

**NEW AGE FARM INC.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2017**

(Expressed in Canadian dollars)

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**MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED CONDENSED  
CONSOLIDATED INTERIM FINANCIAL REPORTING**

The accompanying unaudited condensed interim consolidated financial statements of New Age Farm Inc. [the "Company"] are the responsibility of the management and Board of Directors of the Company. The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting consistent with International Financial Reporting Standards appropriate in the circumstances.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Carman Parente  
Director

Vancouver, BC  
November 28, 2017

**NOTICE TO READERS**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements for the nine months period ended September 30, 2017 have not been reviewed by the Company's auditors.

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| <b>Current</b>  |                       |                      |
| Cash  | \$ 9,019              | \$ 562,585           |
| Investment to be distributed to shareholders (Note 3)     | -                     | 1                    |
|   | <u>9,019</u>          | <u>562,586</u>       |
| <b>Property, plant and equipment</b> (Note 4)             | 1,096,637             | 1,163,348            |
| <b>Investment in Joint Venture Entity</b>                 | 391,670               | -                    |
| <b>Deferred costs</b> (Note 5)                            | 856,815               | 919,403              |
| <b>Total assets</b>                                       | <u>\$ 2,354,141</u>   | <u>\$ 2,645,337</u>  |
| <b>Current</b>  |                       |                      |
| Accounts payable  | \$ 42,005             | \$ 44,317            |
| Accrued liabilities                                       | 250,250               | 77,525               |
| Loans payable (Note 10)                                   | -                     | 50,000               |
| Current portion of seller note payable (Note 10)          | 8,375                 | 8,375                |
| Due to related parties (Note 11)                          | 855,351               | 1,057,332            |
|   | <u>1,155,981</u>      | <u>1,237,549</u>     |
| <b>Long term portion of seller note payable</b> (Note 10) | 74,784                | 82,603               |
| <b>Total liabilities</b>                                  | <u>1,230,765</u>      | <u>1,320,152</u>     |
| <b>Shareholders' equity (deficiency)</b>                  |                       |                      |
| Shares capital (Note 7)                                   | 16,280,684            | 11,489,954           |
| Contributed surplus                                       | 4,570,268             | 2,433,148            |
| Deficit, per accompanying statement                       | (19,727,576)          | (12,597,917)         |
| <b>Total shareholders' equity (deficiency)</b>            | <u>1,123,376</u>      | <u>1,325,185</u>     |
| <b>Total liabilities and shareholders' equity</b>         | <u>\$ 2,354,141</u>   | <u>\$ 2,645,337</u>  |

Nature and continuance of operations (Note 1) and Subsequent events (Note 12)

Approved on behalf of the Board on November 28, 2017:

“Carman Parente”  
Director – Carman Parente

“Anthony Chan”  
Director – Anthony Chan

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

|   | Three Months          |                       | Nine Months           |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2017 | September 30,<br>2016 | September 30,<br>2017 | September 30,<br>2016 |
| <b>Expenses</b>   |                       |                       |                       |                       |
| Advertising & promotion   | \$ 11,348             | \$ 1,300              | \$ 624,720            | \$ 38,300             |
| Amortization  | 65,450                | 3,150                 | 174,928               | 6,750                 |
| Bank charges  | 458                   | 248                   | 1,977                 | 592                   |
| Consulting (Note 6)   | 270,792               | 316,318               | 2,017,749             | 560,855               |
| Directors' fees (Note 6)  | 24,000                | 18,000                | 75,000                | 54,000                |
| Foreign exchange (gain)/loss  | 990                   | 2,568                 | 9,789                 | (9,259)               |
| Insurance   | 4,873                 | 4,343                 | 5,336                 | 6,406                 |
| Interest  | -                     | 5,057                 | -                     | 31,371                |
| Office and miscellaneous  | 3,904                 | 11,994                | 8,577                 | 21,493                |
| Professional fees   | 5,159                 | 2,487                 | 16,292                | 22,203                |
| Utility & property taxes  | 5,381                 | 325                   | 12,173                | 2,364                 |
| Telephone   | 1,157                 | -                     | 2,245                 | -                     |
| Transfer agent, listing & filing fees   | 8,455                 | -                     | 27,462                | 1,929                 |
| Travel  | 96                    | -                     | 2,411                 | -                     |
| Shares based payments (Note 7)  | -                     | 10,000                | 4,196,000             | 297,000               |
|   | <b>402,063</b>        | <b>375,790</b>        | <b>7,174,659</b>      | <b>1,034,004</b>      |
| <b>Other income (expense)</b>   |                       |                       |                       |                       |
| Gain on settlements of debts  | 45,000                | -                     | 45,000                | 35,063                |
| Write off of loan receivable  | -                     | -                     | -                     | -                     |
| Write off of investment (Note 3)  | -                     | -                     | -                     | -                     |
| <b>Total income (expenses)</b>  | <b>45,000</b>         | <b>-</b>              | <b>45,000</b>         | <b>35,063</b>         |
| <b>Loss and comprehensive loss from continued operations for the period</b>                               | <b>(357,063)</b>      | <b>(375,790)</b>      | <b>(7,129,659)</b>    | <b>(998,941)</b>      |
| <b>Income (loss) and comprehensive income (loss) from discontinued operations for the period (Note 3)</b> | <b>-</b>              | <b>(17,897)</b>       | <b>-</b>              | <b>(64,743)</b>       |
| <b>Loss and comprehensive loss for the period</b>   | <b>\$ (357,063)</b>   | <b>\$ (393,687)</b>   | <b>\$ (7,129,659)</b> | <b>\$ (1,063,684)</b> |
| <b>Loss per share</b>   | <b>\$ (0.003)</b>     | <b>\$ (0.006)</b>     | <b>\$ (0.06)</b>      | <b>\$ (0.02)</b>      |
| <b>Weighted average number of shares outstanding</b>  | <b>130,770,742</b>    | <b>66,434,650</b>     | <b>122,160,021</b>    | <b>63,805,217</b>     |

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

|  | Number of<br>Shares | Share Capital<br>& subscribed | Contributed<br>Surplus* | Deficit                | Shareholders'<br>Equity |
|--|---------------------|-------------------------------|-------------------------|------------------------|-------------------------|
| <b>Balance, December 31, 2015</b>                                  | <b>61,213,759</b>   | <b>\$ 5,342,350</b>           | <b>\$ 1,516,466</b>     | <b>\$ (7,010,755)</b>  | <b>\$ (151,939)</b>     |
| Exercise of warrants   | 3,080,000           | 174,000                       | -                       | -                      | 174,000                 |
| Fair value of warrants transferred                                 | -                   | 135,000                       | (135,000)               | -                      | -                       |
| Exercise of options  | 700,000             | 35,000                        | -                       | -                      | 35,000                  |
| Fair value of options transferred                                  | -                   | 11,200                        | (11,200)                | -                      | -                       |
| Shares issued for services, as<br>compensation and to settle debts | 3,802,500           | 127,063                       | -                       | -                      | 127,063                 |
| Shares based payments, options granted<br>and warrants issued      | -                   | -                             | 297,000                 | -                      | 297,000                 |
| Loss for the period  | -                   | -                             | -                       | (1,063,684)            | (1,063,684)             |
| <b>Balance, September 30, 2016</b>                                 | <b>68,796,259</b>   | <b>5,824,613</b>              | <b>1,667,266</b>        | <b>(8,074,439)</b>     | <b>(582,560)</b>        |
| Exercise of warrants   | 5,720,000           | 406,000                       | -                       | -                      | 406,000                 |
| Fair value of warrants transferred                                 | -                   | 333,000                       | (333,000)               | -                      | -                       |
| Exercise of options  | 9,300,000           | 1,081,500                     | -                       | -                      | 1,081,500               |
| Fair value of options transferred                                  | -                   | 690,100                       | (690,100)               | -                      | -                       |
| Shares issued for services, as<br>compensation and to settle debts | 13,500,000          | 1,262,498                     | -                       | -                      | 1,262,498               |
| Shares issued for cash per private<br>placements                   | 8,747,058           | 743,500                       | -                       | -                      | 743,500                 |
| Shares based payments, options granted<br>and warrants issued      | -                   | -                             | 1,685,100               | -                      | 1,685,100               |
| Fair value of brokers warrants issued                              | -                   | (338,140)                     | 338,140                 | -                      | -                       |
| Commissions and fees paid on private<br>placement                  | -                   | (16,560)                      | -                       | -                      | (16,560)                |
| Subscription receivable  | -                   | (154,750)                     | -                       | -                      | (154,750)               |
| Deconsolidation of a subsidiary                                    | -                   | (1,540,183)                   | (234,108)               | 1,774,291              | -                       |
| Shares issued in originally acquiring a<br>subsidiary              | -                   | 3,441,342                     | -                       | -                      | 3,441,342               |
| Derecognition of reverse-takeover share<br>capital to deficit      | -                   | (243,366)                     | -                       | 243,366                | -                       |
| Miscellaneous  | -                   | 400                           | (150)                   | -                      | 250                     |
| Loss for the period  | -                   | -                             | -                       | (6,541,135)            | (6,541,135)             |
| <b>Balance, December 31, 2016</b>                                  | <b>106,063,317</b>  | <b>11,489,954</b>             | <b>2,433,148</b>        | <b>(12,597,917)</b>    | <b>1,325,185</b>        |
| Exercise of warrants   | 15,408,000          | 1,533,350                     | -                       | -                      | 1,533,350               |
| Fair value of warrants transferred                                 | -                   | 1,236,080                     | (1,236,080)             | -                      | -                       |
| Exercise of options  | 7,000,000           | 875,000                       | -                       | -                      | 875,000                 |
| Fair value of options transferred                                  | -                   | 822,800                       | (822,800)               | -                      | -                       |
| Shares issued for services   | 602,903             | 68,500                        | -                       | -                      | 68,500                  |
| Shares issued to settle debts                                      | 3,000,000           | 255,000                       | -                       | -                      | 255,000                 |
| Shares based payments, options granted<br>and warrants issued      | -                   | -                             | 4,196,000               | -                      | 4,196,000               |
| Loss for the period  | -                   | -                             | -                       | (7,129,659)            | (7,129,659)             |
| <b>Balance, September 30, 2017</b>                                 | <b>132,074,220</b>  | <b>\$ 16,280,684</b>          | <b>\$ 4,570,268</b>     | <b>\$ (19,727,576)</b> | <b>\$ 1,123,376</b>     |

\*Contributed surplus consists of fair values of stock options and warrants.

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

**NEW AGE FARM INC.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**(expressed in Canadian dollars)**

| Nine Months Ended  | September 30,<br>2017 | September 30,<br>2016 |
|--|-----------------------|-----------------------|
| <b>Cash flows from (used in)</b>                               |                       |                       |
| <b>Operating activities</b>                                    |                       |                       |
| Net loss for the year from continued operation                 | \$ (7,129,659)        | \$ (998,941)          |
| Items not affecting cash:                                      |                       |                       |
| Amortization   | 174,929               | 6,750                 |
| Accrued interest   | -                     | 29,688                |
| Gain on settlements of debts                                   | (45,000)              | (35,063)              |
| Shares issued for services                                     | 68,500                | 82,000                |
| Write off of loan receivable                                   | -                     | -                     |
| Write off of investment  | -                     | -                     |
| Shares based payments  | 4,196,000             | 297,000               |
|  | (2,735,230)           | (618,565)             |
| <b>Changes in non-cash working capital items:</b>              |                       |                       |
| Prepaid expenses   | -                     | -                     |
| Accounts payable and accrued liabilities                       | 274,414               | 358,860               |
| Cash used in continued operation                               | (2,460,816)           | (259,705)             |
| Cash provided by discontinued operation                        | -                     | 20,393                |
| <b>Net cash used in operating activities</b>                   | (2,460,816)           | (239,312)             |
| <b>Investing activities</b>                                    |                       |                       |
| Deposit on real property                                       | -                     | -                     |
| Investment in joint venture entity                             | (391,670)             | -                     |
| Due from related parties                                       | -                     | 530,271               |
| Deferred costs   | -                     | -                     |
| Cash transferred upon spin-out                                 | -                     | -                     |
| Purchase of property & equipment                               | (45,630)              | (189,823)             |
| Cash used in continued operation                               | (437,300)             | 340,448               |
| Cash used in discontinued operation                            | -                     | (313,207)             |
| <b>Net cash used in investing activities</b>                   | (437,300)             | 27,241                |
| <b>Financing activities</b>                                    |                       |                       |
| Loans payable  | (50,000)              | (153,189)             |
| Seller note payable  | (7,819)               | (10,861)              |
| Due to related parties   | 98,019                | -                     |
| Proceeds from issuance of common shares                        | -                     | -                     |
| Exercise of stock options                                      | 780,000               | -                     |
| Exercise of warrants   | 1,524,350             | -                     |
| Cash provided from continued operation                         | 2,344,550             | (164,050)             |
| Cash provided from discontinued operation                      | -                     | 286,316               |
| <b>Net cash provided from financing activities</b>             | 2,344,550             | 122,266               |
| <b>Increase in cash and cash equivalents during the period</b> | (553,566)             | (89,805)              |
| <b>Cash and cash equivalents, beginning of the period</b>      | 562,585               | 100,047               |
| <b>Cash and cash equivalents, end of the period</b>            | \$ 9,019              | \$ 10,242             |
| <b>Interest paid</b>   | \$ -                  | \$ -                  |
| <b>Income tax paid</b>   | \$ -                  | \$ -                  |
| <b>Non-cash Transactions:</b>                                  |                       |                       |
| Issuance of shares to settle debts and for services            | \$ 368,500            | \$ 162,125            |
| Fair value of warrants and stock options reallocated           | \$ 2,058,880          | \$ 146,200            |

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

**New Age Farm Inc.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For Nine Months Ended September 30, 2017**  
**(expressed in Canadian dollars)**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

New Age Farm Inc. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) on September 27, 2013, under the name 0981624 B.C. Ltd. as a wholly owned subsidiary of Five Nines Ventures Inc. (“Five Nines”) for the purpose of completing a statutory plan of arrangement (the “Arrangement”) with Five Nines. The Company subsequently changed its name to New Age Farm Inc. on April 10, 2014. On August 13, 2014, pursuant to the Arrangement, the Company completed the acquisition of NHS Industries Ltd. (“NHS”), a private British Columbia company that has been engaged in agricultural land holdings and farm services. From an accounting perspective, NHS became the acquirer in a reverse-takeover transaction and the Company’s consolidated financial statements were considered as a continuation of the financial statements of NHS until a spin-out of NHS on December 31, 2016. The Company listed its common shares on the Canadian Securities Exchange and began trading under the symbol NF on August 18, 2014.

627073 B.C. Ltd. was incorporated on May 4, 2001 under the British Columbia Business Corporation Act and changed its name to “NHS Industries Ltd.” (“NHS”) on September 17, 2010. The Company’s principal business is the provisions of a property rental service and a development of real estate property and facility.

The registered address, head office, principal address and records office of the Company are located at Suite 106 – 1641 Lonsdale Avenue, North Vancouver, British Columbia, Canada, V7M 2J5.

On August 31, 2016, the Company and NHS entered into an arrangement agreement whereby the Company would spin-off NHS, together with all its assets and liabilities, as a separate operating entity and NHS would operate the Company’s farm property located in Langley, British Columbia (the “Arrangement”). The Company would continue to operate its real estate and farm properties in Washington State in USA. In return, following completion of the Arrangement, shareholders of the Company would hold one new share in the capital of the Company and its pro-rata share of the post-consolidation NHS shares to be distributed under the Arrangement for each currently held New Age Farm share. The board of directors of the Company has set the share distribution record date of the Plan of Arrangement at close of business on November 30, 2016. The Company further determined the effective date of the spin-off to be at December 31, 2016. Therefore, these unaudited condensed interim consolidated financial statements have de-recognized all of NHS’ assets and liabilities at its year-end date of December 31, 2016. For the unaudited condensed interim consolidated statements of operations and comprehensive loss and the consolidated statements of cash flows, discontinued operations has been separately disclosed from the continued operations and all of its previous year’s figures for 2016 have been adjusted for comparative purposes. NHS completed its spun-out from the Company during the period ended September 30, 2017.

At September 30, 2017, the Company had working capital deficiency of \$1,146,962 (2016 - \$674,963), had not yet achieved profitable operations, has accumulated losses of \$19,727,576 since its inception and expects to incur further losses in the development of its business, all of which casts significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to conduct its planned business, meet its on-going levels of corporate overhead and discharge its liabilities as they come due. These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. Although the Company presently has sufficient financial resources to undertake its currently planned business and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in these unaudited condensed interim consolidated financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**New Age Farm Inc.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For Nine Months Ended September 30, 2017**  
**(expressed in Canadian dollars)**

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(a) **Statement of Compliance, Consolidation and Basis of Presentation**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, New Age Farm Washington, LLC. All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation. These unaudited condensed interim 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 the accounting policies set out in the below.

(b) **Revenue recognition**

Rental revenue includes rent from tenants and incidental income. Rental revenue is recognized when rents are due and interest income is recognized when earned.

(c) **Foreign currency translation**

The functional currency of the Company, as determined by management, is the Canadian dollar and this is also the currency in which it presents these financial statements. The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the statement of operation and comprehensive operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) **Financial instruments**

The Company recognizes a financial asset or financial liability when it becomes a party to the instrument’s contractual provisions. It initially measures financial assets and financial liabilities at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss, which it recognizes immediately in profit or loss).

The Company’s financial instruments and their classifications, described further below, are as follows:

|  |                                   |
|--|-----------------------------------|
| <u>Financial assets:</u>   | <u>Classification:</u>            |
| Cash   | Fair value through profit or loss |
| Due from related parties   | Loans and receivables             |
| <u>Financial liabilities:</u>  | <u>Classification:</u>            |
| Accounts payable, accrued liabilities, due to related parties, secured notes payable, promissory note, secured debt, seller note payable, loan payable and mortgages | Other financial liabilities       |



**New Age Farm Inc.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For Nine Months Ended September 30, 2017**  
**(expressed in Canadian dollars)**

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(d) **Financial instruments** (continued)

*Financial assets*

The Company recognizes and derecognizes all financial assets on the trade date. It derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of its ownership to another entity. It classifies financial assets into the following specified categories: financial assets 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. It determines the classification at the time of initial recognition, depending on the nature and purpose of the financial assets. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

The Company's accounting policy for the category of assets and liabilities presently recognized by the Company is as follows:

Fair value through profit or loss

This category comprises assets acquired or incurred for the purpose of selling or repurchasing it in the near future. The Company measures financial assets at FVTPL at fair value, recognizing any gains or losses arising from this measurement in the Statement of Loss and Comprehensive Loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company measures loans and receivables at amortized cost using the effective interest method, less any impairment, except for short-term receivables for which recognizing interest would be immaterial. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the instrument's expected life (or, where appropriate, a shorter period) to the net carrying amount on initial recognition.

*Financial liabilities*

The Company classifies financial liabilities as either financial liabilities at FVTPL or other financial liabilities. The Company does not currently have any financial liabilities in the at FVTPL category.

Other financial liabilities

The Company initially measures other financial liabilities, consisting of accounts payable and amounts due to related parties, at their fair value, net of transaction costs, and subsequently at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

*Impairment of financial assets*

The Company assesses financial assets, other than those at FVTPL, for indications of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of any impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- The likelihood that the borrower will enter bankruptcy or financial re-organization.

**New Age Farm Inc.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For Nine Months Ended September 30, 2017**  
**(expressed in Canadian dollars)**

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(d) **Financial instruments** (continued)

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(e) **Share based Compensation**

The Company operates an employee stock option plan. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. 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. The fair value of options is determined using a Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(f) **Property, plant and equipment and deferred expenditures**

The Company records property, plant and equipment at cost less accumulated amortization and accumulated impairment losses. It recognizes amortization to write off the cost of assets less their residual values over their useful lives, using the following methods and rates:

|                                   |   |                                 |                   |
|-----------------------------------|---|---------------------------------|-------------------|
| Building                          | - | 15 years                        | straight line     |
| Greenhouse                        | - | 35 years                        | straight line     |
| Furniture, fixtures and equipment | - | 10-20%                          | declining balance |
| Motor vehicle and tractor         | - | 30%                             | declining balance |
| Deferred costs                    | - | Over term of lease with tenants |                   |

An item of property, plant and equipment and deferred expenditures is de-recognized 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.

Where an item of property, plant and equipment and deferred costs consist of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment and deferred expenditures. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

**New Age Farm Inc.**  
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(h) **Loss per share**

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

(i) **Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(j) **Impairment of long-lived assets**

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, it estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate. This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows).

If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying amount, it reduces the carrying amount to the recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

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(k) **Significant accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the amortization of plant, property and equipment, valuation of share-based payments and recognition of deferred income tax amounts.

Critical judgments and estimates exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

(l) **Future accounting changes**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2017 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded from the list below.

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2018. The Company is currently evaluating the potential impact of the adoption of IFRS 9.

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As at December 31, 2016, pursuant to the Arrangement (Note 1), the Company de-recognized all of NHS's assets and liabilities as result of the spin-off and realized gain of \$439,799 on a disposal of NHS during the year ended December 31, 2016. The Company also determined that there was a permanent impairment of its investment in NHS and wrote it down by \$3,441,341 to \$1. The Company completed the distribution of NHS shares during the period ended September 30, 2017.

**Statements of Operations and Comprehensive Operations of NHS**  
**(expressed in Canadian dollars)**

|  | Nine Months Ended     |                 |
|--|-----------------------|-----------------|
|  | September 30,<br>2016 |                 |
| <b>Revenue</b>   |                       |                 |
| Rent   | \$                    | 63,000          |
| Interest   |                       | 9               |
| <b>Total revenue</b>   |                       | <u>63,009</u>   |
| <b>Expenses</b>  |                       |                 |
| Accretion  |                       | 35,903          |
| Amortization   |                       | 18,236          |
| Bank charges   |                       | 72              |
| Insurance  |                       | 8,205           |
| Interest   |                       | 55,894          |
| Professional fees  |                       | 4,355           |
| Utility, property taxes and<br>miscellaneous                         |                       | 5,087           |
|  |                       | <u>127,752</u>  |
| <b>Other income (expense)</b>  |                       |                 |
| Write off of development costs                                       |                       | -               |
| Gain on extinguishment of<br>notes payable                           |                       | -               |
| <b>Total expenses</b>  |                       | <u>64,743</u>   |
| <b>Loss and comprehensive loss for the period</b>                    |                       | <u>(64,743)</u> |
| <b>Gain on a disposal of a subsidiary</b>                            |                       | -               |
| <b>Income (loss) from discontinued operations<br/>for the period</b> | \$                    | <u>(64,743)</u> |

**New Age Farm Inc.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
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**(expressed in Canadian dollars)**

| December 31, 2016                   |                     |                                 |                             |                        |
|-------------------------------------|---------------------|---------------------------------|-----------------------------|------------------------|
|                                     | Cost                | Additions/<br>(Deconsolidation) | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Land                                | \$ 900,000          | \$ (900,000)                    | \$ -                        | \$ -                   |
| Building                            | 213,800             | (78,393)                        | (135,407)                   | -                      |
| Greenhouse                          | 298,626             | (220,640)                       | (77,986)                    | -                      |
| Furniture, fixture and<br>equipment | 21,423              | (6,351)                         | (15,072)                    | -                      |
| Motor Vehicle                       | 23,776              | (1,165)                         | (22,611)                    | -                      |
| Sumas Property                      | 369,916             | (301,563)                       | -                           | 68,353                 |
| Sumas Property -<br>Facility        | 108,261             | 22,995                          | -                           | 131,256                |
| Oroville Property                   | 154,308             | -                               | -                           | 154,308                |
| Oroville Property -<br>Facility     | 72,417              | 716,014                         | -                           | 788,431                |
| Tractor                             | 30,000              | -                               | (9,000)                     | 21,000                 |
|                                     | <u>\$ 2,192,527</u> | <u>\$ (769,103)</u>             | <u>\$ (260,076)</u>         | <u>\$ 1,163,348</u>    |

  

| September 30, 2017              |                     |                        |                             |                        |
|---------------------------------|---------------------|------------------------|-----------------------------|------------------------|
|                                 | Cost                | Additions/<br>Disposal | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Sumas Property                  | 68,353              | -                      | -                           | 68,353                 |
| Sumas Property -<br>Facility    | 131,256             | -                      | -                           | 131,256                |
| Oroville Property               | 154,308             | -                      | -                           | 154,308                |
| Oroville Property -<br>Facility | 788,431             | 45,630                 | (107,616)                   | 726,445                |
| Tractor                         | 30,000              | -                      | (13,725)                    | 16,275                 |
|                                 | <u>\$ 1,172,348</u> | <u>\$ 45,630</u>       | <u>\$ (121,341)</u>         | <u>\$ 1,096,637</u>    |

The Company acquired an agricultural property during 2015 in Whatcom County, Washington State (“Sumas Property”) for a total purchase price of \$369,916. The Company is still in process of building a facility on the Sumas Property of which \$131,256 (2015 - \$108,261) of expenditure has been incurred as at December 31, 2016. The Company entered into a lease agreement with its first tenant on the property and it will commence to charge rental income to the tenant after the facility has been completely built to the tenant’s specification and requirement. The Company issued 3,000,000 common shares of the Company at a fair value of \$0.15 per share for total value of \$450,000 as deferred costs with respect to acquiring this first tenant during the year ended December 31, 2015 (Note 8). During the year 2016, the Company sold 50% of its interest in Sumas Property for \$301,563 to the debenture holder who held a convertible debt of \$250,000 and offset the entire debt amount and accrued interest (See Note 10). This amount has been deducted from the carrying value of the Sumas Property in the year 2016.

During 2015, the Company acquired another property in Okanogan County, Washington State (“Oroville Property”) for a total purchase price of \$154,308 (US\$118,000). The company paid US\$40,000 towards the purchase price and the seller financed the balance with the Company issuing a note payable to the seller in an amount of US\$78,000, at the rate of 8% per annum for a period of 10 years to be due on October 30, 2025 (Note 10).

As result of completing the spin-off of NHS, the Company de-recognized all of NHS’ property, plant and equipment on December 31, 2016 including the carrying values of land and building, greenhouse, furniture & fixtures and motor vehicle located on the Langley property.

5. **DEFERRED COSTS**

**New Age Farm Inc.**  
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The Company has incurred expenditures in acquiring the tenants on its Sumas Property and on its Oroville Property as below:

- Sumas Property: 3,000,000 common shares were issued at fair value of \$0.15 per share for total value of \$450,000 to acquire a tenant on the Sumas Property in 2015;
- Oroville Property: 3,000,000 common shares were issued at fair value of \$0.15 per share for total value of \$450,000 to acquire a tenant on the Oroville Property in 2015 and cash payment for \$19,403 was made to acquire this tenant as at December 31, 2016.

The Company will start amortize these expenditures over the lease terms of the tenant agreement once the facility on each property has been completed. As of September 30, 2017, the Company has completed its facility on the Oroville property and started amortization on a straight line basis over 5 years. During the nine months ended September 30, 2017, amortization of deferred costs on Oroville property was \$62,587 (December 31, 2016 - \$Nil). However, the construction of the Sumas facility has not yet been completed as at September 30, 2017.

**6. RELATED PARTY TRANSACTIONS**

For management compensation information for the period ended September 30, 2017, please refer to the table below:

| <b>Management compensation</b>   |                        |                      |                           | <b>Total Management</b> |
|----------------------------------|------------------------|----------------------|---------------------------|-------------------------|
| <b>September 30 2016</b>         | <b>Consulting Fees</b> | <b>Director Fees</b> | <b>Share compensation</b> | <b>Compensation</b>     |
| Carman Parente                   | \$ 135,000             | \$ 18,000            | \$ 82,000                 | \$ 235,000              |
| Anthony Chan                     | \$ 67,500              | \$ 18,000            | \$ 41,000                 | \$ 126,500              |
| Lorraine Pike                    | \$ 17,380              | \$ 18,000            | \$ 16,400                 | \$ 51,780               |
|                                  |                        |                      |                           |                         |
|                                  | \$ 219,880             | \$ 54,000            | \$ 139,400                | \$ 413,280              |
|                                  |                        |                      |                           |                         |
| <b>September 30 2017</b>         |                        |                      |                           |                         |
| Carman Parente, CEO and director | \$ 135,000             | \$ 18,000            | \$ 92,300                 | \$ 245,300              |
| Anthony Chan, CFO & Director     | \$ 67,500              | \$ 18,000            | \$ 127,800                | \$ 213,300              |
| David Johnson, Director          | \$ -                   | \$ 21,000            | \$ 156,900                | \$ 177,900              |
| Lorraine Pike, Director          | \$ 37,233              | \$ 18,000            | \$ 99,400                 | \$ 154,633              |
|                                  | \$ 239,733             | \$ 75,000            | \$ 476,400                | \$ 791,133              |

During the year ended December 31, 2016, the Company advanced \$Nil (2015: \$25,000) as a loan to a company of which the Chief Executive Officer is one of shareholders of this company after a write-off of \$25,000. This loan was non-interest bearing and had no fixed terms of repayment. The balance remains at \$Nil as at September 30, 2017.

During the period ended September 30, 2017, a new director, Mr. David Johnson, received 602,903 shares of the Company at fair value from \$0.10 to \$0.115 per share as share compensation for his acceptance as taking on the role of a new director of the Company and for payment of his director fees (Note 7(a)).

During the period ended September 30, 2017, the Company issued a total of 2,950,000 (2016 – 3,400,000) warrants as compensation to officers and directors at an exercise price of \$0.15 per share (2016 - \$0.05 per share) over three years and these warrants were fair valued at \$0.142 per warrant (2016 - \$0.041 per warrant) (Note 7(c)).

Please also refer to Note 11 for other Due to/From related parties transactions.

**7. SHARE CAPITAL**

**New Age Farm Inc.**  
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(a) Authorized: Unlimited common shares without par value  
Issued : 132,074,220 common shares (2016: 106,063,317 common shares)

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In January & February of 2016, the Company issued 200,000 common shares as result of warrants exercised by an external consultant at an exercise price of \$0.15 per warrant for a total proceed of \$30,000

In April 2016, 700,000 stock options were exercised at \$0.05 per share for a total proceed of \$35,000. Fair value of these options of \$11,200 was also re-allocated from contributed surplus to share capital. The Company also issued 500,000 common shares of the Company at a fair value of \$0.04 per share for services to an outside consultant. In addition, the Company also issued 1,602,500 common shares at a total fair value of \$45,063 to settle debts of \$80,126 owed to two current directors of the Company. Gain on settlement of these debts of \$35,063 was recognized.

In May 2016, the Company issued 1,200,000 common shares at a fair value of \$0.035 per share for total value of \$42,000 for consulting services provided by an external consultant.

In September 2016, the Company issued 500,000 common shares at a fair value of \$0.04 per share for total value of \$20,000 for consulting services provided by an external consultant.

In September 2016, 2,880,000 warrants were exercised at \$0.05 per share for a total proceed of \$144,000. Fair value of these warrants of \$116,400 was also re-allocated from contributed surplus to share capital.

In October 2016, the Company issued 3,500,000 common shares at a fair value of \$0.07 per share to settle total debts of \$249,375 and recognized gain on settlements of debts of \$4,375.

From October to December 2016, 4,520,000 warrants were exercised at an exercise price of \$0.05 per share for total proceeds of \$226,000 and 1,200,000 warrants were exercised at an exercise price of \$0.15 per share for total proceeds of \$180,000. Fair value of these warrants of \$333,600 was also re-allocated from contributed surplus to share capital.

From October to December 2016, 1,400,000 options at an exercise price of \$0.065, 1,000,000 options at an exercise price of \$0.09, 5,500,000 options at an exercise price of \$0.095 and 1,400,000 options at an exercise price of \$0.27, were all exercised for total proceeds of \$1,081,500. Fair value of these options of \$690,100 was also re-allocated from contributed surplus to share capital.

In November 2016, the Company issued 10,000,000 common shares at a fair value of \$1,017,500 to certain officers and consultants as compensation shares to settle fees of \$712,500 and recognized loss of \$305,000 as debts settlements.

In November 2016, the Company closed a private placement and issued 8,747,058 units at \$0.085 per unit for total proceeds of \$743,500. Each unit consists of one common share and one warrant at an exercise price of \$0.20 over two years. Share issuance costs of \$16,560 was paid in relation to the private placement. The Company issued 5,000,000 warrants as finders' fees at an exercise price of \$0.085 per share over two years and issued 329,824 brokers warrants at an exercise price of \$0.20 over two years. Fair value of these finders' warrants and brokers' warrants totaling \$338,140 was charged as share issuance costs using the Black Scholes option pricing model using the assumptions at the time of grant of risk free interest rates of from 0.72%, expected life of 2 years, expected volatility of 100%, forfeiture rate of 0% and a dividend rate of 0%.

During the nine months ended September 30, 2017, 15,408,000 warrants at exercise prices ranging from \$0.05 to \$0.24 per share were exercised for total proceeds of \$1,533,350. Fair value of these warrants of \$1,236,080 was also re-allocated from contributed surplus to share capital.

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7. **SHARE CAPITAL** (continued)

During the nine months ended September 30, 2017, 7,000,000 options at exercise price of \$0.13 were exercised for total proceeds of \$875,000. Fair value of these options of \$822,800 was also re-allocated from contributed surplus to



**New Age Farm Inc.**  
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share capital.

During the nine months ended September 30, 2017, 602,903 common shares were issued at fair value ranging from \$0.115 to \$0.15 per share to a new incoming director as compensation for his acceptance as a new director of the Company and for payment of his director fees (See Note 6). The Company also issued 3,000,000 common shares at fair value of \$255,000 to settle loans due to NHS in the amount of \$300,000 and recognized a gain on debt settlement of \$45,000 (See Note 11).

During the year ended December 31, 2016, as result of deconsolidating NHS pursuant to the spin-off, the Company de-recognized share capital, contributed surplus in amounts of \$1,540,183 and \$234,108 respectively out of NHS and charged the total to the deficit. The share capital originally recognized as reverse-takeover in an amount of \$243,366 was also charged to deficit. At the same time, the Company also recognized fair value of \$3,441,342 for the shares originally issued in acquiring NHS as part of deconsolidation.

(b) Stock Options

The Company has adopted an incentive stock option plan (the "Option Plan") dated which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with stock exchanges requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares. Included in the Option Plan are provisions that provide that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company and that the number of common shares reserved for issuance pursuant to options granted to all consultants or persons conducting investing relations activities will not exceed 2% of the issued and outstanding common shares within any 12-month period. At the discretion of the Board of Directors of the Company, options granted under the Option Plan can have a maximum exercise term of 5 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

During 2016, the Company granted incentive stock options to several consultants of the Company to purchase up to an aggregate of 9,300,000 common shares in the capital stock of the Company. These options are exercisable at prices from \$0.065 to \$0.27 per share, and will expire from October 6, 2019 to November 22, 2019. All options were fully vested at the date of grant. The fair value of these 9,300,000 stock options was determined to be \$690,100 using the Black Scholes option pricing model using the assumptions at the time of grant of risk free interest rates of from 0.56% to 0.72%, expected life of 3 years, expected volatility of 100%, forfeiture rate of 0% and a dividend rate of 0%.

During the nine months period ended September 30, 2017, the Company granted incentive stock options to an external consultant of the Company to purchase up to an aggregate of 6,000,000 common shares in the capital stock of the Company. These options are exercisable at \$0.13 per share, and will expire on February 3, 2019. All options were fully vested at the date of grant. The fair value of these 6,000,000 stock options was determined to be \$720,000 using the Black Scholes option pricing model using the assumptions at the time of grant of risk free interest rates of 0.77%, expected life of 2 years, expected volatility of 249%, forfeiture rate of 0% and a dividend rate of 0%.

During the nine months period ended September 30, 2017, the Company granted incentive stock options to an external consultant of the Company to purchase up to an aggregate of 10,000,000 common shares in the capital stock of the Company. These options are exercisable at \$0.095 per share, and will expire on May 17, 2020. All options were fully vested at the date of grant. The fair value of these 10,000,000 stock options was determined to be \$1,028,000 using the Black Scholes option pricing model using the assumptions at the time of grant of risk free interest rates of 0.72%, expected life of 3 years, expected volatility of 266%, forfeiture rate of 0% and a dividend rate of 0%.

7. **SHARE CAPITAL** (continued)

(b) Stock Options (continued)

- (i) As at September 30, 2017, the Company had stock options outstanding and exercisable enabling holders to acquire the following:

| Number of Shares | Exercise Price | Expiry Date       |
|------------------|----------------|-------------------|
| 50,000           | \$0.05         | September 8, 2019 |

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|                  |         |              |
|------------------|---------|--------------|
| 250,000          | \$0.20  | May 4, 2020  |
| 9,000,000        | \$0.095 | May 17, 2020 |
| <b>9,300,000</b> |         |              |

- (ii) A summary of the status of the Company's stock options outstanding and exercisable as at September 30, 2017 and December 31, 2016, and changes during those years is presented below:

|                                    | <b>Options<br/>Outstanding</b> | <b>Weighted Average<br/>Exercise Price</b> |
|------------------------------------|--------------------------------|--|
| <b>Balance, December 31, 2015</b>  | <b>3,400,000</b>               | <b>0.12</b>                                |
| Granted                            | 9,300,000                      | 0.12                                       |
| Exercised                          | (10,000,000)                   | 0.11                                       |
| Cancelled                          | (2,400,000)                    | 0.13                                       |
| <b>Balance, December 31, 2016</b>  | <b>300,000</b>                 | <b>0.18</b>                                |
| Granted                            | 16,000,000                     | 0.11                                       |
| Exercised                          | (7,000,000)                    | 0.13                                       |
| <b>Balance, September 30, 2017</b> | <b>9,300,000</b>               | <b>0.10</b>                                |

- (c) Warrants

During the year-ended December 31, 2016, the Company issued 17,500,000 warrants to management and external consultants with each warrant to purchase one common share of the Company at exercise prices from \$0.05 to \$0.24 per share over 3 to 5 years. These warrants were issued as result of these parties agreeing to defer receiving payments for consultant fees until the Company was in cash flow position. These warrants were issued at a total fair value of \$1,292,000 being credited to contributed surplus and was charged to operation as shares based payment using the Black Scholes option pricing model using the assumptions at the time of grant of risk free interest rates of from 0.54% to 0.72%, expected life of 3 to 5 years, expected volatility of 100%, forfeiture rate of 0% and a dividend rate of 0%. During the same period, 8,800,000 warrants had been exercised from \$0.05 to \$0.15 per share and a total fair value of \$468,000 was reallocated to share capital from contributed surplus (Note 7(a)).

During the nine months ended September 30, 2017, the Company issued 20,000,000 warrants to management and external consultants with each warrant to purchase one common share of the Company at exercise price ranging from \$0.10 to \$0.15 per share over 3 years. These warrants were issued as result of these parties agreeing to defer receiving payments for consultant fees until the Company was in cash flow position. These warrants were issued at a total fair value of \$2,448,000 being credited to contributed surplus and was charged to operation as shares based payment using the Black Scholes option pricing model using the assumptions at the time of grant of risk free interest rates of 0.75% - 0.87%, expected life of 3 years, expected volatility of 266%, forfeiture rate of 0% and a dividend rate of 0%. During the same period, 15,408,000 warrants had been exercised from \$0.05 to \$0.24 per share and a total fair value of \$1,236,080 was reallocated to share capital from contributed surplus (Note 7(a)).

|                                    | <b>Warrants<br/>Outstanding &amp;<br/>Exercisable</b> | <b>Weighted Average<br/>Exercise Price</b> |
|------------------------------------|---|--|
| <b>Balance, December 31, 2015</b>  | <b>7,100,000</b>                                      | <b>0.15</b>                                |
| Granted                            | 31,576,882  | 0.13                                       |
| Exercised                          | (8,800,000)   | 0.07                                       |
| Cancelled                          | (400,000)   | 0.15                                       |
| <b>Balance, December 31, 2016</b>  | <b>29,476,882</b>                                     | <b>0.16</b>                                |
| Granted                            | 20,000,000  | 0.13                                       |
| Exercised                          | (15,408,000)  | 0.10                                       |
| <b>Balance, September 30, 2017</b> | <b>34,068,882</b>                                     | <b>0.16</b>                                |

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7. **SHARE CAPITAL** (continued)

- (c) Warrants (continued)

| <b>Number of Shares</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|-------------------------|-----------------------|--------------------|
| 5,300,000               | \$0.15                | April 15, 2020     |
| 8,729,058               | \$0.20                | November 16, 2018  |
| 250,000                 | \$0.085               | November 16, 2018  |

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|                   |               |                   |
|-------------------|---------------|-------------------|
| 329,824           | \$0.20        | November 16, 2018 |
| 4,000,000         | \$0.24        | November 27, 2019 |
| 8,460,000         | \$0.15        | February 8, 2020  |
| 7,000,000         | \$0.10        | May 7, 2020       |
| <b>34,068,882</b> | <b>\$0.16</b> |                   |

**8. CAPITAL DISCLOSURES**

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include administrative costs and general expenditures. In the management of capital, the Company includes cash, due to related parties, loan payable, notes payable, and the components of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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. Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required.

In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and expects to raise additional amounts as needed. The Company will continue to assess new business and seek to acquire an interest in additional business if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, and all are held in major Canadian financial institutions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2016 and the period ended September 30, 2017. The Company is not subject to externally imposed capital requirements.

**9. FINANCIAL INSTRUMENTS AND RISK FACTORS:**

(a) Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of transactions is classified according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The company's cash and cash equivalents have been valued using Level 1 inputs.

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**9. FINANCIAL INSTRUMENTS AND RISK FACTORS: (continued)**

(a) Fair values (continued)

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at September 30, 2017 as follows:

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**(expressed in Canadian dollars)**

|                         | Level 1  | Level 2 | Level 3 | Total    |
|-------------------------|----------|---------|---------|----------|
| <b>Financial Assets</b> |          |         |         |          |
| Cash                    | \$ 9,019 | \$ -    | \$ -    | \$ 9,019 |
|                         | \$ 9,019 | \$ -    | \$ -    | \$ 9,019 |

(b) Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable Canadian financial institutions, from which management believes the risk of loss to be minimal. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's exposure to liquidity risk is dependent on raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. The Company ensures that sufficient funds are raised from private placements or loans to meet its operating requirements, after taking into account existing cash. The Company's cash is held in business accounts which are available on demand for the Company's business and are not invested in any asset-backed deposits or investments.

As at September 30, 2016, the Company had cash of \$9,019 to settle current liabilities of \$1,155,981. The seller note payable of \$83,159 is to be matured on October 30, 2025.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates decrease, the Company will generate smaller interest revenue. The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets. The Company is susceptible to interest rate fair value risk on its note payables that bear fixed interest rates.

**10. PROMISSORY NOTE / LOANS PAYABLE / SELLER NOTE PAYABLE**

On June 15, 2015, the Company entered into a convertible debenture with a third party in an amount of \$250,000 with annual interest rate of 15% to be due in two years on June 15, 2017. During the year-ended December 31, 2016, interest of \$31,250 (2015 - \$20,313) was accrued for on the loan. In October 2016, the Company entered into an agreement with the holder of this debenture to waive the full amount of debenture plus accrued interest in an amount of \$301,563 by selling 50% of its interest in the Sumas property (Note 4). On December 1, 2015, the Company also entered into a second convertible debenture with a third party in an amount of \$150,000 with annual interest rate of 15% to be due in three years on November 30, 2018, and the principal amount and accrued interest in an amount of \$157,890 was fully repaid in April, 2016.

On March 1, 2015, the Company received a loan of \$50,000 from a third party. This loan is non-interest bearing with no fixed terms of repayment. This loan was repaid during the nine months ended September 30, 2017.

On October 31, 2015, the Company entered into a secured note payable with the seller of the Oroville Property in an amount of US\$78,000 (Note 4). During the nine months ended September 30, 2017, interest and principal of \$Nil (2016 - \$8,562) and \$7,819 (2016 - \$15,780) was paid on this note respectively.

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**11. AMOUNTS DUE TO/FROM RELATED PARTIES**

Amounts due to related parties as at September 30, 2017 comprised of two parties. All of the amounts due to related parties are non-interest bearing, non-secured with no fixed terms of repayment. The breakdown of the amount owing is as below:

NHS Industries Ltd. \$ 566,335

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**(expressed in Canadian dollars)**

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|                                     |                   |
|-------------------------------------|-------------------|
| Private companies controlled by CEO | <u>\$ 289,016</u> |
| Total due to related parties        | <u>\$ 855,351</u> |

Subsequent to the period ended September 30, 2017, the Company entered into an agreement to settle \$300,000 of debts owing to NHS Industries into 3,000,000 common shares of the Company at value of \$300,000.

As at December 31, 2015, a loan receivable of \$25,000 was due from a private company of which the CEO of the Company is one of shareholders of this company. This was a non-interest bearing, non-secured loan with no fixed terms of repayment. Due to uncertainty of collection of this loan, the Company had written off this loan as a charge to its continued operations during the year ended December 31, 2016.

Refer to Note 6 and 7 for other related party transactions.

12. **SUBSEQUENT EVENTS**

1,540,000 warrants were exercised by two external consultants at an exercise price of \$0.15 per share.

173,357 common shares were issued to settle debts owing to a director in the amount of \$11,268.