# RBC Life Sciences, Inc. and Subsidiaries

## Condensed Consolidated Financial Statements

For the Quarterly Period Ended March 31, 2017

(unaudited)

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**RBC Life Sciences, Inc. and Subsidiaries**

CONDENSED CONSOLIDATED BALANCE SHEETS

| ASSETS | March 31, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 650,379 | $ 1,470,655 |
| Accounts receivable, net of allowance for doubtful accounts of $25,421 and $25,737, respectively | 1,985,294 | 1,165,275 |
| Inventories | 4,498,490 | 4,146,242 |
| Deferred income taxes | 297,757 | 301,678 |
| Prepaid expenses and other current assets | 746,161 | 608,320 |
| Total current assets | 8,178,081 | 7,692,170 |
| Property and equipment, net | 963,923 | 977,579 |
| Goodwill, net | 2,161,064 | 2,155,133 |
| Other intangible assets, net | 18,618 | 20,107 |
| Investment in subsidiary | 109,147 | - |
| Other assets | 78,978 | 115,874 |
| | $ 11,509,811 | $ 10,960,863 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable, trade | $ 2,147,705 | $ 1,602,307 |
| Accrued liabilities | 1,480,493 | 1,760,392 |
| Deferred revenue | 482,702 | 6,688 |
| Total current liabilities | 4,110,900 | 3,369,387 |
| Deferred income taxes | 366,926 | 461,135 |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Common stock, $0.001 par value, authorized 50,000,000 shares; 2,213,010 shares issued and outstanding in 2017 and 2016 | 2,213 | 2,213 |
| Additional paid-in capital | 13,714,521 | 13,714,523 |
| Accumulated deficit | (6,869,365) | (6,915,215) |
| Accumulated other comprehensive income | 184,616 | 328,820 |
| | 7,031,985 | 7,130,341 |
| | $ 11,509,811 | $ 10,960,863 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| Net sales | $ 5,704,437 | $ 5,197,401 |
| Cost of sales | 2,660,419 | 2,478,006 |
| Gross profit | 3,044,018 | 2,719,395 |
| Operating Expenses | | |
| General and administrative | 2,152,445 | 2,255,464 |
| Distributor commissions | 836,063 | 875,756 |
| Depreciation and amortization | 94,871 | 111,421 |
| Total operating expenses | 3,083,379 | 3,242,641 |
| Loss before income taxes | (39,361) | (523,246) |
| Income tax benefit | (85,211) | (114,036) |
| Net income (loss) | 45,850 | (409,210) |
| Other comprehensive loss: | | |
| Foreign currency translation adjustment | (144,204) | (72,697) |
| Comprehensive loss | $ (98,354) | $ (481,907) |
| Basic income (loss) per share | $ 0.02 | $ (0.18) |
| Basic weighted average shares outstanding | 2,213,010 | 2,213,010 |
| Diluted income (loss) per share | $ 0.02 | $ (0.18) |
| Diluted weighted average shared outstanding | 2,213,010 | 2,213,010 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from operating activities | | |
| Net income (loss) | $ 45,850 | $ (409,210) |
| Adjustments to reconcile net income (loss) to net cash used by operating activities | | |
| Depreciation and amortization | 94,871 | 111,421 |
| Deferred income taxes | (89,410) | (115,607) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (820,032) | (134,827) |
| Inventories | (343,480) | (64,105) |
| Prepaid expenses and other current assets | (134,407) | (78,116) |
| Other assets | (1,263) | (34,475) |
| Accounts payable and accrued liabilities | 255,600 | 254,066 |
| Deferred revenue | 475,986 | (86,466) |
| Net cash used by operating activities | (516,285) | (557,319) |
| Cash flows from investing activities | | |
| Purchase of equity in subsidiary | (109,148) | - |
| Purchase of property and equipment | (75,169) | (13,174) |
| Net cash used by investing activities | (184,317) | (13,174) |
| Effect of exchange rate changes on cash flows | (119,674) | (121,729) |
| Net decrease in cash and cash equivalents | (820,276) | (692,222) |
| Cash and cash equivalents at beginning of period | 1,470,655 | 1,449,825 |
| Cash and cash equivalents at end of period | $ 650,379 | $ 757,603 |

The accompanying notes are an integral part of these condensed 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, 2016, 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 May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* 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 January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated guidance enhances the reporting model for financial instruments by modifying how entities measure and recognize equity investments and present changes in the fair value of financial liabilities, and by simplifying the disclosure guidance for financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The amendments in this update should be applied prospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The updated guidance requires lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Recognition, measurement and presentation of expenses will depend on classification as finance or operating leases. The amendments also require certain quantitative and qualitative disclosures. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This ASU is intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax effects of share-based payments and accounting for forfeitures. The amendments in this update are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instrument — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU changes the impairment model for most financial assets, requiring the use of an expected loss model which requires entities to estimate the lifetime expected credit loss on financial assets measured at amortized cost. Such credit losses will be recorded as an allowance to offset the amortized cost of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. In addition, credit losses relating to available-for-sale debt securities will now be recorded through an allowance for credit losses rather than as a direct write-down to the security. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted for reporting periods beginning after December 15, 2018. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU provides clarification on eight specific cash flow issues regarding presentation and classification in the statement of cash flows with the objective of reducing the existing diversity in practice. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This ASU requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this update do not change GAAP for the pre-tax effects of an intra-entity asset transfer under Topic 810, *Consolidation*, or for an intra-entity transfer of inventory. The amendments in this update are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU removes the Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds it fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment is necessary. The amendments in this update are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

## 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 "Members". The Members are independent contractors who purchase products for personal use, purchase products for resale to retail customers and sponsor other individuals as Members. Accordingly, Members 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 Members. 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 Members 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 Member network in the licensed territory. Under these arrangements, the independent Member 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, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials and bulk products | $ 370,479 | $ 241,959 |
| Packaging materials | 264,917 | 278,751 |
| Finished goods | 3,863,094 | 3,625,532 |
| | $ 4,498,490 | $ 4,146,242 |

NOTE D – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Advance payments to suppliers | $ - | $ 119,359 |
| Certificates of deposit - restricted | 63,767 | 62,832 |
| Prepaid insurance and other | 682,394 | 426,129 |
| Total | $ 746,161 | $ 608,320 |

At March 31, 2017 and December 31, 2016, the Company held certificates of deposit in the amounts of approximately $63,800 and $62,800, respectively, which were pledged to secure surety bonds.

NOTE E – INVESTMENT IN SUBSIDIARIES

On January 1, 2017, the Company entered into a “Contract for Sale – Purchase of Assets and Property of Business as a Going Concern” with Narsha Korea, Inc. (the “Seller”). Pursuant to this agreement, the Company agreed to purchase the Seller in two steps. The first step provides that the Company make a series of capital contributions to the Seller totalling $700,000 in exchange for 51% of the total number of outstanding shares of the Seller, payable in cash and shipments of the Company’s product to the Seller. In accordance with the terms of this agreement, the Company’s percentage of ownership of the Seller increases ratably with each capital contribution. The second step provides the Company a two-year option to purchase the remaining 49% of the shares of the Seller for $1.3 million payable in 13 equal installments. Narsha Korea, Inc. is a multi-level marketing business located in Seoul, South Korea, and the purchase of Narsha Korea, Inc. allows the Company to engage in the multi-level marketing business in South Korea.

As of March 31, 2017, the Company had made capital contributions to the Seller pursuant to which the Company acquired 15% of the Seller’s outstanding shares. The Company did not have significant influence over the Seller as of March 31, 2017; therefore, this acquisition has been accounted for by the cost method of accounting. Acquisition-related costs amounting to $3,000 have been excluded from the consideration transferred and have been recognized as an expense for the quarter ended March 31, 2017.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Leasehold improvements | $ 267,169 | $ 201,380 |
| Computer software and office equipment | 2,635,685 | 2,619,485 |
| Warehouse equipment | 368,842 | 367,949 |
| Automotive equipment | 14,717 | 14,717 |
| | 3,286,413 | 3,203,531 |
| Less accumulated depreciation and amortization | 2,322,490 | 2,225,952 |
| | $ 963,923 | $ 977,579 |

Depreciation expense totaled approximately $93,400 and $109,900 for the quarters ended March 31, 2017 and 2016, respectively.

NOTE G – 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, 2016 | $ 3,156,484 | $ (1,001,351) |
| Currency translation adjustment | 11,574 | (5,643) |
| Balance, March 31, 2017 | $ 3,168,058 | $ (1,006,994) |

Other intangible assets consist of the following:

| | March 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Average Life (years) | Gross Carrying Value | Accumulated Amortization | Average Life (years) | Gross Carrying Value | Accumulated Amortization |
| Copyrights, trademarks and other registrations | 19 | $ 99,100 | $ (82,583) | 19 | $ 99,100 | $ (81,262) |
| Other | 19 | 12,600 | (10,499) | 19 | 12,600 | (10,331) |
| | | $ 111,700 | $ (93,082) | | $ 111,700 | $ (91,593) |

Amortization expense related to other intangible assets totaled approximately $1,500 for the quarters ended March 31, 2017 and 2016. The aggregate estimated amortization expense for intangible assets remaining as of March 31, 2017 is as follows:

| | |
|---|---|
| Remainder of 2017 | $ 4,468 |
| 2018 | 5,957 |
| 2019 | 5,957 |
| 2020 | 2,236 |
| | $ 18,618 |

NOTE H – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Distributor commissions and awards | $ 942,835 | $ 1,120,244 |
| Salaries and wages | 346,597 | 521,828 |
| Sales and property taxes | 37,264 | 31,821 |
| Other | 153,797 | 86,499 |
| Total | $ 1,480,493 | $ 1,760,392 |

NOTE I – 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, 2017 and 2016. 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, 2017 and 2016.

A summary of stock option activity for the three months ended March 31, 2017 is as follows:

| | Options | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, December 31, 2016 | 18,730 | $ 4.05 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Forfeited/canceled | - | - | | |
| Outstanding, March 31, 2017 | 18,730 | $ 4.05 | 2.16 | $ - |
| Exercisable, March 31, 2017 | 18,730 | $ 4.05 | 2.16 | $ - |

There were no non-vested stock options as of March 31, 2017, or changes to non-vested stock options during the three months then ended.

NOTE J – 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 Members 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 Members.

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, 2017 | | | |
| Net sales | $ 2,872 | $ 2,832 | $ 5,704 |
| Depreciation and amortization | 92 | 3 | 95 |
| Operating income (loss) | (503) | 464 | (39) |
| Capital expenditures | 75 | - | 75 |
| Total assets | 7,000 | 4,510 | 11,510 |
| 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 |

Financial information summarized geographically based on the customer's ordering location is listed below (U.S. dollars in thousands):

| | Quarter Ended March 31, 2017 | | Quarter Ended March 31, 2016 | |
|---|---|---|---|---|
| | Net Sales | Long-lived Assets | Net Sales | Long-lived Assets |
| Domestic | $ 3,296 | $ 2,667 | $ 2,248 | $ 2,817 |
| Russia/Eastern Europe | 927 | - | 1,285 | - |
| Canada | 137 | 405 | 130 | 416 |
| Southeast Asia | 1,328 | 260 | 1,495 | 246 |
| All others | 16 | - | 39 | - |
| Totals | $ 5,704 | $ 3,332 | $ 5,197 | $ 3,479 |

***Significant Customers***

The Company recorded sales of Nutritional Products to Coral Club International, Inc. ("CCI"), a licensee of the Company, in the amounts of $927,000 and $1,285,000 during the quarters ended March 31, 2017 and 2016, 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 $1,848,000 and $893,000 during the quarters ended March 31, 2017 and 2016, 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, 2017 and 2016.

NOTE K – INCOME (LOSS) PER SHARE

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

| | Net Loss | Shares | Per Share |
|---|---|---|---|
| Quarter Ended March 31, 2017 | | | |
| Basic income per common share | $ 45,850 | 2,213,010 | $ 0.02 |
| Effect of dilutive stock options | - | - | - |
| Diluted income per common share | $ 45,850 | 2,213,010 | $ 0.02 |
| 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) |

For the quarters ended March 31, 2017 and 2016, 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 18,000 and 46,000, respectively.