

Newstrike Resources Ltd.

TSX VENTURE : NR



February 08, 2017 16:17 ET

Newstrike Resources Ltd. Enters into Agreement with HPI Holdings Ltd. to Complete Business Combination and Concurrent Financing Transactions

TORONTO, ONTARIO--(Marketwired - Feb. 8, 2017) - Newstrike Resources Ltd. (TSX VENTURE:NR) ("Newstrike" or the "Company") is pleased to announce that it has entered into an agreement (the "**Agreement**") with HPI Holdings Ltd. ("**HPI**") pursuant to which Newstrike and HPI will effect a business combination (the "**Transaction**"). The Agreement was negotiated at arm's length and is effective as of February 3, 2017.

HPI is a company governed by the laws of Ontario and, through its wholly-owned subsidiary 8455562 Canada Inc., is engaged in the production of medical marijuana in Brantford, Ontario. On December 19, 2016, HPI obtained its production license from Health Canada. As of December 31, 2016, preliminary numbers, subject to audit, indicate HPI has total assets of approximately \$1,800,000, total liabilities of approximately \$850,000, and net equity of approximately \$950,000. For the fiscal year ended December 31, 2016, preliminary numbers, subject to audit, indicate HPI had total revenue of \$Nil and total operating loss of approximately \$608,000. HPI has carried forward losses of approximately \$1,400,000.

Newstrike is an early stage exploration company governed by the laws of Ontario, and has historically been focused on precious and base metals and other minerals exploration in Canada and the United States. Newstrike currently holds a 25% interest in the property known as the Sweetheart Property, comprised of mining claims, leases and application comprising approximately 14,000 acres, located in the vicinity of Rattlesnake Hills, Wyoming, United States. Newstrike has not undertaken any exploration on its mineral properties in the past two years. The Transaction, if completed, will constitute a "Change of Business", as defined in the policies of the TSX Venture Exchange (the "**TSXV**"). Trading in the common shares of Newstrike (the "**Newstrike Shares**") will be halted as a result of this announcement and will remain halted until the resumption of trading is approved by the TSXV.

Concurrent Financings

In connection with the Transaction, Newstrike proposes to complete a non-brokered private placement of up to 25,000,000 subscription receipts ("**Subscription Receipts**") at a price of \$0.125 per Subscription Receipt to raise aggregate gross proceeds of up to \$3,125,000 (the "**Subscription Receipt Financing**"). Each Subscription Receipt will automatically convert on the satisfaction or waiver of all conditions precedent to the Transaction and certain other ancillary conditions (the "**Release Conditions**") into Newstrike Shares without any further consideration on the part of the purchaser, immediately prior to effecting the Transaction. The gross proceeds from the Subscription Receipt Financing will be held in escrow pending the satisfaction of the Release Conditions, whereupon the Newstrike Shares underlying the Subscription Receipts will be issued to the purchasers and the gross proceeds of the Subscription Receipt Financing will be paid to Newstrike. In the event the Transaction does not occur by June 30, 2017, the gross proceeds of the Subscription Receipt

Financing shall be returned to the purchasers *pro rata* without any deduction or interest and the Subscription Receipts shall be automatically cancelled. The Newstrike Shares underlying the Subscription Receipts shall be subject to a voluntary escrow period commencing on the date of issuance thereof until the later of (i) the date that is four months and a day following the closing date of the Transaction (the "**Effective Date**"); and (ii) such longer period as may be imposed by the applicable stock exchange, all in accordance with the terms and conditions thereof. It is anticipated that insiders of Newstrike will purchase up to 1,600,000 Subscription Receipts, and insiders of HPI will not purchase any Subscription Receipts.

In connection with the Transaction, HPI also proposes to complete a non-brokered private placement (the "**Debenture Financing**") of unsecured, non-interest bearing convertible debentures (the "**Debentures**") in the aggregate principal amount of up to \$1,500,000. Each \$1.00 in principal amount of the Debentures shall entitle the holder thereof to acquire 1.13 common shares of HPI (each one such common share, an "**Underlying HPI Share**"), and shall be automatically converted into Underlying HPI Shares, without any further action or formality on the part of the holders thereof, on the earlier of (a) the date which is one year following the date of issuance of the Debentures; and (b) immediately prior to the occurrence of a Liquidity Event (as defined in the Debentures). The Transaction will constitute a Liquidity Event for the purposes of the Debentures. In the event that the outstanding principal amount of the Debentures is converted into Underlying HPI Shares immediately prior to the occurrence of a Liquidity Event, such Underlying HPI Shares shall be subject to a voluntary escrow period commencing on the date of issuance thereof until the later of (i) the date that is four months and a day following the Liquidity Event; and (ii) such longer period as may be imposed by the applicable stock exchange, all in accordance with the terms and conditions thereof. It is anticipated that no Debentures will be purchased by any insiders of Newstrike or HPI.

It is intended that the net proceeds raised pursuant to the Subscription Receipt Financing and the Debenture Financing will be used for marketing initiatives, capacity expansion plans, working capital and general corporate purposes.

Details of the Proposed Transaction

The Transaction will be structured as a three-cornered amalgamation (the "**Amalgamation**") pursuant to which HPI will amalgamate with a wholly-owned subsidiary of Newstrike ("**Subco**") to form an amalgamated entity ("**Amalco**") which will continue as a wholly owned subsidiary of Newstrike. Assuming the conversion of all convertible securities of HPI other than the HPI Warrants (defined below) into common shares of HPI ("**HPI Shares**") prior to closing, all of the issued and outstanding HPI Shares, other than the Underlying HPI Shares, shall be exchanged for an aggregate of 269,000,000 Newstrike Shares to be distributed proportionately amongst the holders of such HPI Shares. In addition, (i) each Underlying HPI Share shall be converted into approximately 7.077 Newstrike Shares resulting in the issuance of an aggregate of up to approximately 11,996,059 Newstrike Shares; and (ii) an aggregate of up to approximately 15,994,746 Newstrike Shares shall be reserved for issuance upon exercise of the HPI Warrants (as defined below), with each such HPI Warrant entitling the holder to acquire approximately 7.077 Newstrike Shares in lieu of one HPI Share, at an exercise price of \$0.125 per Newstrike Share.

The deemed exchange price for the Newstrike Shares to be issued in consideration of all issued and outstanding HPI Shares shall be approximately Cdn\$0.125 per share, or such other price as permitted by applicable regulatory authorities, including the TSXV.

As of the date hereof, Newstrike has 46,624,581 Newstrike Shares outstanding and has issued stock options and share purchase warrants to acquire an aggregate of 21,960,000 Newstrike Shares at exercise prices ranging from \$0.075 to \$0.20 per share. Following the completion of the Subscription Receipt Financing, up to an additional 25,000,000 Newstrike Shares shall be issued upon conversion of the Subscription Receipts. At the time of closing of the Transaction, and assuming that the Debenture Financing is fully subscribed, it is anticipated that HPI will have approximately 1,695,000 Underlying HPI Shares and 38,008,731 additional HPI Shares outstanding, and share purchase warrants to acquire an aggregate of 2,260,000 HPI Shares at approximately \$0.884 per share (the "**HPI Warrants**") and no other convertible securities outstanding.

It is expected that following completion of the Transaction, and assuming that each of the Subscription Receipt Financing and Debenture Financing are fully subscribed, the current holders of Newstrike Shares will hold

approximately 13.2% of the outstanding Newstrike Shares, the subscribers in the Subscription Receipt Financing will hold approximately 7.1% of the outstanding Newstrike Shares, and the holders of the HPI Shares (inclusive of the HPI Underlying Shares) will collectively hold approximately 79.7% of the outstanding Newstrike Shares, all as calculated on a non-diluted basis immediately following the closing of the Transaction.

Upon closing of the Transaction, the board of the Newstrike shall be reconstituted to be comprised of five members, two of which shall be nominees of Newstrike and three of which shall be nominees of HPI in a manner that complies with the requirements of the TSXV and applicable securities laws. In addition, all current officers of Newstrike shall resign and be replaced by nominees of HPI. The following individuals are expected to be appointed as new directors and/or officers of Newstrike pursuant to the Transaction:

AltaCorp Capital Inc. has been retained to act as sponsor in connection with the Transaction.

Jay Wilgar, Proposed Chief Executive Officer and Director

In 2001, Jay Wilgar co-founded AIM PowerGen Corporation ("AIM"), a largescale wind power development company. In 2005, AIM was awarded a power purchase agreement with the Ontario Power Authority to build one of the largest wind power project in Canada, the Erie Shores Wind Farm. AIM was subsequently sold in 2006 to the British firm REG for \$29.6 million. Since 2001, AIM and its core team have developed, built and financed over \$2 billion in large scale wind power and solar power projects across Canada. Jay is 42 years old and holds a Bachelors of Commerce Degree from Wilfrid Laurier University.

Peter Hwang, Proposed Director

Peter Hwang has spent over 20 years in senior management in both the private and public sectors with extensive experience in finance, private equity, new product commercialization and customer acquisition. Peter is currently the President and CEO of Globalfaces Direct Inc. ("Globalfaces"), a direct marketing, software and data analytics company serving the largest not for profit clients in the world and acquiring over 60,000 monthly donors per year. Since the inception of Globalfaces, Peter has been responsible for the strategic direction of the organization, including finance, partnerships and corporate development. Peter is 43 years old and holds a Bachelors Degree from Wilfrid Laurier University.

Nik Van Haeren, Proposed Director

For over 15 years, Nik Van Haeren has worked in the family business leading multiple different projects focusing on the high scale manufacturing and development of efficient lighting systems. Nik is currently the President of Enerworks Solar Heating ("Enerworks") and Cooling and Uvalux Tanning & Support ("Uvalux"). Enerworks is a manufacture of Solar Heating Equipment and provides commercial heating and cooling solutions for a wide range of industries focusing on the development of green technologies to preserve energy for large scale commercial applications. Uvalux is Canada's largest supplier to the Salon industry across the country with over 2500 retailers across Canada and was voted one of Canada's Top 50 Employers. Nik is 37 years old and holds a Bachelors Degree from Western University and is a graduate from the Entrepreneurial Masters Program at MIT.

It is anticipated that immediately following the Transaction, the only shareholder that will hold greater than 10% of the issued and outstanding Newstrike Shares will be 2497895 Ontario Inc. ("2497895"), a company governed by the laws of Ontario. Assuming that each of the Debenture Financing and Subscription Receipt Financing are fully subscribed, it is anticipated that 2497895 will hold approximately 104,278,985 Newstrike Shares, representing approximately 29.57% of all issued and outstanding Newstrike Shares immediately following the completion of the Transaction. The directors and officers of 2497895 Ontario Inc. consist of Nik Van Haeren and Jeff Van Haeren. Jeff Van Haeren is the President of Trigon Construction Management ("Trigon"), which has offices in Calgary, Toronto, Ottawa, Halifax and Woodstock. Trigon employs over 80 construction professionals providing construction services in the industrial, commercial and institutional sectors. Some of Trigon's recent clients include Deloitte, Slight Communications, Ole Media, NWMO, DRI Capital, SAB Miller, Magna, and Octa Pharma. Additionally, Jeff functions as the Director of Construction for Goodlife Fitness where he oversees capital budgets, club design, and construction, as well as being involved

in company strategy, site selection, facility maintenance, leasing and acquisitions. Jeff is 35 years old and attended The University of Western Ontario.

Other Conditions to Transaction

Completion of the Transaction is subject to a number of conditions, including, but not limited to, TSXV acceptance and shareholder approval of HPI.

Newstrike will not be required to obtain shareholder approval of the Transaction pursuant to Section 4.1 of TSXV Policy 5.2 as a result of the following factors: (i) the Transaction is not a "related party transaction" (within the meaning of TSXV policies); (ii) Newstrike is without active operations; (iii) Newstrike is not and will not be subject to a cease trade order or suspended from trading upon completion of the Transaction; and (iv) Newstrike shareholder approval of the Transaction is not required to be obtained under applicable corporate or securities laws.

Where applicable, the Transaction cannot close until the required shareholder and regulatory approvals are obtained. There can be no assurance that the Transaction will be completed as proposed, or at all.

Other conditions to completion of the Transaction include, but are not limited to:

- receipt of all requisite approvals from shareholders and regulatory authorities (including the TSXV) relating to the Transaction;
- completion of the Subscription Receipt Financing and the Debenture Financing;
- no material adverse change to either HPI or Newstrike prior to completion of the Transaction;
- the representations and warranties contained in the Agreement being true and correct in all material respects as of the closing of the Transaction;
- holders of all HPI Warrants shall have delivered comfort that such securities shall not be transferred during the period commencing on the date of issuance of the HPI Warrants until the later of (i) the date that is four months and a day following the Effective Date; and (ii) such longer period as may be imposed by the TSXV;
- employment or consulting agreements shall have been entered into with certain specified individuals;
- the existing shareholders agreement of HPI shall have terminated;
- Newstrike shall have cash on hand of at least \$800,000 (before receipt of the net proceeds of the Subscription Receipt Financing);
- Newstrike shall have divested all mining assets and wound-up or dissolved its subsidiary, Newstrike Wyoming Inc.; and
- holders of not less than 80% of the existing share purchase warrants of Newstrike shall have delivered irrevocable agreements that such securities shall be exercised on or prior to the later of (i) June 30, 2017; and (ii) the date which is 60 days following the Effective Date.

Further Information

Completion of the Transaction is subject to a number of conditions, including but not limited to, TSXV acceptance and if applicable, shareholder approval. Where applicable, the Transaction cannot close until the required shareholder approval is obtained. There can be no assurance that the Transaction will be completed as proposed or at all. Further details about the proposed Transaction will be provided in the disclosure document to be prepared and filed in respect of the Transaction. Investors are cautioned that, except as disclosed in the disclosure document to be prepared in connection with the Transaction, any information released or received with respect to the Transaction may not be accurate or complete and should not be relied upon. Trading in the securities of Newstrike should be considered highly speculative. The TSXV has in no way passed upon the merits of the proposed Transaction and has neither approved nor disapproved the contents of this press release.

Forward-Looking Information

This press release contains forward-looking information based on current expectations. Statements about the closing of the Transaction, the Subscription Receipt Financing and the Debenture Financing, expected terms of the Transaction and such financings, the number of securities that may be issued in connection with the Transactions and such financings and the parties' ability to satisfy closing conditions and receive necessary approvals are all forward-looking statements. These statements should not be read as guarantees of future performance or results. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those implied by such statements. Although such statements are based on management's reasonable assumptions, there can be no assurance that the Transaction, the Subscription Receipt Financing or the Debenture Financing will occur or that, if the Transaction and/or any such financing does occur, it will be completed on the terms described above. Newstrike assumes no responsibility to update or revise forward-looking information to reflect new events or circumstances unless required by law.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Contact Information

Scott Kelly
President and CEO
Newstrike Resources Ltd.
Telephone: 416-504-4173
Email: skelly@newstrike.ca