Newstrike Brands Ltd.
(Formerly Newstrike Resources Ltd.)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Newstrike Brands Ltd.

Opinion

We have audited the consolidated financial statements of Newstrike Brands Ltd. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018
- the consolidated statements of comprehensive loss for the year then ended
- the consolidated statements of changes in shareholders' equity for the year then ended
- the consolidated statements of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 23, 2018.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors’ report is Will J Stephen.

Vaughan, Canada

March 25, 2018

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)
Consolidated Statements of Financial Position
For the years ended December 31, 2018 and 2017
(Expressed in thousands of CDN $)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 8)	$96,640	$811
Accounts receivable (Note 9)	2,488	-
Other receivables (Note 10)	1,582	725
Prepaid expenses	1,457	25
Biological assets (Note 11)	4,073	1,393
Inventory (Note 12)	3,129	4,026
Loan receivable	-	89
	109,369	7,069
Investment securities (Note 13)	8,977	-
Deposits and Prepaid expenses (Note 14)	663	1,527
Property, plant and equipment (Note 15)	32,674	12,486
Intangible assets	52	7
License – HIP (Note 16)	1,073	1,427
License application (Note 17)	-	2,365
TOTAL ASSETS	**$152,808**	**$24,881**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 18)	$5,838	$2,977
Finance lease - current (Note 21)	-	534
Secured loan (Note 19)	-	4,011
Due to shareholder	-	10
Convertible debentures (Note 20)	-	3,291
Payment received in advance	90	-
	5,928	10,823
NON-CURRENT LIABILITIES		
Finance lease – non-current (Note 21)	-	1,481
TOTAL LIABILITIES	5,928	12,304
SHAREHOLDERS' EQUITY		
Share capital (Note 22)	121,618	24,283
Reserves (Note 22)	59,986	3,419
Equity portion of convertible debt (Note 20)	-	731
Deficit	(36,034)	(15,856)
Accumulated other comprehensive income	310	-
Non-controlling interest (Note 23)	1,000	-
TOTAL SHAREHOLDERS' EQUITY	**146,880**	**12,577**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$152,808**	**$24,881**

Commitments (Note 26); Contingency (Note 29); Subsequent events (Note 30)

Approved by the Board

"Jay Wilgar"
Director

"Stephen Smith"
Director

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2018 and 2017
(Expressed in thousands of CDN $)

	2018	**2017**
Gross revenue from sale of goods (Note 25)	$8,972	-
Excise tax	(899)	-
Net revenue	**8,073**	
Inventory production costs expensed to cost of sales (Note 12)	(4,514)	-
Gross margin before the undernoted	3,559	-
Fair value changes in biological assets included in inventory sold (Note 12)	(3,276)	
Unrealized gain on changes in fair value of biological asset (Note 11)	938	3,020
GROSS MARGIN	**1,221**	**3,020**
EXPENSES		
Amortization (Note 15,16)	455	343
Consulting and professional fees (Note 24)	4,300	1,830
Selling, general and administration	4,378	917
Rent and facilities	198	120
Wages and benefits (Note 24)	5,670	1,022
Sales, marketing and business development	8,309	1,051
Share-based compensation (Note 22, 24)	8,324	3,391
OPERATING EXPENSES	(31,634)	(8,674)
LOSS FROM OPERATIONS	(30,413)	(5,654)
OTHER ITEMS		
Accretion and interest expenses	(643)	(654)
Change in fair value of investments	-	(27)
Loss on sale of securities	-	(7)
Listing fee (Note 7)	-	(7,099)
Impairment of license application	-	(652)
Loss on sale of license application (Note 17)	(111)	-
Interest income	1,481	3
Termination fee (Note 28)	9,500	-
	10,227	(8,436)
NET LOSS FOR THE YEAR	**(20,186)**	**(14,090)**
OTHER COMPREHENSIVE INCOME		
Change in fair value of investment securities (Note 13)	310	-
COMPREHENSIVE LOSS	**(19,876)**	**(14,090)**
LOSS PER SHARE - BASIC AND DILUTED	**(0.04)**	**(0.06)**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**509,868,553**	**245,983,298**

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)
Consolidated Statements of Cash Flows
For the years end December 31, 2018 and 2017
(Expressed in thousands of CDN $)

	2018	2017
OPERATING ACTIVITIES		
Net loss for the year	$(20,186)	$(14,090)
Items not involving cash:		
Accretion expense	573	279
Interest income	(334)	-
Amortization	1,494	808
Change in fair value of marketable securities	-	27
Finance costs	-	341
Impairment of license application	-	652
Loss on sale of Enderlein	111	-
Listing expense – non-cash component	-	6,696
Share-based compensation	8,324	3,391
Unrealized gain on changes in fair value of biological assets	(938)	(3,020)
Loss on sale of securities		7
	(10,956)	**(4,909)**
Net changes in non-cash working capital items:		
HST receivable	252	(709)
Prepaid expenses	(1,567)	(565)
Biological assets	(7,966)	(984)
Inventory	8,160	(1,880)
Accounts payable and accrued liabilities	2,732	1,561
Payment received in advance	90	-
Accounts receivable	(2,488)	-
Cash used in operating activities	**(11,743)**	**(7,486)**
INVESTING ACTIVITIES		
Deposits on Property, Plant and Equipment	(7,445)	-
Sale of Enderlein	1,480	-
Loan receivable	89	-
Purchase of investment securities	(7,816)	-
Disposal of investment securities	-	24
Purchase of intellectual property	(45)	(7)
Purchase of property, plant and equipment	(13,875)	(8,573)
Cash used in investing activities	**(27,612)**	**(8,556)**

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)
Consolidated Statements of Cash Flows
For the years end December 31, 2018 and 2017
(Expressed in thousands of CDN $)

	2018	2017
FINANCING ACTIVITIES		
Proceeds from share issuances, net of share issuance costs	140,727	5,932
Repayment of shareholder loans	(11)	(90)
Proceeds from issuance of convertible debentures	-	5,580
Proceeds from issuance of secured loans, net of fees	-	3,960
Recapitalization of Newstrike	-	403
Convertible debt	(80)	-
Bank indebtedness assumed in Enderlein Acquisition	-	(7)
Finance lease payments	(2,440)	(450)
Cash acquired in the Transaction	-	1,446
Secured loan	(4,011)	-
Non-controlling interest on joint venture investment	1,000	-
Cash provided by financing activities	**135,185**	**16,774**
Change in cash	95,829	732
Cash, beginning of the year	811	79
Cash, end of the year	**$ 96,640**	**$ 811**

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

Newstrike Brands Ltd.

(Formerly Newstrike Resources Ltd.)

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of CDN $)

	Number of outstanding shares	Share capital	Reserves	Equity portion of debt	AOCI – Fair value reserve	Deficit	Non-controlling interest	Total share-holders' equity
Balance, January 1, 2017	**27,770,481**	**$2,513**	**$71**	**$36**	**$-**	**$(1,768)**	**-**	**$852**
Shares issued for license (Notes 16)	3,000,000	2,655	-	-	-	-	-	2,655
Enderlein shares	2,820,001	2,496	478	-	-	-	-	2,973
Options exercised	3,996,956	407	(185)	-	-	-	-	222
Conversion of debentures	3,168,952	2,000	-	(36)	-	-	-	1,964
Shares issued – Transaction (Note 7)	282,607,265	-	-	-	-	-	-	-
Reversal of share capital of HPI	(39,931,390)	-	-	-	-	-	-	-
Share capital of Newstrike	56,574,581	7,071	1,097	-	-	-	-	8,169
Warrants exercised	24,692,500	4,083	(1,431)	-	-	-	-	2,652
Shares issued for cash	25,000,000	3,058	-	-	-	-	-	3,058
Expiry of stock options	-	-	(2)	-	-	2	-	-
Equity component of convertible debt - (Note 20)	-	-	-	731	-	-	-	731
Share-based compensation	-	-	3,391	-	-	-	-	3,391
Net loss for the year	-	-	-	-	-	(14,090)	-	(14,090)
Balance, December 31, 2017	**389,699,346**	**$24,283**	**$3,419**	**$731**	**-**	**$(15,856)**	**-**	**$12,577**
Shares issued for cash (Note 22)	138,701,500	85,402	49,363	-	-	-	-	134,765
Shares issued for debt conversion (Note 20)	10,958,904	4,000	-	(731)	-	-	-	3,269
Options exercised (Note 22)	3,717,986	2,133	(874)	-	-	-	-	1,259
Warrants exercised (Note 22)	12,268,354	5,162	(459)	-	-	-	-	4,703
Shares issued for Inner Spirit investment - (Note 13)	1,250,000	638	-	-	-	-	-	638
Warrants issued for Inner Spirit investment - (Note 13)	-	-	213	-	-	-	-	213
Non-controlling interest (Note 23)	-	-	-	-	-	-	1,000	1,000
Share-based compensation (Note 22)			8,324			8		8,332
Net loss for the year	-	-	-	-	-	(20,186)	-	(20,186)
Other Comprehensive income (Note 13)	-	-	-	-	310	-	-	310
Balance, December 31, 2018	**556,596,090**	**$121,618**	**$59,986**	**-**	**$310**	**$(36,034)**	**$1,000**	**$146,880**

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

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 in Canada pursuant to the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and is subject to its successor legislation the Cannabis Act, S.C. 2018, c. 16 and its regulations (the "Cannabis Act"). 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC") for all periods presented.

These financial statements were authorized for issue by the Board of Directors on March 25, 2019.

Basis of Presentation
These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell.

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

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

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

Name of Subsidiary	Principal Activity	Place of Incorporation	Ownership Interest
Newstrike Resources Ltd.	Holding Company	Canada	100%
1977121 Ontario Inc. ("1977121")	Holding Company	Canada	100%
UP Cannabis Inc. ("UP Cannabis")	Cannabis	Canada	100%
Neal Up Brands Inc.	Cannabis Edibles	Canada	60%

All intercompany balances and transactions were eliminated on consolidation.

Amalgamation
Effective July 1, 2018, UP Cannabis Niagara Inc., a wholly-owned subsidiary of the Company, was amalgamated with UP Cannabis Inc. ("UP Cannabis"). The Company has historically presented all balances and activities of UP Cannabis Niagara Inc. as a fully consolidated entity for financial statement presentation purposes. As of the date of amalgamation, UP Cannabis Niagara Inc. did not have any assets or outstanding liabilities. There are no material changes to be considered prospectively or to the comparative consolidated statements as a result of the amalgamation.

3. Significant accounting policies

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 profit or loss 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 consolidated financial statements and did not result in a transitional adjustment.

The Company has no hedges on its 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.

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

Inventory
Inventories of harvested finished goods and packaging materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. They also include subsequent post-harvest costs such as materials, labor 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.

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.

3. Significant accounting policies (continued)

Property, plant and equipment
Property, plant and equipment are recorded at cost net of accumulated amortization and impairment charges. The cost of repairs and maintenance is expensed as incurred. Amortization is provided on the straight-line method over the estimated useful lives of assets. Upon sale or other disposition of a depreciable asset, cost and accumulated amortization are removed from property, plant, and equipment and any gain or loss is included in profit or loss.
The estimated useful lives for the current and comparative periods are as follows:

Computers	3 years
Leasehold improvements	10 years
Production equipment	10 years
Security equipment	5 years
Buildings	25 years
Office furniture	10 years
Equipment	10 years
Equipment under finance lease	5 years

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

Intangible assets
Intangible assets with finite lives are amortized over their estimated useful lives of 3 to 5 years.

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

Income taxes
Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for amounts relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect either accounting or taxable loss, or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

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

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

Basic and diluted loss per share
The Company presents basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options, warrants and similar instruments outstanding that may add to the total number of common shares. For the year ended December 31, 2018 and 2017, the Company's diluted loss per share does not include the effect of stock options and warrants as they are anti-dilutive.

3. Significant accounting policies (continued)

Revenue
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.

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 obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies its performance obligations

Sales returns are recorded as a reduction to revenue.

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 did not record any transitional adjustments.

Measurement of fair values
When measuring the fair value of an asset or a liability, the Company uses observable market data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. The shares of Inner Spirit Holdings and James Wagner Cultivation are included in this category.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. During the year ended December 31, 2018, the warrants of Inner Spirit Holdings were evaluated by using the Black-Scholes model and are included in this category.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The shares of Neal Brothers Inc., the shares and warrants of Fire & Flower Inc. and the biological assets are included in this category.

During the year ended December 31, 2018, there were no transfers between levels. The Company's policy for determining when transfers between levels of the fair value hierarchy occur is based on the date of the event or changes in circumstances that caused the transfer.

3. Significant accounting policies (continued)

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

New standard IFRS 16 Leases
This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting will be substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has evaluated the impact of this new guidance on its consolidated financial statements and has estimated that the impact of recording the right-of-use of assets and lease liabilities on the consolidated statement of financial position would be in the range of $800 to $1,000.

4. Critical accounting estimates and significant management judgements

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

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

Investment securities – the determination of fair value of the Company's investment securities at fair value are subject to certain limitations. Financial information for private companies in which the Company has investments in may not be available and, even if available, that information may be limited and/or unreliable.

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

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

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

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

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

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

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

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

- The fair value and classification of financial instruments; and
- The classification of leases as either operating or finance type leases.

5. Capital management

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

There have been no changes made to the capital management policy during the year ended December 31, 2018.

6. Financial risk management

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

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

Credit risk
Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and HST and trade receivables. Cash is held with one major Canadian chartered bank and one major Canadian credit union, from which management believes the risk of loss to be minimal. The HST and trade receivables are due from the Government of Canada and provincial liquor boards, respectively, from which management believes the risk of loss to be minimal.

Liquidity risk
Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

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

Foreign currency risk
The Company's functional and reporting currency is the Canadian dollar and a majority of its purchases as well as all sales are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

(Expressed in thousands of CDN$)

7. 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
Fair value of stock options	107
Fair value of warrants	991
Legal and professional fees related to the Transaction	403
Less: Net assets acquired	1,473
Listing fee	**$ 7,099**

Fair value of the Company acquired, net of liabilities	
Cash	1,446
Prepaid expenses	9
Marketable securities	58
HST receivable	14
Trade payables and other payables	(54)
	$ 1,473

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 $107, 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%

(Expressed in thousands of CDN$)

7. 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 $991, 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%

8. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on deposit	$ 46,640	$ 811
Liquid short term deposits	50,000	-
	$ 96,640	**$ 811**

9. Accounts receivable

	December 31, 2018	December 31, 2017
Trade receivables, net	**$ 2,488**	**$ -**

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

10. Other receivables

	December 31, 2018	December 31, 2017
HST receivable	$ 467	$ 725
Interest receivable	334	-
Enderlein receivable (Note 17)	775	-
Other receivables	6	
	$ 1,582	**$ 725**

(Expressed in thousands of CDN$)

11. Biological assets

The Company's biological assets consists of cannabis plants. The continuity of biological assets for the years ended December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Biological assets, beginning	$ 1,393	$ -
Production of biological assets	8,500	2,349
Change in fair value	938	3,020
Transfers to inventory upon harvest	(6,758)	(3,976)
Biological assets, ending	**$ 4,073**	**$ 1,393**

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 comprehensive 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 comprehensive 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:

- expected yields of each type biological asset;
- stage of growth - represented by the age of the plant (in days) out of the total number of days in the growing cycle as of the period end date; and
- Selling price - estimated selling price per gram of dry cannabis based on historical sales and anticipated prices
- Processing costs - represents estimated post-harvest costs to bring harvested cannabis to its saleable condition, including drying, curing, testing and packaging, and overhead allocation; and
- Selling costs - represents estimated shipping, order fulfillment, and labelling costs

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

As of December 31, 2018, it is expected that the Company's biological assets will yield approximately 2,300 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 the future periods.

(Expressed in thousands of CDN$)

12. Inventory

	December 31, 2018	December 31, 2017
Harvested cannabis	$ 2,944	$ 3,977
Materials and supplies	185	33
Merchandise	-	16
	$ 3,129	**$ 4,026**

13. Investment securities

As of December 31, 2018, the Company's investments comprise of common shares and share purchase warrants of Canadian public companies which are measured at fair value through other comprehensive income.

	December 31, 2018	December 31, 2017
Common shares	$ 8,679	$ -
Share purchase Warrants	298	-
	$ 8,977	**$ -**

During the year ended December 31, 2018, the Company acquired 16,250,021 common shares and 8,625,000 warrants of Canadian companies for consideration of $2,212, and 1,250,000 in shares of the Company with a fair value of $638, and 1,125,000 warrants of the Company with a fair value of $213. The Company also acquired 19.9% of the shares of Neal Brothers Inc. for cash consideration of $5,604. The Company has measured these investments at fair value through other comprehensive income as these investments are long-term and strategic in nature. During the year ended December 31, 2018, the Company recorded the unrealized fair value change of $310 in other comprehensive income. Upon disposal, these fair value changes will not be recycled to profit or loss and will be transferred to retained earnings.

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:

	December 31, 2018
Risk-free interest rate	1.86%
Estimate life	1.58 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

(Expressed in thousands of CDN$)

14. Deposit and prepaid expenses

	December 31, 2018	December 31, 2017
Prepaid - HIP – non-current (Note 16)	$ 663	$ 885
Deposit - non-current	-	642
	$ 663	**$ 1,527**

15. Property, plant and equipment

Cost	Balance December 31, 2017	Additions	Reclassification	Disposals	Balance December 31, 2018
Computers	$ 157	$ 473	$ -	$ -	$ 630
Leasehold improvements	1,213	41	(1,254)	-	-
Equipment	1,082	195	1,300	-	2,577
Production equipment*	1,287	6,192	63	(11)	7,531
Office furniture	92	40	-	-	132
Security equipment	347	394	-	-	741
Equipment under finance lease	1,300	-	(1,300)	-	-
Land	3,830	-	-	-	3,830
Building**	3,815	14,008	1,191	(4)	19,010
Cost	**$ 13,123**	**$ 21,342**	**$ -**	**$ (15)**	**$ 34,451**

*During the year ended December 31, 2018, $2,170 of construction-in-progress production equipment was included.
**During the year ended December 31, 2018, $8,442 of construction-in-progress related to the Niagara greenhouse expansion was included.

Accumulated depreciation					
Computers	(44)	(110)	-	-	(154)
Leasehold improvements	(78)	(36)	114	-	(0)
Equipment	-	(201)	(390)	-	(591)
Production equipment	(130)	(223)	-	-	(353)
Office furniture	(4)	(11)	-	-	(15)
Security equipment	(84)	(131)	-	-	(215)
Building	(37)	(255)	(114)	-	(406)
Equipment under finance lease	(260)	(173)	390	-	(43)
Accumulated depreciation	**(637)**	**(1,140)**	**-**	**-**	**(1,777)**
Net book value	**$ 12,486**	**$ -**	**$ -**	**$ -**	**$ 32,674**

(Expressed in thousands of CDN$)

15. Property, plant and equipment (continued)

Cost	Balance at December 31, 2016	Additions	Balance at December 31, 2017
Computers	$ 47	$ 110	$ 157
Production equipment	476	811	1,287
Office furniture	-	92	92
Security equipment	280	67	347
Leasehold improvements	802	411	1,213
Equipment	-	1,082	1,082
Building	621	3,194	3,815
Equipment under finance lease (Note 21)	-	1,300	1,300
Land	311	3,519	3,830
Cost - total	**$ 2,537**	**$ 10,587**	**$ 13,123**
Accumulated depreciation			
Computers	$ (16)	$ (28)	$ (44)
Production equipment	(72)	(58)	(130)
Office furniture	-	(4)	(4)
Security equipment	(28)	(56)	(84)
Leasehold improvements	(45)	(33)	(78)
Building under finance lease	(12)	(25)	(37)
Equipment under finance lease	-	(260)	(260)
Accumulated depreciation- total	**(173)**	**(464)**	**(637)**
Net book value	**$ 2,364**	**$ -**	**$ 12,486**

During the year ended December 31, 2018, included in production costs for biological assets was depreciation of $1,039 (2017 - $466).

On January 1, 2017, the Company entered into a finance lease for production equipment. During the year ended December 31, 2018, the lease was bought out, and therefore, the equipment under finance lease has been reclassified to equipment (Note 21).

During the year ended December 31, 2016, the Company entered into a lease with a three-year term for the Brantford Facility. During the year ended December 31, 2018, the lease was bought out (Note 21).

(Expressed in thousands of CDN$)

16. 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 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.

During the year ended December 31, 2018, the Company recorded amortization of $354 using the straight-line method over a five-year term on the License, and $221 was drawn down on the prepaid royalty.

	December 31, 2018	December 31, 2017
License – HIP, net of amortization	$ 1,073	$ 1,427
Prepaid – HIP (Note 14)	663	885

17. License application

As at December 31, 2017, the fair value of Enderlein Nurseries Ltd.'s ("Enderlein") license application was $2,365. On May 25, 2018, the Company sold all of its shares in Enderlein for $2,505. As at December 31, 2018, there was a holdback that was receivable when Enderlein receives a license from Health Canada under the ACMPR (Note 10). During the year ended December 31, 2018, a provision of $250 was recorded pursuant to the holdback and the Company recorded a loss of $111 from the disposition of the license application.

18. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Accounts payable	$ 2,453	$ 2,302
Accrued liabilities	3,385	634
Payroll liabilities	-	41
	$ 5,838	**$ 2,977**

19. Secured Loan

On July 25, 2017, the Company entered into an agreement for a $4,000 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. On February 22, 2018, the Company repaid the loan. During the year ended December 31, 2018, the Company recorded interest expense of $77.

(Expressed in thousands of CDN$)

20. 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 with an annual interest of 6% and a maturity date of June 30, 2018. The note was 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 as the equity portion of debt.

On March 15, 2017, the debenture was converted into 1,473,952 shares of the Company. As of December 31, 2017, the balance for this convertible note is $nil. Concurrent with the Transaction (Note 7), the Company issued convertible debentures for the gross proceeds of $1,500. 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 to equity. On May 29, 2017, the Company issued 1,695,000 shares on conversion of the debentures.

On September 29, 2017, the Company issued a $4,000 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 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 in connection with the issuance of the debenture. As of December 31, 2017, the convertible debenture balance is $3,291.

On January 24, 2018, the debenture was converted into 10,958,904 common shares (Note 22).

	December 31, 2018	December 31, 2017
Balance, beginning	$ 3,291	$ 392
Proceeds from issuance of convertible debentures	-	5,580
Amount allocated to conversion options – equity	-	(2,231)
Accretion and interest expenses	58	112
Converted into shares	(3,269)	(464)
Finance costs	-	(98)
Payments	(80)	-
Balance, ending	**$ -**	**$ 3,291**

(Expressed in thousands of CDN$)

21. 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%. During the year ended December 31, 2018, the Company bought out the lease.

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 year ended December 31, 2018, the Company bought out the lease.

	December 31, 2018	December 31, 2017
Total minimum lease payments payable	$ -	$ 2,460
Portion representing interest to be expensed over the remaining term of the lease	-	(445)
Principal outstanding	-	2,015
Less: Current portion	**-**	**534**
Non-current portion	**$ -**	**$ 1,481**

A summary of changes in the period follows:

	December 31, 2018	December 31, 2017
Balance, beginning	$ 2,015	$ 919
Additions	-	1,303
Payments made	(2,440)	(450)
Interest expense	425	243
Balance, ending	**$ -**	**$ 2,015**

22. Share capital

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

For the year ended December 31, 2018

The Company closed a bought deal financing on February 16, 2018 by issuing 69,701,500 units of the Company at a price of $1.32 per unit for gross proceeds of $92,006. 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 $29,273. 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 16, 2018 financing, the Company paid agent fees of $5,539 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 $1,747 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 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 $15,498. 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, 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 $2,314 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 $338.

During the year ended December 31, 2018, the Company issued 3,717,986 common shares with respect to the exercise of stock options for proceeds of $1,259. The fair value of these options of $874 was reallocated from reserves to share capital.

During the year ended December 31, 2018, the Company issued 12,268,354 common shares with respect to the exercise of warrants for proceeds of $4,703. The fair value of these warrants of $459 was reallocated from reserves to share capital.

During the year ended December 31, 2018, the Company issued 10,958,904 common shares for the conversion of the convertible debenture and recorded a reallocation of $731 from equity portion of convertible debt to share capital.

22. Share capital (continued)

For the year ended December 31, 2017

During the year ended December 31, 2017, the Company issued 3,000,000 commons shares for an aggregate value of $2,655 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 year ended December 31, 2017, the Company issued 2,820,001 shares with a fair value of $2,496 in connection with the acquisition of Enderlein.

During the year ended December 31, 2017, 3,966,956 options were exercised resulting in the issuance of 3,966,956 shares for proceeds of $222. As a result of these option exercises, an amount of $185 was reclassified from equity reserve to share capital.

During the year ended December 31, 2017, the Company issued 3,168,952 shares in connection with the conversion of convertible debentures (Note 20).

On May 29, 2017, the Transaction (Note 7) 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 year ended December 31, 2017, concurrent with the Transaction, the Company issued 25,000,000 shares at $0.125 per share for gross proceeds of $3,125. The Company incurred share issuance costs of $67 (inclusive of finder's fees).

For the year ended December 31, 2017, the Company issued 24,692,500 common shares for proceeds of $2,652 with respect to exercises of warrants. The fair value of these warrants of $1,431 was reallocated from reserve to share capital.

(Expressed in thousands of CDN$)

22. Share capital (continued)

Stock options

As at December 31, 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
February 10, 2019	$1.00	0.11	1,312,500	1,312,500	(i)
February 10, 2019	$0.66	0.11	687,500	687,500	(i)
July 25, 2020	$0.38	1.57	17,314,809	12,693,610	(ii)
March 29, 2021	$1.05	2.24	1,250,000	500,000	(iii)
April 16, 2021	$1.06	2.29	1,200,000	300,000	(iii)
June 25, 2021	$0.66	2.48	1,438,232	875,732	(v)
July 6, 2021	$0.66	2.52	2,250,000	-	(iii)
September 26, 2021	$0.75	2.74	700,000	-	(iii)
November 26, 2021	$0.52	2.91	1,500,000	-	(iii)
December 20, 2021	$0.20	2.97	320,000	320,000	(i)
February 23, 2023	$1.10	4.16	4,500,000	4,500,000	(iv)
April 25, 2023	$1.02	4.32	1,000,000	1,000,000	(iv)
June 25, 2023	$0.66	4.48	1,125,000	1,125,000	(iv)
		2.14	**34,598,041**	**23,314,342**	

Vesting terms:

(i) These options have been fully vested.

(ii) 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. 6,412,540 of the options granted vest 25% incrementally every 6 months after the grant date.

(iii) These options vest 25% incrementally every 6 months after the grant date.

(iv) These options vest immediately upon grant.

(v) 550,732 of these options vested immediately upon grant. The remaining options vest 25% incrementally every 6 months after the grant date.

(Expressed in thousands of CDN$)

22. Share capital (continued)

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

	2018		2017	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	**23,169,795**	**$ 0.38**	4,981,956	$ 0.08
Granted	**19,513,232**	**0.89**	22,584,795	0.38
Exercised	**(3,717,986)**	**0.37**	(3,996,956)	0.06
Cancelled / Forfeited	**(4,367,000)**	**0.73**	(400,000)	0.15
Outstanding at end of year	**34,598,041**	**$0.62**	23,169,795	$0.38
Exercisable at end of year	**23,314,342**	**$0.63**	6,981,199	$0.36

During the year ended December 31, 2018, the Company granted 19,513,232 options to acquire common shares. The options have a term ranging from 3 to 5 years. The exercise price ranged from $0.52 to $1.10. 8,913,232 vested immediately while the remaining options vest over the period of 2 years following the grant date. The fair value of the stock options granted during the year using the Black-Scholes option pricing model was $10,449.

During the year ended December 31, 2017, the Company granted 22,584,795 options to acquire common shares. The options have a term on 3 years, exercise price of $0.38 and 4,000,000 vested immediately while the remaining options vest over the period of 2 years following the grant date. The fair value of the stock options granted during the year using the Black-Scholes option pricing model was $3,296.

The fair value of stock options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2018	**December 31, 2017**
Risk-free interest rate	1.99%	0.83%
Estimate life	3.6 years	1.8 years
Expected volatility	100%	60%
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

The Company recorded share-based compensation of $8,324 (2017 - $3,391) in connection with the stock options vested during the year ended December 31, 2018.

(Expressed in thousands of CDN$)

22. Share capital (continued)

Warrants

As at December 31, 2018, the Company had the following warrants outstanding:

Date Issued	Expiry Date	Exercise Price	Number of Warrants Outstanding
February 16, 2018	February 16, 2020	$ 1.75	73,883,590
June 19, 2018	June 19, 2020	$ 0.75	4,138,050
July 31, 2018	July 31, 2020	$ 0.99	1,125,000
September 20, 2016	September 20, 2021	$0.075	200,000
June 19, 2018	June 19, 2023	$ 1.00	34,500,000
September 19, 2018	June 19, 2023	$ 1.00	975
			113,847,615

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

	2018	2017
	Number of Warrants	Number of Warrants
Outstanding at beginning of year	**12,466,404**	10,200,000
Issued	**113,649,565**	26,958,904
Exercised	**(12,268,354)**	(24,692,500)
Outstanding at end of year	**113,847,615**	12,466,404

The weighted average exercise price and weighted average life are $1.48 and 2.16 years, respectively. The fair value of warrants granted was estimated using the Black-Scholes option pricing model.

23. Non-controlling interest

The following table summarizes the information relating to the Company's subsidiary, Neal Up Brands Inc., before intercompany eliminations.

	December 31, 2018	**December 31, 2017**
Non-current assets	$ -	$ -
Current assets	2,500	-
Non-current liabilities	-	-
Current liabilities	-	-
Net assets	**2,500**	
Non-controlling interest %	40%	
Net assets attributable to NCI	**$ 1,000**	**$ -**

(Expressed in thousands of CDN$)

24. Related party transactions

Summary of key management personnel compensation:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel made during the years ended December 31, 2018 and 2017, is set out below:

	December 31, 2018	December 31, 2017
Consulting and professional fees	$ 274	$ 375
Salaries and benefits	2,146	615
Share-based payments	5,853	1,012
	$ 8,273	**$ 2,002**

As at December 31, 2018, $5 (2017 - $27), is included in accounts payable and accrued liabilities from amounts owing to related parties.

As at December 31, 2018, $nil (2017 - $10) is due to shareholders for reimbursement of expenses. The outstanding balance is non-interest bearing, unsecured and due on demand.

In March 2017, the Company entered into a loan agreement with a company controlled by Mr. Peter Hwang, an officer. The loan is in the amount of $89 and bears interest at 4.75% per annum, was unsecured and was due on March 14, 2018. As at December 31, 2018, the loan receivable including interest was fully repaid.

25. Revenue

During the year, the Company generated revenue from the sale of dried cannabis to its customers. Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer. All revenue is recognized at a point of time, which is at the point of delivery of cannabis products.

In the following table, revenue from contracts with customers is disaggregated by the following sales channels:

	December 31, 2018	December 31, 2017
Retail revenue	$ 4,111	$ -
Wholesale revenue	4,861	-
	$ 8,972	**$ -**

(Expressed in thousands of CDN$)

26. Commitments

Finance leases (see Note 21)

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

Year	
2019	$ 87
2020-2023	651
Thereafter	112
Total	**$ 850**

27. Income taxes

The company is subject to income taxes at a combined federal and provincial statutory income tax rate of 26.5% (2017 - 26%).

The reconciliation of the annual income tax expense is set out below:

	December 31, 2018	December 31, 2017
Loss before income taxes	$ 20,186	$ 14,090
Expected income tax recovery at		
Canadian statutory income tax rates	5,349	3,663
Tax effect of:		
Non-deductible expenses	(2,226)	(3,070)
Non-recognition of deferred tax assets	(3,123)	(477)
Other	-	(116)
Income tax recovery	**$ -**	**$ -**

The components of the deferred tax liability are as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Non-capital losses	$ -	$ 785
Property, plant and equipment	181	-
	181	785
Deferred tax liabilities:		
Inventory and biological assets	(181)	(785)
	(181)	(785)
Deferred tax liabilities	**$ -**	**$ -**

(Expressed in thousands of CDN$)

27. Income taxes(continued)

The unrecognized temporary differences of the Company are comprised of:

	December 31, 2018	December 31, 2017
Non-capital loss	$ 19,114	$ 9,076
Financing fees and other	7,215	11
Property, plant and equipment	806	344
	$ 27,135	**$ 9,431**

The Company has the following non-capital losses available to reduce future years' taxable income which expire as follows:

Year	
2031	$ 119
2032	635
2033	384
2034	707
2035	1,603
2036	3,003
2037	8,600
2038	4,063
Total	**$ 19,114**

28. 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 to the Company.

29. Contingency

During the year ended December 31, 2018, a claim was commenced against the Company by a former consultant for $500 in damages for breach of contract, $500 in special damages and $3,500 in aggravated and punitive damages. The Company has filed a Statement of Defense and plans believes the claim is frivolous. No amount has been recorded since the amount cannot be reliably measured and it is management’s opinion that no amount will be paid.

30. Subsequent events

On February 22, 2019 the Company closed a transaction to acquire a minority interest in a vape manufacturing company for cash consideration of $6,623.

On March 12, 2019, the Company entered into a definitive arrangement agreement under which all of its outstanding common shares will be acquired by Hexo Corp. by way of plan of arrangement, subject to customary regulatory, court and shareholder approvals.