

*Audited Financial Statements of*

**BRASSNECK CAPITAL CORP.**

*As at December 31, 2016 and for the year ended December 31, 2016*

*(Expressed in Canadian Dollars)*

## **Management's Report**

The information in this report, including the financial statements, are the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards.

Brassneck Capital Corp. (the "Corporation") maintains appropriate systems of internal control to provide reasonable assurance that the financial records provide relevant, reliable and accurate information.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for internal control and financial reporting. The Directors exercise this responsibility through the Audit Committee. This committee, which is comprised of employee and non-employee Directors, meets with management to satisfy itself that management has properly performed its financial reporting responsibilities and to review the financial statements before they are presented to the Directors for approval. These financial statements have been approved by the Board of Directors as recommended by the Audit Committee.

Kenway Mack Slusarchuk Stewart LLP, an independent firm of Chartered Accountants, has been engaged to audit the financial statements in accordance with Canadian Generally Accepted Auditing Standards and provide their auditors' report thereon.

Signed "Connor Cruise"

**Connor Cruise**

*Chief Executive Officer and Chief Financial Officer*

Calgary, Canada

April 26, 2017



## Independent Auditors' Report

To: The Shareholders of **Brassneck Capital Corp.**

We have audited the accompanying financial statements of Brassneck Capital Corp., which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2016 and the period from incorporation on June 18, 2015 to December 31, 2015, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brassneck Capital Corp. as at December 31, 2016 and 2015, and its financial performance and cash flows for the year ended December 31, 2016 and the period from incorporation on June 18, 2015 to December 31, 2015, in accordance with International Financial Reporting Standards.

*Kenway Mack Slusarchuk Stewart LLP*

Chartered Professional Accountants,  
Chartered Accountants

April 26, 2017  
Calgary, Alberta

## Brassneck Capital Corp.

### Statement of Financial Position

<b>As at December 31</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	440,882	274,634
Deferred financing costs	-	63,237
	<u>440,882</u>	<u>337,871</u>
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	<u>26,853</u>	<u>35,222</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	457,371	315,000
Contributed surplus	57,024	-
Deficit	<u>(100,366)</u>	<u>(12,351)</u>
	<u>414,029</u>	<u>302,649</u>
	<u>440,882</u>	<u>337,871</u>

#### **Incorporation and nature of business (Note 1)**

Approved on behalf of the Board:

signed "Connor Cruise"

Connor Cruise, Director

signed "Michael Saliken"

Michael Saliken, Director

*The accompanying notes are an integral part of these financial statements*

## Brassneck Capital Corp.

### Statement of Loss and Comprehensive Loss

	Year ended December 31 2016	Period from Incorporation on June 18, 2015 to December 31, 2015
	\$	\$
<b>Expenses</b>		
Share based payments	42,694	-
Professional fees	38,943	7,000
Office and administration	5,888	101
Regulatory and filing fees	3,715	5,250
Total expenses	<u>91,240</u>	<u>12,351</u>
<b>Interest income</b>	<u>3,225</u>	<u>-</u>
<b>Net and comprehensive loss</b>	<u>(88,015)</u>	<u>(12,351)</u>
<b>Basic and diluted net loss per common share (Note 7)</b>	<u>(\$0.021)</u>	<u>(\$0.014)</u>

*The accompanying notes are an integral part of these financial statements*

## Brassneck Capital Corp.

### Statement of Cash Flows

	Year ended December 31 2016	Period from Incorporation on June 18, 2015 to December 31, 2015
	\$	\$
<b>Cash flows from the following activities:</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss	(88,015)	(12,351)
Item not affecting cash:		
Share based payments	42,694	-
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	19,852	7,000
	<u>(25,469)</u>	<u>(5,351)</u>
<b>Financing activities</b>		
Issuance of share capital	273,900	315,000
Share issuance costs	(53,961)	(63,237)
Change in non-cash working capital		
Accounts payable and accrued liabilities	(28,222)	28,222
	<u>191,717</u>	<u>279,985</u>
<b>Change in cash and cash equivalents</b>	166,248	274,634
<b>Cash and cash equivalents, beginning of year</b>	<u>274,634</u>	<u>-</u>
<b>Cash and cash equivalents, end of year</b>	440,882	274,634
<b>Cash and cash equivalents are comprised of:</b>		
Bank balance	2,720	274,634
Guaranteed investment certificate	438,162	-
	<u>440,882</u>	<u>274,634</u>

*The accompanying notes are an integral part of these financial statements*

**Brassneck Capital Corp.**Statement of Changes in Shareholders' Equity

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	<u>Share Capital</u>		<u>Contributed</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Surplus</u>	<u>Deficit</u>	
		\$	\$	\$	\$
Common shares issued for cash September 4, 2015	2,100,000	105,000	-	-	105,000
Common shares issued for cash October 6, 2015	2,100,000	210,000	-	-	210,000
Net loss for the period	-	-	-	(12,351)	(12,351)
As at December 31, 2015	4,200,000	315,000	-	(12,351)	302,649
Common shares issued for cash March 10, 2016	2,739,000	273,900	-	-	273,900
Share issue costs	-	(131,529)	14,330	-	(117,199)
Share based payments	-	-	42,694	-	42,694
Net loss for the period	-	-	-	(88,015)	(88,015)
As at December 31, 2016	6,939,000	457,371	57,024	(100,366)	414,029

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*The accompanying notes are an integral part of these financial statements*

# **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

December 31, 2016

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## **1. Incorporation and Nature of Business**

Brassneck Capital Corp. (the “Corporation”) was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on June 18, 2015. The Corporation maintains its head office and registered office at 1900, 520 – 3rd Avenue SW, Calgary, Alberta, T2P 0R3. The Corporation is a Capital Pool Company (“CPC”) as defined pursuant to Policy 2.4 of The TSX Venture Exchange (the “TSXV”).

As a CPC, the proceeds raised by the Corporation from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the sale of securities issued by the Corporation and \$210,000 may be used to cover prescribed costs of issuing common shares or administrative and general expenditures of the Corporation. These restrictions apply until the completion of a Qualifying Transaction by the Corporation as defined under the policies of the TSXV.

The Corporation’s continuing operations are dependent upon its ability to evaluate and negotiate an agreement to acquire an interest in a material asset or business within twenty-four months of listing on the TSXV. There is no assurance that the Corporation will be able to complete a Qualifying Transaction within 24 months of being listed or that it will be able to secure the necessary financing to complete a Qualifying Transaction. The TSXV may suspend or delist the Corporation’s shares from trading should it not meet these requirements.

Where an acquisition or participation is warranted, additional funding may be required. The ability of the Corporation to fund its potential future operations and commitments is dependent upon its ability to obtain additional financing. Such an acquisition will be subject to regulatory approval and, if required, shareholder approval.

The Corporation’s common shares commenced trading on the TSXV on March 15, 2016, under the trading symbol “BC.P”.

## **2. Basis of presentation**

### Statement of Compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) in effect on December 31, 2016.

These financial statements were authorized for issue by the Corporation’s Board of Directors on April 26, 2017.

# **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

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## **2. Basis of presentation (continued)**

### Estimates and Judgements

The preparation of the financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by the Corporation are believed to be reasonable under current circumstances, actual results could differ. These estimates are made in the year in which the estimates are revised and any future years that are impacted.

The following are the financial statement items which are most impacted by estimation uncertainty and critical judgments in applying the accounting policies:

The accounting estimates for share based payments is based on the Black-Scholes option valuation model which was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Since the Corporation's stock options have characteristics significantly different from those of traded options and since changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The Corporation recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available to utilize the Corporation's deductible temporary differences which are based on management's judgement on the degree of future taxable profits. To the extent that future taxable profits differ significantly from the estimates impacts the amount of the deferred tax assets management judges is probable.

### Basis of measurement

The financial statements have been prepared on the historical cost basis and are presented in Canadian dollars, which is the Corporation's functional and reporting currency.

## **3. Significant accounting policies**

### *Cash and cash equivalents*

The Corporation considers all investments with maturities of three months or less to be cash equivalents.

### *Deferred financing costs*

Costs incurred relating to the proposed issuance of shares are deferred. Deferred costs consist primarily of professional and agent fees. Costs will be charged to share capital upon the issuance of shares. In the event that the share issuance does not occur, costs will be charged to income in the period.

## **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

December 31, 2016

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### **3. Significant accounting policies (continued)**

#### *Income taxes*

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the statement of financial position are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### *Financial instruments*

The Corporation's financial assets and liabilities are classified and measured as follows:

Cash and cash equivalents are recorded at fair value through profit and loss. Such assets are recognized initially at fair value. Subsequent to initial recognition, changes in fair value are recognized in profit or loss.

Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and if there are subsequent material or significant changes in fair value, they are subsequently measured at amortized cost using the effective interest rate method.

#### *Earnings per share*

Basic loss per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares (other than contingently returnable shares) outstanding for the relevant period.

Diluted loss per share is computed by dividing the net income applicable to common shares by the sum of the weighted average number of common shares (other than contingently returnable shares) issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

#### *Share based payments*

The Corporation has a stock option plan. The Corporation accounts for its stock option plan using the fair value method. Under this method, the Corporation estimates the fair value of stock options using the Black-Scholes option pricing model on the date of grant. Based on the value of the option granted, stock-based compensation expense and an offsetting increase to contributed surplus is recorded over the vesting period. When options are exercised, the amortized portion of the value of the option is transferred from the contributed surplus account to the share capital account.

## **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

December 31, 2016

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### **3. Significant accounting policies (continued)**

#### *Share capital*

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

#### *Application of new and revised International Financial Reporting Standards*

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

#### IFRS 9 “Financial Instruments”

IFRS 9, Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, an entity can recognize the portion of the change in fair value related to the change in the entity’s own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

There are additional new standards that have not been discussed as they are not expected to impact the Corporation.

### **4. Capital management**

The Corporation’s capital currently consists of common shares. The Corporation defines capital as total equity which was \$414,029 at December 31, 2016 (December 31, 2015 - \$302,649). Its principal source of cash is from the issuance of common shares. The Corporation’s capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets.

The Corporation does not have any externally imposed capital requirements to which it is subject other than the restriction on the use of cash as referred to in Note 1.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares.

## **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

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### **5. Financial instruments**

#### *Fair Value*

The carrying amount of cash and cash equivalents, and accounts payable and accrued liabilities approximates their fair value due to their short term nature.

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:

Level 1- Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2- Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3- Inputs for the asset or liability that are not based on observable market data.

The Corporation's cash and cash equivalents are the only financial assets or liabilities measured using fair value. Cash and cash equivalents are categorized as Level 1 since there are quoted prices in an active market for the instruments.

#### *Credit Risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Corporation places these instruments with a high credit quality financial institution.

#### *Interest Rate Risk*

The Corporation maintains cash and fixed rate guaranteed interest certificates ("GIC's") at its banking institution and therefore does not believe interest rate risk to be significant.

#### *Liquidity Risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation currently settles its financial obligations out of cash. The ability to do this relies on the Corporation raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs and to meet the Corporation's liabilities.

## Brassneck Capital Corp.

Notes to the Audited Financial Statements

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### 6. Share capital

#### Authorized Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series.

#### Issued and Outstanding Common Shares

	Number of Shares	Amount (\$)
Issuance of common shares for cash - September 4, 2015	2,100,000	105,000
Issuance of common shares for cash - October 6, 2015	2,100,000	210,000
Balance at December 31, 2015	4,200,000	315,000
Issuance of common shares for cash – March 10, 2016	2,739,000	273,900
Share issue costs		(131,529)
Balance at December 31, 2016	6,939,000	457,371

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#### Share Issuance Detail

On September 4, 2015, the Corporation issued 2,100,000 shares at a price of \$0.05 per common share for total gross proceeds of \$105,000.

On October 6, 2015, the Corporation issued 2,100,000 shares at a price of \$0.10 per common share for total gross proceeds of \$210,000.

On March 10, 2016, the Corporation issued 2,739,000 shares at a price of \$0.10 per common share for total gross proceeds of \$273,900 related to the Corporation's initial public offering. Share issue costs of 10% of the gross proceeds were paid to the Agent. In addition, the Agent was granted options to acquire an aggregate of 273,900 common shares (the "Agent Options") at an exercise price of \$0.10 per share and expire on March 15, 2018, which is 24 months from the date the common shares were listed on the TSXV.

#### Escrowed shares

All common shares issued to non-arm's length parties of the Corporation either under the offering or otherwise prior to the Completion of the Qualifying Transaction, will be deposited with the Transfer Agent under the Escrow Agreement. There are 2,150,000 common shares held in escrow which includes all of the 2,100,000 common shares issued on September 4, 2015 offering and 50,000 of the common shares issued on October 6, 2015. The escrowed shares will be released from escrow under the following terms: 10% to be released from the date the Qualifying Transaction bulletin is issued, and 15% to be released every 6 months thereafter.

## Brassneck Capital Corp.

Notes to the Audited Financial Statements

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### 6. Share capital (continued)

All common shares acquired on exercise of stock options prior to the completion of a Qualifying Transaction, must also be deposited in escrow and will be subject to escrow terms.

In addition, all common shares of the Corporation acquired in the secondary market prior to the completion of a Qualifying Transaction by any person or company who becomes a Control Person, as defined in the policies of the TSXV, are required to be deposited in escrow. Subject to certain exemptions permitted by the TSXV, all securities of the Corporation held by principals of the resulting issuer, will also be escrowed.

#### *Stock Options*

The Corporation has adopted an incentive stock option plan in accordance with the policies of the TSXV (the "Stock Option Plan") which provides that the Board of Directors of the Corporation may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Corporation non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares exercisable for the period of up to ten (10) years from the date of grant. In addition, the number of common shares reserved for issuance to any one person shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. If the Director or Officer does not continue with the Corporation after the Qualifying Transaction the options may be exercised from the later of 12 months after completion of the Qualifying Transaction and 90 days following cessation of the optionee's position with the Corporation, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Any common shares acquired pursuant to the exercise of options prior to Completion of the Qualifying Transaction, must be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

The Board of Directors determines the price per common share and the number of common shares which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the option, subject to the rules of the TSXV.

On March 17, 2016 the Corporation granted 575,937 Incentive Options to directors and officers of the Corporation with an exercise price of \$0.10 per share and expire on March 17, 2026.

The following is a summary of stock options outstanding at December 31, 2016.

	Number of Options	Exercise Price	Expiry Date
Incentive Options granted	575,937	\$0.10	March 17, 2026
Agent Options granted	273,900	\$0.10	March 15, 2018
	<u>849,837</u>		
Exercisable options	<u>849,837</u>		

## **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

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

As at December 31, 2016 the weighted average remaining contract life and exercise price of the outstanding options is 6.6 years and \$0.10 per share respectively.

The fair value of the options granted was estimated at the date of grant using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	Incentive	Agent
Expected stock price volatility	100%	100%
Expected life of options	5 years	2 years
Risk free interest rate	0.74%	0.56%
Expected forfeitures	0%	0%
Expected dividend yield	0%	0%
Fair value per option granted	\$0.074	\$0.052

### **7. Earnings per share**

The weighted average number of common shares outstanding during the year ended December 31, 2016 was 4,271,216 (December 31, 2015 - 899,940). The weighted average outstanding calculation excludes the 2,150,000 shares held in escrow.

### **8. Related party transactions**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation has determined that key management personnel consist of executive and non-executive members of the Corporation's Board of Directors and corporate officers and/or companies controlled by those individuals.

Remuneration attributed to key management personnel was share based payments of \$42,694 (2015: \$Nil) during the year ended December 31, 2016.

## Brassneck Capital Corp.

Notes to the Audited Financial Statements

December 31, 2016

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### 9. Income taxes

The presented recovery of income taxes differs from the amount of income tax expense calculated using the Canadian statutory tax rate, mainly due to the following:

	2016	2015
Loss before income taxes	\$ (88,015)	\$ (12,351)
Statutory income tax rate	27.00%	26.00%
Income tax recovery based on statutory income tax rates	(23,764)	(3,211)
Share based payments	11,527	
Tax benefits not recognized	12,237	3,211
Income tax expense	\$ -	\$ -

Significant components of the deferred tax assets of the Corporation are as follows:

Loss carry forwards	\$ 21,900	\$ 3,211
Share issue costs	25,315	-
Total deferred income tax not recognized	\$ 47,215	\$ 3,211

As at December 31, 2016, the Corporation has accumulated non-capital losses of \$81,112 for income tax purposes which can be carried forward and applied against future taxable income until the 2035 (\$12,351) and 2036 (\$68,761) taxation year.

Deferred tax assets have not been recognized in respect of the loss carryforwards as it is not probable that future taxable profits will be available against which the Corporation can utilize the benefits.

### 10. Subsequent Event

On March 29, 2017 the Corporation announced that it had entered into a letter of intent (“LOI”) with National Access Cannabis Corp. (“NAC”) in respect of a proposed transaction pursuant to which NAC is expected to acquire Brassneck by way of reverse takeover (the “Acquisition”). It is currently anticipated that the Acquisition will occur as a merger, amalgamation or share exchange, the final structure of the Acquisition being subject to receipt of tax, corporate and securities law advice for both Brassneck and NAC.

NAC is incorporated under the laws of the Province of British Columbia and has a head office in Vancouver, British Columbia. NAC, through its wholly-owned subsidiary National Access Canada Corp., a corporation incorporated under the laws of Canada, operates clinics in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia and Ontario, which assist consumers in navigating through and accessing Canada’s legal medical marijuana program by assisting in determining eligibility, completing medical forms, providing physician consultations and selecting appropriate licensed products. NAC currently has ten corporate locations.

## **Brassneck Capital Corp.**

Notes to the Audited Financial Statements

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### **10. Subsequent Event (continued)**

It is anticipated that NAC will complete a private placement financing of convertible notes (“Convertible Notes”) for aggregate gross proceeds of up to \$1,000,000 (the “Maximum Note Amount”) prior to April 28, 2017. The holders of Convertible Notes will be paid interest at a rate of 10% per year, payable semiannually, with any accrued interest to be forgiven upon completion of the Acquisition. The terms of the Convertible Notes provide that immediately prior to completion of the Acquisition, the Convertible Notes will convert into common shares of NAC (“NAC Shares”) at a 20% discount to the Concurrent Financing Price (as defined below), subject to approvals from the TSXV. The proceeds of the Convertible Notes will be used for general working capital and, upon completion of the Acquisition, the Resulting Issuer’s future growth plans.

NAC expects to complete the Concurrent Private Placement (as defined below) and raise aggregate gross proceeds of a minimum of \$4,500,000 (the “Maximum Placement Amount”) at a price of \$0.25 per Subscription Receipt, as described further below. NAC also expects to convert the Convertible Notes and issue NAC Shares in connection with the terms of the Convertible Notes.

Brassneck will issue 87,522,568 Brassneck Shares at a deemed price of \$0.25 per share on the basis of one Brassneck Share for each one NAC Share for deemed consideration of approximately \$21,880,642, which for greater certainty, does not include the NAC Shares to be issued under the Convertible Note conversion or the Concurrent Private Placement.

Completion of the Acquisition is subject to a number of conditions including, but not limited to, completion of the Convertible Note offering, completion of the Concurrent Private Placement, the satisfaction of the Corporation and NAC in respect of the due diligence investigations to be undertaken by each party, the completion of a Definitive Agreement in respect of the Acquisition, closing conditions customary to transactions of the nature of the Acquisition, approvals of all regulatory bodies having jurisdiction in connection with the Acquisition, TSXV acceptance of the Acquisition as the Qualifying Transaction of Brassneck and, if required by the TSXV policies, majority of the minority shareholder approval. Where applicable, the Acquisition cannot close until the required shareholder approvals are obtained and there can be no assurance that the Acquisition will be completed as proposed or at all.