

Mag One Products Inc.

Condensed Consolidated Interim Financial Statements

Three Months Ended December 31, 2016

Unaudited

Expressed in Canadian Dollars

NOTICE TO READER

Under National Instrument 51-102, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management, and were not reviewed by the Company's independent auditor.

Mag One Products Inc.
Condensed consolidated interim statements of financial position
(Unaudited - Expressed in Canadian Dollars)

	Note	December 31, 2016	September 30, 2016
		\$	\$
Assets			
Current assets			
Cash		279,977	207,239
Other receivable	5	43,554	53,357
Prepaid		5,000	23,172
		328,531	283,768
Non-current			
Investment	4	134,988	-
Construction in progress	6	26,854	26,234
Equipment and property	6	193,760	194,194
Total assets		684,133	504,196
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	7	108,640	160,502
Note payable	7	100,000	-
Due to related parties	8	626,300	116,050
		834,940	276,552
Shareholders' equity			
Share capital	9	5,430,250	5,403,250
Reserves		7,439,618	7,429,485
Deficit		(13,020,675)	(12,605,091)
Total equity		(150,807)	227,644
Total liabilities and shareholders' equity		684,133	504,196

See accompanying notes to the condensed consolidation interim financial statements

Nature of operations and going concern (Note 1)

-

Commitment (Note 14)

Approved and authorized for issuance by the Board of Directors on February 28, 2017

"Nelson Skalbani"
Director

"Charn Deol"
Director

Mag One Products Inc.**Condensed consolidated interim statements of comprehensive loss**

(Unaudited - Expressed in Canadian Dollars)

Three months ended December 31,	2016	2015
	\$	\$
Expenses		
Consulting	127,647	105,492
Office and administration	17,155	13,662
Promotion and investor communication	51,904	17,189
Research	182,247	30,631
Professional	4,890	11,950
Share-based compensation (Note 9)	–	3,267,200
Travel	19,476	24,952
Trust and filing fees	4,648	31,759
Total operating expenses	407,967	3,502,835
Lose before other items	(407,967)	(3,502,835)
Interest expense	(7,617)	(494)
Net loss	(415,584)	(3,503,329)
Other comprehensive loss:		
Translation gain	10,133	5,297
Comprehensive loss	(405,451)	(3,498,032)
Loss per share, basic and diluted	(0.01)	(0.11)
Weighted average number of outstanding shares, basic and diluted	32,356,170	32,329,170

Mag One Products Inc.**Condensed consolidated interim statements of changes in equity (deficiency)**

(Unaudited - Expressed in Canadian Dollars except for number of shares)

	Common shares		Reserve			Translation gain (loss)	Deficit	Total equity
	Number	Amount	Warrant	Loan	Option			
September 30, 2015	32,309,170	3,733,250	918,000	2,664,963	–	7,845	(7,060,835)	263,223
Share issuance- warrant exercise	40,000	24,000	–	–	–	–	–	24,000
Share-based compensation	–	–	–	–	3,267,200	–	–	3,267,200
Translation from subsidiaries	–	–	–	–	–	5,297	–	5,297
Net income	–	–	–	–	–	–	(3,503,329)	(3,503,329)
December 31, 2015	32,349,170	3,757,250	918,000	2,664,963	3,267,200	13,142	(10,564,164)	56,391
September 30, 2016	34,335,281	5,403,250	1,017,000	2,664,963	3,741,520	6,002	(12,605,091)	227,644
Translation from subsidiaries	–	–	–	–	–	10,133	–	10,133
Share issuance- warrant exercise	45,000	27,000	–	–	–	–	–	27,000
Net loss	–	–	–	–	–	–	(415,584)	(415,584)
December 31, 2016	34,380,281	5,430,250	1,017,000	2,664,963	3,741,520	16,135	(13,020,675)	(150,807)

See accompanying notes to the condensed consolidation interim financial statements

Mag One Products Inc.**Condensed consolidated interim statements of cash flows**

(Unaudited - Expressed in Canadian Dollars)

Three months ended December 31,	2016	2015
Cash (used in) provided by:	\$	\$
Operating activities		
Loss for the period	(415,584)	(3,503,329)
Items not involving cash :		
Share-based compensation	–	3,267,200
Amortization included in the research expenditure	9,498	–
Changes in non-cash operating working capital		
Other receivables and prepaid	27,975	(5,972)
Accounts payable and accrued liabilities and due to related parties	(2,948)	(19,233)
Cash used in operating activities	(381,059)	(261,334)
Investing activities		
Additional of equipment and property	(9,684)	(31,619)
Investment in joint venture	(134,988)	–
Cash used in investing activities	(144,672)	(31,619)
Financing activities		
Proceeds from note payable	100,000	50,000
Due to related parties (promissory note) (Note 8)	470,000	–
Share issuance for cash	27,000	24,000
Cash provided by financing activities	597,000	74,000
Effect of holding cash in foreign currency	1,469	–
Increase of cash	72,738	(218,953)
Cash, beginning of period	207,239	367,396
Cash, end of period	279,977	148,443
Supplementary information:		
Cash paid for interest	–	–
Cash paid for income taxes	–	–

See accompanying notes to the condensed consolidation interim financial statements

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Mag One Products Inc., (the “Company” or “Mag One”) was incorporated on June 18, 2007 in British Columbia, Canada and had its name changed to Mag One Products Inc. on March 18, 2015. The Company’s head office is located at Suite 145 – 925 Georgia Street West, Vancouver, V6C3L2. The Company’s shares are traded on the Canadian Securities Exchange (“CSE”).

The Company’s principal business is the research and development of technology and manufacturing facilities to produce magnesium and magnesium compound.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at December 31, 2016, the Company is not able to finance its day to day activities through operations. The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months through the issuance of its common and preferred shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements for the three and nine months ended June 30, 2016 together with the comparative figures herein have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Accordingly, certain disclosures required in annual financial statements have been condensed or omitted. These condensed interim financial statements are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that these condensed interim financial statements be read in conjunction with the most recent audited annual financial statements of the Company for the year ended September 30, 2015.

These condensed interim consolidated financial statements were approved and authorized by the Board of Directors on February 28, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments measured at their fair value, and are presented in Canadian dollars, unless otherwise noted.

The Company has not adopted new accounting policies since its recent year ended September 30, 2016.

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

These consolidated financial statements incorporate the accounts of the Company and the following controlled subsidiaries:

Name	Country of incorporation/ formation	Ownership Percentage	
		September 30, 2016	December 31, 2016
Mag One Operations Inc.	Canada	100%	100%
Mag One Operations Inc. ("MagOne USA")	USA	100%	100%
North American Magnesium Company LLC ("NAMP")	USA	100%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Accounting standards issued but not yet applied

New accounting standards or amendments to existing accounting standards that have been issued but have future effective date are either not applicable or are not expected to have significant impact on the Company's consolidated financial statements.

4. INVESTMENT

On July 21, 2016, the Company entered an initial joint venture agreement with Magboard LLC ("MagBoard"), a private US company, to form a new company ("MBE") in Quebec for the manufacturing of magnesium based wallboard.

The Company will earn its 50% interest of MBE by:

- Providing US\$500,000 startup capital to MBE;
- Providing a minimum 10,000 sq. ft. serviced facility to house the magboard assembly operation; and
- Providing up to US\$200,000 to purchase a convertible debenture in Magboard. The convertible debenture would have a coupon of 5% per annum and be convertible into shares of Magboard at \$0.5 per share.

As at December 31, 2016, the Company has provided US\$100,000 (or \$134,988) which is recorded to the Company's investment. The Company will start to include the results and accounts of MBE once the Company has earned its 50% interest.

5. OTHER RECEIVABLES

	December 31, 2016	September 30, 2016
	\$	\$
Sale taxes receivable	43,554	53,357

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

6. PROPERTY AND EQUIPMENT

As at December 31, 2016, NAMP LLC was in the process of constructing furnace equipment to produce magnesium products and had incurred \$26,854 in design costs (Construction in Progress or “CIP”).

	Laboratory	Equipment	Total
Cost:	\$	\$	\$
September 30, 2016	149,084	71,024	220,108
Additions	3,524	6,216	9,740
December 31, 2016	152,608	77,240	229,848
Accumulated Amortization:			
September 30, 2016	22,363	3,551	25,914
Additions	8,159	2,015	10,174
September 30, 2016	30,522	5,566	36,088
Net book value:			
September 30, 2016	126,721	67,473	194,194
December 31, 2016	122,086	71,674	193,760

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND NOTE PAYABLE

The Company had the following accounts payable and accrued liabilities as at December 31, and September 30, 2016:

	December 31, 2016	September 30, 2016
	\$	\$
Trade payables	89,140	146,002
Accrued liabilities	19,500	14,500
	108,640	160,502

As at December 31, 2016, the Company had a promissory note payable of \$100,000 (September 30, 2016 - \$Nil). This note payable is unsecured, non-interest bearing and is due on February 7, 2017. This promissory note was not paid and is considered default and become payable on demand.

8. RELATED PARTY TRANSACTIONS

Compensation paid to key management and directors

The following are the remuneration of the Company’s related parties:

Three months ended December 31,		2016	2015
		\$	\$
Chairman of the board (the “Chairman”)	Consulting	24,000	24,000
Former chief executive officer (“CEO”).	Consulting	-	24,000
President and CEO of a subsidiary	Consulting	24,000	24,000
Chairman and a company controlled by the Chairman	Share-based compensation	-	969,950
A company controlled by the former CEO	Share-based compensation	-	510,500
President and CEO of a subsidiary	Share-based compensation	-	306,300
Chief Financial Officer	Share-based compensation	-	102,100

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

Other directors	Share-based compensation	-	510,500
-----------------	--------------------------	---	---------

8. RELATED PARTY TRANSACTIONS (Continued)

Amounts due to related parties

	December 31, 2016	September 30, 2016
Chairman of the board of directors	\$ 24,000	\$ -
Former CEO	6,000	6,000
Note payable due to related parties (i)	570,000	103,750
Company with common directors and management	6,300	6,300
Amounts due to other related parties	20,000	-
	\$ 626,300	\$ 116,050

(i) *As at December 31, 2016, the Company had the following promissory notes payable outstanding:*

Principal	Holder	Terms	Interest	Others	Collateral
\$400,000	The spouse of the Company's former CEO	March 19, 2017	10% per annum	(iii)	(ii)
\$50,000 (iv)	A relative of the Company's Chairman	February 7, 2017	Non-interest bearing		Unsecured
\$20,000 (iv)	A relative of the Company's Chairman	On-demand	Non-interest bearing		Unsecured
\$100,000	The Company's former CEO	On-demand	Non-interest bearing		Unsecured

(ii) *This loan is secured by a corporate guarantee provided by the Company and a personal guarantee provided by a director of the Company*

(iii) *The Company paid \$10,000 cash in December and will issue 75,000 common shares to the lender as finance fees. If the promissory note is outstanding after March 19, 2017, the promissory note will become a payable on-demand note and the Company shall issue 25,000 common shares per month to the lender before the promissory note is fully settled*

(iv) *These two notes payable have been fully repaid after the period ended December 31, 2016.*

Other amounts owing to related parties do not bear any interest, are unsecured and are due on demand.

9. SHARE CAPITAL

Authorized

Unlimited number of Class A common shares without par value.

Unlimited number of non-voting Class B preferred shares without par value.

Common shares - Issued and outstanding

During three months ended December 31, 2016, the following shares and units were issued:

- 45,000 shares were issued at \$0.60/share when 45,000 warrant were exercised.

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

9. SHARE CAPITAL (Continued)

Warrants

Continuity of the Company's warrant is as follows:

	Number of Warrants	Weighted average exercise price	Expiry date
Balance, September 30, 2015	1,662,500	\$ 0.70	
Exercised	(365,000)	\$0.60	March 26, 2017
Granted, March 18, 2016	1,111,111	\$1.10	May 18, 2017
Granted, August 16, 2016	550,000	\$1.10	August 16, 2018
Balance, September 30, 2016	2,958,611	\$0.95	
Exercised	(45,000)	\$0.60	June 28, 2017
Balance, December 31, 2016	2,913,611	\$0.95	

As December 31, 2016, the Company had the following warrants outstanding:

Number of Warrants	Exercise price	Expiry date
840,000	\$0.60	June 28, 2017
412,500 (i)	\$1.10	August 26, 2016
1,111,111	\$1.10	May 18, 2017
550,000	\$1.10	August 16, 2018
2,913,611	\$0.95	

- (i) During 2016, the expiry date of these 412,500 has been extended to August 26, 2017 and the exercise price increased from \$0.60 to \$1.10 per share.

As at December 31, 2016, warrants outstanding have an average life of 0.68 years and average exercise price of \$0.95.

Option

During the three months ended December 31, 2015, the Company granted 3,200,000 stock options to its consultants, directors. All options vested on the grant date. The Company recorded the fair value of the options granted of \$3,267,200 as share-based compensation during the three months ended December 31, 2015.

The Company used the Black-Scholes Option Pricing Model to value the fair value of the options with the use of the following assumptions:

Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life (Years)	Volatility Factor	Dividend Yield
\$1.10	\$1.10	0.93%	5	160%	Nil

During the three months ended December 31, 2016 there was no options granted or exercised. As at December 31, 2016, the Company has the following options:

Number of Options	Exercise price	Expiry date
300,000	\$1.00	August 12, 2021
2,900,000	\$1.10	November 11, 2020
170,000	\$1.10	July 21, 2021
3,370,000		

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

9. SHARE CAPITAL (Continued)

During the year ended September 30, 2016, the Company entered a consulting agreement in which they were required to grant the consultant 200,000 options. As at September 30, and December 31, 2016, these options have not yet been granted and therefore no fair value has been recorded.

As at December 31, 2016, the Company had 3,370,000 options outstanding, with a weighted average exercise price of \$1.09 per share and a remaining life of 3.97 years.

Warrant reserve

The warrant reserve records the fair value of the warrant issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Translation reserve

The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations that have a functional currency other than the Company's reporting currency.

Loan reserve

Recorded in the loan reserve is the discount on the convertible debentures previously issued.

10. SEGMENTS

Operating segments

The Company operates in a single reportable operating segment which is the research and development of technology and manufacturing facilities for the processing and production of magnesium and magnesium compound.

Geographic segments

The Company's non-current assets are located in the following countries:

As at September 30, 2016	Canada	United States	Total
	\$	\$	\$
Property, equipment, and CIP	-	220,418	220,418

As at December 31, 2016	Canada	United States of	Total
	\$	\$	\$
Property, equipment, and CIP	-	220,614	220,614

11. FINANCIAL INSTRUMENTS

The Company has not changed its approach in managing risk associated with its financial instruments since its recent year ended September 30, 2016.

Fair value

Financial instruments that are not measured at their fair values are cash, other receivable, accounts payable and accrued liabilities, due to related party, and note payable. The fair values of these financial instruments approximate their carrying amounts either due to their short-term nature or because the interest rates applied to measure their carrying amount approximate current market rates.

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

Mag One Products Inc.
Notes to the condensed consolidated interim financial statements
Three months ended December 31, 2016
(Unaudited - Expressed in Canadian dollars)

11. FINANCIAL INSTRUMENTS (Continued)

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

The Company does not have financial instruments measured at fair value

12. COMMITMENT

During the year ended September 30, 2015, the Company, through its wholly owned subsidiary MagOne USA, entered a definitive agreement to acquire 100% of North American Magnesium Products, LLC (“NAMP LLC”), a LLC formed by Orion Laboratories, LLC.

The members of Orion Laboratories LLC will receive up to 40,000,000 common shares of the Company based on the operating performance of the Company at one common share for \$1.00 operating profit of the Company earned.