

NEW AGE FARM INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

(Expressed in Canadian dollars)

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Adam Kim

**ADAM SUNG KIM LTD.
CHARTERED PROFESSIONAL ACCOUNTANT**

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of
New Age Farm Inc.

I have audited the accompanying consolidated financial statements of New Age Farm Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of operations and comprehensive operations, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the years ended December 31, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flow for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred losses to date. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"Adam Sung Kim Ltd."
Chartered Professional Accountant

Burnaby, British Columbia
April 28, 2017

NEW AGE FARM INC.
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

	December 31, 2017	December 31, 2016
Current		
Cash	\$ 2,370,660	\$ 562,585
Investment to be distributed to shareholders (Note 3)	-	1
Loan receivable (Note 14)	282,262	-
	<u>2,652,922</u>	<u>562,586</u>
Deposit on acquisition (Note 13)	64,430	-
Property, plant and equipment (Note 4)	68,354	1,163,348
Deferred costs (Note 5)	-	919,403
Total assets	<u>\$ 2,785,706</u>	<u>\$ 2,645,337</u>
Current		
Accounts payable (Note 6)	\$ 61,620	\$ 44,317
Accrued liabilities (Note 6)	328,250	77,525
Loans payable (Note 10)	-	50,000
Current portion of note payable (Note 10)	8,375	8,375
Due to related parties (Note 11)	1,062,950	1,057,332
	<u>1,461,195</u>	<u>1,237,549</u>
Long term portion of note payable (Note 10)	70,643	82,603
Total liabilities	<u>1,531,838</u>	<u>1,320,152</u>
Shareholders' equity		
Shares capital (Note 7)	25,367,943	11,489,954
Shares to be issued (Note 15)	125,000	-
Contributed surplus	5,916,788	2,433,148
Deficit, per accompanying statement	(30,155,863)	(12,597,917)
Total shareholders' equity	<u>1,253,868</u>	<u>1,325,185</u>
Total liabilities and shareholders' equity	<u>\$ 2,785,706</u>	<u>\$ 2,645,337</u>

Nature and continuance of operations (Note 1) and **Subsequent events** (Note 15)

Approved on behalf of the Board on April 28, 2018:

"Carman Parente"
 Director – Carman Parente

"Anthony Chan"
 Director – Anthony Chan

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

NEW AGE FARM INC.
Consolidated Statements of Operations and Comprehensive Operations
(expressed in Canadian dollars)
For Year Ended

	December 31, 2017	December 31, 2016
Expenses		
Advertising & promotion	\$ 693,828	\$ 259,752
Amortization	246,578	9,000
Bank charges	2,346	1,594
Consulting (Note 6)	4,833,389	1,763,388
Directors' fees (Note 6)	99,000	72,000
Foreign exchange (gain)/loss	46,180	(10,411)
Insurance	5,336	6,406
Interest	6,895	45,827
Office and miscellaneous	21,792	14,749
Professional fees	42,880	54,618
Utility & property taxes	14,961	4,280
Telephone	2,666	940
Transfer agent, listing & filing fees	28,900	22,070
Travel	3,699	217
Shares based payments (Note 7)	9,608,330	1,982,100
	<u>15,656,780</u>	<u>4,226,530</u>
Other income (expense)		
Gain (loss) on settlements of debts (Note 7)	60,000	(265,563)
Reserve on loan receivable (Note 14)	(97,918)	(25,000)
Write off of property, plant and equipment (Note 4)	(1,863,248)	-
Write off of investment (Note 3)	-	(3,441,341)
Total income (expenses)	<u>(1,901,166)</u>	<u>7,958,434</u>
Loss and comprehensive loss from continued operations for the year	(17,557,946)	(7,958,434)
Income (loss) and comprehensive income (loss) from discontinued operations for the year (Note 3)	-	353,615
Loss and comprehensive loss for the year	\$ (17,557,946)	\$ (7,604,819)
Loss per share	\$ (0.14)	\$ (0.11)
Weighted average number of shares outstanding	126,842,272	70,310,378

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

NEW AGE FARM INC.
Consolidated Statements of Changes in Shareholders' Equity
(expressed in Canadian dollars)

	Number of Shares	Share Capital & subscribed	Contributed Surplus*	Shares to be issued	Deficit	Shareholders' Equity
Balance, December 31, 2015	61,213,759	\$ 5,342,350	\$ 1,516,466	\$ -	\$ (7,010,755)	\$ (151,939)
Exercise of warrants	8,800,000	580,000	-	-	-	580,000
Fair value of warrants transferred	-	468,000	(468,000)	-	-	-
Exercise of options	10,000,000	1,116,500	-	-	-	1,116,500
Fair value of options transferred	-	701,300	(701,300)	-	-	-
Shares issued for services, as compensation and to settle debts	17,302,500	1,389,561	-	-	-	1,389,561
Shares issued for cash per private placements	8,747,058	743,500	-	-	-	743,500
Shares based payments, options granted and warrants issued	-	-	1,982,100	-	-	1,982,100
Fair value of brokers warrants issued	-	(338,140)	338,140	-	-	-
Commissions and fees paid on private 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 subsidiary	-	3,441,342	-	-	-	3,441,342
Derecognition of reverse-takeover share capital to deficit	-	(243,366)	-	-	243,366	-
Miscellaneous	-	400	(150)	-	-	250
Loss for the year	-	-	-	-	(7,604,819)	(7,604,819)
Balance, December 31, 2016	106,063,317	11,489,954	2,433,148	-	(12,597,917)	1,325,185
Exercise of warrants	23,678,000	2,682,600	-	-	-	2,682,600
Fair value of warrants transferred	-	1,880,110	(1,880,110)	-	-	-
Exercise of options	40,600,000	4,684,000	-	-	-	4,684,000
Fair value of options transferred	-	4,244,580	(4,244,580)	-	-	-
Shares issued for services	776,260	79,768	-	-	-	79,768
Shares issued to settle debts	4,000,000	390,000	-	-	-	390,000
Subscription receivable	-	(83,069)	-	-	-	(83,069)
Shares based payments, options granted and warrants issued	-	-	9,608,330	-	-	9,608,330
Shares to be issued	-	-	-	125,000	-	125,000
Loss for the year	-	-	-	-	(17,557,946)	(17,557,946)
Balance, December 31, 2017	175,117,577	\$ 25,367,943	\$ 5,916,788	\$ 125,000	\$ (30,155,863)	\$ 1,253,868

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

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

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

For Year Ended	December 31, 2017	December 31, 2016
Cash flows from (used in)		
Operating activities		
Net loss for the year from continued operation	\$ (17,557,946)	\$ (7,958,434)
Items not affecting cash:		
Amortization	246,578	9,000
Accrued interest	-	31,250
Loss (Gain) on settlements of debts	(60,000)	265,563
Shares issued for services	79,768	82,000
Reserve on loan receivable	97,918	25,000
Write off of property, plant and equipment	1,863,248	-
Write off of investment	-	3,441,341
Shares based payments	9,608,330	1,982,100
	(5,722,104)	(2,122,180)
Changes in non-cash working capital items:		
Prepaid expenses	-	104,051
Accounts payable and accrued liabilities	418,030	353,140
Cash used in continued operation	(5,304,074)	(1,664,989)
Cash provided from discontinued operation	-	197,503
Net cash used in operating activities	(5,304,074)	(1,467,486)
Investing activities		
Loan receivable	(380,180)	-
Deposit on acquisition	(64,430)	-
Deferred costs	-	(6,743)
Cash transferred upon spin-out	-	(22,697)
Purchase of property, plant and equipment	(95,429)	(739,009)
Cash used in continued operation	(540,039)	(768,449)
Cash provided from discontinued operation	-	131,070
Net cash used in investing activities	(540,039)	(637,379)
Financing activities		
Loans payable	(50,000)	(151,875)
Note payable	(11,960)	(15,780)
Due to related parties	305,618	185,058
Proceeds from issuance of common shares	25,930	679,750
Commissions paid on private placements	-	(16,560)
Exercise of stock options	4,775,000	1,025,500
Exercise of warrants	2,607,600	580,000
Cash provided from continued operation	7,652,188	2,286,093
Cash provided from discontinued operation	-	281,310
Net cash provided from financing activities	7,652,188	2,567,403
Increase in cash and cash equivalents during the year	1,808,075	462,538
Cash and cash equivalents, beginning of the year	562,585	100,047
Cash and cash equivalents, end of the year	\$ 2,370,660	\$ 562,585
Interest paid	\$ 6,895	\$ 14,577
Income tax paid	\$ -	\$ -
Non-cash Transactions:		
Issuance of shares to settle debts and for services	\$ 469,768	\$ 1,389,561
Fair value of brokers warrants issued as share issuance costs	\$ -	\$ 338,140
Settlement of debt for a property	\$ -	\$ 301,563

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

New Age Farm Inc.
Notes to the Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

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. The Company subsequently changed its name to New Age Farm Inc. on April 10, 2014. The Company listed its common shares on the Canadian Securities Exchange and began trading under the symbol NF on August 18, 2014. 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 Industries Ltd. (“NHS”, its wholly-owned subsidiary) 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 consolidated financial statements have de-recognized all of NHS’ assets and liabilities at its year-end date of December 31, 2016. For the consolidated statements of operations and comprehensive loss and the consolidated statements of cash flows, discontinued operations has been separately disclosed from the continued operations. The Company completed the distribution of NHS shares during the year ended December 31, 2017.

At December 31, 2017, the Company had not yet achieved profitable operations, has accumulated losses of \$30,155,863 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 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 consolidated financial statements.

New Age Farm Inc.
Notes to the Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

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

These 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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, New Age Farm Washington, LLC. The financial statements of NHS were included these consolidated financial statements until a spin-out of NHS on December 31, 2016 (Note 3). All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation. These 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
Loan receivable	Loans and receivables
<u>Financial liabilities:</u>	<u>Classification:</u>
Accounts payable, accrued liabilities, due to related parties and loans and note payable	Other financial liabilities

New Age Farm Inc.
Notes to the Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

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

(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 Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

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

(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:

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.
Notes to the Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

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 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.

New Age Farm Inc.
Notes to the Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

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

(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, 2018 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.

New Age Farm Inc.
Notes to the Consolidated Financial Statements
For Year Ended December 31, 2017
(expressed in Canadian dollars)

3. INVESTMENT IN NHS

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 year ended December 31, 2017.

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

	Year Ended
	December 31,
	2016
Revenue	
Rent	\$ 84,000
Interest	29
Total revenue	84,029
Expenses	
Accretion	35,903
Amortization	24,193
Bank charges	90
Insurance	10,221
Interest	79,914
Professional fees	13,855
Utility, property taxes and Miscellaneous	6,037
	170,213
Other income (expense)	
Write off of development costs	-
Gain on extinguishment of notes payable	-
Total expenses	170,213
Loss and comprehensive loss for the year	(86,184)
Gain on a disposal of a subsidiary	439,799
Income (loss) from discontinued operations for the year	\$ 353,615

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4. **PROPERTY, PLANT AND EQUIPMENT**

	December 31, 2016				
	Cost	Additions/ (Deconsolidation)	Accumulated Amortization		Net Carrying Amount
Land	\$ 900,000	\$ (900,000)	\$ -	\$ -	-
Building	213,800	(78,393)	(135,407)		-
Greenhouse	298,626	(220,640)	(77,986)		-
Furniture, fixture and equipment	21,423	(6,351)	(15,072)		-
Motor Vehicle	23,776	(1,165)	(22,611)		-
Sumas Property	369,916	(301,563)	-		68,353
Sumas Facility	108,261	22,995	-		131,256
Oroville Property	154,308	-	-		154,308
Oroville 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>

	December 31, 2017				
	Cost	Additions/ Disposal	Accumulated Amortization	Write-off	Net Carrying Amount
Sumas Property	\$ 68,353	\$ -	\$ -	\$ -	\$ 68,353
Sumas Facility	131,256	-	-	(131,256)	-
Oroville Property	154,308	-	-	(154,307)	1
Oroville Facility	788,431	110,130	(154,371)	(744,190)	-
Tractor	30,000	(14,700)	(15,300)	-	-
	<u>\$ 1,172,348</u>	<u>\$ 95,430</u>	<u>\$ (121,341)</u>	<u>\$ (1,029,753)</u>	<u>\$ 68,354</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 incurred \$131,256 (2016 - \$131,256) of expenditures for building a facility on the Sumas Property as at December 31, 2017. 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 the year ended December 31, 2017, due to the uncertainty in earning rental income from its first tenant, to be shared with its 50% co-owner, the Company determined that there is impairment to the Sumas Facility and wrote off \$131,256 costs of Sumas Facility to \$Nil.

During 2015, the Company acquired 50% interest in 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). The Company incurred \$744,190, net of amortization (2016 - \$788,431) of expenditures for building a facility on the Oroville Property as at December 31, 2017. During the year-ended December 31, 2017, the Company decided to discontinue its investment and look for a buyer of the Oroville Property.

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended December 31, 2017, due to the uncertainty in earning rental income from its first tenant and difficulty in seeking a potential buyer for the Oroville Property, the Company determined that there is an impairment to the Oroville Property and Facility, and wrote off \$154,307 costs of Oroville Property and \$744,190 costs of Oroville Facility to \$Nil.

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

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 would start amortize these expenditures over the lease terms of the tenant agreement once the facility on each property has been completed. During the year ended December 31, 2017, the Company has completed its facility on the Oroville property and started amortization on a straight line basis over 5 years. During the year ended December 31, 2017, amortization of deferred costs on the Oroville Property was \$85,907 (December 31, 2016 - \$Nil). Due to the uncertainty in realizing future benefit from this intangible property, the Company decided to write off the remaining balance of \$383,497 of the Oroville Property acquisition cost to \$Nil as at December 31, 2017.

The Company also determined to write off \$450,000 of the Sumas Property acquisition cost to \$Nil due to the uncertainty in realizing any future benefit from this intangible property as at December 31, 2017.

6. RELATED PARTY TRANSACTIONS

For management compensation information for the year ended December 31, 2017, please refer to the table below:

Management compensation	Consulting Fees	Director Fees	Shares Compensation	Total Management Compensation
December 31 2016				
Carman Parente, CEO & Director	\$ 430,000	\$ 24,000	\$ 82,000	\$ 536,000
Anthony Chan, CFO & Director	\$ 240,000	\$ 24,000	\$ 41,000	\$ 305,000
Lorraine Pike, Director	\$ 74,364	\$ 24,000	\$ 16,400	\$ 114,764
	\$ 744,364	\$ 72,000	\$ 139,400	\$ 955,764
December 31 2017				
Carman Parente, CEO and Director	\$ 180,000	\$ 24,000	\$ 92,300	\$ 296,300
Anthony Chan, CFO & Director	\$ 94,500	\$ 24,000	\$ 127,800	\$ 246,300
David Johnson, Director	\$ 15,593	\$ 27,000	\$ 156,900	\$ 199,493
Lorraine Pike, Director	\$ 58,215	\$ 24,000	\$ 99,400	\$ 181,615
NHS Industries Ltd. - Common Officers and Directors	\$ 383,250	\$ -	\$ -	\$ 383,250
	\$ 731,558	\$ 99,000	\$ 476,400	\$ 1,306,958

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6. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2017, a director of the Company received 776,260 shares of the Company at fair value from \$0.065 to \$0.155 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 year ended December 31, 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.

As at December 31, 2017, the amounts owing to related parties are as below:

	Accounts Payable	Accrued liabilities Consulting Fees	Accrued liabilities Director Fees	Loans payable
December 31 2017				
Carman Parente, CEO and Director	\$ -	\$ 180,000.00	\$ 53,000.00	\$ -
Anthony Chan, CFO & Director	\$ 1,750	\$ 16,250.00	\$ 24,000.00	\$ -
David Johnson, Director	\$ 8,719	\$ -	\$ 2,000.00	\$ -
Lorraine Pike, Director	\$ -	\$ -	\$ 30,000.00	\$ -
NHS Industries Ltd. - Common Officers & Directors	\$ -	\$ -	\$ -	\$ 1,008,645
Carman Parente, CEO and Director	\$ -	\$ -	\$ -	\$ 54,305
	\$ 10,469	\$ 196,250.00	\$ 109,000.00	\$ 1,062,950.00

7. SHARE CAPITAL

- (a) Authorized: Unlimited common shares without par value
 Issued : 175,117,577 common shares (2016: 106,063,317 common shares)

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.

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7. **SHARE CAPITAL** (continued)

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 were 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%.

On 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.

During the year ended December 31, 2017, 23,678,000 warrants at exercise prices ranging from \$0.05 to \$0.24 per share were exercised for total proceeds of \$2,682,600. Fair value of these warrants of \$1,880,110 was also re-allocated from contributed surplus to share capital.

During the year ended December 31, 2017, 40,600,000 options at exercise price ranging from \$0.095 to \$0.14 were exercised for total proceeds of \$4,684,000. Fair value of these options of \$4,244,580 was also re-allocated from contributed surplus to share capital.

During the year ended December 31, 2017, 776,260 common shares were issued at fair value ranging from \$0.065 to \$0.15 per share to a 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). In addition, the Company also issued 1,000,000 common shares to settle debts of \$105,000 owing to a service provider and recognized a gain on debt settlement of \$15,000.

(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.

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7. **SHARE CAPITAL** (continued)

(b) Stock Options (continued)

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 year ended December 31, 2017, the Company granted incentive stock options to several external consultants of the Company to purchase up to an aggregate of 53,100,000 common shares in the capital stock of the Company. These options are exercisable from range of \$0.095 to \$0.29 per share, and will expire from range of February 3, 2019 to May 17, 2020. All options were fully vested at the date of grant. The fair value of these 53,100,000 stock options was determined to be \$7,160,330 using the Black Scholes option pricing model with the assumptions at the time of grant of risk free interest rates of 0.72% to 1.68%, expected life of 2 to 3 years, expected volatility of 200% to 257%, forfeiture rate of 0% and a dividend rate of 0%.

- (i) As at December 31, 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
1,000,000	\$0.115	December 4, 2019
1,500,000	\$0.13	December 12, 2019
10,000,000	\$0.29	December 29, 2019
250,000	\$0.20	May 4, 2020
12,800,000	\$0.25	

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

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2015	3,400,000	0.12
Granted	9,300,000	0.12
Exercised	(10,000,000)	0.11
Cancelled	(2,400,000)	0.13
Balance, December 31, 2016	300,000	0.18
Granted	53,100,000	0.15
Exercised	(40,600,000)	0.12
Balance, December 31, 2017	12,800,000	0.25

(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)).

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7. **SHARE CAPITAL** (continued)

(c) Warrants (continued)

During the year ended December 31, 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 0.72% - 0.87%, expected life of 3 years, expected volatility of 252%-263%, forfeiture rate of 0% and a dividend rate of 0%. During the same year, 23,678,000 warrants had been exercised from \$0.05 to \$0.24 per share and a total fair value of \$1,880,110 was reallocated to share capital from contributed surplus (Note 7(a)).

	Warrants Outstanding & Exercisable	Weighted Average Exercise Price
Balance, December 31, 2015	7,100,000	0.15
Granted	31,576,882	0.13
Exercised	(8,800,000)	0.07
Cancelled	(400,000)	0.15
Balance, December 31, 2016	29,476,882	0.16
Granted	20,000,000	0.13
Exercised	(23,678,000)	0.11
Cancelled	(237,618)	0.20
Balance, December 31, 2017	25,561,264	0.17

Number of Shares	Exercise Price	Expiry Date
5,300,000	\$0.15	April 15, 2020
6,321,264	\$0.20	November 16, 2018
4,000,000	\$0.24	November 27, 2019
6,940,000	\$0.15	February 8, 2020
3,000,000	\$0.10	May 7, 2020
25,561,264	\$0.17	

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 year ended December 31, 2017. The Company is not subject to externally imposed capital requirements.

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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.

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at December 31, 2017 as follows:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash	\$ 2,370,660	\$ -	\$ -	\$ 2,370,660
	\$ 2,370,660	\$ -	\$ -	\$ 2,370,660

(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 December 31, 2017, the Company had cash of \$2,370,660 to settle current liabilities of \$1,461,195. The note payable of \$70,643 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.

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10. LOANS PAYABLE / NOTE PAYABLE

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 year ended December 31, 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 year ended December 31, 2017, interest and principal of \$6,895 (2016 - \$8,562) and \$11,960 (2016 - \$15,780) was paid on this note respectively.

11. AMOUNTS DUE TO/FROM RELATED PARTIES

Amounts due to related parties as at December 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.	\$ 1,008,645
Private companies controlled by CEO	<u>\$ 54,305</u>
Total due to related parties	<u>\$ 1,062,950</u>

Subsequent to the year ended December 31, 2017, the Company repaid the full amount of loan to NHS (See Note 15). Refer to Note 6 and 7 for other related party transactions.

12. INCOME TAXES

The income taxes shown in the Consolidated Statements of Operations differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	2017	2016
	26.0%	26.0%
	\$	\$
Loss for the year	<u>(17,557,946)</u>	<u>(7,604,819)</u>
Expected income tax recovery	(4,565,066)	(1,977,253)
Items deductible and not deductible for income tax purposes	2,561,895	1,311,284
Change in tax rates	(296,418)	-
Deconsolidation of a subsidiary	-	510,086
Current and prior tax attributes not recognized	<u>2,299,589</u>	<u>155,883</u>
	<u>-</u>	<u>-</u>

Details of deferred tax assets are as follows:

	2017	2016
	\$	\$
Non-capital and capital loss carryforwards	3,745,318	1,484,291
Equipment and others	44,346	5,784
Unrecognized deferred tax assets	<u>(3,789,664)</u>	<u>(1,490,075)</u>
	<u>-</u>	<u>-</u>

As at December 31, 2017, the Company had approximately \$12,000,000 of non-capital losses available, which begin to expire through to 2037 and may be applied against future taxable income.

At December 31, 2017, the net amount which would give rise to a deferred income tax asset has not been recognized as it is not probable that such benefit will be utilized in the future years.

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13. DEPOSIT ON ACQUISITION

In December 2017, the Company entered into a share purchase agreement to purchase 100% interest in a company, We Are Kured, LLC (“WAK”), by issuing 10,000,000 common shares of the Company and making USD\$150,000 cash payments. The Company made a deposit of \$64,430 (USD\$50,000) upon signing the agreement in December, 2017. Subsequent to the year ended December 31, 2017, the Company made the remaining of US\$100,000 cash payments and issued 10,000,000 common shares of the Company. (See Note 15).

14. LOAN RECEIVABLE

During the year ended December 31, 2017, the Company has loaned \$380,180 (USD\$300,000) to a third party. Due to uncertainty in collectability of some of a loan amount, the Company has made a reserve of \$97,918 (USD\$75,000) on this loan as at December 31, 2017. This loan is non-interest bearing, non-secured with no fixed terms of repayment.

15. SUBSEQUENT EVENTS

13,078,353 warrants were exercised at exercise prices from \$0.10 to \$0.20 per share for gross proceeds of \$2,026,671.

1,750,000 stock options were exercised at exercise prices from \$0.115 to \$0.13 per share for gross proceeds of \$212,500.

1,250,000 common shares were issued with respect to funds already received prior to the year-end which was classified as shares to be issued in the amount of \$125,000 as at December 31, 2017.

10,000,000 common shares were issued related to an acquisition of WAK (See Note 13).

The Company repaid the full amount of loans payable owing to NHS in the amount of \$1,008,645 (See Note 11).