



NEWSTRIKE

BRANDS

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Amended and Restated

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

(Unaudited)

(Expressed in Canadian dollars)

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Interim Consolidated Statements of Financial Position

Amended and Restated

As at June 30, 2018

(Expressed in Canadian Dollars)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	\$ 124,487,713	\$ 811,028
Other receivables (Note 5)	3,365,824	724,889
Prepays	143,889	25,216
Inventory (Note 6)	8,241,724	4,025,509
Biological assets (Note 7)	1,758,729	1,393,345
Marketable securities (Note 8)	980,000	-
Loan receivable (Note 17)	-	88,602
	138,977,879	7,068,589
Deposits and prepaids (Note 11)	6,731,794	641,975
Prepaid – HIP (Note 9)	885,000	885,000
Intellectual property	9,966	7,344
License – HIP (Note 9)	1,250,419	1,427,419
License application (Note 10)	-	2,365,179
Property, plant and equipment (Note 11)	15,349,429	12,485,920
TOTAL ASSETS	\$ 163,204,487	\$ 24,881,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	\$ 4,686,484	\$ 2,976,929
Finance leases (Note 13)	29,830	533,831
Secured loan (Note 14)	-	4,011,408
Due to shareholder	-	10,170
Convertible debentures (Note 15)	-	3,290,617
Payment received in advance	135,261	-
	4,851,575	10,822,955
Finance leases (Note 13)	852,795	1,481,025
TOTAL LIABILITIES	5,704,370	12,303,980
Shareholders' equity		
Share capital (Note 16)	114,885,510	24,282,784
Reserves (Note 16)	64,001,511	3,418,988
Equity portion of convertible debt (Note 15)	-	731,166
Deficit	(21,386,904)	(15,855,492)
TOTAL SHAREHOLDERS' EQUITY	157,500,117	12,577,446
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 163,204,487	\$ 24,881,426

Contingency (Note 19)

Subsequent event (Note 22)

Approved by the Board of Directors

"James Wilgar"

Director

"Stephen Smith"

Director

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Interim Consolidated Statements of Comprehensive Loss – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
		Restated (Note 23)		Restated (Note 23)
COST OF SALES				
Unrealized gain on changes in fair value of biological assets (Note 7)	\$ 1,098,557	\$ -	\$ 1,995,377	\$ -
EXPENSES				
Amortization (Notes 9 and 13)	176,085	88,500	264,585	165,581
Consulting and professional fees (Note 17)	927,877	479,933	2,204,718	786,542
General and administration	816,621	63,793	1,275,320	145,983
Rent and facilities	38,400	30,553	108,561	30,553
Wages and benefits (Note 17)	1,769,010	189,428	2,390,449	265,739
Sales, marketing and business development	2,729,604	282,787	3,266,461	416,501
Share-based compensation (Notes 16 and 17)	3,454,246	-	7,194,855	-
	9,911,843	1,134,994	16,704,949	1,810,899
OTHER ITEMS				
Accretion and interest expenses	27,660	200,808	614,648	147,404
Change in fair value of marketable securities (Note 8)	107,500	22,500	107,500	22,500
Listing fee (Note 3)	-	7,099,152	-	7,099,152
Loss on disposal of property, plant and equipment	18,742	-	5,408	-
Gain on sale of license application (Note 10)	(139,321)	-	(139,321)	-
Interest income	(175,153)	-	(224,506)	-
Other income	(20,186)	-	(34,087)	-
Termination fee (Note 20)	-	-	(9,500,000)	-
	(180,758)	7,322,460	(9,170,358)	7,269,056
NET AND COMPREHENSIVE LOSS FOR THE PERIOD				
	\$ (8,632,528)	\$ (8,457,454)	\$ (5,539,214)	\$ (9,079,955)
LOSS PER SHARE - BASIC AND DILUTED				
	\$ (0.02)	\$ (0.06)	\$ (0.01)	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
	491,538,583	151,224,273	463,648,404	90,761,043

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Interim Consolidated Statements of Cash Flows – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	For the six months ended June, 30 2018	For the six months ended June, 30 2017 Restated (Note 23)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (5,539,214)	\$ (9,079,955)
Items not affecting cash:		
Accretion and interest expenses	491,878	149,890
Amortization	264,585	404,531
Change in fair value of marketable securities	107,500	22,500
Gain on sale of license application	(139,321)	-
Listing fees – non-cash	-	6,696,232
Share-based compensation	7,194,855	-
Unrealized gain on change in fair value of biological assets	(1,995,377)	-
Changes in non-cash working capital:		
Other receivables	(1,615,935)	(350,148)
Prepays	(118,673)	(90,344)
Biological assets	(2,207,215)	(1,063,246)
Inventory	(57,813)	(12,464)
Accounts payable and accrued liabilities	1,703,388	1,067,783
Payment received in advance	135,251	-
Net cash flows used in operating activities	(1,776,091)	(2,255,221)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits on acquisition of property, plant, and equipment	(6,089,819)	(58,110)
Proceeds from disposition of license application	1,479,500	-
Repayment on loan receivable	88,602	-
Purchase of marketable securities	(1,087,500)	-
Purchase of intellectual property	(2,622)	(7,344)
Purchase of property, plant, and equipment	(3,272,288)	-
Net cash flows used in investing activities	(8,884,127)	(65,454)

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Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Interim Consolidated Statements of Cash Flows – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	For the six months ended June, 30 2018	For the six months ended June, 30 2017 Restated (Note 23)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of convertible debentures	-	1,500,000
Proceeds from share issuance, net of share issuance costs	139,990,395	3,796,243
Repayment of shareholder loan	(10,170)	(89,736)
Share subscriptions received in advance	-	2,000,000
Listing expense	-	402,920
Repayment of accrued interest on convertible debentures	(80,000)	-
Bank indebtedness acquired from the acquisition of Enderlein	-	(6,613)
Finance lease repayments	(1,551,914)	(263,659)
Cash acquired from the Transaction	-	1,446,479
Repayment of secured loans	(4,011,408)	-
Net cash flows provided by financing activities	134,336,903	8,785,634
Net change in cash and cash equivalents	123,676,685	6,464,959
Cash and cash equivalents – beginning of period	811,028	78,885
Cash and cash equivalents – end of period	\$ 124,487,713	\$ 6,543,844

Supplemental disclosure with respect to cash flows (Note 21)

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	Number of outstanding shares	Share capital	Reserves	Equity portion of convertible debt	Deficit	Total
Balance, December 31, 2017	389,699,346	\$ 24,282,784	\$ 3,418,988	\$ 731,166	\$ (15,855,492)	\$ 12,577,446
Shares issued for cash	138,701,500	80,532,787	54,134,380	-	-	134,667,167
Shares issued for debt conversion (Note 15)	10,958,904	4,000,000	-	(731,166)	-	3,268,834
Options exercised	1,969,281	1,104,939	(404,312)	-	-	700,627
Warrants exercised	11,210,154	4,965,000	(342,400)	-	-	4,622,600
Share-based compensation	-	-	7,194,855	-	7,802	7,202,657
Net and comprehensive loss for the period	-	-	-	-	(5,539,214)	(5,539,214)
Balance, June 30, 2018	552,539,185	\$ 114,885,510	\$ 64,001,511	\$ -	\$ (21,386,904)	\$ 157,500,117

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	Number of outstanding shares	Share capital	Reserves	Equity portion of convertible debt	Obligation to issue shares	Deficit	Total
Balance, December 31, 2016	27,770,481	\$ 2,512,955	\$ 70,644	\$ 36,027	\$ -	\$ (1,767,486)	\$ 852,140
Shares issued – HIP Agreement	3,000,000	2,655,000	-	-	-	-	2,655,000
Enderlein shares	2,820,001	2,495,701	477,559	-	-	-	2,973,260
Options exercised	3,581,956	321,257	(175,124)	-	-	-	146,133
Conversion of convertible debentures (Note 15)	3,168,952	2,000,000	-	(36,027)	-	-	1,963,973
Reversal of share capital of HPI (Note 3)	(39,931,390)	-	-	-	-	-	-
Share capital of Newstrike (Note 3)	56,574,581	7,071,823	1,097,404	-	-	-	8,169,227
Share issued – Transaction (Note 3)	282,607,265	-	-	-	-	-	-
Shares issued for cash	25,000,000	3,058,172	-	-	-	-	3,058,172
Warrants exercised	7,892,500	1,460,113	(868,175)	-	-	-	591,938
Obligations to issue shares	-	-	-	-	2,000,000	-	2,000,000
Net and comprehensive loss for the period	-	-	-	-	-	(9,079,955)	(9,079,955)
Balance, June 30, 2017 (Note 23)	372,484,346	\$ 21,575,021	\$ 602,308	\$ -	\$ 2,000,000	\$ (10,847,441)	\$ 13,329,888

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

**Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated**

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

1. Nature of operations

Newstrike Brands Ltd. (formerly 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"). The Company's head office and the registered and records office address is 1540 Cornwall Road, Suite 204, Oakville, Ontario, L5J 7W5 Canada.

2. Basis of presentation and statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of the interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting.

The notes presented in these condensed interim consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year end and they do not include all of the information required in the Company's most recent annual consolidated financial statements. These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company's annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS as issued by IASB. There have been no changes in judgment or estimates from those disclosed in the consolidated financial statements for the year ended December 31, 2017.

These financial statements have been amended to correct errors in the original interim financial statements. Certain line items in the consolidated statements of comprehensive loss, cash flows, and change in shareholders' equity for six months ended June 30, 2017 have been reclassified according to the nature of the transactions. Refer to Note 23 for details of the restatement adjustments.

New standard IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at January 1, 2018.

IFRS 15 supersedes IAS 18– Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

**Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated**

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

2. Basis of presentation and statement of compliance (Continued)

New standard IFRS 15 Revenue from Contracts with Customers (continued)

The principles in IFRS 15 have been applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment.

New standard IFRS 9 Financial Instruments

The Company has adopted IFRS 9, Financial Instruments (IFRS 9) effective January 1, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at January 1, 2018. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. The adoption of IFRS 9 supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit and loss, (ii) those measured at fair value through other comprehensive income and (iii) those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the IFRS 9 requirements are similar to those of IAS 39. The main distinction is that, in cases where the fair value option is chosen for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a single expected credit loss model for calculating impairment for financial assets, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's condensed interim consolidated financial statements and did not result in a transitional adjustment.

The Company has no hedges on its condensed interim consolidated financial statements for the reporting period.

The Company has concluded that the adoption of IFRS 9 did not require any transitional adjustments to the classification or measurement of the Company's financial assets and financial liabilities.

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(Formerly Newstrike Resources Ltd.)

Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

3. The Transaction

On May 29, 2017, Newstrike completed the acquisition with HPI Holdings Ltd. (“HPI”), pursuant to which HPI amalgamated with 2559595 Ontario Inc., a wholly-owned subsidiary of Newstrike, to form 1977121 Ontario Inc., resulting in the indirect acquisition by Newstrike of all of the issued and outstanding securities of HPI (the “Transaction”).

This resulted in a reverse take-over of the Company by the shareholders of 1977121 Ontario Inc. At the time of the Transaction, the Company did not constitute a business as defined under IFRS 3; therefore, the Transaction was accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company was recorded as a listing expense to net loss. As 1977121 was 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.

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 the Transaction	402,920
Less: Net assets acquired	1,472,995
Listing fee	\$ 7,099,152

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 using \$0.125 per share.

The Company assumed 1,810,100 stock options exercisable at a price in the range of \$0.10 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 assumptions:

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

Newstrike Brands Ltd.

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Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

3. The Transaction (Continued)

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%

4. Cash and cash equivalents

	June 30, 2018	December 31, 2017
Cash on deposit	\$ 99,401,176	\$ 811,028
Liquid short term deposit	25,086,537	-
	\$ 124,487,713	\$ 811,028

5. Other receivables

	June 30, 2018	December 31, 2017
HST receivable	\$ 2,340,824	\$ 724,889
Enderlein receivable (Note 10)	1,025,000	-
	\$ 3,365,824	\$ 724,889

6. Inventory

	June 30, 2018	December 31, 2017
Harvested cannabis	\$ 8,134,068	\$ 3,975,667
Materials and supplies	90,120	33,360
Merchandise	17,536	16,482
	\$ 8,241,724	\$ 4,025,509

7. Biological assets

The Company's biological assets consists of cannabis plants.

	June 30, 2018	December 31, 2017
Biological assets, beginning	\$ 1,393,345	\$ -
Production of biological assets	2,528,408	2,349,179
Change in fair value	1,995,377	3,019,833
Transfers to inventory upon harvest	(4,158,401)	(3,975,667)
Biological assets, ending	\$ 1,758,729	\$ 1,393,345

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

7. Biological assets (Continued)

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 of 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 June 30, 2018, it is expected that the Company's biological assets will yield approximately 1,000 kilograms 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 future periods.

8. Marketable securities

During the six months ended June 30, 2018, the Company acquired 1,250,000 common shares of Canadian public companies for cash consideration of \$1,087,500 and recorded an unrealized loss of \$107,500 on the change in fair value of these marketable securities.

9. 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 cannabis products sold under the Tragically Hip brand. 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 prepaids at a fair value of \$885,000.

During the six months ended June 30, 2018, the Company recorded amortization of \$177,000 using the straight-line method over a five-year term.

	June 30, 2018	December 31, 2017
License – HIP, net of amortization	\$ 1,250,419	\$ 1,427,419
Prepaid – HIP	885,000	885,000
Balance, end of year	\$ 2,135,419	\$ 2,312,419

Newstrike Brands Ltd.

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Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

10. License application

As at December 31, 2017, the fair value of Enderlein Nurseries Ltd.'s ("Enderlein") license application was \$2,365,179. On May 25, 2018, the Company sold all of its shares in Enderlein for \$2,504,500, recognizing a gain of \$139,321. In accordance with the agreement, there was a \$1,025,000 holdback that is receivable when Enderlein receives a license from Health Canada under the ACMPR (Note 5).

11. Property, plant and equipment

Cost	Balance December 31, 2017	Additions	Reclassification	Disposals	Balance June 30, 2018
Computers	\$ 156,886	\$ 141,581	\$ -	\$ -	\$ 298,467
Production equipment	1,286,826	1,312,502	63,270	(7,624)	2,654,974
Equipment	1,081,956	-	1,300,000	-	2,381,956
Office furniture	92,874	31,649	-	-	124,523
Security equipment	347,369	121,470	-	-	468,839
Leasehold improvements	1,213,117	41,095	(63,270)	-	1,190,942
Building	3,815,224	1,631,615	-	-	5,446,839
Equipment under finance lease	1,300,000	-	(1,300,000)	-	-
Land	3,830,242	-	-	-	3,830,242
Cost	\$ 13,124,494	\$ 3,279,912	\$ -	\$ (7,624)	\$ 16,396,782
Accumulated amortization					
Computers	\$ (44,238)	\$ (34,425)	\$ -	\$ -	\$ (78,663)
Production equipment	(131,020)	(33,021)	-	-	(164,041)
Equipment	-	(51,500)	(390,000)	-	(441,500)
Office furniture	(3,738)	(4,991)	-	-	(8,729)
Security equipment	(84,267)	(44,470)	-	-	(128,737)
Leasehold improvements	(78,031)	(17,567)	-	-	(95,598)
Building under finance lease	(37,280)	(92,805)	-	-	(130,085)
Equipment under finance lease	(260,000)	(130,000)	390,000	-	-
Accumulated amortization	\$ (638,574)	\$ (408,779)	\$ -	\$ -	\$ (1,047,353)
Net book value	\$ 12,485,920				\$ 15,349,429

During the six months ended June 30, 2018, included in production costs for biological assets was amortization of \$321,194 (Note 7).

During the six months ended June 30, 2018, the equipment under finance lease has been reclassified to equipment (Note 13).

As at June 30, 2018, \$5,675,751 of deposits and prepaids related to the expansion of the Niagara facility.

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

12. Accounts payable and accrued liabilities

	June 30, 2018	December 31, 2017
Accounts payable	\$ 2,653,876	\$ 2,302,196
Accrued liabilities	2,002,608	633,838
Payroll liabilities	30,000	40,895
	\$ 4,686,484	\$ 2,976,929

13. Finance leases

During the year ended December 31, 2016, the Company entered into a lease with a three-year term for the Brantford Facility. 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 lease had an effective interest rate of 15%. During the six months ended June 30, 2018, the Company bought out the lease.

	June 30, 2018	December 31, 2017
Total minimum lease payments payable	\$ 939,450	\$ 2,460,371
Portion representing interest to be expensed over the remaining term of the leases	56,825	445,515
Principal outstanding	882,625	2,014,856
Less: Current portion	29,830	533,831
Non-current portion	\$ 852,795	\$ 1,481,025

A summary of changes in the period follows:

	June 30, 2018	December 31, 2017
Balance, beginning	\$ 2,014,856	\$ 919,361
Additions	-	1,302,789
Payments made	(1,551,914)	(450,668)
Interest expenses	419,683	243,374
Balance, ending	\$ 882,625	\$ 2,014,856

The following is a schedule of future minimum lease payments over the life of the finance lease:

No later than one year	\$ 82,550
Later than one year, but not later than five years	\$ 856,900
Total minimum lease payments payable	\$ 939,450

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Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated

For the six months ended June 30, 2018

(Expressed in Canadian Dollars)

14. 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 was later extended to March 15, 2018. As of December 31, 2017, the balance and accrued interest was \$4,011,408. During the three months ended March 31, 2018, the Company recorded interest expense of \$76,805. On February 22, 2018, the Company repaid the loan.

15. 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 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 of debt.

On March 15, 2017, the debenture was converted into 1,473,952 shares of the Company (Note 16). As of December 31, 2017, the convertible note balance is \$nil. Concurrent with the Transaction (Note 3), 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. On May 29, 2017, the Company issued 1,695,000 shares on conversion of the debentures (Note 16).

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. On issuance, the Company recognized \$731,166 as the equity portion and recorded an equivalent amount to the equity portion of debt. As part of the consideration, the Company issued 10,958,904 warrants with an exercise price of \$0.42. The warrants expire on December 31, 2020. The Company incurred finance costs of \$98,475 in connection with the issuance of the debenture.

On January 24, 2018, the debenture was converted into 10,958,904 common shares (Note 16).

	June 30, 2018	December 31, 2017
Balance, beginning	\$ 3,290,617	\$ 392,511
Proceeds from issuance of convertible debentures	-	5,580,000
Amount allocated to conversion options – equity	-	(2,231,166)
Accretion and interest expenses	58,217	111,720
Converted into shares	(3,268,834)	(463,973)
Finance costs	-	(98,475)
Payments	(80,000)	-
Balance, ending	\$ -	\$ 3,290,617

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16. Share capital

Authorized share capital

Unlimited number of common shares without par value.

For the six months ended June 30, 2018

The Company closed a bought deal financing on February 22, 2018 by issuing 69,701,500 units of the Company at a price of \$1.32 per unit for gross proceeds of \$92,005,980. Each unit consists of one common share and one warrant. Each warrant entitles the holder to acquire one common share at a price of \$1.75 per share for a period of two years following the closing date of the financing. The fair value of the warrants was \$33,852,500. The weighted average assumptions used for the Black-Scholes option pricing model of warrants were annualized volatility of 100%, risk-free interest rate of 1.94%, expected life of 2 years, and a dividend rate of nil %.

Pertaining to the February 22, 2018 financing, the Company paid agent fees of \$5,646,052 and issued 4,182,090 compensation warrants. Each compensation warrant entitles the holder to purchase one common share at a price of \$1.32 for a period of two years following the closing date of the financing. The fair value of the compensation warrants of \$2,054,294 was allocated to share capital and equity reserve. The weighted average assumptions used for the Black-Scholes option pricing model of warrants were annualized volatility of 100%, risk-free interest rate of 1.94%, expected life of 2 years, and a dividend rate of nil %.

On June 19, 2018, the Company raised gross proceeds of \$51,750,000 by issuing 69,000,000 units of the Company. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$1.00 per share for a period of 5 years. The fair value of the warrants was \$16,068,646. The weighted average assumptions used for the Black-Scholes option pricing model of warrants were annualized volatility of 100%, risk-free rate of 2.03%, expected life of 5 years, and a dividend rate of nil %.

Pertaining to the June 19, 2018, the Company paid agent fees of \$3,105,000, and issued 4,140,000 compensation warrants. Each compensation warrant entitles the holder to purchase one unit at a price of \$0.75 for a period of two years following the closing date of the financing. Each unit consists of one common share and half of one share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$1.00 per share for a period of 5 years. The fair value of the compensation warrants of \$2,265,090 was allocated to share capital and equity reserve. The weighted average assumptions used for the Black-Scholes option pricing model of warrants were annualized volatility of 100%, risk-free interest rate of 1.84%, expected life of 2 years, and a dividend rate of nil %. The Company also paid other transaction costs of \$337,759.

During the period ended June 30, 2018, the Company issued 1,969,281 common shares with respect to the exercise of stock options for proceeds of \$700,627. The fair value of these options of \$404,312 was reallocated from reserves to share capital.

During the period ended June 30, 2018, the Company issued 11,210,154 common shares with respect to the exercise of warrants for proceeds of \$4,622,600. The fair value of these warrants of \$342,400 was reallocated from reserves to share capital.

During the period ended June 30, 2018, the Company issued 10,958,904 common shares for the conversion of the convertible debenture and recorded a reallocation of \$731,166 from equity portion of convertible debt to share capital.

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16. Share capital (Continued)

For the six months ended June 30, 2017

During the six months ended June 30, 2017, the Company issued 3,000,000 common 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.

During the six months ended June 30, 2017, the Company issued 2,820,001 shares with a fair value of \$2,495,701 in connection with the acquisition of Enderlein.

During the six months ended June 30, 2017, 3,581,956 options were exercised resulting in the issuance of 3,581,956 shares for proceeds of \$146,133. As a result of these option exercises, an amount of \$175,124 was reclassified from equity reserve to the share capital.

During the six months ended June 30, 2017, the Company issued 3,168,952 shares in connection with the conversion of convertible debentures (Note 15).

On May 29, 2017, the Transaction (Note 3) 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.

For the six months ended June 30, 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).

For the six months ended June 30, 2017, the Company issued 7,892,500 common shares for proceeds of \$591,938 with respect to exercises of warrants. The fair value of these warrants of \$868,175 was reallocated from reserve to share capital.

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16. Share capital (Continued)

Stock options

As at June 30, 2018, 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	Vesting Terms
July 25, 2020	\$0.38	2.07	20,526,347	11,175,731	(i)
March 29, 2021	\$1.05	2.75	2,000,000	-	(ii)
April 16, 2021	\$1.06	2.80	1,400,000	-	(ii)
April 27, 2021	\$1.02	2.83	1,000,000	1,000,000	(iii)
May 8, 2021	\$1.00	2.84	2,100,000	1,050,000	(iv)
June 25, 2021	\$0.66	2.99	2,538,232	1,238,232	(v)
December 20, 2021	\$0.20	3.48	320,000	320,000	(vi)
February 23, 2023	\$1.10	4.65	4,750,000	4,750,000	(vii)
June 25, 2023	\$0.66	4.99	1,125,000	1,125,000	(iii)
		2.72	35,759,579	20,658,963	

Vesting terms:

- (i) Of these options, 4,000,000 were immediately vested upon grant. 8,217,974 of the options granted vest 25% incrementally after 4 months, 10 months, 16 months and 22 months after the grant date. 8,308,373 of the options granted vest 25% incrementally every 6 months after the grant date.
- (ii) These options vest 25% incrementally every 6 months after the grant date.
- (iii) These options vest immediately upon grant.
- (iv) 50% of these options vested immediately upon grant. The remaining 50% of options vest 25% incrementally after every 6 months after the grant date.
- (v) 1,238,232 of these options vested immediately upon grant. The remaining 1,300,000 options vest 25% incrementally every 6 months after the grant date.
- (vi) These options have been fully vested.
- (vii) Of these options, 4,500,000 were immediately vested upon grant. The remaining 250,000 options became fully vested in the second quarter of 2018.

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

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2017	23,169,795	\$ 0.38
Granted	15,063,232	0.96
Exercised	(1,969,281)	0.36
Cancelled / Forfeited	(504,167)	0.58
Outstanding at June 30, 2018	35,759,579	\$ 0.62
Exercisable at June 30, 2018	20,658,963	\$ 0.64

During the six months ended June 30, 2017, the Company granted no stock options.

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16. Share capital (Continued)

The fair value of stock options granted for the period ended June 30, 2018 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2018
Risk-free interest rate	1.96%
Estimate life	3.92 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

During the six months ended June 30, 2018, the Company recorded share-based compensation of \$7,194,855 (2017 - \$nil) pursuant to the stock options vested. The total fair value of options granted during the six months ended June 30, 2018 was \$9,119,014.

Warrants

As at June 30, 2018, the Company had the following warrants outstanding:

Date Issued	Expiry Date	Exercise Price	Number of Warrants Outstanding
February 22, 2018	February 21, 2020	\$ 1.75	13,273,590
June 19, 2018	June 19, 2020	\$ 0.75	4,140,000
February 16, 2018	September 21, 2020	\$ 1.75	60,610,000
September 20, 2016	September 20, 2021	\$0.075	1,256,250
June 19, 2018	June 19, 2023	\$ 1.00	34,500,000
			113,779,840

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

	Number of Warrants
Outstanding at December 31, 2017	12,466,404
Issued	112,523,590
Exercised	(11,210,154)
Outstanding at June 30, 2018	113,779,840

The weighted average exercise price and weighted average life are \$1.47 and 2.69 years, respectively.

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17. 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 six months ended June 30, 2018, is set out below:

	June 30, 2018	June 30, 2017
Consulting and professional fees	\$ 274,167	\$ 72,000
Wages and benefits	542,284	222,917
Share-based compensation	3,212,119	-
	\$ 4,028,570	\$ 294,917

As at June 30, 2018, \$42,887 (December 31, 2017 - \$26,833), is included in accounts payable and accrued liabilities from amounts owing to related parties.

During the six months ended June 30, 2018, the Company fully repaid the principal and accrued interest of the secured loan payable to the Chief Executive Officer of \$77,153.

As at December 31, 2017, \$88,602 was owing from a director for a loan in the amount of \$85,500 bearing interest at 4.75% per annum. This loan was repaid during the first quarter of 2018.

18. Commitments

Finance leases (see Note 13)

Operating lease

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

Year	
2018	\$ 84,313
2019	56,208
	\$ 140,521

19. Contingency

During 2018, 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 Defense and believes the claim is without merit. No amount has been accrued.

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20. Termination fee

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.

21. Supplemental disclosure with respect to cash flows

Significant non-cash transactions for the six months ended June 30, 2018 consist of:

- a. The Company transferred biological assets to inventory of the amount \$4,158,401.
- b. The Company recorded \$321,194 as depreciation to inventory.
- c. The Company reallocated \$731,166 from a convertible debenture to the equity portion of debt.
- d. The Company issued 10,958,904 common shares with a fair value of \$4,000,000 in connection with conversion of a convertible debenture.
- e. The Company issued 8,322,090 compensation warrants with a fair value of \$4,319,384 in connection with the bought deal.

Significant non-cash transactions for the six months ended June 30, 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 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 acquisition of Enderlein.
- d. The Company recorded a finance lease liability of \$1,302,789 and recognized an equivalent amount as additions to property, plant and equipment.

22. Subsequent event

On July 31, 2018, the Company invested in an interest in Inner Spirit Holdings Ltd. with a cash payment of \$1,125,000 and issuance of 1,250,000 shares of the Company at a price of \$0.90 per share. The Company also issued 1,250,000 share purchase warrants. Each warrant vests on a performance-based schedule triggered by the opening of a pre-determined number of future Spirit Leaf locations and entitles the holder to purchase one common share of the Company for \$0.99 for a period of 24 months.

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23. Restatements of the financial statements

The condensed consolidated interim financial statements of the Company as at June 30, 2017 and for the period then ended have been restated to correct material errors and omissions in its prior filing. The Company discovered the deficiencies in the accounting information subsequent to the filing and issuance of the financial statements. The financial statements for the period ended June 30, 2017 have been prepared using the most complete information currently available.

Condensed Consolidated Interim Statement of Comprehensive Loss

	Six months ended June 30, 2017 (Original)	Adjustments	Six months ended June 30, 2017 (Restated)
EXPENSES			
Amortization	\$ -	\$ 165,581	\$ 165,581
Consulting and professional fees	996,825	(210,283)	786,542
General and administration	200,087	(54,104)	145,983
Rent and facilities	-	30,553	30,553
Wages and benefits	308,322	(42,583)	265,739
Sales, marketing and business development	428,240	(11,739)	416,501
	<u>1,933,474</u>	<u>(122,575)</u>	<u>1,810,899</u>
OTHER ITEMS			
Accretion and interest expenses	52,428	94,976	147,404
Change in fair value of marketable securities	-	22,500	22,500
Listing Fee	7,077,884	21,268	7,099,152
Loss on sale of license application	100,000	(100,000)	-
	<u>7,230,312</u>	<u>38,744</u>	<u>7,269,056</u>
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ 9,163,786	\$ (83,831)	\$ 9,079,955

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Notes to Condensed Consolidated Interim Financial Statements - Unaudited

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23. Restatements of the financial statements (Continued)

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

Original	Number of outstanding shares	Share capital	Equity reserves	Equity portion of convertible debt	Deficit	Total
Balance, December 31, 2016	27,770,481	\$ 2,512,955	\$ 70,644	\$ 36,027	\$ (1,767,486)	\$ 852,140
Shares issued – HIP Agreement	3,000,000	2,655,000	-	-	-	2,655,000
Enderlein shares	2,820,001	2,495,701	-	-	-	2,495,701
Options exercised	2,258,004	170,300	(7,300)	-	-	163,000
Conversion of convertible debentures	3,168,952	2,000,000	-	(36,027)	-	1,963,973
Reversal of share capital of HPI	(37,119,946)	-	-	-	-	-
Share capital of Newstrike	45,104,580	6,049,561	507,500	-	-	6,557,061
Shares issued – Transaction	282,607,274	-	-	-	-	-
Shares issued for cash	25,000,000	3,058,114	-	-	-	3,058,114
Warrants exercised	33,975,000	3,348,125	(502,509)	-	-	2,845,616
Net and comprehensive loss for the period	-	-	-	-	(9,163,786)	(9,163,786)
Balance, June 30, 2017	388,584,346	\$ 22,289,756	\$ 68,335	\$ -	\$ (10,931,272)	\$ 11,426,819

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23. Restatements of the financial statements (Continued)

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

Adjustments	Number of outstanding shares	Share capital	Equity reserves	Equity portion of convertible debt	Obligation to issue shares	Deficit	Total
Balance, December 31, 2016	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Shares issued– HIP Agreement	-	-	-	-	-	-	-
Enderlein shares	-	-	477,559	-	-	-	477,559
Options exercised	1,323,952	150,957	(167,824)	-	-	-	(16,867)
Conversion of convertible debentures	-	-	-	-	-	-	-
Reversal of share capital of HPI	(2,811,444)	-	-	-	-	-	-
Share capital of Newstrike	11,470,001	1,022,262	589,904	-	-	-	1,612,166
Shares issued – Transaction	(9)	-	-	-	-	-	-
Shares issued for cash	-	58	-	-	-	-	58
Warrants exercised	(26,082,500)	(1,888,012)	(365,666)	-	-	-	(2,253,678)
Obligation to issue shares	-	-	-	-	2,000,000	-	2,000,000
Net and comprehensive loss for the period	-	-	-	-	-	83,831	83,831
Balance, June 30, 2017	(16,100,000)	\$ (714,735)	\$ 533,973	\$ -	\$ 2,000,000	\$ 83,831	\$ 1,903,069

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23. Restatements of the financial statements (Continued)

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

Restated	Number of outstanding shares	Share capital	Reserves	Equity portion of convertible debt	Obligation to issue shares	Deficit	Total
Balance, December 31, 2016	27,770,481	\$ 2,512,955	\$ 70,644	\$ 36,027	\$ -	\$ (1,767,486)	\$ 852,140
Shares issued							
– Hip Agreement	3,000,000	2,655,000	-	-	-	-	2,655,000
Enderlein shares	2,820,001	2,495,701	477,559	-	-	-	2,973,260
Options exercised	3,581,956	321,257	(175,124)	-	-	-	146,133
Conversion of convertible debentures	3,168,952	2,000,000	-	(36,027)	-	-	1,963,973
Reversal of share capital of HPI	(39,931,390)	-	-	-	-	-	-
Share capital of Newstrike	56,574,581	7,071,823	1,097,404	-	-	-	8,169,227
Share issued – Transaction	282,607,265	-	-	-	-	-	-
Shares issued for cash	25,000,000	3,058,172	-	-	-	-	3,058,172
Warrants exercised	7,892,500	1,460,113	(868,175)	-	-	-	591,938
Obligations to issue shares	-	-	-	-	2,000,000	-	2,000,000
Net and comprehensive loss for the period	-	-	-	-	-	(9,079,955)	(9,079,955)
Balance, June 30, 2017	372,484,346	\$ 21,575,021	\$ 602,308	\$ -	\$ 2,000,000	\$ (10,847,441)	\$ 13,329,888

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23. Restatements of the financial statements (Continued)

Condensed Consolidated Interim Statement of Cash Flows

	Six months ended June 30, 2017 (Original)	Adjustments	Six months ended June 30, 2017 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (9,163,786)	\$ 83,831	\$ (9,079,955)
Items not affecting cash:			
Accretion and interest expenses	-	149,890	149,890
Amortization	-	404,531	404,531
Change in fair value of marketable securities	-	22,500	22,500
Gain on sale of license	(100,000)	100,000	-
Listing fees – non-cash	7,077,884	(381,652)	6,696,232
Changes in non-cash working capital:			
HST receivable	(259,666)	(90,482)	(350,148)
Prepaid expenses	-	(90,344)	(90,344)
Biological assets	(580,257)	(482,989)	(1,063,246)
Inventory	-	(12,464)	(12,464)
Accounts payable and accrued liabilities	107,857	959,924	1,067,783
Net cash used in operating activities	(2,917,968)	662,747	(2,255,221)
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits on acquisition of property, plant, and equipment	-	(58,110)	(58,110)
Purchase of property, plant, and equipment	(1,589,849)	1,589,849	-
Purchase of intellectual property	-	(7,344)	(7,344)
Net cash used in investing activities	(1,589,849)	1,524,395	(65,454)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of convertible debentures	4,930,366	(3,430,366)	1,500,000
Proceeds from share issuance, net of share issuance costs	3,660,375	135,868	3,796,243
Repayment of shareholder loans	-	(89,736)	(89,736)
Share subscriptions received in advance	-	2,000,000	2,000,000
Listing fee	-	402,920	402,920
Bank indebtedness acquired from acquisition of Enderlein	-	(6,613)	(6,613)
Finance lease repayments	1,300,000	(1,563,659)	(263,659)
Cash acquired from the Transaction	930,049	516,430	1,446,479
Net cash provided by financing activities	10,820,790	(2,035,156)	8,785,634
Net change in cash	6,312,973	151,986	6,464,959
Cash, beginning of period	78,885	-	78,885
Cash, end of period	\$ 6,391,858	\$ 151,986	\$ 6,543,844