



NEWSTRIKE

BRANDS

Newstrike Brands Ltd.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Amended and Restated
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited)
(Expressed in Canadian dollars)

Newstrike Brands Ltd.

Condensed Interim Consolidated Statements of Financial Position

Amended and Restated

As at September 30, 2018

(Expressed in Canadian Dollars)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	\$ 107,642,357	\$ 811,028
Accounts receivable (Note 5)	4,003,442	-
Other receivables (Note 6)	4,522,768	724,889
Prepays	1,078,160	25,216
Inventory (Note 7)	6,356,497	4,025,509
Biological assets (Note 8)	2,011,369	1,393,345
Loan receivable (Note 18)	-	88,602
	125,614,593	7,068,589
Investment securities (Note 9)	6,299,631	-
Deposits and prepaids (Note 12)	10,040,143	641,975
Prepaid – HIP (Note 10)	829,688	885,000
Intellectual property	-	7,344
License – HIP (Note 10)	1,161,919	1,427,419
License application (Note 11)	-	2,365,179
Property, plant and equipment (Note 12)	18,825,483	12,485,920
TOTAL ASSETS	\$ 162,771,457	\$ 24,881,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	\$ 6,567,616	\$ 2,976,929
Finance leases (Note 14)	875,263	533,831
Secured loan (Note 15)	-	4,011,408
Due to shareholder	-	10,170
Convertible debentures (Note 16)	-	3,290,617
Payment received in advance	135,261	-
	7,578,140	10,822,955
Finance leases (Note 14)	-	1,481,025
TOTAL LIABILITIES	7,578,140	12,303,980
Shareholders' equity		
Share capital (Note 17)	116,705,095	24,282,784
Reserves (Note 17)	64,788,816	3,418,988
Accumulated other comprehensive income (Note 9)	3,236,652	-
Equity portion of convertible debt (Note 16)	-	731,166
Deficit	(29,537,246)	(15,855,492)
TOTAL SHAREHOLDERS' EQUITY	155,193,317	12,577,446
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 162,771,457	\$ 24,881,426

Commitment (Note 19) and Contingency (Note 20)

Subsequent event (Note 23)

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.

Condensed Interim Consolidated Statements of Comprehensive Loss – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 Restated (Note 24)	2018	2017 Restated (Note 24)
REVENUE	\$ 3,420,446	\$ -	\$ 3,420,446	\$ -
Inventory production costs expensed to cost of sales (Note 7)	(2,353,314)	-	(2,353,314)	-
Gross margin before the undernoted	1,067,132	-	1,067,132	-
Fair value changes in biological assets included in inventory sold (Note 7)	(1,056,084)	-	(1,056,084)	-
Unrealized (loss) / gain on change in fair value of biological assets (Note 8)	(1,070,337)	-	925,040	-
GROSS MARGIN	(1,059,289)	-	936,088	-
EXPENSES				
Amortization (Notes 10 and 12)	89,939	128,958	354,524	294,539
Consulting and professional fees (Note 18)	1,321,693	-	3,526,411	682,580
General and administration	964,650	378,884	2,239,972	628,829
Rent and facilities	48,664	52,216	157,225	82,769
Wages and benefits (Note 18)	937,807	254,757	3,328,255	520,496
Sales, marketing and business development	3,054,056	267,571	6,320,516	684,072
Share-based compensation (Notes 17 and 18)	1,033,971	2,746,025	8,228,820	2,746,025
	(7,450,780)	(3,828,411)	(24,155,723)	(5,639,310)
OTHER ITEMS				
Accretion and interest expenses	(17,306)	(109,771)	(631,954)	(257,175)
Change in fair value of investments (Note 9)	-	(4,000)	-	(26,500)
Listing fee (Note 3)	-	-	-	(7,099,152)
Loss on sale of license application (Note 11)	(250,000)	-	(110,679)	-
Interest income	627,028	-	772,712	-
Termination fee (Note 21)	-	-	9,500,000	-
	359,722	(113,771)	9,530,079	(7,382,827)
NET LOSS FOR THE PERIOD	(8,150,347)	(3,942,182)	(13,689,556)	(13,022,137)
OTHER COMPREHENSIVE INCOME				
Change in fair value of investment securities (Note 9)	3,344,152	-	3,236,652	-
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (4,806,195)	\$ (3,942,182)	\$ (10,452,904)	\$ (13,022,137)
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	554,126,031	378,872,553	494,133,220	197,842,414

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

Newstrike Brands Ltd.

Condensed Interim Consolidated Statements of Cash Flows – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017 Restated (Note 24)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (13,689,556)	\$(13,022,137)
Interest paid	-	(111,667)
Items not affecting cash:		
Accretion and interest expenses	568,869	252,736
Accrued interest income	(106,028)	-
Amortization	443,024	294,539
Change in fair value of marketable securities	-	26,500
Loss on sale of Enderlein	110,679	-
Listing fees – non-cash	-	6,696,232
Share-based compensation	8,228,820	2,746,025
Unrealized gain on change in fair value of biological assets	(925,040)	-
Changes in non-cash working capital:		
Accounts Receivable	(4,003,442)	-
Other receivables	(2,916,851)	(499,434)
Prepaid expenses	(3,985,893)	23,490
Biological assets	(4,288,668)	(1,107,589)
Inventory	2,879,320	(43,754)
Accounts payable and accrued liabilities	3,492,091	584,195
Payment received in advance	135,261	-
Net cash flows used in operating activities	(14,057,414)	(4,160,864)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits on acquisition of property, plant, and equipment	(6,409,906)	-
Proceeds from disposition of license application	1,479,500	-
Repayment on loan receivable	88,602	-
Purchase of investment securities	(2,212,500)	-
Purchase of intellectual property	-	(7,344)
Purchase of property, plant, and equipment	(7,124,368)	(7,793,112)
Net cash flows used in investing activities	(14,178,672)	(7,800,456)

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

Newstrike Brands Ltd.

Condensed Interim Consolidated Statements of Cash Flows – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017 Restated (Note 24)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of convertible debentures	-	5,580,000
Proceeds from share issuance, net of share issuance costs	140,712,841	5,897,910
Repayment of shareholder loans	(10,170)	(89,736)
Issuance of secured loans	-	3,960,000
Repayment of accrued interest on convertible debentures	(80,000)	-
Bank indebtedness acquired from the acquisition of Enderlein	-	(6,613)
Cash acquired from the Transaction (Note 3)	-	1,446,479
Listing expense	-	402,920
Secured loan payment	(4,011,408)	-
Finance lease repayments	(1,543,848)	(281,330)
Net cash flows provided by financing activities	135,067,415	16,909,630
Net change in cash and cash equivalents	106,831,329	4,948,310
Cash and cash equivalents – beginning of period	811,028	78,885
Cash and cash equivalents – end of period	\$107,642,357	\$ 5,027,195

Supplemental disclosure with respect to cash flows (Note 22).

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

Newstrike Brands 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	Accumulated Other Comprehensive Income	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 (Note 17)	138,701,500	80,524,107	54,240,530	-	-	-	134,764,637
Shares issued for debt conversion (Note 16)	10,958,904	4,000,000	-	(731,166)	-	-	3,268,834
Options exercised (Note 17)	3,717,986	2,133,240	(874,255)	-	-	-	1,258,985
Warrants exercised (Note 17)	12,080,854	5,127,464	(438,246)	-	-	-	4,689,218
Share-based compensation (Note 17)	-	-	8,228,820	-	-	7,802	8,236,622
Inner Spirit investment (Note 9)	1,250,000	637,500	212,979	-	-	-	850,479
Change in fair value of investment securities (Note 9)	-	-	-	-	3,236,652	-	3,236,652
Net and comprehensive loss for the period	-	-	-	-	-	(13,689,556)	(13,689,556)
Balance, September 30, 2018	556,408,590	\$ 116,705,095	\$ 64,788,816	\$ -	\$ 3,236,652	\$ (29,537,246)	\$ 155,193,317

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

Newstrike Brands 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, 2016	27,770,481	\$ 2,512,955	\$ 70,644	\$ 36,027	\$ (1,767,486)	\$ 852,140
Shares issued – HIP Agreement (Note 17)	3,000,000	2,655,000	-	-	-	2,655,000
Enderlein shares (Note 17)	2,820,001	2,495,701	477,559	-	-	2,973,260
Options exercised (Note 17)	3,831,956	373,145	(184,462)	-	-	188,683
Conversion of convertible debentures (Note 16)	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 (Note 17)	25,000,000	3,058,172	-	-	-	3,058,172
Warrants exercised (Note 17)	24,692,500	4,206,368	(1,554,430)	-	-	2,651,938
Expiry of stock options	-	-	(1,812)	-	-	(1,812)
Equity component of convertible debt (Note 16)	-	-	-	749,621	-	749,621
Share-based compensation	-	-	2,746,025	-	-	2,746,025
Net and comprehensive loss for the period	-	-	-	-	(13,022,137)	(13,022,137)
Balance, September 30, 2017 (Note 24)	389,534,346	\$ 24,373,164	\$ 2,650,928	\$ 749,621	\$ (14,789,623)	\$ 12,984,090

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

Newstrike Brands Ltd.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited Amended and Restated For the nine months ended September 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. Refer to Note 23 for the subsequent event regarding the Cannabis Act (S.C. 2018, c.16) (the "Cannabis Act") coming into force on October 17, 2018.

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 the 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 interim financial statements filed for the period ended September 30, 2017. Certain line items in the consolidated statements of comprehensive loss, cash flows, and changes in shareholders' equity for the nine months ended September 30, 2017 have been reclassified according to the nature of the transactions. Refer to Note 24 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.

**Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated
For the nine months ended September 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.

Newstrike Brands Ltd.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited
Amended and Restated
For the nine months ended September 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 for 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.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited Amended and Restated For the nine months ended September 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

	September 30, 2018	December 31, 2017
Cash on deposit	\$ 82,642,357	\$ 811,028
Liquid short term deposit	25,000,000	-
	\$ 107,642,357	\$ 811,028

5. Accounts receivable

	September 30, 2018	December 31, 2017
Trade receivables, net	\$ 4,003,442	\$ -

Trade receivables are net of an estimated provision for sales returns.

6. Other receivables

	September 30, 2018	December 31, 2017
HST receivable	\$ 3,641,740	\$ 724,889
Interest receivable	106,028	-
Enderlein receivable (Note 11)	775,000	-
	\$ 4,522,768	\$ 724,889

7. Inventory

	September 30, 2018	December 31, 2017
Harvested cannabis	\$ 6,077,635	\$ 3,975,667
Materials and supplies	252,003	33,360
Merchandise	26,859	16,482
	\$ 6,356,497	\$ 4,025,509

Newstrike Brands Ltd.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited Amended and Restated For the nine months ended September 30, 2018 (Expressed in Canadian Dollars)

7. Inventory (Continued)

The direct and indirect costs of harvested cannabis initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of sales' to profit or loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line item in profit or loss. Inventory is measured at lower of cost or net realizable value.

8. Biological assets

The Company's biological assets consists of cannabis plants.

	September 30, 2018	December 31, 2017
Biological assets, beginning of year	\$ 1,393,345	\$ -
Production of biological assets	5,189,342	2,349,179
Change in fair value	925,040	3,019,833
Transfers to inventory upon harvest	(5,496,358)	(3,975,667)
Biological assets, end of period	\$ 2,011,369	\$ 1,393,345

The Company capitalizes the direct and indirect costs incurred related to the transformation of the biological assets between the point of initial recognition and the point of harvest. They include the direct cost of growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item 'cost of sales' on the statement of profit and loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the statement of profit and loss. Biological assets are measured at their fair value less costs to sell on the statement of financial position.

The significant unobservable inputs 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 September 30, 2018, it is expected that the Company's biological assets will yield approximately 1,700 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.

Newstrike Brands Ltd.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited Amended and Restated For the nine months ended September 30, 2018 (Expressed in Canadian Dollars)

9. Investment securities

As of September 30, 2018, the Company's investments comprise of common shares and share purchase warrants of Canadian public companies which are measured at fair value.

	September 30, 2018	December 31, 2017
Common shares	\$ 5,260,000	\$ -
Share purchase Warrants	1,039,631	-
	\$ 6,299,631	\$ -

During the nine months ended September 30, 2018, the Company acquired 16,250,000 common shares and 8,500,000 warrants of Canadian public companies for consideration of \$2,212,500, and 1,250,000 in shares of the Company with a fair value of \$637,500, and 1,125,000 in warrants with a fair value of \$212,979 of the Company. The Company has measured these investments at fair value through other comprehensive income as they are not held for trading. During the nine month period ended September 30, 2018, the Company recorded the unrealized fair value change of \$3,236,652 in other comprehensive income.

During the nine months ended September 30, 2017, marketable securities purchased by the Company were deemed as held for trading and the change in fair value of investment securities of (\$26,500) was recognized in profit or loss.

The fair value of the warrants issued by the Company was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30, 2018
Risk-free interest rate	2.07%
Estimate life	2 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

10. 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 inspired by the Tragically Hip. 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 nine months ended September 30, 2018, the Company recorded amortization of \$265,500 using the straight-line method over a five-year term on the License, and \$55,312 was drawn down on the prepaid royalty.

	September 30, 2018	December 31, 2017
License – HIP, net of amortization	\$ 1,161,919	\$ 1,427,419
Prepaid – HIP	829,688	885,000
Balance, end of period	\$ 1,991,607	\$ 2,312,419

Newstrike Brands Ltd.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited Amended and Restated For the nine months ended September 30, 2018 (Expressed in Canadian Dollars)

11. 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. As at September 30, 2018 there was a holdback that was receivable when Enderlein receives a license from Health Canada under the ACMPR (Note 6). During the nine months ended September 30, 2018, a provision of \$250,000 was recorded pursuant to the holdback and the Company recorded a loss of \$110,679 from the disposition of the license application.

12. Property, plant and equipment

Cost	Balance	Additions	Reclassification	Disposals	Balance
	December 31, 2017				September 30, 2018
Computers	\$ 156,887	\$ 263,531	\$ -	\$ -	\$ 420,418
Leasehold improvements	1,213,117	41,096	(63,270)	-	1,190,943
Equipment	1,081,956	144,576	1,300,000	-	2,526,532
Production equipment	1,286,826	2,767,869	63,270	(11,266)	4,106,699
Office furniture	92,874	34,527	-	-	127,401
Security equipment	347,369	243,974	-	-	591,343
Equipment under finance lease	1,300,000	-	(1,300,000)	-	-
Land	3,830,242	-	-	-	3,830,242
Building	3,815,224	3,563,191	-	(4,287)	7,374,128
Cost	\$ 13,124,495	\$ 7,058,764	\$ -	\$ (15,553)	\$ 20,167,706
Accumulated amortization					
Computers	\$ (44,238)	\$ (63,866)	\$ -	\$ -	(108,104)
Leasehold improvements	(78,032)	(28,485)	-	-	(106,517)
Equipment	-	(144,513)	(390,000)	-	(534,513)
Production equipment	(131,020)	(96,693)	-	-	(227,713)
Office furniture	(3,738)	(8,172)	-	-	(11,910)
Security equipment	(84,267)	(74,037)	-	-	(158,303)
Building	(37,280)	(157,883)	-	-	(195,163)
Equipment under finance lease	(260,000)	(130,000)	390,000	-	-
Accumulated amortization	\$ (638,575)	\$ (703,649)	\$ -	\$ -	\$ (1,342,223)
Net book value	\$ 12,485,920				\$ 18,825,483

During the three and nine months ended September 30, 2018, included in production costs for biological assets was amortization of \$293,431 and \$614,625, respectively (Note 8).

On January 1, 2017, the Company entered into a finance lease for production equipment. During the nine months ended September 30, 2018, these leases were bought out, and therefore, the equipment under finance lease has been reclassified to equipment (Note 14).

As at September 30, 2018, \$7,051,881 of deposits and prepaids related to the building expansion of the Niagara facility and \$2,988,262 related to production equipment for the Niagara facility.

Newstrike Brands Ltd.

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13. Accounts payable and accrued liabilities

	September 30, 2018	December 31, 2017
Accounts payable	\$ 3,626,417	\$ 2,302,196
Accrued liabilities	2,732,753	633,838
Payroll liabilities	208,446	40,895
	\$ 6,567,616	\$ 2,976,929

14. 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 nine months ended September 30, 2018, the Company bought out the lease.

	September 30, 2018	December 31, 2017
Total minimum lease payments payable	\$ 919,000	\$ 2,460,371
Portion representing interest to be expensed over the remaining term of the lease	(43,737)	(445,515)
Principal outstanding	875,263	2,014,856
Less: Current portion	875,263	533,831
Non-current portion	\$ -	\$ 1,481,025

A summary of changes in the period follows:

	September 30, 2018	December 31, 2017
Balance, beginning	\$ 2,014,856	\$ 919,361
Additions	-	1,302,789
Payments made	(1,559,276)	(450,668)
Interest expenses	419,683	243,374
Balance, ending	\$ 875,263	\$ 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	\$ 919,000
Later than one year, but not later than five years	-
Total minimum lease payments payable	\$ 919,000

During the three months ended September 30, 2018, the Company entered into an agreement to exercise its option to purchase the Brantford Facility currently being leased. The closing of this agreement is pending completion of the purchase and sale agreement.

Newstrike Brands Ltd.

Notes to Condensed Interim Consolidated Financial Statements – Unaudited Amended and Restated For the nine months ended September 30, 2018 (Expressed in Canadian Dollars)

15. 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. On February 22, 2018, the Company repaid the loan. During the nine months ended September 30, 2018, the Company recorded interest expense of \$76,805.

16. 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 17). As of December 31, 2017, the balance for this convertible note 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 17).

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. As of December 31, 2017, the convertible debenture balance is \$3,290,617.

On January 24, 2018, the debenture was converted into 10,958,904 common shares (Note 17).

	September 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

Newstrike Brands Ltd.

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17. Share capital

Authorized share capital

Unlimited number of common shares without par value.

For the nine months ended September 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 financing, 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 September 30, 2018, the Company issued 3,717,986 common shares with respect to the exercise of stock options for proceeds of \$1,258,985. The fair value of these options of \$874,255 was reallocated from reserves to share capital.

During the period ended September 30, 2018, the Company issued 12,080,854 common shares with respect to the exercise of warrants for proceeds of \$4,689,218. The fair value of these warrants of \$438,246 was reallocated from reserves to share capital.

During the period ended September 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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17. Share capital (Continued)

For the nine months ended September 30, 2017

During the period ended September 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 period ended September 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 period ended September 30, 2017, 3,831,956 options were exercised resulting in the issuance of 3,831,956 shares for proceeds of \$188,683. As a result of these option exercises, an amount of \$184,462 was reclassified from equity reserve to the share capital.

During the period ended September 30, 2017, the Company issued 3,168,952 shares in connection with the conversion of convertible debentures (Note 16).

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 period ended September 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 period ended September 30, 2017, the Company issued 24,692,500 common shares for proceeds of \$2,651,938 with respect to exercises of warrants. The fair value of these warrants of \$1,554,430 was reallocated from reserve to share capital.

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17. Share capital (Continued)

Stock options

As at September 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	1.82	18,627,642	12,535,245	(i)
March 29, 2021	\$1.05	2.50	2,000,000	500,000	(ii)
April 16, 2021	\$1.06	2.55	1,400,000	-	(ii)
April 27, 2021	\$1.02	2.58	1,000,000	1,000,000	(iii)
May 8, 2021	\$1.00	2.59	2,100,000	1,050,000	(iv)
June 25, 2021	\$0.66	2.74	2,538,232	1,238,232	(v)
July 6, 2021	\$0.66	2.77	2,250,000	-	(ii)
September 26, 2021	\$0.75	2.99	700,000	-	(ii)
December 20, 2021	\$0.20	3.22	320,000	320,000	(vi)
February 23, 2023	\$1.10	4.41	4,500,000	4,500,000	(iii)
June 25, 2023	\$0.66	4.74	1,125,000	1,125,000	(iii)
		2.51	36,560,874	22,268,477	

Vesting terms:

- (i) Of these options, 4,000,000 were immediately vested upon grant. 6,902,269 of the options granted vest 25% incrementally after 4 months, 10 months, 16 months and 22 months after the grant date. 7,725,373 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.

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	18,013,232	\$0.92
Exercised	(3,717,986)	0.37
Cancelled / Forfeited	(904,167)	0.69
Outstanding at September 30, 2018	36,560,874	\$0.64
Exercisable at September 30, 2018	22,268,477	\$0.63

Newstrike Brands Ltd.

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17. Share capital (Continued)

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

	September 30, 2018
Risk-free interest rate	1.97%
Estimate life	3.77 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

During the nine months ended September 30, 2018, the Company recorded share-based compensation of \$8,228,820 (2017 - \$2,746,025) pursuant to the stock options vested. The total fair value of options granted during the nine months ended September 30, 2018 was \$10,113,671.

Warrants

As at September 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	4,138,050
July 31, 2018	July 31, 2020	\$ 0.99	1,125,000
February 16, 2018	September 21, 2020	\$ 1.75	60,610,000
September 20, 2016	September 20, 2021	\$0.075	387,500
June 19, 2018	June 19, 2023	\$ 1.00	34,500,000
September 19, 2018	June 19, 2023	\$ 1.00	975
			114,035,115

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

	Number of Warrants
Outstanding at December 31, 2017	12,466,404
Issued	113,649,565
Exercised	(12,080,854)
Outstanding at September 30, 2018	114,035,115

The weighted average exercise price and weighted average life are \$1.47 and 2.43 years, respectively.

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18. 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 nine months ended September 30, 2018, is set out below:

	September 30, 2018	September 30, 2017
Consulting and professional fees	\$ 274,167	\$ 155,940
Wages and benefits	\$ 984,180	360,417
Share-based compensation	\$ 5,604,473	628,169
	\$ 6,862,820	\$ 1,144,526

As at September 30, 2018, \$51,310 (December 31, 2017 - \$26,833), is included in accounts payable and accrued liabilities from amounts owing to related parties.

During the nine months ended September 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.

19. Commitment

Finance leases (see Note 14)

Operating lease

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

Year	
2018	\$ 40,740
2019	171,109
	\$ 211,849

20. Contingency

During the nine months ended September 30, 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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21. 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.

22. Supplemental disclosure with respect to cash flows

Significant non-cash transactions for the nine months ended September 30, 2018 consist of:

- a. The Company transferred biological assets to inventory in the amount of \$5,496,358.
- b. The Company recorded \$614,625 as depreciation to inventory.
- c. The Company reallocated \$731,166 from the equity portion of a convertible debenture to share capital pursuant to its conversion.
- 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 period ended September 30, 2017 consist of:

- a. The Company issued 3,000,000 common shares 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.

23. Subsequent event

On October 17, 2018, the Cannabis Act came into force, legalizing adult-use cannabis in Canada. The Company is currently focused on the adult-use and wholesale cannabis markets. Initial sales occurred during the three months ended September 30, 2018.

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24. Restatement of the financial statements

The condensed consolidated interim financial statements of the Company as at September 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 interim financial statements for the period ended September 30, 2017 have been prepared using the most complete information currently available.

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss

The net and comprehensive loss for the nine months ended September 30, 2017 was increased by \$422,082 to \$13,022,137 from \$12,600,055 due to a change to the listing fee of the Transaction, which was adjusted to \$7,099,152 from \$6,667,079.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

The reserve was increased by \$422,082 to \$2,650,928 from \$2,228,846 due to a change to the valuation of the warrants acquired through the Transaction.

Condensed Consolidated Interim Statement of Cash Flows

	For the nine months ended September 30, 2017 (Original)	Adjustments	For the nine months ended September 30, 2017 (Restated)
OPERATING ACTIVITIES			
Net loss for the period	\$ (12,600,055)	(422,082)	\$ (13,022,137)
Interest paid	111,667	(223,334)	(111,667)
Items not involving cash:			
Accretion and interest expenses	140,213	112,523	252,736
Amortization	294,539	-	294,539
Change in fair value of marketable securities	26,500	-	26,500
Gain on sale of license	(100,000)	100,000	-
Listing fees – non-cash	8,121,965	(1,425,733)	6,696,232
Share-based compensation	2,651,025	95,000	2,746,025
	(1,354,146)	(1,763,626)	(3,117,772)
Net changes in non-cash working capital items:			
Other receivables	(415,978)	(83,456)	(499,434)
Prepaid expenses	(70,113)	93,603	23,490
Biological assets	(335,849)	(771,740)	(1,107,589)
Inventory	(1,067,224)	1,023,470	(43,754)
Amounts payable and accrued liabilities	1,196,857	(612,662)	584,195
Cash used in operating activities	(2,046,453)	(2,114,411)	(4,160,864)
INVESTING ACTIVITIES			
Intellectual property	(7,344)	-	(7,344)
Purchase of property, plant and equipment	(8,600,053)	806,941	(7,793,112)
Cash used in investing activities	(8,607,397)	806,941	(7,800,456)

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24. Restatement of the financial statements (continued)

Condensed Consolidated Interim Statement of Cash Flows (continued)

	For the nine months ended September 30, 2017 (Original)	Adjustments	For the nine months ended September 30, 2017 (Restated)
FINANCING ACTIVITIES			
Issuance of convertible debentures	5,580,000	-	5,580,000
Proceeds from share issuances, net of share issuance costs	5,993,795	(95,885)	5,897,910
Repayments of shareholder loans	(99,906)	10,170	(89,736)
Issuance of secured loans	3,848,333	111,667	3,960,000
Bank indebtedness acquired from the acquisition of Enderlein	-	(6,613)	(6,613)
Cash acquired from the Transaction	-	1,446,479	1,446,479
Listing expense	-	402,920	402,920
Finance lease repayments	279,938	(561,268)	(281,330)
Cash provided by financing activities	15,602,160	1,307,470	16,909,630
Change in cash	4,948,310	-	4,948,310
Cash, beginning of the period	78,885	-	78,885
Cash, end of the period	\$ 5,027,195	-	\$ 5,027,195