 2017. 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 26%, reflecting a combined federal corporate tax rate of 15% and BC corporate tax rate of 11%. A reconciliation of income tax provisions computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2017 $	2016 $
Loss before income taxes	(4,860,354)	(2,775,579)
Expected income tax recovery	(1,263,692)	(721,650)
Adjustment resulting from		
Non-deductible items	206,215	72,411
Other	63,915	(16,729)
Under/over provided in prior years	48,669	(12,239)
Effect of change in tax rates	(164,206)	-
Unused tax losses	1,065,291	678,207
Income tax recovery	(43,808)	-

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2017 and 2016 are presented below:

	2017	2016
Deferred income tax assets		
Non-capital losses carried forward	$ 51,409	$ -
Property and equipment	13,092	$ -
	64,501	$ -
Deferred income tax liabilities		
Intangible assets	(108,153)	-
Deferred income tax liabilities, net	$ (43,652)	$ -

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:

	2017 $	2016 $
Deferred tax assets		
Non-capital losses	15,753,954	11,630,893
Share issue costs	698,264	782,962
Property and equipment	191,261	359,991
Unrecognized deferred tax	16,643,479	12,773,846

(Expressed in Canadian Dollars)

The Company's unused tax losses for the year ended December 31, 2017, 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	1,570,000
2035	3,382,000
2036	2,554,000
2037	4,313,000
	$16,297,000

20. Goodwill

Goodwill acquired through business combinations has been allocated to three cash-generating units ("CGU"). The breakdown of goodwill as at December 31, 2017 and 2016 is as follows:

	BPC	Chi	Prosnack	Total
Balance, December 31, 2015 and 2016	$ 801,000	$ 90,168	$ -	$ 891,168
Acquisition of Prosnack (note 4)	-	-	313,899	313,899
Balance, end of the year	$ 801,000	$ 90,168	$ 313,899	$ 1,205,067

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, 2015, an impairment expense of $2,784,017 was recorded against the BPC goodwill, resulting in an opening carrying value of $801,000. The Company performs an annual impairment test of goodwill at December 31. 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, forecasts over a five-year period based on management's best estimates, and a pre-tax discount rate of 15% (2016 - 18%).

The most significant assumptions used in the impairment calculation are the discount rate and the estimates used in determining future expected cash flows. The Company performed a sensitivity analysis by changing the pre-tax discount rates by +/- 1% and noted no material impact on the recoverable amount.

(Expressed in Canadian Dollars)

21. Supplemental Cash Flow Information

	2017	2016
Non-cash items:		
Shares issued for services	$ -	$ 39,750
Shares issued for acquisition of Prosnack	200,000	-
Shares issued for purchase of equipment	97,101	-
Shares issued for settlement of accounts payable	178,800	-
Shares issued for settlement of amounts due to related parties	83,510	-
Shares issued to settle short term loan	30,000	-
Property and equipment acquired through capital lease	539,786	
Prior year deposit applied to purchase of property and equipment	56,989	
	$ 1,186,186	$ 39,750
Interest and taxes paid		
Interest	$ -	$ -
Taxes	$ -	$ -

22. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

23. Events After the Reporting Period

a) Subsequent to year-end, 1,320,350 warrants and options with exercise prices of $0.175 to $0.35 were exercised for gross proceeds of $383,652 in cash.

b) In January 2018, the Company issued 246,851 common shares to complete the acquisition of Prosnack (note 4).

c) During January to March 2018, 1,983,232 common share purchase options were granted to employees, directors and consultants of the Company. The options are exercisable for five years into common shares of the Company at $0.31, $0.30, $0.35 and $0.265 per share, with 33% vesting on grant and 33% vesting on each of the first and second anniversaries. In addition, 500,000 shares were issued as compensation to two officers.

d) On February 20, 2018, the Company completed the sale of its 51% interest in POS BPC Manufacturing Corp. for cash proceeds of $3,536,650.

e) On April 11, 2018 the Company agreed to vest all 3,096,985 unvested options.

f) On April 24, 2018, the Company acquired all the issued and outstanding shares of Absorbent Concepts Inc. ("ACI"), an organic hemp processor located in Abbotsford, Canada in exchange for assuming all the outstanding bank loans of ACI as at the acquisition date. Concurrent with the closing of the share purchase agreement, the Company entered into a $200,000 non-interest-bearing loan agreement with the seller of ACI where repayments will be contingent upon achieving milestones related to net income and other qualitative performance targets.