RBC Life Sciences, Inc. and Subsidiaries

Condensed Consolidated Financial Statements

For the Quarterly Period Ended March 31, 2016

(unaudited)

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RBC Life Sciences, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016	December 31, 2015
ASSETS	(unaudited)	
Current Assets		
Cash and cash equivalents	$ 757,603	$ 1,449,825
Accounts receivable, net of allowance for doubtful accounts of $33,971 and $36,180, respectively	1,351,736	1,216,770
Inventories	4,384,286	4,280,570
Deferred income taxes	344,854	377,834
Prepaid expenses and other current assets	549,619	464,173
Total current assets	7,388,098	7,789,172
Property and equipment, net	1,147,696	1,237,363
Goodwill, net	2,172,333	2,145,319
Other intangible assets, net	24,575	26,064
Other assets	134,496	97,788
	$ 10,867,198	$ 11,295,706
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable, trade	$ 1,902,463	$ 1,305,730
Accrued liabilities	1,257,042	1,563,581
Deferred revenue	10,030	95,170
Total current liabilities	3,169,535	2,964,481
Deferred income taxes	299,730	451,553
Commitments and contingencies		
Shareholders' equity		
Common stock, $0.001 par value, authorized 50,000,000 shares; 2,213,010 shares issued and outstanding in 2016 and 2015	2,213	2,213
Additional paid-in capital	13,714,521	13,714,523
Accumulated deficit	(6,568,141)	(6,158,931)
Accumulated other comprehensive income	249,340	321,867
	7,397,933	7,879,672
	$ 10,867,198	$ 11,295,706

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

RBC Life Sciences, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net sales	$ 5,197,401	$ 5,359,810
Cost of sales	2,488,001	2,310,646
Gross profit	2,709,400	3,049,164
Operating Expenses		
General and administrative	2,255,464	2,616,639
Distributor commissions	875,756	1,114,942
Depreciation and amortization	101,426	94,157
Total operating expenses	3,232,646	3,825,738
Operating loss	(523,246)	(776,574)
Interest expense	-	21,298
Loss before income taxes	(523,246)	(797,872)
Income tax benefit	(114,036)	(247,882)
Net loss	(409,210)	(549,990)
Other comprehensive loss:		
Foreign currency translation adjustment	(72,697)	(85,731)
Comprehensive loss	$ (481,907)	$ (635,721)
Basic loss per share	$ (0.18)	$ (0.25)
Basic weighted average shares outstanding	2,213,010	2,212,350
Diluted loss per share	$ (0.18)	$ (0.25)
Diluted weighted average shared outstanding	2,213,010	2,212,350

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

RBC Life Sciences, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net loss	$ (409,210)	$ (549,990)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	111,421	112,861
Deferred income taxes	(115,607)	(248,606)
Changes in operating assets and liabilities		
Accounts receivable	(134,827)	(67,072)
Inventories	(64,105)	62,516
Prepaid expenses and other current assets	(78,116)	(145,091)
Other assets	(34,475)	104,431
Accounts payable and accrued liabilities	254,066	(242,145)
Deferred revenue	(86,466)	109,778
Net cash used by operating activities	(557,319)	(863,318)
Cash flows from investing activities		
Purchase of property and equipment	(13,174)	(37,649)
Net cash used by investing activities	(13,174)	(37,649)
Cash flows from financing activities		
Payments of long-term obligations	-	(55,613)
Net cash used by financing activities	-	(55,613)
Effect of exchange rate changes on cash flows	(121,729)	(42,872)
Net decrease in cash and cash equivalents	(692,222)	(999,452)
Cash and cash equivalents at beginning of period	1,449,825	1,921,349
Cash and cash equivalents at end of period	$ 757,603	$ 921,897

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

NOTE A – UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements, including the notes thereto, of RBC Life Sciences, Inc. (sometimes hereinafter referred to collectively as “we”, “our”, "us", “RBC” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the U.S. (“US GAAP”) for interim financial information. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2015, previously filed with OTC Market Groups, Inc. All references to dollars shall mean U.S. dollars.

In the opinion of management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the Company's results for the interim periods have been included. The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year. Subsequent events were evaluated through the issuance date of the condensed consolidated financial statements.

New Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*, that requires organizations that lease assets, referred to as “lessees”, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months, ASU 2016-02 will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases and will include qualitative and quantitative requirements. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those annual years, and early application is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, that requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. ASU 2015-17 will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those annual years, and early application is permitted as of the beginning of an interim or annual reporting period either prospectively or retrospectively. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory: Simplifying the Measurement of Inventory*, that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. In July 2015, the FASB approved the deferral of the effective date for annual reporting periods that begin after December 15, 2017, including interim reporting periods.

Early adoption is permitted to the original effective date of December 15, 2016, including interim reporting periods. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2014, FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern*. ASU No. 2014-15 provides guidance regarding management's responsibility to evaluate whether there exists substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU No. 2014-15 is effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. The Company does not believe ASU No. 2014-15 will have a material effect on its financial position and results of operations.

NOTE B - NATURE OF OPERATIONS AND ORGANIZATION

The Company is principally engaged in the marketing of nutritional supplements and personal care products (collectively "Nutritional Products") through subsidiaries in North America and Southeast Asia and through licensees in Russia/Eastern Europe. This product line is marketed under the "RBC Life®" brand name. In most of these markets, the Company markets its products through a network of distributors that are referred to as "Associates." The Associates are independent contractors who purchase products for personal use, purchase products for resale to retail customers and sponsor other individuals as Associates. Accordingly, Associates may be product consumers only or they may also seek to derive compensation both from the direct sales of products and from sales generated by sponsored Associates. In certain other markets in Southeast Asia and Australia, the Company sells its products through a not-for-resale ("NFR") program. Individuals who participate in the NFR program function similarly to Associates in that they can sponsor others and derive compensation from sales generated by individuals they sponsor. However, they may only order products for personal use and may not resell products to retail customers.

RBC also markets its Nutritional Products in certain international markets through license arrangements. The licensees are third parties who are granted exclusive rights to distribute RBC products in their respective territories and, for the most part, distribute these products through an independent Associate network in the licensed territory. Under these arrangements, the independent Associate network in a licensed territory is compensated by the licensee.

In addition to its Nutritional Products, RBC also markets a line of wound care products ("Medical Products") under the MPM Medical brand name through a U.S. subsidiary. Medical Products are primarily distributed in the U.S. to hospitals, nursing homes, clinics and pharmacies through traditional medical/surgical supply dealers and pharmaceutical distributors. Medical Products are used to prevent and treat wounds, and manage pain associated with wounds, in the acute care, long-term care and oncology markets.

NOTE C – INVENTORY

Inventories consist of the following:

	March 31, 2016	December 31, 2015
Raw materials and bulk products	$ 355,386	$ 674,770
Packaging materials	231,589	246,968
Finished goods	3,797,311	3,358,832
	$ 4,384,286	$ 4,280,570

NOTE D – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	March 31, 2016	December 31, 2015
Advance payments to suppliers	$ 185,225	$ 186,853
Certificates of deposit - restricted	65,544	61,285
Prepaid insurance and other	298,850	216,035
Total	$ 549,619	$ 464,173

At March 31, 2016 and December 31, 2015, the Company held certificates of deposit in the amounts of approximately $65,500 and $61,300, respectively, which were pledged to secure surety bonds.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31, 2016	December 31, 2015
Building and improvements	$ 202,440	$ 193,464
Computer software and office equipment	2,616,439	2,595,187
Warehouse equipment	254,034	254,034
Automotive equipment	14,717	14,717
	3,087,630	3,057,402
Less accumulated depreciation and amortization	1,939,934	1,820,039
	1,147,696	1,237,363

Depreciation expense totaled approximately $109,900 and $105,600 for the quarters ended March 31, 2016, and 2015, respectively.

On July 15, 2015, the Company completed the sale of its 119,000 square foot headquarters building and related parcel of land in Irving, Texas for approximately $5.18 million. After repayment of outstanding mortgage debt of approximately $1.13 million secured by this facility and payment of other closing costs and adjustments, the Company received net cash proceeds of approximately $3.75 million. Effective upon closing of this sale, the Company entered into an agreement to lease back the facility from the purchaser under a lease that provided for, among other things, a lease term ended April 30, 2016 and rent of approximately $35,000 per month. Effective upon termination of this lease, the Company entered into a new agreement with the purchaser to lease back approximately 56,000 square feet of the facility under a lease that provides for, among other things, a lease term of three years and rent of approximately $22,000 per month.

NOTE F – GOODWILL AND OTHER INTANGIBLE ASSETS

The Company measures its goodwill for impairment at the end of each year or in the event of an impairment indicator. No impairment losses have been recognized as a result of this testing. Goodwill balances are summarized as follows:

	Gross Carrying Value	Accumulated Amortization
Balance, December 31, 2015	3,133,174	(987,855)
Currency translation adjustment	56,874	(29,860)
Balance, March 31, 2016	$ 3,190,048	$ (1,017,715)

Other intangible assets consist of the following:

	March 31, 2016			December 31, 2015		
	Average Life (years)	Gross Carrying Value	Accumulated Amortization	Average Life (years)	Gross Carrying Value	Accumulated Amortization
Copyrights, trademarks and other registrations	19	$ 99,100	$ (77,297)	19	$ 99,100	$ (75,976)
Business license	1	37,193	(37,193)	1	37,193	(37,193)
Other	19	12,600	(9,828)	19	12,600	(9,660)
		$ 148,893	$ (124,318)		$ 148,893	$ (122,829)

Amortization expense related to other intangible assets totaled approximately $1,500 and $7,300 for the years ended March 31, 2016 and 2015, respectively. The aggregate estimated amortization expense for other intangible assets is as follows:

Remainder of 2016	$ 4,468
2017	5,957
2018	5,957
2019	5,957
2020	2,236
	$ 24,575

NOTE G – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	March 31, 2016	December 31, 2015
Distributor commissions and awards	$ 786,717	$ 1,047,593
Salaries and wages	378,644	501,048
Sales and property taxes	11,349	7,462
Other	80,332	7,478
Total	$ 1,257,042	$ 1,563,581

NOTE H – SHARE-BASED COMPENSATION

The Company records compensation expense for all share-based payments based on the estimated grant date fair value. There was no share-based compensation expense recognized for the quarters ended March 31, 2016 or 2015. There have been no material tax benefits related to share-based compensation expense because virtually all share-based compensation has resulted from grants of incentive stock options.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. There were no option grants during the quarters ended March 31, 2016 or 2015.

A summary of stock option activity for the three months ended March 31, 2016 is as follows:

	Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, December 31, 2015	29,560	5.55		
Granted	-	-		
Exercised	-	-		
Forfeited/canceled	-	-		
Outstanding, March 31, 2016	29,560	$ 5.55	2.92	$ -
Exercisable, March 31, 2016	29,560	$ 5.55	2.92	$ -

There were no non-vested stock options as of March 31, 2016, or changes to non-vested stock options during the three months then ended.

NOTE I – SEGMENTS AND GEOGRAPHIC AREA

The Company's segments are based on the organization structure that is used by management for making operating and investment decisions and for assessing performance. Based on this structure, the Company has two operating segments: Nutritional Products and Medical Products.

The Nutritional Products segment manufactures and distributes a line of approximately 100 nutritional supplements and personal care products, including herbs, vitamins and minerals, as well as natural skin, hair and body care products. Nutritional Products are marketed under the "RBC Life" brand name through subsidiaries in North America and Southeast Asia. These products are distributed by a network comprised of independent Associates and NFR program participants in certain markets, primarily North America and Southeast Asia, and by licensees in other international markets. For the most part, licensees also market the Nutritional Products in their respective territories through a network of independent Associates.

The Medical Products segment markets a line of over 35 wound care products under the "MPM Medical" brand name through a subsidiary operating primarily in the U.S. These wound care products are distributed to hospitals, nursing homes, home health care agencies, clinics and pharmacies through a network of medical/surgical supply dealers, pharmaceutical distributors and our own sales representatives. Medical Products are used to treat and manage pain associated with wounds, in the acute care, long-term care and oncology markets.

The Company evaluates the performance of its segments primarily based on operating income. All intercompany transactions have been eliminated, and intersegment revenues are not significant. In calculating operating income (loss) for these two segments, administrative expenses incurred that are common to the two segments are allocated on a usage basis.

Segment information is as follows (U.S. dollars in thousands):

	Nutritional Products	Medical Products	Consolidated
Quarter Ended March 31, 2016			
Net sales	$ 3,465	$ 1,732	$ 5,197
Depreciation and amortization	110	1	111
Operating income (loss)	(566)	43	(523)
Capital expenditures	5	8	13
Total assets	7,332	3,535	10,867
Quarter Ended March 31, 2015			
Net sales	$ 3,849	$ 1,511	$ 5,360
Depreciation and amortization	98	15	113
Operating loss	(771)	(6)	(777)
Capital expenditures	38	-	38
Total assets	12,388	2,515	14,903

Financial information summarized geographically based on the customer's ordering location for the quarters ended March 31, 2016 and 2015 is listed below (U.S. dollars in thousands):

	Net Sales	Long-lived Assets
Quarter Ended March 31, 2016		
Domestic	$ 2,248	$ 2,817
Russia/Eastern Europe	1,285	-
Canada	130	416
Southeast Asia	1,495	246
All others	39	-
Totals	$ 5,197	$ 3,479
Quarter Ended March 31, 2015		
Domestic	$ 2,057	$ 6,165
Russia/Eastern Europe	1,064	-
Canada	210	427
Southeast Asia	1,967	327
All others	62	-
Totals	$ 5,360	$ 6,919

Significant Customers

The Company recorded sales of Nutritional Products to Coral Club International, Inc. ("CCI"), a licensee of the Company, in the amounts of $1,285,000 and $1,064,000 during the quarters ended March 31, 2016 and 2015, respectively. The President of CCI is a former member of our Board of Directors and beneficially owns approximately 18% of our common stock. The Company also recorded sales of Medical Products to a medical/surgical dealer in the amounts of $893,000 and $507,000 during the quarters ended March 31, 2016 and 2015, respectively. In no other case did a customer of the Company account for more than 10% of net sales during the quarters ended March 31, 2016 and 2015.

The medical/surgical dealer referenced above filed a voluntary petition for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Central District of California in Santa Ana, California on February 24, 2012. According to its bankruptcy petition, this dealer filed its petition as the most effective means of stabilizing its finances as it resolved a reimbursement guidelines dispute with Medicare. In May 2015, this dealer emerged from bankruptcy following the Bankruptcy Court's confirmation of its plan of reorganization.

NOTE J – LOSS PER SHARE

Summarized basic and diluted loss per common share was calculated as follows:

	Net Loss	Shares	Per Share
Quarter Ended March 31, 2016			
Basic loss per common share	$ (409,210)	2,213,010	$ (0.18)
Effect of dilutive stock options	-	-	-
Diluted loss per common share	$ (409,210)	2,213,010	$ (0.18)
Quarter Ended March 31, 2015			
Basic loss per common share	$ (549,990)	2,212,350	$ (0.25)
Effect of dilutive stock options	-	-	
Diluted loss per common share	$ (549,990)	2,212,350	$ (0.25)

For the quarters ended March 31, 2016 and 2015, the number of stock options that were outstanding but not included in the computation of diluted loss per common share because their exercise price was greater than the average market price of our common stock or were otherwise anti-dilutive, was approximately 30,000 and 46,000, respectively.