Newstrike Resources Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in Canadian dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Newstrike Resources Ltd.

We have audited the accompanying consolidated financial statements of Newstrike Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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.

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

Opinion

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 23, 2018

Newstrike Resources Ltd.
Consolidated Statements of Financial Position
As at December 31,
(Expressed in Canadian Dollars)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	$ 811,028	$ 78,885
HST receivable	724,889	69,690
Prepaid expenses (Note 9)	25,216	16,074
Biological assets (Note 11)	1,393,345	-
Inventory (Note 10)	4,025,509	-
Loan receivable (Note 12)	88,602	-
	7,068,589	164,649
Deposits and Prepaid expenses (Note 9)	1,526,975	-
Property, plant and equipment (Note 15)	12,485,920	2,363,565
Intellectual property	7,344	-
License – HIP (Note 13)	1,427,419	-
License application (Note 14)	2,365,179	-
TOTAL ASSETS	**$ 24,881,426**	**$ 2,528,214**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 16)	$ 2,976,929	$ 349,796
Finance lease - current (Note 19)	533,831	115,419
Secured loan (Note 17)	4,011,408	-
Due to shareholder (Note 21)	10,170	14,406
Convertible debentures (Note 18)	3,290,617	392,511
	10,822,955	872,132
NON-CURRENT LIABILITIES		
Finance lease – non-current (Note 19)	1,481,025	803,942
TOTAL LIABILITIES	12,303,980	**1,676,074**
SHAREHOLDERS' EQUITY		
Share capital (Note 20)	24,282,784	2,512,955
Reserves (Note 20)	3,418,988	106,671
Equity portion of convertible debt (Note 18)	731,166	-
Deficit	(15,855,492)	(1,767,486)
TOTAL SHAREHOLDERS' EQUITY	12,577,446	852,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 24,881,426**	**$ 2,528,214**

Commitments (Notes 19 and 22)

Contingency (Note 25)

Subsequent events (Notes 12, 17, 18, 21 and 26)

Approved by the Board

"Scott Kelly" **"Peter Hwang"**

Director Director

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

Newstrike Resources Ltd.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
COST OF SALES		
Unrealized gain on changes in fair value of biological asset (Note 11)	$ 3,019,833	$ -
EXPENSES		
Accretion and interest expenses (Notes 17, 18 and 19)	654,130	53,192
Advertising and promotion	658,073	6,597
Amortization (Notes 13 and 15)	342,581	112,297
Branding, web design	393,197	-
Consulting (Note 21)	472,084	60,106
Filing fees	388,275	-
General and administrative expenses	118,861	60,783
Insurance	56,576	-
Communication expenses	90,630	-
Professional fees	1,357,452	87,674
Rent	108,847	31,150
Repairs and maintenance	11,427	4,071
Salaries and wages (Note 21)	1,022,304	92,909
Share-based payments (Notes 20 and 21)	3,390,723	69,794
Site assessment consulting	48,390	-
Telecommunications and utility	78,368	12,054
Travel	136,216	-
	(9,328,134)	(590,627)
OTHER ITEMS		
Loss on disposal of property, plant and equipment (Note 15)	-	275,407
Gain on extinguishment of debt	-	(10,000)
Listing expenses (Note 8)	7,099,152	-
Change in fair value of marketable securities	26,500	-
Loss on sale of securities	7,375	-
Impairment of license application (Note 14)	651,592	-
Interest income	(3,102)	-
	(7,781,517)	(265,407)
COMPREHENSIVE LOSS	**$ (14,089,818)**	**$ (856,034)**
LOSS PER SHARE - BASIC AND DILUTED	**$ (0.06)**	**$ (0.03)**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**245,983,298**	**27,542,230**

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

Newstrike Resources Ltd.
Consolidated Statements of Cash Flows
For the years end December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
OPERATING ACTIVITIES		
Net loss for the year	$ (14,089,818)	$ (856,034)
Items not involving cash:		
Unrealized gain on changes in fair value of biological assets	(3,019,833)	-
Accretion expense	279,093	52,037
Amortization	808,147	112,296
Change in fair value of marketable securities	26,500	-
Finance costs	340,813	-
Impairment of license application	651,592	-
Listing expense – non-cash component	6,696,232	-
Loss on sale of securities	7,375	-
Loss on sale of property, plant and equipment	-	275,407
Gain on settlement of loans payable	-	(10,000)
Share-based compensation	3,390,723	69,794
	(4,909,176)	(356,500)
Net changes in non-cash working capital items:		
HST receivable	(708,504)	(39,254)
Inventory	(1,880,719)	-
Biological assets	(983,868)	-
Accounts payable and accrued liabilities	1,561,135	(214,729)
Prepaid expenses	(564,588)	(3,446)
Cash used in operating activities	**(7,485,720)**	**(613,929)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,572,598)	(1,048,078)
Proceeds from disposition on marketable securities	23,650	-
Purchase of intellectual property	(7,344)	-
Cash used in investing activities	**(8,556,292)**	**(1,048,078)**
FINANCING ACTIVITIES		
Proceeds from share issuances, net of share issuance costs	5,931,773	1,500,000
Proceeds from issuance of convertible debentures	5,580,000	420,000
Repayment of shareholder loans	(89,736)	(138,767)
Proceeds from issuance of secured loans, net of fees	3,960,000	-
Recapitalization of Newstrike	402,920	-
Cash acquired in the Transaction	1,446,479	-
Bank indebtedness assumed in Enderlein Acquisition	(6,613)	-
Finance lease payments	(450,668)	(45,325)
Cash provided by financing activities	**16,774,155**	**1,735,908**
Change in cash	732,143	73,901
Cash, beginning of the year	78,885	4,984
Cash, end of the year	**$ 811,028**	**$ 78,885**

Supplemental disclosure with respect to cash flows (Note 24)

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

Newstrike Resources Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of outstanding shares		Share capital		Reserves		Equity portion of debt		Deficit		Total shareholders' equity
Balance, January 1, 2016	13,885,238	$	1,012,955	$	850	$	-	$	(911,452)	$	102,353
Shares issued for cash (Note 20)	13,885,243		1,500,000		-		-		-		1,500,000
Share-based payments (Note 20)	-		-		69,794		-		-		69,794
Equity component of convertible debt (Note 18)	-		-		-		36,027		-		36,027
Net loss for the year	-		-		-		-		(856,034)		(856,034)
Balance, December 31, 2016	**27,770,481**		**2,512,955**		**70,644**		**36,027**		**(1,767,486)**		**852,140**
Shares issued for license (Notes 13 and 20)	3,000,000		2,655,000		-		-		-		2,655,000
Options exercised (Note 20)	849,002		91,750		(6,250)		-		-		85,500
Options exercised (Note 20)	849,002		690		(640)		-		-		50
Issuance of HPI debentures (Note 18)	-		-		-		1,500,000		-		1,500,000
HPI debenture conversion (Note 20)	1,695,000		1,500,000		-		(1,500,000)		-		-
HPI debenture conversion (Note 20)	1,473,952		500,000		-		(36,027)		-		463,973
Consulting Agreement (Note 20)	1,473,952		159,637		(158,804)		-		-		833
Enderlein shares (Notes 14 and 20)	2,820,001		2,495,701		477,559		-		-		2,973,260
Shares issued – Transaction (Note 8)	282,607,265		-		-		-		-		-
Reversal HPI shares (Note 8)	(39,931,390)		-		-		-		-		-
Recapitalization of Newstrike (Note 8)	56,574,581		7,071,823		1,097,404		-		-		8,167,227
Warrants exercised (Note 20)	8,692,500		1,605,398		(953,460)		-		-		651,938
Warrants exercised (Note 14 and 20)	16,000,000		2,477,559		(477,559)		-		-		2,000,000
Options exercised (Note 20)	825,000		154,099		(18,817)		-		-		135,282
Shares issued for cash (Note 20)	25,000,000		3,058,172		-		-		-		3,058,172
Expiry of stock options	-		-		(1,812)		-		1,812		-
Equity component of convertible debt (Note 18)	-		-		-		731,166		-		731,166
Share-based payment (Note 20)	-		-		3,390,723		-		-		3,390,723
Net loss for the year	-		-		-		-		(14,089,818)		(14,089,818)
Balance, December 31, 2017	**389,669,346**	**$**	**24,282,784**	**$**	**3,418,988**	**$**	**731,166**	**$**	**(15,855,492)**	**$**	**12,577,446**

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

1. Nature of operations

Newstrike Resources Ltd. (the "Company" or "Newstrike") is a publicly traded company listed on the TSX Venture Exchange ("TSX-V") under the symbol HIP. The Company is licensed to produce and sell medical marijuana pursuant to the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). On January 5, 2018, the Company received approval from Health Canada to sell. The Company's head office and the registered and records office address is 390 Bay Street, Suite 612, Toronto, Ontario, M5H 2Y2 Canada.

2. Basis of preparation

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC") for all periods presented.

These financial statements were authorized for issue by the Board of Directors on April 23, 2018.

Basis of Presentation
These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These financial statements are presented in Canadian dollars, except when otherwise indicated. The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries is the Canadian dollar.

Basis of consolidation
Each subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

Name of Subsidiary	Principal Activity	Place of Incorporation	Ownership Interest
Newstrike Wyoming Inc.	Holding Company	United States	100%
1977121 Ontario Inc. ("1977121")	Holding Company	Canada	100%
2559595 Ontario Inc. ("2559595")	Holding Company	Canada	100%
HPI Holdings Ltd ("HPI")	Holding Company	Canada	100%
UP Cannabis Inc. ("UP Cannabis")	Medical Marijuana	Canada	100%
UP Cannabis Niagara Inc.	Medical Marijuana	Canada	100%
Enderlein Nurseries Ltd. ("Enderlein")	Medical Marijuana	Canada	100%

All intercompany balances and transactions were eliminated on consolidation.

3. Significant accounting policies

Financial instruments
The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date, the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

Biological assets
The Company measures biological assets, consisting of cannabis plants, at fair value less cost to sell up to the point of harvest. Gains or losses are included in the results of operations.

3. Significant accounting policies (continued)

Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost net of accumulated amortization and impairment charges. The cost of repairs and maintenance is expensed as incurred. Amortization is provided on the straight-line method over the estimated useful lives of assets. Upon sale of other disposition of a depreciable asset, cost and accumulated amortization are removed from property, plant, and equipment and any gain or loss is reflected as a gain or loss from operations. Depreciation is provided using the following annual rates.

Computers	30% straight-line
Leasehold improvements	10% straight-line
Production equipment	10% straight-line
Security equipment	20% straight-line
Building under finance lease	4% straight-line
Office furniture	10% straight-line
Equipment	20% straight-line

An asset's residual value, useful life and amortization method are reviewed at the end of each reporting period and adjusted if appropriate.

Intangible assets

The License – HIP, finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization of the license is on a straight-line basis over 5 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets with indefinite useful lives are comprised of the in-progress license application to produce medical cannabis under the ACMPR and the intellectual property, which are carried at cost less accumulated impairment losses.

3. Significant accounting policies (continued)

Impairment of long-lived assets
Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Leases
The Company leases some items of property, plant and equipment. A lease of property, plant and equipment is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property, plant and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

Convertible notes
Convertible notes issued by the Company can be converted to a fixed number of common shares of the Company at the option of the holders, when certain conditions apply.

The liability component of a convertible note is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the convertible note as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a convertible note is measured at amortized cost using the effective interest method. The equity component of a convertible note is not re-measured subsequent to initial recognition. Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity reserve and no gain or loss is recognized.

Share-based payment transactions
The Company grants stock options to purchase common shares of the Company to directors, officers, employees, and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee, including directors of the Company. The fair value of the stock options granted is measured at grant date and each tranche is recognized on a graded basis over the vesting period. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense for unvested options is adjusted to reflect the number of the options that are expected to vest. If the options are forfeited or expired, the amount recorded to the reserves is transferred to deficit.

3. Significant accounting policies (continued)

Provisions
A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

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 assets and liabilities are recognized on 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 amounts relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect either accounting or taxable loss, or 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 statement of financial position date.

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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

Warrants issued in equity financing transactions
The Company engages in equity financing transactions to obtain the funds necessary to continue operations and execute on its strategic plan. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are assigned value based on the related fair value method and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

Corporate reorganization
Transactions whereby the Company exchanges its own equity interest for those of the receiving entity, and the assets and liabilities of the original entity and new entity remain the same immediately before and after the transaction, are considered reorganizations. These transactions are accounted for using predecessor accounting. The acquired net assets are including in the Company's consolidation on carrying value. Any difference between the consideration given and the net assets acquired is recognized in deficit.

3. Significant accounting policies (continued)

Basic and diluted loss per share
The Company presents basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options, warrants and similar instruments outstanding that may add to the total number of common shares. As at December 31, 2017 and 2016, the Company's diluted loss per share does not include the effect of stock options and warrants as they are anti-dilutive.

Standards and interpretations not yet adopted
The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

New standard IFRS 9 "Financial Instruments"
This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Overall, the Company does not expect the implementation of IFRS 9 to have a significant impact on its financial assets.

New standard IFRS 15 "Revenue from Contracts with Customers"
This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Overall, the Company does not expect the implementation of IFRS 15 to have a significant impact on its revenue.

New standard IFRS 16 "Leases"
This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. While the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on the consolidated statements of financial position. As a result, the Company expects IFRS 16 to have a significant change to the consolidated statements of financial position. The Company continues to access the impact of the disclosure requirements under IFRS on the Company's consolidated financial statements.

4. Critical accounting estimates and significant management judgements

The preparation of these consolidated financial statements 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 reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Biological assets – in calculating the value of the biological assets and inventory, management is required to make a number of estimates including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sale price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

Estimated useful lives and depreciation and amortization of property, plant, and equipment and intangible assets – depreciation and amortization of property, plant and equipment and intangible assets are dependent on estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market condition and useful lives of assets.

Carrying value and recoverability of property, plant, and equipment and intangible assets – the Company has determined that property, plant, and equipment and intangible assets that are capitalized may have future economic benefits and may be economically recoverable. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market condition and useful lives of assets.

Share-based payments - management is required to make a number of estimates when determining the fair value of the payments resulting from share-based transactions, including the forfeiture rate and expected life of the instruments.

Income taxes – in assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessment, management give additional weight to positive and negative evidence that can be objectively verified.

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operation and cash flows.

4. Critical accounting estimates and significant management judgements (continued)

Other significant judgments
The preparation of these financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The fair value and classification of financial instruments; and
- The classification of leases as either operating or finance type leases.

5. Capital management

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholders' equity comprising of share capital, contributed surplus, warrants and deficit. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment. In order to facilitate the management of capital, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new shares through private placement, incur debt or return of capital to shareholders.

There have been no changes made to the capital management policy during the year ended December 31, 2017.

6. Financial risk management

Financial risk
The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, and foreign currency risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk
Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to its holdings of cash. Cash is held with a major Canadian chartered bank, from which management believes the risk of loss to be minimal.

Liquidity risk
Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Subsequent to December 31, 2017, the Company closed a financing (Note 25).

6. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rate. The Company is exposed to interest rate risk on its cash and debt instruments and has determined there is no material exposure related to interest rate risk.

Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

7. Reorganization

On December 20, 2016, HPI purchased 100% of the issued and outstanding shares of UP Cannabis from the shareholders of UP Cannabis with issuance of 27,770,481 common shares of HPI as consideration ("Reorganization"). The transaction was treated as a common control transaction whereby predecessor accounting was applied. At the completion of the Reorganization, the absolute and relative interests of the shareholder of UP Cannabis remained the same as prior to the Reorganization. The assets and liabilities of the post-reorganization entity remained the same as the pre-reorganization entity.

8. The Transaction

The Transaction was structured as a three-cornered amalgamation pursuant to which HPI amalgamated with 2559595 to form an amalgamated entity, 1977121.

This resulted in a reverse take-over of the Company by the shareholders of 1977121. At the time of the Transaction, the Company did not constitute a business as defined under IFRS 3; therefore, the Transaction is accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to net loss. As 1977121 is deemed to be the accounting acquirer for accounting purposes, these financial statements present the historical financial information of HPI up to the date of the Transaction.

On May 29, 2017, the Transaction closed and the Company acquired, on a one for 7.077 basis, all issued and outstanding shares of HPI in exchange for 282,607,265 common shares of the Company.

Consideration - shares	$	7,071,823
Fair value of stock options		106,898
Fair value of warrants		990,506
Legal and professional fees related to Amalgamation		402,920
Net assets acquired		1,472,995
Listing fee	**$**	**7,099,152**

(Expressed in Canadian Dollars)

8. The Transaction (continued)

Fair value of the Company acquired, net of liabilities	
Cash	$ 1,446,479
Prepaid expenses	9,000
Marketable securities	57,500
HST receivable	14,076
Trade payables and other payables	(54,060)
	$ 1,472,995

The fair value of 56,574,581 issued common shares of the Company was estimated to be $0.125 per share using the price of a financing that was completed concurrently.

The Company assumed 1,810,100 stock options exercisable at a price in a range of $0.10 per share to $0.20 per share expiring from September 28, 2018 to December 20, 2021. The fair value of stock options was $106,898, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	0.78%
Estimate life	2.63 years
Expected volatility	89%
Expected dividend yield	0%
Forfeiture rate	0%

The Company assumed 10,200,000 share purchase warrants exercisable at a price of $0.075 per share expiring on September 20, 2021. The fair value of share-purchase warrants was $990,506, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	0.86%
Estimate life	4.32 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

9. Deposit and prepaid expenses

	December 31, 2017	**December 31, 2016**
Prepaid - current	$ 25,216	$ 16,074
Prepaid - HIP – non-current (Note 13)	885,000	-
Deposit - non-current**	641,975	-
	1,526,975	-
	$ 1,552,191	**$ 16,074**

**The Company paid deposits totaling $589,118 for work to be done on UP Cannabis Niagara facility.

(Expressed in Canadian Dollars)

10. Inventory

	December 31, 2017	December 31, 2016
Harvested cannabis	$ 3,975,667	$ -
Materials and supplies	33,360	-
Merchandise	16,482	-
	$ 4,025,509	**$ -**

11. Biological assets

The Company's biological assets consists of medical cannabis plants. The continuity of biological assets for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Biological assets, beginning	$ -	$ -
Production of biological assets *	2,349,179	-
Change in fair value	3,019,833	-
Transfers to inventory upon harvest	(3,975,667)	-
Biological assets, ending	**$ 1,393,345**	**$ -**

*includes amortization of $465,566 (Note 15).

The significant assumptions used in determining the fair value of biological assets are as follows:

- wastage of plants based on their various stages of biological transformation;
- expected yields of each type biological asset;
- percentage of costs incurred at various stages of the biological transformation compared to the total costs are used to estimate the fair value of each type of biological asset; fair value less cost to sell at the point of harvest;
- percentage of costs incurred for each stage of plant growth was estimated; and amounts of depreciation and overhead incurred and allocated to biological assets.

The Company estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets.

As of December 31, 2017, it is expected that the Company's biological assets will yield approximately 376,600 grams of cannabis. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in the future periods.

12. Loan receivable

On March 15, 2017, the Company entered into an agreement with a company controlled by a director whereby the Company agreed to advance $85,500. The loan was due on March 14, 2018, unsecured and bears interest at a rate of 4.75% per annum. As of December 31, 2017, the balance of the principal and accrued interest is $88,602 (2016 - $nil). Subsequent to December 31, 2017, the loan receivable was fully repaid.

(Expressed in Canadian Dollars)

13. License - HIP

During the year ended December 31, 2017, the Company entered into an agreement with the Tragically Hip (the "Hip Agreement"). The consideration was 3,000,000 common shares with a fair value of $2,655,000 and an ongoing royalty of 2.5% of revenues of product sold under the Tragically Hip brand. There was amortization of $342,581.

The issuance of the 3,000,000 common shares includes a payment of 1,000,000 common shares that will be applied against future royalties' payable, which has been included in prepaid expenses at a fair value of $885,000.

	December 31, 2017	December 31, 2016
License – HIP, net of amortization	$ 1,427,419	-
Prepaid – HIP (Note 9)	885,000	$ -
Balance, end of year	**$ 2,312,419**	**$ -**

14. License application

On May 29, 2017, the Company acquired 100% of the issued and outstanding shares of Enderlein, in exchange for 2,820,001 shares of HPI with a fair value of $2,495,701 and 16,000,000 warrants of HPI with a fair value of $477,559 (the "Enderlein Acquisition"). The fair value of the issued common shares of the Company is $0.885 per share, which is the implied fair value of the debt and equity financing of HPI that was completed prior to the closing of the Enderlein Acquisition. Management has determined that Enderlein does not have the inputs and processes capable of producing inputs that are necessary to meet the definition of a business as defined by IFRS 3. Therefore, the acquisition is accounted for as a share-based payment whereby the Company has acquired the net assets of Enderlein. The sole asset of Enderlein is an in-progress application to produce medical cannabis under the ACMPR. Enderlein had a net working capital deficiency at the time of acquisition of $43,511.

During the year ended December 31, 2017, the Company recorded an impairment charge of $651,592 (2016 - $nil) based on the present value of the estimated future recoverable proceeds. As of December 31, 2017, the carrying balance of the license application is $2,365,179.

The warrants issued were valued using the Black-Scholes option pricing model and the following input assumptions:

Weighted average fair value of the warrants issued	**$ 0.03**
Risk-free interest rate	0.73%
Estimate life	0.17 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

(Expressed in Canadian Dollars)

15. Property, plant and equipment

Cost	Balance at December 31, 2016	Additions	Balance at December 31, 2017
Computers	$ 46,760	$ 110,126	$ 156,886
Production equipment	475,972	810,854	1,286,826
Office furniture	-	92,874	92,874
Security equipment	280,168	67,201	347,369
Leasehold improvements	801,689	411,428	1,213,117
Equipment	-	1,079,167	1,079,167
Building	621,323	3,193,901	3,815,224
Equipment under finance lease (Note 19)	-	1,302,789	1,302,789
Land	310,661	3,519,581	3,830,242
Cost - total	**$ 2,536,573**	**$10,587,921**	**$ 13,124,494**
Accumulated amortization			
Computers	$ (15,570)	$ (28,668)	$ (44,238)
Production equipment	(72,276)	(58,744)	(131,020)
Office furniture	-	(3,738)	(3,738)
Security equipment	(28,017)	(56,250)	(84,267)
Leasehold improvements	(44,718)	(33,313)	(78,031)
Building under finance lease	(12,427)	(24,853)	(37,280)
Equipment under finance lease	-	(260,000)	(260,000)
Accumulated amortization	**$ (173,008)**	**$ (465,566)**	**$ (638,574)**
Net book value	**$ 2,363,565**		**$ 12,485,920**

During the year ended December 31, 2017, included in production costs for biological assets was amortization of $465,566 (2016 - $nil) (Note 11).

(Expressed in Canadian Dollars)

15. Property, plant and equipment (continued)

Cost	Balance at December 31, 2015	Additions	Disposals	Balance at December 31, 2016
Computers	$ 13,712	$ 33,048	$ -	$ 46,760
Production equipment	176,990	298,982	-	475,972
Security equipment	-	280,168	-	280,168
Leasehold improvements	458,326	639,263	(295,900)	801,689
Building under financial lease (Note 19)	-	621,323	-	621,323
Land under finance lease (Note 19)	-	310,661	-	310,661
Cost - total	**$ 649,028**	**$ 2,183,445**	**$ (295,900)**	**$ 2,536,573**
Accumulated amortization				
Computers	$ (6,170)	$ (9,400)	$ -	$ (15,570)
Production equipment	(39,122)	(33,154)	-	(72,276)
Security equipment	-	(28,017)	-	(28,017)
Leasehold improvements	(35,912)	(29,299)	20,493	(44,718)
Building under finance lease	-	(12,427)	-	(12,427)
Accumulated amortization - total	**$ (81,204)**	**$ (112,297)**	**$ 20,493**	**$ (173,008)**
Net book value	**$ 567,824**			**$ 2,363,565**

During the year ended December 31, 2016, the Company disposed of a significant portion of leasehold improvements and recorded a loss on disposal of property, plant and equipment of $275,407.

16. Accounts payable and accrued liabilities

	December 31, 2017	December 31, 2016
Accounts payable	$ 2,302,196	$ 317,796
Accrued liabilities	633,838	32,000
Payroll liabilities	40,895	-
	$ 2,976,929	**$ 349,796**

17. Secured Loan

On July 25, 2017, the Company entered into an agreement for a $4,000,000 loan. The loan bore interest at 15% per annum and matured on February 15, 2018 and later extended to March 15, 2018. The Company paid a fee of $40,000 in connection with the loan.

During the year ended December 31, 2017, the Company recorded interest expenses of $265,000. As of December 31, 2017, the balance of the principal and accrued interest is $4,011,408. On February 22, 2018, the Company repaid the principal and accrued interest in full.

(Expressed in Canadian Dollars)

18. Convertible debentures

During the year ended December 31, 2016, the Company entered into an unsecured convertible note facility for the provision of funding up to $500,000 with an annual interest of 6% and a maturity date of June 30, 2018. The note is convertible into the common shares of the Company at $0.0001 per share at the earlier of the maturity date or the closing of the Transaction. The Company recognized $36,027 as the equity portion and recorded an equivalent amount to the equity portion of debt.

On March 15, 2017, the debenture was converted into 1,473,952 shares of the Company (Note 20). As of December 31, 2017, the convertible note balance is $nil (2016 - $392,511).

Concurrent with the Transaction (Note 8), the Company issued convertible debentures for the gross proceeds of $1,500,000. The debentures are non-interest bearing and automatically convert into 1.13 common shares of the Company at the earlier of one year following the issuance date of the debentures or the closing of the Transaction. The Company recognized the debentures in its entirety as equity instruments and recorded the proceeds of $1,500,000 to equity. During the year ended December 31, 2017, the Company issued 1,695,500 shares on conversion of the debentures (Note 20).

On September 29, 2017, the Company issued a $4,000,000 secured debenture, convertible at the option of the holder at $0.365 per share and bearing interest at 8% per annum due in 3 years. As part of the consideration, the Company issued 10,958,904 warrants, which entitles the holder to purchase one common share at a price of $0.42. The warrants expire on December 31, 2020. On issuance, the Company recognized $731,166 as the equity portion and recorded an equivalent amount to the equity portion of debt. The Company incurred finance costs of $98,475 in connection with issuance of the debenture.

On January 24, 2018, the debenture was converted into common shares. On February 13, 2018, the 10,958,904 warrants were exercised.

A continuity of the convertible debentures is as follows:

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	$ 392,511	$ -
Proceeds from issuance of convertible debentures	5,580,000	420,000
Amount allocated to conversion options – equity	(2,231,166)	(36,027)
Accretion and interest expenses	111,720	8,538
Converted into shares	(463,973)	
Finance costs	(98,475)	-
Balance at the end of the year	**$ 3,290,617**	**$ 392,511**

(Expressed in Canadian Dollars)

19. Leases

During the year ended December 31, 2016, the Company entered into a lease with a three-year term. The minimum lease payments have been calculated using the Company's incremental borrowing rate of 6.05%.

On January 1, 2017, the Company entered into a finance lease for production equipment. The Company's lease is for a 5-year duration ending on December 31, 2021. The lease has an interest rate of 15%.

	December 31, 2017	December 31, 2016
Total minimum lease payments payable	$ 2,460,371	$ 1,051,450
Portion representing interest to be expensed over the remaining term of the leases	445,515	132,089
Principal outstanding	2,014,856	919,361
Less: Current portion	**533,831**	**115,419**
Non-current portion	**$ 1 ,481,025**	**$ 803,942**

The following is a schedule of future minimum lease payments over the lives of the finance leases:	
No later than one year	$ 453,218
Later than one year, but not later than five years	$ 2,007,153

A summary of changes in the years follows

	December 31, 2017	December 31, 2016
Balance, beginning	$ 919,361	$ -
Additions	1,302,789	931,984
Payments made	(450,668)	(45,324)
Interest expenses	243,374	32,701
Balance, ending	**$ 2,014,856**	**$ 919,361**

20. Share capital

Authorized share capital
Unlimited number of common shares without par value.

Common shares issued
During the year ended December 31, 2017, the Company issued 3,000,000 commons shares for an aggregate value of $2,655,000 based on the implied fair value of $0.885 per share, which is the implied fair value of the debt and equity financing of HPI that was completed prior to the HIP Agreement date (Note 13).

During the year ended December 31, 2017, 849,002 options of HPI were exercised resulting in the issuance of 849,002 shares of HPI for an aggregate value of $50. As a result of these exercises, an amount of $640 was reclassified from equity reserve to the share capital.

During the year ended December 31, 2017, 849,002 options of HPI were exercised resulting in the issuance of 849,002 shares of HPI for proceeds of $85,500 which was funded by an advance from HPI. As a result of these exercises, an amount of $6,250 was reclassified from equity reserve to the share capital.

20. Share capital (continued)

Common shares issued

During the year end December 31, 2017, the Company issued 1,695,500 shares in connection with conversion of the debentures issued on February 15, 2017 (Note 18).

On March 15, 2017, 1,473,952 options were exercised into 1,473,952 shares of HPI pursuant to a consulting agreement. As a result of these exercises, an amount of $158,803 was reclassified from equity reserve to the share capital.

On March 15, 2017, the Company issued 1,473,952 shares in connection with conversion of the $500,000 unsecured convertible note facility (Note 18).

During the year ended December 31, 2017, the Company issued 2,820,001 shares with a fair value of $2,495,701 in connection with the Enderlein Acquisition (Note 14).

On May 29, 2017, the Transaction (Note 8) was completed and the Company acquired, on a 7.077 for 1 basis, all issued and outstanding shares of HPI in exchange for 282,607,265 common shares of the Company.

During the year ended December 31, 2017, 8,692,500 share purchase warrants of the Company were exercised for proceeds of $651,938. As a result of these exercises, an amount of $953,460 was reclassified from equity reserve to the share capital.

During the year ended December 31, 2017, 825,000 options of the Company were exercised for proceeds of $135,282. As a result of these exercises, an amount of $18,817 was reclassified from equity reserve to the share capital.

During the year ended December 31, 2017, concurrent with the Transaction, the Company issued 25,000,000 shares at $0.125 per share for gross proceeds of $3,125,000. The Company incurred share issuance costs of $66,828 (inclusive of finder’s fees).

During the year ended December 31, 2017, the Company issued 16,000,000 common shares for proceeds of $2,000,000. This is from the exercise of 16,000,000 share purchase warrants issued in respect of the Enderlein transaction (Note 14). As a result of these exercises, an amount of $477,559 was reclassified from equity reserve to the share capital.

During the year ended December 31, 2016, the Company issued 13,885,243 common shares from the gross proceeds of $1,500,000.

During the year ended December 31, 2016, the Company effected a share reorganization by issuing 27,770,481 common shares from treasury in order to acquire all issued and outstanding shares of UP Cannabis at a 1 for 16.98004 rate (Note 7).

(Expressed in Canadian Dollars)

20. Share capital (continued)

Stock options

As at December 31, 2017, the Company had the following options outstanding and exercisable:

Expiry Date	Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
December 20, 2021	$0.20	3.97	585,000	585,000
July 25, 2020	$0.38	2.57	22,584,795	6,396,199
			23,169,795	**6,981,199**

The following is a summary of the Company's stock option activities:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2016	849,002	$ 0.10
Granted	2,322,954	0.00
Outstanding at December 31, 2016	3,171,956	0.03
Options of Newstrike at time of Transaction (Note 8)	1,810,000	0.17
Granted	22,584,795	0.38
Exercised	(3,996,956)	0.06
Expired	(400,000)	0.15
Outstanding at December 31, 2017	**23,169,795**	**$ 0.38**
Exercisable at December 31, 2017	**6,981,199**	**$ 0.36**

During the year ended December 31, 2017, the Company granted 22,584,795 options to acquire common shares. The options have a term on 3 years, exercise price of $0.38 and 4,000,000 vest immediately while the remaining options vest over the period of 2 years following the grant date. The fair value of the stock options granted during the year using the Black-Scholes option pricing model was $3,295,476.

During the year ended December 31, 2016, the Company granted 849,002 stock options with an exercise price of $0.0000589 with an expiry date at the earliest of the exercise date of the options, upon closing of the Transaction or the 10 year anniversary of the grant date. The fair value of the stock options granted using the Black-Scholes option pricing model was $6,450.

During the year ended December 31, 2016, the Company issued 1,473,952 stock options with an exercise price of $0.000587 with an expiry date at the earliest of the exercise date of the options, upon closing of the Transaction or the 10 year anniversary of the grant date. The options vested over the period of 5 months following November 30, 2016. The fair value of the stock options granted using the Black-Scholes option pricing model was $158,361.

(Expressed in Canadian Dollars)

20. Share capital (continued)

Stock options (continued)

The fair value of stock options granted for the year ended December 31, 2017 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2017	December 31, 2016
Risk-free interest rate	0.83%	0.54%
Estimate life	1.8 years	1.4 years
Expected volatility	60%	94%
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

The Company recorded share-based payments of $3,390,723 (2016 - $69,794) in connection with the stock options vested during the year ended December 31, 2017.

Warrants

As at December 31, 2017, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price	Number of warrants outstanding
September 20, 2016	September 20, 2021	$0.075	1,507,500
September 29, 2017	September 29, 2020	$ 0.42	10,958,904
			12,466,404

The following is a summary of the Company's warrant activities:

	Number of Warrants
Outstanding at December 31, 2015 and 2016	-
Warrants of Newstrike at time of Transaction (Note 8)	10,200,000
Issued	26,958,904
Exercised	(24,692,500)
Outstanding at December 31, 2017	**12,466,404**

The weighted average exercise price and weighted average life are $0.38 and 2.87 years, respectively.

(Expressed in Canadian Dollars)

21. Related party transactions

Summary of key management personnel compensation:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel made during the years ended December 31, 2017 and 2016, is set out below:

	December 31, 2017	December 31, 2016
Consulting fees (included in professional fees)	$ 375,000	$ -
Salaries and benefits	28,000	37,486
Share-based payments	2,273,738	63,345
	$ 2,676,738	**$ 100,831**

As at December 31, 2017, $26,833 (2016 - $37,300), is included in accounts payable and accrued liabilities from amounts owing to related parties.

As at December 31, 2017, $10,170 (2016 - $14,406) is due to shareholders for reimbursement of expenses. The outstanding balance is non-interest bearing, unsecured and due on demand.

In March 2017, the Company entered into a loan agreement with a company controlled by Mr. Peter Hwang, a director. The loan is in the amount of $88,602 and bears interest at 4.75% per annum, is unsecured and is due on March 14, 2018 (Note 12). Subsequent to December 31, 2017, the loan receivable including interest was fully repaid.

On July 25, 2017, the Company arranged for a secured loan for $4,000,000 funded by a syndicate led by a contribution by related parties and third parties (Note 17).

22. Commitments

Finance leases (see Note 19)

Operating lease
The Company has obligations under operating leases for its corporate office facilities.

Year	
2018	$ 145,333
2019	117,228
2020	61,020
2021	55,935
	$ 379,516

(Expressed in Canadian Dollars)

23. Income taxes

The provision for income taxes differs from the amount that would have resulted in applying the combined federal statutory tax rate as follows:

	December 31, 2017	December 31, 2016
Net loss	$ (14,089,818)	$ (856,035)
Statutory income tax rate	26%	26%
Expected in tax recovery at statutory income tax rates	(3,663,353)	(222,569)
Permanent differences	3,069,570	-
Difference in tax rates, foreign exchange, and other	116,556	281,194
Change in valuation allowance	477,226	(58,627)
Income tax recovery	$ -	$ -

Temporary differences that give rise to the following deferred tax assets and liabilities at are:

	December 31, 2017	December 31, 2016
Deferred tax assets		
Non-capital loss carry forwards	$ 639,656	$ 411,612
Share issuance costs	13,900	-
Property, plant and equipment	146,174	(89,108)
	799,730	322,504
Valuation allowance	(799,730)	(322,504)
	$ -	$ -

Tax attributes are subject to review, and potential adjustment, by tax authorities.

24. Supplemental disclosure with respect to cash flows

Significant non-cash transactions for the year ended December 31, 2017 consist of

a. The Company issued 3,000,000 common share with a fair value of $2,655,000 in connection with the Hip Agreement.
b. The Company issued 1,473,952 common shares with a fair value of $463,973 in connection with conversion of a convertible debenture.
c. The Company reallocated $731,166 from a convertible debenture to the equity portion of debt.
d. The Company issued 2,820,001 common shares with a fair value of $2,495,701 and 16,000,000 share purchase warrants with a fair value of $477,559 in connection with the Enderlein Acquisition.
e. The Company record a finance lease liability of $1,302,789 and recognized an equivalent amount as additions to property, plant and equipment.

Significant non-cash transactions for the year ended December 31, 2016 consist of

a. The Company recorded a finance lease liability of $931,984 and recognized an equivalent amount as additions to property, plant and equipment.
b. The Company reallocated $36,027 from a convertible debenture to the equity portion of debt.

During the year ended December 31, 2017, the Company made cash repayments of $212,824 for interest (2016 - $28,596).

25. Contingency

Subsequent to December 31, 2017, a claim was commenced against the Company by a former consultant for $500,000 in damages for breach of contract, $500,000 in special damages and $3,500,000 in aggravated and punitive damages. The Company has filed a Statement of Defence and plans believes the claim is frivolous. No amount has been recorded since the amount cannot be reliably measured and it is management's opinion that no amount will be paid.

26. Subsequent events

On November 17, 2017, the Company entered into an agreement with CanniMed Therapeutics Inc. ("CanniMed") pursuant to which CanniMed would acquire all of the outstanding shares of the Company by way of a plan of arrangement. On January 24, 2018, CanniMed terminated the agreement and paid the termination fee of $9,500,000 to the Company, as required.

On January 24, 2018, the Company entered into a Bought Deal to raise $80,005,200 and up to additional $12,700,780 as an overallotment. On February 16, 2018, the Bought Deal closed and on February 22, 2018 the full overallotment was taken up. Net proceeds received from the financing transaction amounted to $85,994,527, after considerations of commissions and professional fees.

On March 29, 2018, the Company paid out the lease to Enerworks Inc. in the amount of $1,581,486.

Subsequent to December 31, 2017, the Company issued 819,281 common shares for exercise of stock options for aggregate proceeds of $263,627.

Subsequent to December 31, 2017, the Company issued 11,210,154 common shares for exercise of warrants for aggregate proceeds of $4,621,583.