NHS INDUSTRIES LTD.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS PERIOD ENDED MARCH 31, 2014

(Expressed in Canadian dollars)

Index

MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED CONDENSED INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed interim financial statements of NHS Industries Ltd. [the "Company"] are the responsibility of the management and Board of Directors of the Company. The unaudited condensed interim 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 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 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 has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced. The Board of Directors is responsible for reviewing and approving the unaudited condensed interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

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
May 1, 2014

NOTICE TO READERS

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements for the three months period ended March 31, 2014 have not been reviewed by the Company's auditors.

NHS Industries Ltd.
Unaudited Condensed Interim Statements of Financial Position
(expressed in Canadian dollars)

	March 31, 2014	December 31, 2013
Current		
Cash	**$267**	$5,889
GST receivable	**521**	-
Due from shareholders	**9,200**	-
Investment (Note 3)	**-**	-
	9,988	5,889
Property, plant and equipment (Note 4)	**1,274,083**	1,280,346
Property under development (Note 5)	**650,000**	650,000
Total assets	**$1,934,071**	$1,936,235
Current		
Accounts payable	**$32,245**	$6,355
Accrued liabilities	**-**	20,000
Due to related parties (Note 6)	**-**	-
Due to shareholders (Note 6)	**-**	-
Current portion of mortgage (Note 7)	**17,178**	16,997
	49,423	43,352
Security deposit received	**7,000**	7,000
Promissory note (Note 12)	**-**	275,103
Secured loans (Note 11)	**1,320,444**	
Long term portion of mortgage (Note 7)	**671,235**	675,598
Total liabilities	**2,048,102**	1,001,053
Shareholders' equity (deficiency)		
Shares capital (Note 8)	**784,783**	2,004,783
Contributed surplus	**292,366**	75,424
Deficit, per accompanying statement	**(1,191,180)**	(1,145,025)
Total shareholders' equity (deficiency)	**(114,031)**	935,182
Total liabilities and shareholders' equity (deficiency)	**$1,934,071**	$1,936,235

Nature and continuance of operations (Note 1)

Approved on behalf of the Board on May 1, 2014:

"Carman Parente"
Director – Carman Parente

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

NHS Industries Ltd.
Unaudited Condensed Interim Statements of Operations and Comprehensive Operations
(expressed in Canadian dollars)

Three Months Period Ended		March 31, 2014		March 31, 2013
Revenue				
Rent	$	21,000	$	-
Interest		2		-
Total revenue		21,002		-
Expenses				
Amortization		6,261		6,425
Bank charges		38		72
Insurance		-		3,992
Interest		15,800		7,530
Office and miscellaneous		32		-
Professional fees		41,429		-
Property taxes		(230)		-
		63,330		18,019
Other expense				
Loss on extinguishment of notes payable		3,827		-
Total expenses		67,157		-
Loss and comprehensive loss for the period	$	(46,155)	$	(18,019)
Loss per share	$	(0.00)	$	(1,802)
Weighted average number of shares outstanding		66,826,091		10

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

NHS Industries Ltd.
Unaudited Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)
(expressed in Canadian dollars)

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Shareholders' Equity (Deficiency)
Balance, December 31, 2013	**66,826,091**	**$ 2,004,783**	**$ 75,424**	**$ (1,145,025)**	**$ 935,182**
Shares returned for cancellation	(41,666,667)	(1,250,000)	-	-	(1,250,000)
Shares issued for debts	1,000,000	30,000	-	-	30,000
Discount on secured loans	-	-	216,942	-	216,942
Loss for the period	-	-	-	(46,155)	(46,155)
Balance, March 31, 2014	**26,159,424**	$ **784,783**	**$ 292,366**	**$ (1,191,180)**	**$ 114,031**

	Number of Shares	Share Capital	Deficit	Shareholder's Equity (Deficiency)
Balance, December 31, 2012	**10**	**$ 1**	**$ (1,037,425)**	**$ (1,037,424)**
Loss for the period	**-**	**-**	(18,019)	(18,019)
Balance, March 31, 2013	**10**	**$ 1**	**$ (1,055,444)**	**$ (1,055,443)**

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

NHS Industries Ltd.
Unaudited Condensed Interim Statements of Cash Flows
(expressed in Canadian dollars)

Three Months Period Ended	March 31, 2014	March 31, 2013
Cash flows from (used in)		
Operating activities		
Net loss for the year	$ (46,155)	$ (18,019)
Items not affecting cash:		
Loss on extinguishment of notes payable	3,827	-
Accretion of interest	8,456	-
Amortization	6,261	6,425
	(27,611)	(11,594)
Changes in non-cash working capital items:		
GST receivable	(521)	-
Accounts payable and accrued liabilities	35,892	-
Net cash used in operating activities	7,760	(11,594)
Investing activity		
Investment	-	-
Net cash used in investing activities	-	-
Financing activities		
Due to/from shareholders	(9,200)	15,782
Mortgage	(4,182)	(4,170)
	(13,382)	11,612
Increase (decrease) in cash and cash equivalents during the period	(5,622)	18
Cash (bank indebtedness), beginning of the period	5,889	35
Cash (bank indebtedness), end of the period	$ 267	$ 53
Interest paid	$ 7,344	$ 7,530
Income tax paid	$ -	$ -
Non-cash Transactions:		
Extinguishment of notes payable	$ 347,737	$ -
Issuance of secured loans to extinguish notes payable	$ 347,737	$ -
Issuance of additional secured loans	$ 1,250,000	$ -
Common shares returned to treasury for cancellation	$ 1,250,000	$ -

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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." (the "Company") 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.

At March 31, 2014, the Company had working capital deficiency of $39,435 (December 31, 2013 - $37,463), had not yet achieved profitable operations, has accumulated losses of $1,191,180 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 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 financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance and Basis of Presentation

These unaudited condensed interim 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 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 unaudited condensed interim 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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(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:

Financial assets:	Classification:
Cash and bank indebtedness	Fair value through profit or loss
Investment	Available-for-sale

Financial liabilities:	Classification:
Accounts payable, accrued liabilities, due to related Parties, due to shareholders, promissory note, secured loans and mortgage	Other financial liabilities

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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

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.

<u>Other financial liabilities</u>
The Company initially measures other financial liabilities, consisting of accounts payable and accrued liabilities, amounts due to related parties, amounts due to shareholders, promissory note and secured loans, 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.

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the 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) **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less and which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts. Cash may also be invested in guaranteed investment certificates that are available on demand by the Company for its program. The Company does not invest in any asset-backed deposits/investments.

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

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	-	30%	declining balance

An item of property, plant and equipment 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 consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. 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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(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 or 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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

The preparation of 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 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 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.

(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, 2015 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, issued in December 2009, effective for annual periods beginning on or after January 1, 2015, 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 financial statements for the period beginning January 1, 2015. The Company is currently evaluating the potential impact of the adoption of IFRS 9.

(expressed in Canadian dollars)

3. INVESTMENT

The investment in a private company is classified as Available for Sale and measured at cost as this investment does not have a quoted market price in an active market. During the year ended December 31, 2013, the Company wrote off its investment of $50,556.

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2014			December 31, 2013
	Cost	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Land	$ 900,000	$ -	$ 900,000	$ 900,000
Building	213,800	96,211	117,589	121,154
Greenhouse	298,626	54,523	244,103	246,236
Furniture, fixture and equipment	21,423	12,174	9,249	9,559
Motor Vehicle	23,776	20,634	3,142	3,397
	$ 1,457,625	$ 183,542	$ 1,274,083	$ 1,280,346

5. PROPERTY UNDER DEVELOPMENT

At March 31, 2014, the Company is in the process of building a facility, which will contain an operating kitchen, a warehouse space and a cold storage facility. As at March 31, 2014, the Company has incurred expenditures of $650,000 (December 31, 2013: $650,000) on this development.

6. DUE TO/FROM SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The amounts of $nil (2013 - $nil) due to related parties, companies owned by shareholders of the Company, are non-interest bearing, unsecured and without fixed terms of repayment.

The amounts of ($9,200) (2013 - $nil) due to/(from) shareholders of the Company are non-interest bearing, unsecured and without fixed terms of repayment.

On December 1, 2013, the amounts of $1,562,083 due to shareholders and related parties of the Company were settled for 66,826,081 common shares of the Company and a promissory note of $347,737. (Note 8 and 12)

7. MORTGAGE

The Company has negotiated a credit facility with the BlueShore Financial (the "BSF") for a commercial mortgage.

The commercial mortgage bears interest at 4.25% per annum until October 1, 2017. The mortgage requires monthly blended payments of $3,842. Payments will be adjusted at a time of term renewal based on the fixed rate of interest in effect and the remaining amortization period.

(expressed in Canadian dollars)

7. **MORTGAGE** (Continued)

The mortgage is secured by a rental property of the Company and an assignment of rents.

	March 31, 2014	December 31, 2013
Balance, beginning of the period	$ 692,595	$ 709,139
Principal payments made during the period	(4,182)	(16,544)
Balance, end of the period	688,413	692,595
Amount payable within one year	(17,178)	(16,997)
	$ 671,235	$ 675,598

Principal repayment terms are approximately as follows:

2014	$ 12,815
2015	17,734
2016	18,502
2017	19,304
2018	20,141
Thereafter	599,917
	$ 688,413

8. **SHARE CAPITAL**

Authorized: Unlimited common shares without par value
Issued : 26,159,424 common shares (December 31, 2013: 66,826,091 common shares)

On December 1, 2013, the amounts of $2,004,782 due to shareholders and related parties of the Company were settled for 66,826,081 common shares of the Company at a price of $0.03 per share. (Note 6)

On March 31, 2014, 41,666,667 common shares of the Company were returned to treasury for cancellation by shareholders at average price of $0.03 per share for total of $1,250,000. In consideration, the Company issued non-interest bearing secured loans to two shareholders, to be due in two years. (Note 11)

9. 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 mortgage, due to related parties, due to shareholders, promissory note, secured loans 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.

10. 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 and bank indebtedness have been valued using Level 1 inputs.

(expressed in Canadian dollars)

10. **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 March 31, 2014 as follows:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and cash equivalents	$ 267	$ -	$ -	$ 267
Investments	-	-	-	-
	$ 267	$ -	$ -	$ 267

(b) Credit risk

Credit risk is the loss associated with a counter-party's inability to fulfil its payment obligations. The Company's credit risk is attributable to HST/GST receivable from Canadian Federal government and term deposits. The credit risk is minimized by placing cash with major Canadian financial institutions. Management believes that the credit risk concentration with respect to financial instruments above is remote.

(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 and cash equivalents are 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 March 31, 2014, the Company had cash and cash equivalents of $267 to settle current liabilities of $49,423. The mortgage of $688,413 has a term which will be renewed on October 1, 2017 and the secured loans of $1,320,444 have a maturity date of March 31, 2016.

(d) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i) 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. Presently the Company is not at risk of realizing a loss as a result of a decline in the fair value of its financial instruments because of the short-term nature of the investments. The Company is susceptible to interest rate fair value risk on its mortgage payable that bears a fixed interest rate.

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

(d) Market risk (continued)

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and major expenditures are transacted in Canadian dollars.

11. **SECURED LOANS**

On March 31, 2014, the note payable in the amount of $347,737 (Note 12) due to a company owned by an officer of the Company was extinguished by the Company. In consideration for the extinguishment, the Company issued a non-interest bearing secured loan to replace the note payable. Together with the 25,000,000 common shares returned to treasury for cancellation at an agreed value of $750,000, the Company entered into a secured loan agreement with this company. This is a non-interest bearing loan in the amount of $1,097,737 to be due in two years on March 31, 2016 and secured by the Company's current and future assets secondary to the mortgage currently held by BlueShore Financial.

On the same date, another shareholder also returned 16,666,667 common shares of the Company to the treasury for cancellation at an agreed value of $500,000. The Company also entered into a non-interest bearing loan agreement with this shareholder in the amount of $500,000 to be due in two years on March 31, 2016 and secured by the Company's current and future assets with it rights subsequent to the registered holder described above.

The total secured loans of $1,597,737 were accounted for at amortized cost using the effective interest rate method with the effective interest rate of 10% per annum.

The debt discount of $216,942 is credited to Contributed surplus, debited to secured loans and being amortized over the term of the note.

The total discount of $nil was charged to interest expense for the period ended March 31, 2014.

12. **PROMISSORY NOTE**

On December 1, 2013, the amounts of $347,737 due to a company owned by an officer of the Company were settled for a promissory note of $347,737. (Note 6) The promissory note is not interest-bearing and unsecured with a maturity date of December 1, 2015.

The note payable was accounted for at amortized cost using the effective interest rate method with the effective interest rate of 13% per annum.

The debt discount of $75,424 is credited to Contributed surplus, debited to note payable and being amortized over the term of the note.

The total discount of $8,456 was charged to interest expense for the period ended March 31, 2014. As at March 31, 2014, this note payable had a carrying value of $283,559. By replacing this note payable with a secured loan for a further two years term at a reduced risk adjusted discounted rate of 10%, fair value of the same loan amount of $347,737 issued to replace the note payable was calculated at $287,386 and thus a loss on extinguishment of note payable of $3,827 was realized and recognized as a charge to the statements of loss during the period ended March 31, 2014.

13. **SUBSEQUENT EVENT**

On April 8, 2014, the Company issued 1,000,000 common shares of the Company at $0.03 per share to settle a total debt of $30,000 owing to an external service provider.