



NEWSTRIKE

BRANDS

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**Newstrike Brands Ltd.**  
**(Formerly NewstrikeResourcesLtd.)**  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AMENDED AND RESTATED  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017  
(Unaudited)  
(Expressed in Canadian dollars)

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# Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Consolidated Interim Statements of Financial Position

Amended and Restated

(Expressed in Canadian Dollars)

	September 30, 2017 (Unaudited) (Restated – Note 17)	December 31, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 5,027,195	\$ 78,885
Marketable securities	31,000	-
Inventory (Note 5)	1,091,801	-
Biological Assets (Note 6)	426,797	-
Other receivables	515,819	85,764
Prepaid expenses	964,113	-
Loan receivable (Note 7)	85,500	-
	8,142,225	164,649
Property, plant and equipment (Note 9)	11,051,753	2,363,565
Intellectual property	7,344	-
License – HIP (Note 8)	1,515,919	-
License application (Note 10)	2,973,260	-
<b>TOTAL ASSETS</b>	<b>\$ 23,690,501</b>	<b>\$ 2,528,214</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Amounts payable and accrued liabilities (Note 11)	\$ 1,464,354	\$ 349,796
Finance lease - current (Note 13)	362,996	115,419
Secured loan (Note 12)	3,960,000	-
Due to shareholder (Note 15)	10,170	14,406
	5,797,520	479,621
<b>NON-CURRENT LIABILITIES</b>		
Finance lease – non-current (Note 13)	1,658,047	803,942
Convertible debentures (Note 12)	3,250,844	392,511
<b>TOTAL LIABILITIES</b>	<b>10,706,411</b>	<b>1,676,074</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 14)	24,373,164	2,512,955
Reserves	2,650,928	106,671
Equity portion of convertible debt (Note 12)	749,621	-
Deficit	(14,789,623)	(1,767,486)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>12,984,090</b>	<b>852,140</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 23,690,501</b>	<b>\$ 2,528,214</b>

Subsequent events (Notes 12 and 16)

Approved by the Board

"James Wilqar"  
Director

"Stephen Smith"  
Director

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

# Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	For the three months ended September 30, 2017 (Restated – Note 17)	For the three months ended September 30, 2016	For the nine months ended September 30, 2017 (Restated – Note 17)	For the nine months ended September 30, 2016
<b>EXPENSES</b>				
Amortization (Notes 8 and 9)	\$ 128,958	\$ -	\$ 294,539	\$ -
Consulting and professional fees (Note 15)	-	31,403	682,580	70,693
General and administration	378,884	11,078	628,829	45,378
Rent and facilities	52,216	24,900	82,769	68,700
Wages and benefits (Note 15)	254,757	7,422	520,496	18,077
Sales, marketing and business development	267,571	-	684,072	7,655
Share-based compensation (Note 14)	2,746,025	-	2,746,025	-
	(3,828,411)	(74,803)	(5,639,310)	(210,503)
<b>OTHER ITEMS</b>				
Accretion and interest expenses (Notes 12 and 13)	(109,771)	-	(257,175)	(27,263)
Change in fair value of marketable securities	(4,000)	-	(26,500)	-
Listing fee (Note 4)	-	-	(7,099,152)	-
	(113,771)	-	(7,382,827)	(27,263)
<b>NET AND COMPREHENSIVE LOSS</b>	<b>\$ (3,942,182)</b>	<b>\$ (74,803)</b>	<b>\$ (13,022,137)</b>	<b>\$ (237,766)</b>
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.07)</b>	<b>\$ (0.01)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>378,872,553</b>	<b>27,465,311</b>	<b>197,842,414</b>	<b>27,465,311</b>

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

# Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Consolidated Interim Statements of Cash Flow – Unaudited

Amended and Restated)

(Expressed in Canadian Dollars)

	For the nine months ended September 30, 2017 (Restated – Note 17)	For the nine months ended September 30, 2016
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (13,022,137)	\$ (237,766)
Interest paid	(111,667)	-
Items not involving cash:		
Amortization	294,539	-
Accretion and interest expenses	252,736	-
Change in fair value of marketable securities	26,500	-
Listing fees – non-cash	6,696,232	-
Share-based compensation	2,746,025	-
	(3,117,772)	(237,766)
Net changes in non-cash working capital items:		
Other receivables	(499,434)	(145,562)
Prepaid expenses	23,490	-
Biological assets	(1,107,589)	-
Inventory	(43,754)	-
Amounts payable and accrued liabilities	584,195	(622,735)
Cash used in operating activities	(4,160,864)	(1,006,063)
<b>INVESTING ACTIVITIES</b>		
Purchase of intellectual property	(7,344)	-
Purchase of property, plant and equipment	(7,793,112)	(446,063)
Cash used in investing activities	(7,800,456)	(466,063)
<b>FINANCING ACTIVITIES</b>		
Issuance of convertible debentures	5,580,000	-
Proceeds from share issuances, net of share issuance costs	5,897,910	1,500,000
Repayments of shareholder loans	(89,736)	-
Issuance of secured loan	3,960,000	-
Bank indebtedness acquired from the acquisition of Enderlein	(6,613)	-
Cash acquired from the Transaction	1,446,479	-
Listing expense	402,920	-
Finance lease repayments	(281,330)	-
Cash provided by financing activities	16,909,630	1,500,000
Change in cash	4,948,310	47,874
Cash, beginning of the period	78,885	4,984
<b>Cash, end of the period</b>	<b>\$ 5,027,195</b>	<b>\$ 52,858</b>

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

## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Condensed Consolidated Interim Statements of Changes in Shareholder's Equity – Unaudited

Amended and Restated

(Expressed in Canadian Dollars)

	Number of outstanding shares	Share capital	Reserve	Equity portion of debt	Deficit	Total shareholders' equity
<b>Balance, December 31, 2015</b>	<b>13,885,238</b>	<b>\$ 1,012,955</b>	<b>\$ 850</b>	<b>\$ -</b>	<b>\$ (911,452)</b>	<b>\$ 102,353</b>
Shares issued for cash (Note 14)	13,855,243	1,500,000	-	-	-	1,500,000
Grant of stock options	-	-	6,450	-	-	6,450
Equity component of convertible debt (Note 12)	-	-	-	36,027	-	36,027
Net Loss for the period	-	-	-	-	(237,766)	(237,766)
<b>Balance, September 30, 2016</b>	<b>27,770,481</b>	<b>\$ 2,512,955</b>	<b>\$ 7,300</b>	<b>\$ 36,027</b>	<b>\$ (1,149,218)</b>	<b>\$ 1,407,064</b>
<b>Balance, December 31, 2016</b>	<b>27,770,481</b>	<b>\$ 2,512,955</b>	<b>\$ 70,644</b>	<b>\$ 36,027</b>	<b>\$ (1,767,486)</b>	<b>\$ 852,140</b>
Share issuance – Hip Agreement (Note 8)	3,000,000	2,655,000	-	-	-	2,655,000
Options exercised (Note 14)	849,002	92,800	(7,300)	-	-	85,500
Options exercised (Note 14)	849,002	50	-	-	-	50
HPI debenture conversion (Note 14)	1,695,000	1,500,000	-	-	-	1,500,000
HPI debenture conversion (Note 14)	1,473,952	500,000	-	(36,027)	-	463,973
Options exercised (Note 14)	1,473,952	159,227	(158,344)	-	-	883
Enderlein shares (Notes 10 & 14)	2,820,001	2,495,701	477,559	-	-	2,973,260
Shares issued – Transaction (Note 4)	282,607,265	-	-	-	-	-
Share capital of HPI (Note 4)	(39,931,390)	-	-	-	-	-
Share capital of Newstrike (Note 4)	56,574,581	7,071,823	1,097,404	-	-	8,169,227
Warrants exercised (Note 14)	8,692,500	1,728,809	(1,076,871)	-	-	651,938
Warrants exercised (Notes 10 & 14)	16,000,000	2,477,559	(477,559)	-	-	2,000,000
Options exercised (Note 14)	660,000	121,068	(18,818)	-	-	102,250
Shares issued for cash (Note 14)	25,000,000	3,058,172	-	-	-	3,058,172
Expiry of stock options	-	-	(1,812)	-	-	(1,812)
Equity component of convertible debt (Note 12)	-	-	-	749,621	-	749,621
Share-based compensation	-	-	2,746,025	-	-	2,746,025
Net Loss for the period	-	-	-	-	(13,022,137)	(13,022,137)
<b>Balance, September 30, 2017</b>	<b>389,534,346</b>	<b>\$ 24,373,164</b>	<b>\$ 2,650,928</b>	<b>\$ 749,621</b>	<b>\$ (14,789,623)</b>	<b>\$ 12,984,090</b>

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

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# Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

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## 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. On May 29, 2017, the Company completed the acquisition of HPI Holdings Ltd. ("HPI") which resulted in a reverse take-over (the "Transaction") (Note 4).

The Company, through its wholly-owned subsidiary, is licensed to produce medical marijuana and is an applicant to 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 preparation

### *Statement of compliance*

These amended and restated condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards board and interpretation of the International Financial Reporting Interpretations Committee. These condensed consolidated interim 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, 2016, which were prepared in accordance with IFRS as issued by IASB. These condensed consolidated interim financial statements do not include all of the information required for the full annual financial statements. There have been no changes in judgment or estimates from those disclosed in the consolidated financial statements for the year ended December 31, 2016.

These condensed consolidated interim financial statements have been amended to correct errors in the amended condensed consolidated interim financial statements dated February 9, 2018. Certain line items in the statements of loss and comprehensive loss, cash flows, and change in shareholders' equity for nine months ended September 30, 2017 have been adjusted and reclassified according to the nature of the transactions. Refer to Note 17 for details of the restatement adjustments.

These amended and restated condensed consolidated interim financial statements were approved by the Board of Directors on November 8, 2018.

### *Basis of consolidation*

The condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries: 1977121 Ontario Inc. ("1977121"), Up Cannabis Inc. ("Up Cannabis") and Enderlein Nurseries Ltd. ("Enderlein"). All intercompany balances and transactions were eliminated on consolidation.

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# **Newstrike Brands Ltd.**

**(Formerly Newstrike Resources Ltd.)**

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

**For the three and nine months ended September 30, 2017**

**(Expressed in Canadian Dollars)**

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### **3. Significant accounting policies**

#### *Use of estimates and judgments*

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences.

#### *Biological assets*

The Company measures biological assets, consisting of cannabis plants, at fair value less cost to sell up to the point of harvest. Gains or losses arising from the changes in fair value less the cost to sell during the year are included in the results of operations for the related year.

#### *Inventory*

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

The Company reviews inventory for obsolete, redundant and slow moving goods and any such inventory are written-down to net realizable value.

#### *Intangible assets*

Intangible assets with finite useful lives are comprised of costs incurred to acquire licenses and intellectual property, all of which are recorded at cost less accumulated amortization and accumulated impairment losses. The deferred patents costs are amortized on a straight-line basis over the life of the related patent once the patent has been awarded. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as general and administrative expenses.

Intangible assets with indefinite useful lives are tested on an annual basis and wherever there is an indication that the asset may be impaired.

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## Newstrike Brands Ltd.

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For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

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### 4. The Transaction

The Transaction was structured as a three-cornered amalgamation (the “Amalgamation”) pursuant to which HPI amalgamated with a wholly-owned subsidiary of the Company to form an amalgamated entity, 1977121.

This resulted in a reverse take-over of the Company by the shareholders of 1977121. At the time of this 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 is recorded as a listing expense to net loss. As 1977121 was deemed to be the accounting acquirer for accounting purposes, its assets, liabilities and operations are included in the financial statements at their historical carrying values.

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

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Consideration	\$ 7,071,823
Fair value of stock options	106,898
Fair value of warrants	990,506
Legal and professional fees related to the Transaction	402,919
Less: Net assets acquired	1,472,995
Listing fee	<b>\$ 7,099,152</b>

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

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

The Company assumed 1,810,000 stock options exercisable at a price in a range of \$0.10 per share to \$0.20 per share expiring from September 28, 2018 to December 20, 2021. The fair value of stock options was \$106,898, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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

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## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

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### 4. 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:

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

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### 5. Inventory

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	September 30, 2017	December 31, 2016
Harvested cannabis	\$ 1,048,047	\$ -
Materials and supplies	12,464	-
Merchandise	31,290	-
	<b>\$ 1,091,801</b>	<b>\$ -</b>

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### 6. Biological assets

As at September 30, 2017, the Company had not received its license to sell under the ACMPR. As a result, the Company's biological assets are recorded at cost and no change in the fair value of biological assets was recognized.

The Company commenced the process of growing medical cannabis in January 2017.

### 7. Loan receivable

In March 2017, the Company entered into a loan agreement with a company controlled by a director. The loan bears interest at 4.75%, is unsecured and is due on March 14, 2018 (Note 15).

## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

### 8. License - HIP

During the period ended September 30, 2017, the Company entered into a licensing and promotional services agreement with the Tragically Hip (the “Hip Agreement”). The consideration was 3,000,000 common shares and an ongoing royalty of 2.5% of revenues of product sold under the Tragically Hip brand. The issuance of the 3,000,000 common shares includes a payment of 1,000,000 shares against future royalties’ payable, which has been included in prepaid expenses, at a fair value of \$885,000. The fair value of the issued common shares of the Company was estimated to be \$0.125 per share using the price of a financing that was completed concurrently.

	September 30, 2017	December 31, 2016
License – HIP		
Balance, beginning of period	\$ -	\$ -
Additions	1,770,000	-
Amortization	(254,081)	-
<b>Balance, end of period</b>	<b>\$ 1,515,919</b>	<b>\$ -</b>

### 9. Property, plant and equipment

	Balance at January 1, 2017	Additions	Balance at September 30, 2017
<b>Cost</b>			
Computers	\$ 46,760	\$ 91,647	\$ 138,407
Leasehold improvements	801,689	40,169	841,858
Production equipment	475,972	1,185,795	1,661,767
Office furniture	-	79,918	79,918
Security equipment	280,168	1,163	281,331
Building	621,322	3,040,759	3,662,081
Equipment	-	1,300,000	1,300,000
Land	310,661	3,356,450	3,667,111
<b>Cost - total</b>	<b>\$ 2,536,572</b>	<b>\$9,095,900</b>	<b>\$ 11,632,473</b>
<b>Accumulated amortization</b>			
Computers	\$ (15,571)	\$ (17,667)	\$ (33,238)
Leasehold improvements	(44,716)	(46,382)	(91,098)
Production equipment	(72,276)	(64,377)	(136,653)
Office furniture	-	(1,556)	(1,556)
Security equipment	(28,017)	(42,183)	(70,200)
Building under finance lease	(12,427)	(40,548)	(52,975)
Equipment under lease	-	(195,000)	(195,000)
<b>Accumulated amortization - total</b>	<b>\$ (173,007)</b>	<b>\$ (407,713)</b>	<b>\$ (580,720)</b>
<b>Net Book Value</b>	<b>\$ 2,363,565</b>		<b>\$ 11,051,753</b>

During the nine months ended September 30, 2017, included in production costs for biological assets was amortization of \$367,255.

## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

### 9. Property, plant and equipment (continued)

	Balance at December 31, 2015	Additions	Disposals	Balance at December 31, 2016
<b>Cost</b>				
Computers	\$ 13,712	\$ 33,048	\$ -	\$ 46,760
Leasehold improvements	458,326	639,263	(295,900)	801,689
Production equipment	176,990	298,982	-	475,972
Security equipment	-	280,168	-	280,168
Building (Note 13)	-	621,322	-	621,322
Land (Note 13)	-	310,661	-	310,661
<b>Cost - total</b>	<b>\$ 649,028</b>	<b>\$ 2,183,444</b>	<b>\$ (295,900)</b>	<b>\$ 2,536,572</b>
<b>Accumulated amortization</b>				
Computers	\$ (6,170)	\$ (9,401)	\$ -	\$ (15,571)
Leasehold improvements	(35,912)	(29,297)	20,493	(44,716)
Production equipment	(39,122)	(33,154)	-	(72,276)
Security equipment	-	(28,017)	-	(28,017)
Building under finance lease	-	(12,427)	-	(12,427)
<b>Accumulated amortization - total</b>	<b>\$ (81,204)</b>	<b>\$ (112,296)</b>	<b>\$ 20,493</b>	<b>\$ (173,007)</b>
<b>Net book value</b>	<b>\$ 567,824</b>			<b>\$ 2,363,565</b>

### 10. Enderlein acquisition

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

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

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

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## **Newstrike Brands Ltd.**

**(Formerly Newstrike Resources Ltd.)**

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

**For the three and nine months ended September 30, 2017**

**(Expressed in Canadian Dollars)**

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### **11. Amounts payable and accrued liabilities**

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Accounts payable	\$ 1,349,915	\$ 317,796
Accrued liabilities	114,439	32,000
	<b>\$ 1,464,354</b>	<b>\$ 349,796</b>

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### **12. Loans**

#### **Grimsby Acquisition Loan – Secured**

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

During the period ended September 30, 2017, the Company paid interest of \$111,667. As at September 30, 2017, \$3,960,000 is outstanding. On February 22, 2018, the Company repaid the principal and accrued interest in full.

#### **Convertible Debenture**

On September 29, 2017, the Company issued a \$4,000,000 secured convertible bearing interest at 8% per annum with a term of 3 years, secured by the Up Cannabis Lands. At any time after issuance, the holder may elect to be repaid all or a portion of the principal in common shares of the Company at a value of \$0.365 per common share. In addition, the Company issued 10,958,904 detachable share purchase warrants, which entitles the holder to one additional common share at a price of \$0.42 per share expiring on September 30, 2020. On issuance, the Company allocated \$434,780 of the proceeds to receive to the conversion option, \$314,841 of the proceeds received to equity reserve and recorded an aggregate value of \$749,621 in equity. As of September 30, 2017, the outstanding balance of the convertible debenture is \$3,250,844.

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

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

On March 15, 2017, the debenture was converted into 1,473,952 shares of the Company (Note 20). As of September 30, 2017, the convertible note balance is \$nil (2016 - \$392,511).

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## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

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### 13. Leases

The Company entered into a lease related to the building and land in June 2016. The Company's lease is for 3 years in duration ending June 30, 2019. 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 lease for production equipment. The Company's lease is for a 5 year duration ending on December 31, 2021. The lease has an interest rate of 15%.

The following is the summary of the Company's outstanding liabilities:

<b>Finance Leases</b>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Minimum lease payments:		
No later than 1 year	\$ 450,668	\$ 78,750
Later than 1 year, but no later than 5 years	2,381,621	972,700
	2,832,288	1,051,450
Add: accretion of interest	139,748	-
Less: payments	(281,330)	-
Less: future finance charges	(669,663)	(132,089)
Present value of minimum lease payments	<b>2,021,043</b>	<b>919,361</b>
Current liabilities	362,996	115,419
Non-current liabilities	1,658,047	803,942
Present value of minimum lease payments	<b>\$ 2,021,043</b>	<b>\$ 919,361</b>

### 14. Share capital

#### **Authorized share capital**

Unlimited number of common shares without par value.

#### **Common shares issued**

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 in the HPI private placement, in relation to a licensing and promotional services agreement with the Tragically Hip (the "Hip Agreement"). The consideration was 3,000,000 common shares and an ongoing royalty of 2.5% of revenues of product sold under the Tragically Hip brand. The issuance of the 3,000,000 common shares includes a payment of 1,000,000 shares against future royalties payable.

During the period ended September 30, 2017, 849,002 options of HPI were exercised resulting in the issuance of 849,002 shares of HPI for an aggregate value of \$50.

During the period ended September 30, 2017, 849,002 options of HPI were exercised resulting in the issuance of 849,002 shares of HPI for proceeds of \$85,500 which was funded by an advance from HPI. As a result of these exercises, an amount of \$7,300 was reclassified from equity reserve to the share capital.

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## **Newstrike Brands Ltd.**

**(Formerly Newstrike Resources Ltd.)**

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

**For the three and nine months ended September 30, 2017  
(Expressed in Canadian Dollars)**

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### **14. Share capital (continued)**

#### ***Common shares issued***

During the period ended September 30, 2017, on February 15, 2017, the Company issued a non-interest bearing convertible debenture for \$1,500,000. The debenture was converted into 1,695,000 shares of HPI (Note 12).

During the period ended September 30, 2017, on March 31, 2017, 1,473,952 options were exercised into 1,473,952 shares of HPI pursuant to a consulting agreement. As a result of these exercises, an amount of \$158,344 was reclassified from equity reserve to the share capital.

On completion of the Transaction, a \$500,000 convertible note, issued by HPI, was converted into 1,473,952 shares of HPI. As a result of these exercises, an amount of \$36,027 was reclassified from equity reserve to the share capital.

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 Enderlein Acquisition (Note 10).

On May 29, 2017, the Transaction (Note 4) was completed and the Company acquired, on a one for one basis, all issued and outstanding shares of HPI Holdings Ltd in exchange for 282,607,265 common shares of the Company.

During the period ended September 30, 2017, 8,692,500 share purchase warrants of the Company were exercised for proceeds of \$651,938. As a result of these exercises, an amount of \$1,076,871 was reclassified from equity reserve to the share capital.

During the period ended September 30, 2017, the Company issued 16,000,000 common shares for proceeds of \$2,000,000, for exercise of 16,000,000 share purchase warrants issued in respect of the Enderlein transaction (Note 10). As a result of these exercises, an amount of \$477,559 was reclassified from equity reserve to the share capital.

During the period ended September 30, 2017, 660,000 options of the Company were exercised for proceeds of \$102,250. As a result of these exercises, an amount of \$18,818 was reclassified from equity reserve to the share capital.

During the period ended September 30, 2017, the Company issued 25,000,000 shares for proceeds of \$3,125,000. The finders fees paid were \$66,828.

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

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## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

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### 14. Share capital (continued)

#### *Stock options*

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

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	<b>Number of Options</b>
Outstanding at December 31, 2016	3,171,956
Options of Newstrike at the time of the Transaction (Note 4)	1,810,000
Granted	22,584,795
Exercised	(3,831,956)
Expired	(400,000)
Outstanding at September 30, 2017	23,334,795
Exercisable at September 30, 2017	5,150,000

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During the nine months ended September 30, 2017, the Company granted 22,584,795 options to acquire common shares. The options have a term on 3 years, exercise price of \$0.38 and 4,000,000 vest immediately while the remaining shares vest over the following 2 years. Share-based payments relating to options vesting during the period using the Black-Scholes option pricing model was \$2,746,025.

The weighted average exercise price and weighted average life are \$0.37 and 2.87 years, respectively for options outstanding as at September 30, 2017. The weighted average exercise price and weighted average life are \$0.35 and 2.87 years, respectively for options exercisable as at September 30, 2017.

#### *Warrants*

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

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	<b>Number of Warrants</b>
Outstanding at December 31, 2016	-
Warrants of Newstrike at time of the Transaction (Note 4)	10,200,000
Issued	26,958,904
Exercised	(24,692,500)
<b>Outstanding at September 30, 2017</b>	<b>12,466,404</b>

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The weighted average exercise price and weighted average life are \$0.37 and 3.13 years, respectively.

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## Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017  
(Expressed in Canadian Dollars)

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### 15. 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.

	September 30, 2017	September 30, 2016
Consulting and professional fees	\$ 155,940	\$ -
Wages and benefits	360,417	-
Share-based compensations	628,169	-
	<b>\$ 1,144,526</b>	<b>\$ -</b>

#### Accounts payable and accrued liabilities:

As at September 30, 2017, \$42,887 is included in accounts payable and accrued liabilities from amounts owing by the related parties.

#### Loans receivable:

In March 2017, the Company entered into a loan agreement with a company controlled by Mr. Peter Hwang, a director. The loan is interest bearing at 4.75% per annum, unsecured, and is due on March 14, 2018 (Note 7).

#### Secured loans:

On July 25, 2017, the Company arranged for a secured loan in the amount of \$4,000,000 funded by a syndicate led by a contributions by related parties and third parties (Note 12). As at September 30, 2017, \$3,289,408 is outstanding to the related parties.

Effective January 1, 2017, the Company entered into an arrangement with a company controlled by the Van Haeren family, for financing.

### 16. Subsequent events

Subsequent to September 30, 2017, the Company repaid a \$4,000,000 secured loan including the principal balance and accrued interest. The loan bore interest at 15% per annum and matured on March 15, 2018.

Subsequent to September 30, 2017, the \$4,000,000 secured convertible debenture was converted into 10,958,904 common shares.

Subsequent to September 30, 2017, the Company issued 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. Pertaining to the financing, the Company paid agent fees of \$5,646,052 and issued 4,182,090 compensation warrants.



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## **Newstrike Brands Ltd.**

**(Formerly Newstrike Resources Ltd.)**

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

**For the three and nine months ended September 30, 2017  
(Expressed in Canadian Dollars)**

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### **16. Subsequent events (continued)**

Subsequent to September 30, 2017, 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. Pertaining to the 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.

Subsequent to September 30, 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. The agreement was terminated subsequently and a termination fee of \$9,500,000 was paid to the Company.

Subsequent to September 30, 2017, the Company issued 3,107,486 common shares for the exercise of stock options for aggregate proceeds of \$1,151,978.

Subsequent to September 30, 2017, the Company issued 11,461,404 common shares for exercise of warrants for aggregate proceeds of \$4,640,427.

### **17. 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 \$6,677,070.

#### 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.

# Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

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

For the three and nine months ended September 30, 2017

(Expressed in Canadian Dollars)

## 17. Restatement of the financial statements (continued)

### 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)
<b>OPERATING ACTIVITIES</b>			
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)		(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
Intellectual property	(7,344)	7,344	-
Cash used in operating activities	(2,053,797)		(4,160,864)
<b>INVESTING ACTIVITIES</b>			
Purchase of 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	(8,600,053)		(7,800,456)
<b>FINANCING ACTIVITIES</b>			
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		16,909,630
Change in cash	4,948,310	-	4,948,310
Cash, beginning of the period	78,885	-	78,885
<b>Cash, end of the period</b>	<b>\$ 5,027,195</b>		<b>\$ 5,027,195</b>