Naturally Splendid Enterprises Ltd.

Consolidated Financial Statements

December 31, 2016

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, 2016 and 2015 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, 2016 and 2015, 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 24, 2017

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Naturally Splendid Enterprises Ltd.
Consolidated Statements of Financial Position
As at December 31
(Expressed in Canadian Dollars)

	Note	As at December 31, 2016 $	2015 $
Assets (note 13)			
Current			
Cash		362,649	34,330
Trade and other receivables	5	436,023	264,128
Inventories	6	2,189,164	387,803
Advances, prepaids and deposits	7	82,105	318,570
		3,069,941	1,004,831
Due from related parties	14	-	414,326
Long-term deposits	7 and 17	75,703	36,000
Restricted cash	8	60,435	57,560
Property and equipment	9	501,242	445,392
Technology license and other intangibles	4 and 10	1,486,253	1,659,721
Goodwill	4 and 20	891,168	891,168
		6,084,742	**4,508,998**
Liabilities			
Current			
Cheques issued in excess of bank deposits		48,050	-
Trade and other payables	12 and 14	1,707,911	1,119,553
Current portion of capital lease obligation	11	2,885	4,927
Current portion of long-term loan	13	16,064	-
Due to related parties	14	193,665	585,445
Deferred revenues		-	50,000
		1,968,575	1,759,925
Capital lease obligation	11	-	2,914
Long-term loan	13	166,962	476,758
		2,135,537	**2,239,597**
Equity			
Share capital	16	16,367,038	12,459,312
Subscriptions received	16	900	52,500
Reserves	16	1,424,659	1,112,772
Deficit		(15,421,689)	(13,086,443)
Equity attributable to owners of the Company		2,370,908	538,141
Non-controlling interest		1,578,297	1,731,260
		3,949,205	2,269,401
		6,084,742	**4,508,998**

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON April 24, 2017:

"Dave Eto" — Director

"Peter Hughes" — 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	Year ended December 31, 2016 $	2015 $
Revenue		**7,346,746**	**301,705**
Cost of sales		**6,112,175**	**261,857**
Gross profit		**1,234,571**	**39,848**
Selling and distribution expenses			
Facility		317,168	169,408
Freight and delivery		172,581	34,320
Product development		36,007	154,735
Product promotion, net of grants		284,528	261,321
Bad debts and inventory write-down		157,759	-
		968,043	619,784
Administrative expenses			
Accounting and audit		86,758	120,073
Amortization	9	237,615	134,661
Bank charges, interest and accretion	13	269,261	50,101
Consulting	14	560,022	327,766
Directors' fees		-	700
Legal		78,739	211,042
Management fees	14	540,754	654,020
Office, rent and salaries		730,130	608,191
Corporate promotion		254,287	588,745
Share-based payments	14 and 16	202,342	906,900
Transfer agent and filing fees		67,244	70,276
Travel		84,702	67,758
		3,111,854	3,740,233
		(2,845,326)	(4,320,169)
Foreign exchange gain		17,534	21,103
Other income	14	51,306	100,065
Interest income		907	1,732
Impairment of goodwill	20	-	(2,784,017)
Net loss and comprehensive loss for the year		**(2,775,579)**	**(6,981,286)**
Comprehensive loss attributed to:			
Owners of the company		**(2,622,616)**	**(6,872,220)**
Non-controlling interest		**(152,963)**	**(109,066)**
		(2,775,579)	**(6,981,286)**
Comprehensive loss per share			
Basic and diluted		$ (0.05)	$ (0.14)
Weighted average number of common shares outstanding			
Basic and diluted		60,490,006	51,610,077

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, 2016	2015
	$	$
Operating activities		
Net loss for the year	(2,775,579)	(6,981,286)
Adjustments to reconcile loss to net cash		
Amortization	237,615	134,661
Shares issued for services	39,750	49,375
Impairment of goodwill	-	2,784,017
Shares issued for loans	-	82,560
Interest and accretion expense on loan	173,073	33,465
Share-based payments	202,342	906,900
Bad debts and inventory write-down	157,759	27,729
Changes in non-cash working capital:		
Trade and other receivables	(293,879)	(190,722)
Inventories	(1,837,136)	(94,302)
Advances, prepaids and deposits	236,465	(195,685)
Trade and other payables	588,358	1,227,797
Deferred revenues	(50,000)	50,000
Cash used in operating activities	(3,321,232)	(2,165,491)
Investing activities		
Repayment of capital lease	(4,956)	(5,253)
Purchase of property and equipment, net	(119,997)	(82,935)
Long-term deposits	(39,703)	(24,543)
Acquisition of technology	-	(549,000)
Acquisition of manufacturing facility	-	(1,750,000)
Cash acquired from Chi	-	3,505
Cash used in investing activities	(164,656)	(2,408,226)
Financing activities		
Advances from (repayments to) related parties	22,546	(414,326)
Proceeds from loans payable	-	317,441
Repayments of loans payable	(466,805)	-
Proceeds from issuance of shares, net	3,845,143	3,295,272
Proceeds from options exercised	88,650	146,038
Proceeds from warrants exercised	278,598	1,225,968
Restricted cash	(2,875)	(40,250)
Subscriptions received	900	52,500
Cash provided by financing activities	3,766,157	4,582,643
Net change in cash and cash equivalents	280,269	8,926
Cash, beginning of year	34,330	25,404
Cash, ending of year	314,599	34,330
Cash consists of:		
Cash	362,649	34,330
Cheques issued in excess of bank deposits	(48,050)	-
	314,599	34,330

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 $	Subscriptions received $	Reserves $	Deficit $	Equity attributable to the owners of the Company $	Non-controlling interest $	Total equity $
Balance at December 31, 2014	**36,658,999**	**6,403,221**	**106,920**	**355,498**	**(6,257,249)**	**608,390**	**-**	**608,390**
Private placement, net of share issuance costs	10,781,882	3,364,399	(106,920)	37,793	-	3,295,272	-	3,295,272
Technology license acquisition (note 10)	2,928,571	761,428	-	-	-	761,428	-	761,428
BPC acquisition (note 4)	367,647	165,441	-	-	-	165,441	-	165,441
Chi acquisition (note 4)	319,148	116,489	-	-	-	116,489	-	116,489
Shares issued for services (note 16)	125,000	49,375	-	-	-	49,375	-	49,375
Shares issued for loans (note 13)	356,107	82,560	-	-	-	82,560	-	82,560
Warrants exercised	4,478,669	1,225,968	-	-	-	1,225,968	-	1,225,968
Options exercised	764,500	146,038	-	-	-	146,038	-	146,038
Option subscriptions received	-	-	52,500	-	-	52,500	-	52,500
Reclassify warrants and options exercised	-	144,393	-	(144,393)	-	-	-	-
Reclassify cancelled options	-	-	-	(43,026)	43,026	-	-	-
Share-based payments	-	-	-	906,900	-	906,900	-	906,900
Net loss for the year	-	-	-	-	(6,872,220)	(6,872,220)	(109,066)	(6,981,286)
Non-controlling interest	-	-	-	-	-	-	1,840,326	1,840,326
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**

1. Nature of Operations and Going Concern

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

The Company is in the natural food industry and sells food and ingredients to commercial processors and to 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, 2016, the Company had a net loss of $2,775,579 (2015 - $6,981,286) and working capital of $1,101,366 (2015 - working capital deficit of $755,094) at December 31, 2016.

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%
POS BPC Manufacturing Corp. ("BPC")	Subsidiary	51%

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

3. Significant Accounting Policies

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) 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 over 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 facility	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 and bulk sales. Sales 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) Related party transactions

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

e) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued 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.

f) 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.

g) Warrants

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

h) Research and development

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.

i) Intangible assets and Technology License

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

License Technology – 15 years
Non-compete clause – 2 years
Website and Technology – 2 years
Licensed IP – 5 years

j) Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of 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 review affects both current and future periods.

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

Critical accounting estimates

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

<u>Recoverability of accounts receivable</u>

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

Share-based payments

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

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.

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:

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 equipment

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

Impairment of goodwill and Licensed IP

Determining the amount of impairment of goodwill and Licensed IP requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many 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 of the Company’s long-term assets, such as investments or property and equipment.

Allocation of fair value of assets acquired

The determination of fair value of assets acquired requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the assets and liabilities acquired require judgment and include estimates of future cash flows.

Assessment of the transactions as an asset acquisition or business combination

Management has had to apply judgment relating to the Transaction 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.

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.

k) 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.

l) 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.

m) 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.

n) 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 foreign exchange gain or loss in the consolidated statements of loss and comprehensive loss.

o) 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 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, advances and long-term deposits 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. The Company has no 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, 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.

p) 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 has yet to assess their full impact on the Company's 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 periods beginning January 1, 2019.

IFRS 9 *Financial Instruments*

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

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

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

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

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

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

4. Acquisitions

a) Acquisition of POS BPC Manufacturing Corp.

On June 18, 2015, the Company completed the acquisition of 51% of BPC in accordance with the terms of a securities purchase agreement with POS Management Corp. and POS Holdings Corp. (together, “POS”). In consideration of the BPC shares, the Company paid $1.75 million and issued 367,647 common shares of the Company to POS. The shares were subject to a trading restriction for a period of twelve months from the date of issue. The Company, POS and BPC entered into a unanimous shareholders’ agreement that provides, among other things, equal board representation for the companies. The Company holds 51 Class A shares of BPC, and POS holds 49 Class A shares of BPC. Certain directors and officers of the Company and POS were appointed to serve as directors and officers of BPC. BPC operates a 12,000-square-foot facility containing the equipment required to process a variety of products, including the suite of plant-based omega technologies, such as HempOmega that the Company has licensed from FSL.

(Expressed in Canadian Dollars)

The Company also entered into a license agreement with POS whereby the Company has the right to sell and market, on an exclusive basis, five ingredients created using POS technology and to sell and market, on a non-exclusive basis, additional ingredients created using POS technologies. In consideration of the license, the Company has agreed to pay POS a 5% net revenue royalty.

The acquisition of BPC was accounted for as a business combination. The consideration paid was recorded at fair value determined as follows:

				$
Cash				1,750,000
Shares - fair value closing price	367,647	$	0.45	165,441
Fair value				1,915,441

The assets acquired were:

	$
Receivables	30,473
Prepaid expenses	38,700
Property and equipment	308,837
Technology license	200,000
Accounts payable	(281,408)
Long-term debt	(125,852)
	170,750

The $1,915,441 purchase price for the 51% controlling interest in BPC was accordingly allocated as follows:

	$
Net tangible assets	170,750
NCI	(1,840,326)
Goodwill	3,585,017
Purchase price	1,915,441

The non-controlling interest (“NCI”) of $1,840,326 represents the 49% of BPC held by POS.

b) Acquisition of Chi Hemp Industries Inc.

On November 2, 2015, the Company entered into a securities purchase agreement with Chi and the shareholders of Chi, whereby Naturally Splendid agreed to acquire all of the issued and outstanding shares of Chi. The definitive agreement was accepted by the TSX Venture Exchange (the “Exchange”) on November 24, 2015. Under the terms of the agreement, the Chi shareholders sold the Chi shares to Naturally Splendid for consideration of $116,489 of common shares (319,148 shares) of Naturally Splendid to the Chi shareholders and cash of $75,000 plus a working capital adjustment. On closing of the transaction, the Chi shareholders entered into a one-year consulting agreement with Naturally Splendid. During the term of the consulting agreement, the Chi shareholders received a 12% gross sales commission on any lines of business that directly benefitted from their services.

(Expressed in Canadian Dollars)

The acquisition of Chi was recorded in the accounts of the Company at its fair value determined as follows:

Cash - payable in three equal installments	$	75,000
Shares - 319,148 at market value of $0.365		116,489
Working capital adjustment		15,476
Payment allocated to shareholder loans		(45,115)
	$	161,850

The assets acquired and the purchase price allocation was:

Cash	$	3,505
Accounts receivable		12,396
Inventory		15,728
Security deposit		1,260
Non-competition clause		30,926
Technology and website		31,417
Goodwill		90,168
Accounts payable		(23,550)
	$	161,850

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:

	December 31, 2016 $	December 31, 2015 $
GST/HST receivable	79,507	14,108
Trade receivables *	356,516	250,020
	436,023	264,128

* Trade receivables are net of an allowance for bad debts of $121,984 (2015 - $27,729).

(Expressed in Canadian Dollars)

6. Inventories

	December 31, 2016 $	December 31, 2015 $
Seed and finished products for resale	1,360,644	182,499
Raw materials	737,593	-
Containers, labels and packing materials	90,927	205,304
	2,189,164	387,803

During the year ended December 31, 2016, the Company recorded a write-down to inventory of $35,775 (2015 - $nil) relating to expired goods.

7. Advances, Prepaids and Deposit

	December 31, 2016 $	December 31, 2015 $
Product research and development [1]	61,574	232,590
Investor relations advances [2]	-	27,000
Deposit	-	1,260
Other	20,531	57,720
	82,105	318,570
Long-term deposits	75,703	36,000
	157,808	354,570

[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, 2016 is $61,574 (2015 - $232,590).

[2] During 2015, the Company paid $655,000 for investor relations services to be provided over a period ranging from twelve months to five years. As at December 31, 2016, the unamortized portion is $nil (2015 - $27,000).

8. Restricted Cash

The Company has deposited funds in an interest-bearing term deposit with its principal banker as security against corporate credit lines. The deposited funds earn an interest rate at prime less 2.1% (2015 – prime less 2%).

(Expressed in Canadian Dollars)

9. Property and Equipment

The changes in the Company's property and equipment for the years ended December 31, 2016 and 2015 are as follows:

	Computer equipment	Furniture and equipment	Leasehold improvements	Manufacturing facility	Total
	$	$	$	$	$
Cost					
December 31, 2014	56,472	122,420	19,968	-	198,860
Additions from acquisition of BPC	-	-	-	332,505	332,505
Additions	13,447	33,348	-	35,765	82,560
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

	Computer equipment	Furniture and equipment	Leasehold improvements	Manufacturing facility	Total
Depreciation					
December 31, 2014	46,821	49,777	3,031	-	99,629
Acquisition of BPC	-	-	-	23,290	23,290
Additions	13,432	17,600	4,342	10,240	45,614
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
Net Book Value					
December 31, 2015	9,666	88,391	12,595	334,740	445,392
December 31, 2016	16,726	93,065	57,381	334,070	501,242

(Expressed in Canadian Dollars)

10. Technology License

The changes in the Company's technology license and other intangibles for the years ended December 31, 2016 and 2015 are as follows:

	Technology License (note 10)	Website and technology	Non-compete clause	Licensed IP	Total
	$	$	$		$
Cost					
December 31, 2014	-	-	-	-	-
Additions from acquisition of Chi and BPC (note 4)	-	31,417	30,926	200,000	262,343
Additions	1,486,425	-	-	-	1,486,425
December 31, 2015 and 2016	1,486,425	31,417	30,926	200,000	1,748,768

	Licensed Technology	Website and technology	Non-compete clause	Licensed IP	Total
Depreciation					
December 31, 2014	-	-	-	-	-
Additions	86,449	1,309	1,289	-	89,047
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
Net Book Value					
December 31, 2015	1,399,976	30,108	29,637	200,000	1,659,721
December 31, 2016	1,297,680	14,399	14,174	160,000	1,486,253

During 2015, the Company completed the technology acquisition agreement, and subsequently amended that agreement.

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

a) on an exclusive basis, (i) the terpene, hemp oil and cannabinoid formulation technology, (ii) omega formulation technology, (iii) protein formulation technology, (iv) cannabinoid technology and (v) the tongkat ali formulations; and

b) on a non-exclusive basis, (i) the Supercritical CO2 and plant oil extraction technology, (ii) genetic plant and artificial seed technology, (iii) biosynthesis of cannabinoids and (iv) microencapsulation of cannabinoid oils.

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

(Expressed in Canadian Dollars)

The Company was required to pay to FSL an annual minimum gross revenue royalty of US$1.6 million.

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

11. Capital Lease Obligation

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

The following table summarizes the outstanding obligation:

	December 31, 2016 $	**December 31, 2015 $**
Lease payments due within one year	2,988	5,859
Lease payments due within two to five years	-	2,988
Total lease payments	2,988	8,847
Lease payment amounts representing interest	(103)	(1,006)
Present value of net minimum lease payments	2,885	7,841
Current portion	(2,885)	(4,927)
	-	2,914

12. Trade and Other Payables

At December 31, 2016 trade and other payables totalled $1,707,911 (2015 - $1,119,553). Trade and other payables are non-interest-bearing, unsecured and have settlement dates within one year.

(Expressed in Canadian Dollars)

13. Long-Term Loans Payable

		December 31, 2016 $	December 31, 2015 $
Loan payable to Saskatchewan Opportunities Corporation	1	125,850	125,850
Interest and accretion expense		57,176	17,650
		183,026	143,500
Shareholder loan due September 29, 2017 bearing interest at 12.0%	2	-	79,360
Interest and accretion expense		-	4,553
		-	83,913
Shareholder loan due October 2, 2017 bearing interest at 12.0%	3	-	238,080
Interest and accretion expense		-	11,265
		-	249,345
		183,026	476,758
Less current portion		(16,064)	-
		166,962	476,758

[1] Non-interest-bearing loan for $309,000 with monthly payments of $6,438 beginning on 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:

	Year ended December 31, 2016 $	2015 $
Cash	-	1,410
Accounts receivable	8,392	4,711
Prepaid expenses	18,808	23,828
Property, plant and equipment	334,070	334,070
	361,270	364,019

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 $39,526 (2015 - $17,650) has been recognized in the consolidated statements of loss and comprehensive loss and the loan has been recorded at $183,026 at December 31, 2016 (2015 - $143,500).

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

(Expressed in Canadian Dollars)

The loan payable was recognized initially at the fair value, which was calculated based on the application of a market interest rate of 25%. The difference between the face value of $100,000 and the initial fair value of $79,360 of the loan payable was recorded as equity. The principal and all accrued interest of $124,000 was repaid in December 2016. Accretion and interest of $40,087 (2015 – $4,553) was recognized in the year ended December 31, 2016.

[3] On October 23, 2015, the Company entered into a loan agreement with Coast Mountain Aviation Inc. whereby the lender agreed to loan Naturally Splendid $300,000 for a period of two years at an interest rate of 12% per annum. Prior to the maturity date, Naturally Splendid had the right to repay all of the outstanding balance of the loan by paying the lender the loan plus any accrued and unpaid interest provided that either Naturally Splendid completes financings totalling at least $1.5 million during the term of the loan or Naturally Splendid exercises this right one year after the Exchange acceptance date. Further, the lender will also have the right to have Naturally Splendid repay the loan prior to the maturity date at the repayment price provided that Naturally Splendid completes financings totalling at least $1.5 million during the term of the loan. As additional consideration of the loan, Naturally Splendid issued 260,869 common shares to the lender. Accretion and interest expense of $93,460 (2015 – $11,265) was recognized in the year ended December 31, 2016.

The loan payable was recognized initially at the fair value, which was calculated based on the application of a market interest rate of 25%. The difference between the face value of $300,000 and the initial fair value of $238,080 of the loan payable was recorded as equity. The principal and all accrued interest of $342,805 was repaid in December 2016.

14. Key Management Compensation and Related Party Transactions

Key management compensation

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

	Year ended December 31, 2016 $	2015 $
Management fees	275,168	455,858
Directors' fees	-	700
Share-based payments (note 16)	31,575	654,880
	306,743	1,111,438

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

(Expressed in Canadian Dollars)

Related party transactions:

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

	Year ended December 31, 2016	2015
	$	$
Management fees	50,000	60,000
Consulting fees	42,000	42,000
	92,000	102,000

POS Management Corporation is a company subject to common control. During the year ended December 31, 2016, the Company received contract services revenue from POS Management Corporation totaling $51,306 (2015 - $100,065) incurred management fees expense of $144,000 (2015 - $73,833).

As at December 31, 2016, the following amounts are due to/from related parties:

- $3,754 (2015 - $5,879) due to management and consultants for fees outstanding.
- $126,785 (2015 - $556,966) due to POS Pilot Plant Corp., a company subject to common control, relating to management fees outstanding.
- $66,880 due to (2015 - $414,326 due from) POS Management Corp., a company subject to common control, relating to subcontractor fees.
- $nil (2015 - $22,600) due to POS Holdings Corp., a company subject to common control, relating to consulting fees outstanding.

(Expressed in Canadian Dollars)

15. Financial Instruments

a) Categories of financial instruments

	December 31, 2016 $	December 31, 2015 $
Financial Assets		
Fair value through profit or loss, at fair value		
Cash	362,649	34,330
Loans and receivables, at amortized cost		
Trade and other receivables	356,516	250,020
Restricted cash	60,435	57,560
Long-term deposits	75,703	36,000
Due from related parties	-	414,326
Total financial assets	855,303	792,236
Financial Liabilities		
Other liabilities, at amortized cost		
Cheques issued in excess of bank deposits	48,050	-
Trade and other payables	1,636,250	1,074,468
Due to related parties	193,665	585,445
Long-term loans	183,026	476,758
Total financial liabilities	2,060,991	2,136,671

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. The Company considers the carrying amounts of all its financial assets and financial liabilities recognized at amortized cost in these consolidated financial statements to approximate their fair values due to the short-term maturity of these instruments.

c) Management of financial risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of these risks. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The risks associated with these 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, due from related parties, restricted cash and deposits. 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.

(Expressed in Canadian Dollars)

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, 2016, the Company had working capital of $1,101,366 (2015 - working capital deficit of $755,094).

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, 2016 and 2015, the Company is exposed to currency risk through the following financial assets denominated in a currency other than the Canadian dollar:

	December 31, 2016		**December 31, 2015**	
	US $	CDN $	US $	CDN $
Cash	49,907	67,010	1,785	2,397
Trade receivables	133,423	179,147	-	-

Based on the above, assuming all other variables remain constant, a 10% strengthening or weakening of the Canadian dollar against the US dollar would have increased/decreased the Company's loss and comprehensive loss by $18,300 (2015 - $180).

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 74,106,294 common shares without par value.

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;
- 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 options 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
- 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.

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

- 3,393,300 units were issued at a price of $0.50 per unit for gross proceeds of $1,696,650. Each unit comprised one common share of the Company and one-half of one common share purchase warrant (the "Warrant"), with each full Warrant entitling the holder to purchase one additional common share at $0.75 for a period of two years from the date of the issue. The Company paid finder's cash commissions totaling $104,884 and issued a finder 194,664 non-transferable warrants with a fair value of $21,572;
- 7,388,582 units were issued at a price of $0.25 per unit for gross proceeds of $1,847,146. Each unit comprised one common share of the Company and one-half of one common share purchase warrant (the "Warrant"), with each full Warrant entitling the holder to purchase one additional common share at $0.40 for a period of two years from the date of the issue. The Company will have the right to accelerate the expiry date of the Warrants if, at any time, the volume weighted average price of the Company's common shares is equal to or greater than $0.50 for ten

(Expressed in Canadian Dollars)

consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right. The Company paid finder's cash commissions totaling $36,720 and issued a finder 146,880 non-transferable warrants with a fair value of $16,221.

- 2,928,571 common shares of the Company were issued for a fair value of $761,428 to acquire technology (note 10);
- 367,647 common shares of the Company were issued at a fair value of $165,441 for the acquisition of BPC (note 4);
- 319,148 common shares of the Company were issued at a fair value of $116,489 for the acquisition of Chi (note 4);
- 356,107 common shares of the Company were issued at a fair value of $82,560 as bonuses to shareholders providing loan financing to the Company (note 13);
- 125,000 shares were issued for services to a related party at a fair value of $49,375 (note 14).
- 764,500 common shares were issued upon the exercise of 764,500 options at a price of $0.19 and $0.20 per share, for gross proceeds of $146,038; and
- 4,478,669 common shares upon the exercise of 4,478,669 warrants at a price of $0.25 and $0.30 per share for gross proceeds of $1,225,968.

c) Options and share-based payments

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

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	3,790,250	$ 0.31	2,409,750	$ 0.18
Options granted	530,000	$ 0.27	2,445,000	$ 0.38
Options exercised	(719,750)	$ 0.20	(764,500)	$ 0.19
Options cancelled	(700,000)	$ 0.43	(300,000)	$ 0.20
Options outstanding and exercisable, end of year	2,900,500	$ 0.33	3,790,250	$ 0.31

(Expressed in Canadian Dollars)

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

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

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

During the year ended December 31, 2016, the Company recognized share-based payments expense of $155,987 (2015 - $906,900) in relation to 530,000 (2015 - 2,445,000) stock options granted during the year. An additional $46,355 (2015 - $nil) was recognized as share-based payment expense in relation to the repricing of 345,000 options.

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, 2016	December 31, 2015
Risk-free interest rate	0.55%	0.58%
Expected life (years)	1.63	4.79
Annualized volatility	92.59%	101.25%
Expected dividends	-	-
Exercise price	$0.28	$0.38

(Expressed in Canadian Dollars)

d) Warrants

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

	December 31, 2016		December 31, 2015	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	7,410,870	$ 0.459	6,487,054	$ 0.279
Issued	8,470,586	$ 0.350	5,732,485	$ 0.521
Exercised	(860,744)	$ 0.324	(4,478,669)	$ 0.273
Expired and cancelled	(158,935)	$ 0.300	(330,000)	-
Outstanding, end of year	14,861,777	$ 0.406	7,410,870	$ 0.459

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		

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

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

(Expressed in Canadian Dollars)

e) Reserves

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

	December 31, 2016	**December 31, 2015**
	$	**$**
Stock option reserves	887,105	1,074,979
Warrant reserves	537,554	37,793
Total reserves	1,424,659	1,112,772

17. Commitments

On April 6, 2016, the Company entered into a lease agreement with term commencing August 1, 2016 and terminating July 31, 2026. The basic rent is payable in advance at a rate of $8,093 per month plus the proportionate share of expenses in respect of operating costs and property taxes amounting to $2,572 per month.

In September 2016, the Company signed a letter of intent (“LOI”) with Eat Real Snack Food Canada Ltd. ("ERSF") for Naturally Splendid to acquire food packaging equipment from ERSF and assume the related lease agreement. Under the lease agreement, Naturally Splendid will make 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 subsequent to year-end. During the year ended December 31, 2016, the Company made a cash payment of $56,698, which is included in long-term deposits. See also note 24.

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, 2016. 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:

	December 31, 2016 $	**December 31, 2015 $**
Loss before income taxes	(2,775,579)	(6,981,286)
Expected income tax recovery	(721,650)	(1,815,134)
Adjustment resulting from		
Differences between Canadian and foreign tax rates	(6,798)	(40,929)
Non-deductible items	72,411	960,150
Other	(16,729)	(11,184)
Over provided in prior years	(12,239)	(47,777)
Unused tax losses	685,005	954,874
Income tax recovery	-	-

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:

	2016 $	**2015 $**
Deferred tax assets		
Non-capital losses	11,630,893	9,436,410
Share issue costs	782,962	302,814
Property and equipment	359,991	119,537
Unrecognized deferred tax	12,773,846	9,858,761

The Company's unused tax losses for the year ended December 31, 2016, 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	3,435,000
2036	2,148,000
	$11,631,000

(Expressed in Canadian Dollars)

20. Goodwill

Goodwill acquired through business combinations has been allocated to two cash-generating units ("CGU"). The breakdown of goodwill as at December 31, 2016 and 2015 is as follows:

BPC

	December 31, 2016	December 31, 2015
	$	$
Balance, beginning of the year	801,000	-
Additions	-	3,585,017
Impairment	-	(2,784,017)
Balance, end of the year	801,000	801,000

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	December 31, 2016	December 31, 2015
	$	$
Balance, beginning of the year	90,168	-
Additions	-	90,168
Balance, end of the year	90,168	90,168
	891,168	**891,168**

The Company performs an annual impairment test of goodwill at December 31. The recoverable amounts have been determined using Level 3 inputs, based on value-in-use calculation using pre-tax cash flow projections from financial budgets approved by senior management for 2016, forecasts over a five-year period based on management's best estimates, and a pre-tax discount rate of 18% (2015 - 22.5%).

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.

Following the impairment tests, it was determined, in 2015, the carrying value of the Company's goodwill exceeded their recoverable amount. Accordingly, the Company recorded an impairment charge of $nil (2015 - $2,784,017) on the goodwill recognized on acquisition of BPC.

(Expressed in Canadian Dollars)

21. Supplemental Cash Flow Information

	2016 $	2015 $
Non-cash items:		
Bonus shares	-	82,560
Shares issued for services	39,750	49,375
Shares issued for technology license	-	761,428
Consideration for acquisition of Chi included in accounts payable and accrued liabilities	-	75,000
	39,750	968,363
Interest and taxes paid		
Interest	-	-
Taxes	-	-

22. Litigation

In August 2016, a claim was filed against the Company and other defendants seeking an injunction, alleging a breach of confidential information. The Company filed a statement of defense in September 2016 and intends to defend the claim. Any possible likelihood of loss cannot be estimated by the Company at this time.

23. Comparative Figures

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

24. Events After the Reporting Period

a) Subsequent to year-end, 1,464,500 warrants with exercise prices of $0.30 to $0.40 were exercised for gross proceeds of $445,425 in cash plus settlement of $120,000 in accounts payable.

b) 3,040,000 common share purchase options were granted on January 27, 2017 to employees, directors and consultants of the Company. The options are exercisable into common shares of the Company at $0.35 per share, with 20% vesting on grant and 40% vesting on each of the first and second anniversaries.

c) In September 2016, the Company signed a LOI with ERSF, and in January 2017 the Company completed the binding agreement for Naturally Splendid to acquire food packaging equipment from ERSF and assume the related lease obligations commencing in January 2017. Under the lease agreement, Naturally Splendid will make 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 subsequent to year-end. During the year ended December 31, 2016, the Company made a cash payment of $56,698, which is included in long-term deposits. Subsequent to December 31, 2016, 289,855 shares were issued in relation to the agreement.