



NEWSTRIKE

BRANDS

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**Newstrike Brands Ltd.**  
(formerly Newstrike Resources Ltd.)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2018

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## **NEWSTRIKE BRANDS LTD.**

### **Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018**

**Dated – As at August 9, 2018**

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#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of Newstrike Brands Ltd. (formerly Newstrike Resources Ltd.) (the "Company", "Newstrike", "our" or "we") is for the three and six months ended June 30, 2018. The information in this MD&A is current as of August 9, 2018 and should be read in conjunction with the condensed interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2018, the audited annual financial statements and notes thereto for the year ended December 31, 2017 (together, the "Financial Statements") and the accompanying MD&A for the year then ended.

The Financial Statements and this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee for all periods presented. The Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors (the "Board of Directors"). The Financial Statements were prepared in accordance with and include the accounts of the Company and its wholly-owned subsidiaries, 1977121 Ontario Inc. and UP Cannabis Inc. ("Up Cannabis") (formerly 8455562 Canada Inc.).

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. All references to the Company contained herein include references to its subsidiaries, as applicable, in the context.

## **Introduction**

Newstrike is a publicly traded corporation, existing under the laws of the Province of Ontario, with its head office located at 1540 Cornwall Road, Suite 204, Oakville, Ontario, L6J 7W5. Newstrike's common shares (the "Shares") trade on the TSX Venture Exchange (the "TSXV") under the ticker symbol "HIP" and on the Frankfurt Exchange under the symbol "ON8". On July 9, 2018, the Company announced that it changed its name from "Newstrike Resources Ltd." to "Newstrike Brands Ltd."

On May 29, 2017, Newstrike completed the acquisition of 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"). The Transaction was a reverse take-over, pursuant to which HPI and its subsidiary, Up Cannabis, became wholly-owned subsidiaries of Newstrike, all in accordance with a master agreement dated February 3, 2017 as amended on May 18, 2017 (the "Master Agreement"). Up Cannabis is a licensed producer of cannabis and related products under the *Access to Cannabis for Medical Purposes Regulations* (Canada) (the "ACMPR").

Newstrike is focused exclusively on executing a growth strategy (primarily through Up Cannabis) of developing a diverse portfolio of high-quality cannabis brands for the adult-use cannabis market ("Newstrike's Growth Strategy").

## **Important Note on Comparative Periods and Change in Year-End**

In connection with the Transaction and in accordance with IFRS 3, the Company's fiscal year-end was changed from March 31 to December 31. The change in year-end aligns Newstrike's fiscal year-end with that of HPI, thereby permitting the reader to undertake a comparative review of previous fiscal periods that are reflective of the historical financial performance of Newstrike's current cannabis-focused business.

For the purposes of preparing this MD&A, management, under the guidance of the Board of Directors, considers the materiality of information presented. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

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Further information about the Company and its operations is available on Newstrike's website at [www.newstrike.ca](http://www.newstrike.ca) and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## **Caution Regarding Forward-Looking Statements**

This MD&A contains certain "forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). Such forward-looking statements are not representative of historical facts or information or current condition, but instead represent only the Company's beliefs regarding future events, plans or objectives, many of which, by their nature, are inherently uncertain and outside of the Company's control. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. The forward-looking statements contained herein may include, but are not limited to, information with respect to the Company's expectations regarding: the legislative framework regarding the licensing of cannabis and related activities; proposed and anticipated changes to Canadian federal laws and provincial regulations regarding the adult-use cannabis market, associated fees and taxes and the business impact on the Company; the potential size of the adult-use cannabis market in Canada; the timing of legalization of adult-use cannabis; the availability of requisite licences and permits on terms acceptable to the Company; the timing of the implementation of the Company's engineering and construction plans; production capacity; sales; estimated operating costs; business prospects and strategy; anticipated trends and challenges in the Company's business and the markets in which it operates; future growth plans; prospective financial performance; anticipated cash needs and need for additional financing; anticipated funding sources; the Company's ability to raise funds in the capital markets; and the Company's financial position. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. By identifying such statements in this manner, the Company is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance, or achievements of the Company to be materially different from those expressed or implied by such information and statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A are as of the date of this MD&A.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond Newstrike's ability to predict or control. Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: the Company's failure to receive or maintain the requisite licences and other approvals to cultivate, store and sell cannabis in all acceptable forms to all eligible individuals; management's expectations that requisite licences and permits will be available on terms acceptable to the Company; regulatory risks and risks related to changes in laws, regulations and guidelines; the Company's limited operating history; the Company's reliance on limited production capacity; the Company's goal of creating shareholder value by successfully executing its growth strategy to become a top tier marketer of branded cannabis and related products, as permitted by the evolving market for such products; access and supply risks; reliance on, and attraction and retention of, key personnel; the Company's ability to achieve or maintain profitability; the Company's ability to secure additional financing on acceptable terms; risks related to increased competition in the cannabis industry generally; the

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Company's ability to manage growth; risks inherent to an agricultural business; the Company's reliance on key inputs; the Company's vulnerability to rising energy costs; the Company's reliance on fast and efficient courier services to distribute its products; consumer perception of the cannabis industry; risk of exposure to product liability claims; risks related to product recalls; the Company's dependence on suppliers and skilled labour; operating risk and adequacy of insurance coverage; management's outlook regarding future trends, outlook and activities; risks related to global financial conditions; uncertain political and economic environments; potential conflicts of interest; litigation risks; fluctuations in the Company's stock price; environmental hazards and industrial accidents; environmental liability; future plans for the property interests held by the Company or which may be acquired on a going forward basis, if at all; restrictions imposed by the TSXV in connection with the Company's business; as well as the risks discussed under the heading "Risk Factors" of the Company's Annual Information Form dated May 30, 2018 and the risk factors discussed in this MD&A under the heading "Risks and Uncertainties".

Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. All forward-looking statements herein are qualified by this cautionary statement. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws. Accordingly, readers should not place undue reliance on forward-looking information. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

## **Overview**

For the three and six months ended June 30, 2018, Newstrike continued to focus primarily on the development and execution of Newstrike's Growth Strategy in preparation for the legalization of adult-use cannabis which it believes will create long-term value for all shareholders.

## **Operational Highlights**

### **Three and Six Months Ended June 30, 2018**

- On January 24, 2018, the Company announced that it and CanniMed Therapeutics Inc. ("CanniMed") had mutually terminated the previously announced plan of arrangement pursuant to the arrangement agreement entered into between the Company on November 17, 2018 (the "Arrangement Agreement"). The Arrangement Agreement was terminated, effective upon (i) payment by CanniMed of \$9.5 million to the Company, (the "Termination Fee") (ii) CanniMed exercising its Convertible Debenture and (iii) CanniMed exercising its Convertible Debenture Warrants on or before February 15, 2018. On January 24, 2018, the Company received a Notice of Conversion for the Convertible Debenture held by CanniMed, and an aggregate of 10,958,904 Shares were subsequently issued on January 31, 2018. On February 13, 2018, CanniMed exercised the 10,958,904 warrants for gross proceeds of approximately \$4,600,000;
- Raised approximately \$134,400,000 in net proceeds by issuing 138,701,500 shares and 112,523,590 share purchase warrants, inclusive of compensation warrants (see Financing Activities below);
- On February 14, 2018, the Company expanded its Board of Directors with the appointment of Brett Whalen as a director;
- Cultivation began at the Company's Niagara Facility (as further described below) in April 2018, with the first harvest expected to take place in the third quarter of 2018;
- On April 30, 2018, the Company appointed Stephen A. Smith to its Board of Directors and Scott M. Kelly stepped down from the Board of Directors;
- On May 8, 2018, Jason Redman was appointed as Chief Financial Officer of the Company, replacing Jim Macpherson;
- On May 22, 2018, the Company entered into an investment agreement with Inner Spirit Holdings Ltd. ("Inner Spirit") pursuant to which the Company and Inner Spirit agreed to acquire equity interests in each other and enter into a companion strategic alliance agreement for the retail distribution of Up Cannabis products and the creation and operation of Up Cannabis-branded customer lounges or "Experiential Hubs" in each of Inner Spirit's stores;
- On May 28, 2018, Newstrike's subsidiary, 1977121 Ontario Inc., sold all of the issued and outstanding shares of its wholly-owned subsidiary, Enderlein Nurseries Ltd. ("Enderlein"), which was previously identified as a non-core/non-strategic asset, to 10673242 Canada Inc., an unrelated third party, pursuant to a share purchase agreement dated May 25, 2018; and
- On June 12, 2018, Up Cannabis joined the Global Cannabis Partnership as a founding member, which has a mandate of creating a worldwide social responsibility standard for the safe and responsible production, distribution and consumption of legal adult-use cannabis.

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#### **Licensing**

- On January 5, 2018, Health Canada approved the licence amendment application for sales, thereby allowing Up Cannabis to sell cannabis in dried marihuana form to all authorized persons in accordance with the ACMPR from the Brantford Facility (as further described below);
- On March 29, 2018, Up Cannabis received a producer's licence to cultivate cannabis in respect of the Niagara Facility. This licence has a term of three years and permits production at the Niagara Facility by Up Cannabis of: dried and fresh marihuana; marihuana plants and seeds; cannabis in its natural form: cannabis resin; and cannabis oil (bottled);
- July 20, 2018, Up Cannabis applied for its excise tax permit under the Excise Act, 2001 (the "Excise Act"); and
- On June 28, 2018, Up Cannabis submitted its licence amendment application for sales from its Niagara Facility (as further described below).

#### **Branding – Up Cannabis**

- The Up Cannabis logo was redesigned and launched;
- The Company engaged the services of various creative agencies to assist in building the Up Cannabis brand; and
- The Company launched the Up Cannabis brand and conducted marketing activities to build the adult-use cannabis focused profile of the brand. Significant events include the Lift & Co. Cannabis Expo, the Juno Music Awards, The Bathhouse with The Tragically Hip (the "Hip"), the World Cannabis Congress, Swirl Toronto and the Unison Golf Tournaments (benefitting the Unison Benevolent Fund) in Toronto and Vancouver.

#### **Competition**

As at June 30, 2018, there are 149 licences to cultivate dried and fresh marihuana and cannabis oil for medical purposes. There are 52 Licensed Producers, including Up Cannabis, in Ontario. Up Cannabis intends to sell cannabis in all acceptable forms to authorized persons across Canada. As such, Up Cannabis believes that, distinctive branding and effective marketing initiatives, rather than geographic location, will provide the greatest competitive advantages. In addition, there remains a high barrier-to-entry for potential competitors as a result of:

- the capital intensity of the business;
- the specialized skills required;
- the burdens of regulatory compliance; and
- the developing nature of the regulatory environment for adult-use cannabis.

See also "*Risks and Uncertainties - Competition*".

#### **Employees**

As at the date hereof, Newstrike has ninety-two full-time employees, eight part-time employees and five consultants. Newstrike is dependent on the services of key executives, including the CEO and a small number of highly skilled and experienced executives and personnel. See also "*Risks and Uncertainties - Reliance on Management*".

### **Sales and Distribution Channels**

- The Company continues to be very focused on securing distribution channels for its products. The distribution models for cannabis varies across the provinces and Territories and include models ranging from wholly-owned and province-run distribution models to a hybrid model featuring provincial and private stakeholders and the related distribution channels.

### **Financing Activities**

#### **Bought Deal Financings**

- On January 30, 2018, the Company entered into an agreement with a syndicate of underwriters led by INFOR Financial Inc. ("INFOR") and Cormark Securities Inc. ("Cormark") and including Eight Capital and Haywood Securities Inc. (the "January Underwriters") pursuant to which the Company agreed to issue to the January Underwriters on a bought deal basis 60,610,000 Shares at \$1.32 and 60,610,000 common share purchase warrants at an exercise price of \$1.75 exercisable within 24 months following the closing date of the financing for aggregate gross proceeds of \$80,005,200 (the "January Financing"). The Company also granted an over-allotment option to the January Underwriters for a further 9,091,500 additional Shares at an exercise price of \$1.32 as well as a further 9,091,500 common share purchase warrants at an exercise price of \$1.75 exercisable within 24 months of the closing date for aggregate additional gross proceeds of \$12,000,780 (the "January Over-Allotment"). Finally, the Company issued 4,182,090 compensation common share purchase warrants to the January Underwriters at an exercise price of \$1.75.
- On February 16, 2018, the January Financing closed and on February 22, 2018 the January Over-Allotment was taken up. Total net proceeds from the Financing and January Over-Allotment received amounted to approximately \$86,000,000, after deductions for commissions and professional fees.
- On May 30, 2018, the Company entered into an agreement with a syndicate of underwriters co-led by Cormark and INFOR, as co-lead underwriters and joint bookrunners, Haywood Securities Inc. and Eight Capital (the "May Underwriters") pursuant to which the Company agreed to issue to the May Underwriters on a bought deal basis 60,000,000 units (each, a "Unit") of the Company at a price of \$0.75 per unit, for aggregate gross proceeds to the Company of \$45,000,000 (the "May Financing", and together with the January Financing, the "Financings"). Each Unit was comprised of one Share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one additional Share at a price of \$1.00 per share at any time within 60 months from the closing date of the financing, subject to adjustment in certain circumstances. The Company also granted an over-allotment option to the May Underwriters on a further 9,000,000 additional Units for aggregate additional gross proceeds of \$6,750,000 (the "May Over-Allotment"), exercisable for a period of 30 days following the closing date of the financing. Finally, the Company issued 4,140,000 compensation warrants to the May Underwriters, with each such compensation warrant entitling the holder thereof to acquire one Unit at an exercise price of \$0.75 per compensation warrant.
- On June 19, 2018, the May Financing closed, inclusive of the May Over-Allotment which was taken up in full. Total net proceeds from the May Financing and May Over-Allotment amounted to approximately \$48,400,000, after deductions for commissions and professional fees.

#### **Debt Conversion and Warrant Exercise**

- As noted above, on January 24, 2018, CanniMed elected to convert its debenture into 10,958,904 Shares at a deemed price of \$0.365 per Share. On February 13, 2018, CanniMed also exercised its warrants into 10,958,904 shares for gross proceeds of \$4,600,000.

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Repayment of Secured Debt Facility

- On February 15, 2018, the Secured Debt Facility was extended for one extra month by consent on the same terms and conditions with the lenders and became due and payable no later than March 15, 2018. No extension fee was charged to the Company and the extension was made on the proviso that repayment could occur any time prior to March 15, 2018, without penalty. On February 22, 2018, the Company repaid the loan plus accrued interest in full.

Subsequent Events

- Effective July 1, 2018, Up Cannabis Niagara Inc. was amalgamated with Up Cannabis;
- On July 5, 2018, the Company's wholly-owned subsidiary, Up Cannabis, entered into a definitive supply agreement with the Alberta Gaming, Liquor & Cannabis Commission ("AGLC") that is expected to result in a variety of Up Cannabis product sold via AGLC approved strategic retail partners and locations, and through the AGLC;
- On July 5, 2018, the Company's wholly-owned subsidiary, Up Cannabis, entered into a Memorandum of Understanding with the British Columbia Liquor Distribution Branch ("BCLDB") that is expected to result in a variety of Up Cannabis product sold via BCLDB-approved strategic retail partners and locations;
- On July 9, 2018, the Company announced that it changed its name from "Newstrike Resources Ltd." to "Newstrike Brands Ltd." and appointed Peter Hwang as its Chief Commercial Officer; and
- On July 31, 2018, the Company closed the Investment Agreement with Inner Spirit Holdings Ltd. described in the Operating Highlights above. See press release dated August 1, 2018 for details related to this transaction.

## **Discussion of Principal Operations**

Newstrike's cannabis business is primarily operated through its wholly-owned subsidiary, Up Cannabis. The ACMPR is the regulatory framework governing the activities of licensed producers of cannabis ("LP"), including the production, distribution, storage and sales of cannabis and related products in Canada.

Newstrike's Growth Strategy includes the development and marketing of branded cannabis products and is closely monitoring and, where applicable, contributing to the discussion with policy makers on the role branding will play and the limitations that may apply when the Cannabis Act and regulations come into force. On June 16, 2017, Newstrike officially renamed 8455562 Canada Inc., as "UP Cannabis Inc." thereby launching the Up Cannabis brand. The Company notes that LPs, which are currently the only entities permitted to supply the medical cannabis market, will also have the right to supply the Canadian adult-use market in terms of the Cannabis Act. The Company will continue its plan to migrate its ISO 9001:2015 certified quality management systems and Good Manufacturing Practice ("GMP")-ready standard operating procedures ("SOPs") it developed for the Brantford Facility to its expanding portfolio of production facilities. In doing so, management expects that Up Cannabis will continue to build cannabis supply of a consistent and premium quality. At the same time, in preparation for the legalization of adult-use cannabis, the Company continues to build on its relationship with the members of The Tragically Hip: both as investors in, and advisors to, the Company and to work with them to firmly position Up Cannabis as "Canada's cannabis brand".

Key to the successful execution of Newstrike's Growth Strategy is the development, expansion and cost-effective build-out and operation of production facilities capable of producing cannabis of a consistent quality and character to meet both the stringent regulatory requirements of the ACMPR and, as the law permits, all authorized consumers. Additionally, the identification and development of key sales and distribution channels is of critical importance to maximize the benefits of the Newstrike Growth Strategy. The following is an overview of the Company's production facilities and pertinent operational and financial information.

Newstrike, through Up Cannabis, operates cannabis production facilities with an aggregate of approximately 167,600 existing square feet of indoor and greenhouse production capacity of which:

- approximately 7,600 square feet is currently operating at or near full production capacity ("Brantford Facility"); and
- approximately 160,000 square feet is being retrofitted since obtaining its cultivation licence on March 29, 2018 and has begun production ("Niagara Facility").

The Company, through Up Cannabis, is licensed to:

- cultivate and process an unlimited amount of cannabis at the Brantford Facility;
- produce an unlimited amount of cannabis oils at the Brantford Facility; and
- sell cannabis in all authorized forms to all authorized persons in accordance with the ACMPR from the Brantford Facility only.

Under the ACMPR, Up Cannabis may also apply to have additional production locations/facilities licensed as "adjunct" facilities under an existing licence. Up Cannabis has already used such provision to licence the Niagara Facility for cultivation and intends to continue to rely on this section of the ACMPR as warranted.

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**Production Facilities**

The Company has two production facilities in Ontario:

- (i) the Brantford Facility; and
- (ii) the Niagara Facility.

**Brantford Facility**

The Brantford Facility is fully operational and licensed with an annual estimated production of 2,000 kg of dried cannabis. It was designed and engineered to permit the application of the same pharmaceutical-quality management-standards utilized by Canada's pharmaceutical manufacturers, to the production of cannabis in all acceptable forms. The Brantford Facility and the SOPs comply with the Good Production Practices standards mandated by the ACMPR and may facilitate compliance, as commercially warranted, with the GMP standards required for the production of narcotics and other pharmaceuticals, subject to the GMP requirements at such time. The quality management system at the Brantford Facility has been certified to ISO 9001:2015.

The Brantford Facility is currently configured into five, discrete grow-rooms, each of which can be completely quarantined from the rest of the facility to help prevent disease, molds and pest infestations from spreading, reducing the impact such risks present to agricultural operations. The Brantford Facility has two "mothering" and vegetative rooms, trimming and drying rooms, two discrete shipping rooms, a "level-8" vault for the storage of dried and finished product and, if required, an aggregate of approximately 1,800 square feet that can be repurposed for manufacturing, packaging and/or additional production facilities, all of which are supported and monitored by state-of-the-art automated hydroponic cultivation, climate, security and control systems with additional layers of redundancy and back-up to mitigate the impact of systems or power failure. Each area within the Brantford Facility is independently controlled and monitored, and each strain of cannabis produced in the Brantford Facility is subjected to rigorous and ongoing analytical testing.

**Niagara Facility**

In July 2017, the Company, through its subsidiary Up Cannabis Niagara Inc. (which amalgamated with Up Cannabis Inc. on July 1, 2018), acquired this greenhouse facility in an asset purchase transaction. Following the completion of an initial retrofit to satisfy the Health Canada requirements, an application for a licence to cultivate cannabis was made in late 2017.

The Niagara Facility is a fully-automated, modern "Dutch-Tray" 200,000 square foot greenhouse facility (of which approximately 160,000 square feet are dedicated to production) with finished administration, packaging and shipping/receiving areas, all situated on approximately 16.6 acres of land. Health Canada issued a producer's licence to cultivate on March 29, 2018 permitting the production of dried and fresh marihuana, marihuana plants and seeds, cannabis in its natural form, cannabis resin and cannabis oil to Up Cannabis for the Niagara Facility.

Management expects that the Niagara Facility will produce approximately 15,000 kg of dried cannabis upon completion of the greenhouse retrofit.

Assuming the complete build out of the Niagara Facility as is currently in progress, the complete potential near-term aggregate annual production will be approximately 30,000 kg of dried cannabis.

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#### **Branding "Up Cannabis"**

In its efforts to establish and build brand awareness and loyalty, effective January 12, 2017, HPI entered into a comprehensive licensing and promotional services agreement with the Hip and members of its management team (the "Hip Agreement") to collaborate and develop marketing initiatives to elevate the profile of (i) the Company generally, as well as (ii) its branded products. Pursuant to the Hip Agreement, HPI issued 3,000,000 shares of HPI with an issue price of \$1.00 per share to the members of the Hip and to third party beneficiaries as directed by the Hip as full satisfaction of (i) an up-front licensing fee, (ii) a non-refundable advance against four years future royalties and (iii) the exclusive right, subject to final approval from the Hip to:

- copy, display, distribute and otherwise use the names, likenesses and images of the Hip and each individual member;
- use the names, content and recordings of all of the Hip's songs in Canada, both on and in association with HPI's products and the marketing and promotion of HPI's products, including packaging and related merchandise; and
- to use the Hip's name and song names as strains of cannabis, extracts and derivatives in Canada.

The Hip Agreement also provides for ongoing royalties equal to 2.5% of the gross-revenue received by Up Cannabis from the sale of products bearing the brand or likeness the Hip.

## Results of Operations

### SELECTED SUMMARY OF QUARTERLY RESULTS

	Q2 2018 QTD (\$)	Q2 2017 QTD (\$)	% change	Q2 2018 YTD (\$)	Q2 2017 YTD (\$)	% change
Unrealized gain on changes in fair value of Biological Assets	1,098,557	-	-	1,995,377	-	-
Expenses	(9,911,843)	(1,134,994)	773%	(16,704,949)	(1,810,899)	822%
Other items	180,758	(7,322,460)	(102%)	9,170,358	(7,269,056)	(226%)
Net and comprehensive loss	(8,632,528)	(8,457,454)	2%	(5,539,214)	(9,079,955)	(39%)
Net and comprehensive loss per share (basic and diluted)	(0.02)	(0.06)	(69%)	(0.01)	(0.10)	(88%)

#### Cost of Sales / Biological Assets

The Company's regulatory licence permits it to sell cannabis to all eligible persons, as defined under the ACMPR. As the Company is focused solely on the adult-use cannabis market, no sales have yet been made and as a result, all of the costs of production have been accounted for as inventory of cannabis plants in the pre-harvest stage of production ("Biological Assets"). Production costs consist of energy and utility costs, nutrients, raw materials, and testing, together with any direct material and direct labor costs. Cost of sales will be reflected in the gross margin calculation, together with any revaluation for the mark-to-market of the Biological Assets, pursuant to IFRS IAS 41.

For the three and six months ended June 30, 2018, the Company recognized a gain of \$1,098,557 (June 30, 2017 - \$Nil) and \$1,995,377 (June 30, 2017 - \$Nil), related to the fair value adjustments of Biological Assets.

	June 30, 2018 (\$)	June 30, 2017 (\$)
Biological Assets, beginning of year	1,393,345	-
Production of Biological Assets	2,528,408	824,296
Change in fair value due to biological transformation	1,995,377	-
Transfers to inventory upon harvest	(4,158,401)	-
Biological Assets, end of period	1,758,729	824,296

The Company commenced the process of growing medical cannabis in January 2017. The Company did not receive its licence to sell under the ACMPR until January 5, 2018, and as a result, no change in fair value of Biological Assets was recorded during the six months ended June 30, 2017. All plants are harvested for the sale of consumable product and take approximately fourteen to sixteen weeks to grow prior to harvest.

The significant assumptions used in determining the fair value of Biological Assets are as follows:

- wastage of plants based on their various stages of biological transformation;
- expected yields of each type of Biological Asset;
- percentage of costs incurred at various stages of the biological transformation compared to the total costs are used to estimate the fair value of each type of Biological Asset;
- fair value less cost to sell at the point of harvest; and
- percentage of costs incurred for each stage of plant growth was estimated; and amounts of depreciation and overhead incurred and allocated to Biological Assets.

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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 of Biological Assets.

**Wages and Benefits**

Wages and benefits expense consists of expenditures on head office staff in Oakville, Ontario, and management staff at our production facilities. The Company's overall head count is approximately ninety-two team members and continues to grow quickly. For the three and six months ended June 30, 2018, wages and benefits expenses were \$1,769,010 (June 30, 2017 - \$189,428), and \$2,390,449 (June 30, 2017 - \$265,739), respectively. The increases are primarily due to additions to the management team as the Company continues to grow and strengthen its bench strength to execute on Newstrike's Growth Strategy.

**Rent and Facilities**

For the three and six months ended June 30, 2018, rent and facilities expenses totaled \$38,400 (June 30, 2017 - \$30,553) and \$108,561 (June 30, 2017 - \$30,553), respectively. These costs are predominantly for the rent paid for the Corporate head office. The Company started renting space in a location no longer being used in the second quarter of 2017 before moving to the Oakville head office in the third quarter of 2017.

**Consulting and Professional Fees**

For the three and six months ended June 30, 2018, consulting and professional fees totaled \$927,877 (June 30, 2017 - \$479,933) and \$2,204,718 (June 30, 2017 - \$786,542), respectively. The increase in expenditures for the three months ended June 30, 2018 was predominantly as a result of recruiting fees for key management and director appointments and for government relations advisors. Additional expenditures incurred during the six months ended June 30, 2018 were primarily related to the termination of the Arrangement Agreement with CanniMed, and for fees that were expensed related to the January Financing, as further discussed in the Operational Highlights section above.

**General and Administrative Expenses**

For the three and six months ended June 30, 2018, general and administrative expenses totaled \$816,621 (June 30, 2017 - \$63,793) and \$1,275,320 (June 30, 2017 - \$145,983), respectively. Costs have increased significantly as the Company transitioned away from being a mining exploration company to operationalizing its current cannabis-focused business.

For the three months ended June 30, 2018, costs related to investor relations and TSXV filing services increased by \$402,316; travel related costs increased by \$118,387 incurred on sales, marketing and operational activities; director fees of \$86,062 were incurred and other corporate costs increased by \$146,061. For the six months ended June 30, 2018, costs related to investor relations and TSXV filing services increased by \$536,934; travel related costs increased by \$219,462; information technology costs increased by \$90,516; director fees of \$86,062 were incurred and other corporate costs increased by \$196,363.

## **NEWSTRIKE BRANDS LTD.**

### **Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018**

**Dated – As at August 9, 2018**

#### **Sales, Marketing and Business Development Expenses**

Branding, marketing and promotional expenses consist of expenditures on advertising, promotion, market awareness and branding. For the three and six months ended June 30, 2018, branding, marketing and promotional expenses were \$2,729,604 (June 30, 2017 - \$282,787) and \$3,266,461 (June 30, 2017 - \$416,501), respectively. Increased expenses period over period, can be attributed to increased expenditures on designing and procuring branded materials, conducting marketing and executing awareness campaigns. Significant events in 2018 included the Lift & Co. Cannabis Expo, the Juno Music Awards, The Bathhouse with the Hip, the World Cannabis Congress, Swirl Toronto and the Unison Golf Tournaments in Toronto and Vancouver. Preparatory costs were also incurred for the hosting of the Up North event in Creemore, Ontario held on July 3, 2018.

#### **Share-based Compensation**

The Company has an established stock option plan under which options to purchase Shares may be granted to directors, officers, consultants and key employees. For the three and six months ended June 30, 2018, the share-based compensation expense was \$3,454,246 (June 30, 2017 - \$Nil) and \$7,194,855 (June 30, 2017 - \$Nil), respectively. The 2018 expenses are a result of the vesting of several of the options granted in July 2017 and later. Additional share-based compensation amounts will be expensed as options vest in future periods.

#### **Other Items**

For the three months ended June 30, 2018, other items resulted in a gain of \$180,758 (June 30, 2017 loss of \$7,322,460). The gain during the current period was a result of the divestiture of Enderlein for a gain of \$139,321 and interest income of \$175,153, partially offset by accretion expense and the unrealized loss recognized on a strategic investment made in another cannabis business. The loss in the prior period was due to the Listing Fee costs recognized as a result of the Transaction (\$7,099,152), accretion and interest expenses, and unrealized losses on marketable securities.

For the six months ended June 30, 2018, other items resulted in a gain of \$9,170,358 (June 30, 2017 loss of \$7,269,056). \$9,500,000 of the gain was from the Termination Fee, as further described in the Operational highlights, \$139,321 was from the sale of Enderlein and interest income was \$224,506. These were partially offset by the unrealized loss recognized on a strategic investment made in another cannabis business and accretion and interest expenses. The loss in the prior year was due the Listing Fee costs (\$7,099,152), accretion and interest expenses, and unrealized losses on marketable securities.

Accretion and interest expenses for the three and six months ended June 30, 2018 were \$27,660 (June 30, 2017 - \$200,808) and \$614,648 (June 30, 2017 - \$147,404), respectively. The accretion and interest expenses are reflective of the payment of all of the debt facilities in full during the first quarter of 2018, as well as the purchase of the equipment being leased.

***See also "Liquidity and Capital Resources" section below for discussion on the use of proceeds from financings.***

***See also "Discussion of Principal Operations" above and "Risks and Uncertainties" below.***

**NEWSTRIKE BRANDS LTD.****Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018****Dated – As at August 9, 2018****Summary of Quarterly Information**

A summary of selected information for each of the eight most recent quarters is set out below.

<b>Three months ended</b>	<b>Total revenue (\$)</b>	<b>Net Income (\$)</b>	<b>Basic profit (loss) per Share (\$)</b>	<b>Diluted profit (loss) per Share (\$)</b>
June 30, 2018	Nil	(8,632,528)	(0.02)	(0.02)
March 31, 2018	Nil	3,093,313	0.01	0.01
December 31, 2017	Nil	(537,117)	(0.01)	(0.01)
September 30, 2017	Nil	(4,365,878)	(0.01)	(0.01)
June 30, 2017	Nil	(8,457,454)	(0.06)	(0.06)
March 31, 2017	Nil	(729,309)	(0.02)	(0.02)
December 31, 2016	Nil	(629,788)	(0.02)	(0.02)
September 30, 2016	Nil	(74,802)	(0.00)	(0.00)

Prior to the quarter ended December 31, 2016, operations were minimal. During the three months ended December 31, 2016, the Company obtained its licence to cultivate cannabis from Health Canada and entered into various agreements including a corporate reorganization to create a holding company structure for itself and the proposed Transaction, all of which resulted in substantial increases in professional fees and general operating expenses as well as specific branding and marketing initiatives.

Results have varied between the 2017 quarters principally because of, (i) the evolution of the move towards legalization of the adult-use cannabis market, (ii) increased marketing and branding expenses in respect of such activity during the last three quarters, (iii) completion of the Transaction and the resulting listing expense in May 2017, (iv) share-based compensation expense commencing in July 2017 and increasing as options vest, (v) an impairment charge against the licence application in December 2017 and a gain was subsequently recognized in the second quarter of 2018 with the Enderlein sale, (vi) increased salaries and wages as the organization builds out its infrastructure, (vii) debt and financing costs associated with the previously utilized short-term debt facilities and (viii) the professional fees to effect all of the activity. It is anticipated that certain costs are non-recurring and/or will normalize over time.

Results have varied in 2018 predominantly due to the Termination Fee received in the first quarter of 2018.

**NEWSTRIKE BRANDS LTD.****Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018****Dated – As at August 9, 2018****Liquidity and Capital Resources**

The Company believes it has sufficient liquidity to support continued operations and to meet its short-term liabilities and commitments as they become due.

As at June 30, 2018, cash was \$124,487,713 (December 31, 2017 - \$811,028). At June 30, 2018, the Company has working capital of \$134,126,304 (December 31, 2017 – (deficiency of \$3,754,366)).

On January 24, 2018, the Arrangement Agreement was terminated and the Company received the Termination Fee.

On February 13, 2018, 10,958,904 warrants were exercised for gross proceeds to the Company of approximately \$4,600,000.

On February 22, 2018, the Company closed the January Financing for net proceeds to the Company of approximately \$86,000,000, including an overallotment taken up for net proceeds of approximately \$11,200,000. On June 19, 2018, the Company closed the May Financing for net proceeds to the Company of approximately \$48,400,000, including an overallotment taken up for net proceeds of approximately \$6,300,000. See below for a summary of these financings and their allocated use of proceeds. A total of approximately \$134,400,000 in net proceeds was raised during the six months ended June 30, 2018.

Offering	Closing date	Gross Proceeds	Net Proceeds
69,701,500 units issued for \$1.32, each unit consisting of one common share and one warrant exercisable into one common share @ \$1.75 per warrant	February 22, 2018	\$92,000,000	\$86,000,000
69,000,000 units issued for \$0.75, each unit consisting of one common share and one half common share purchase warrant, each whole warrant exercisable into one common share @ \$1.00 per common share purchase warrant	June 19, 2018	\$51,750,000	\$48,400,000

Offering – Closing date	Use of Proceeds	Previously disclosed allocation of Proceeds (\$)	Revised allocation of Proceeds (\$)	Amount Spent as at June 30, 2018 (\$)	Remaining Spend (\$)
February 22, 2018	Niagara Facility – Phase I retrofit	12,750,000	14,300,000	5,100,000	9,200,000
February 22, 2018	Niagara Facility – Phase II construction and Fit-out	17,500,000	N/A	1,400,000	16,100,000
February 22, 2018	Brantford Facility – Oil Production Equipment and Fit-out	750,000	N/A	680,000	70,000
February 22, 2018	Debt Retirement	4,000,000	N/A	4,000,000	\$Nil
June 19, 2018	Strategic Opportunities	27,000,000	N/A	\$Nil	27,000,000
Totals		62,000,000	14,300,000	11,180,000	52,370,000

**NEWSTRIKE BRANDS LTD.****Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018****Dated – As at August 9, 2018**

Additional proceeds were allocated for the Niagara Facility – Phase I retrofit for the purposes of acquiring machinery and equipment without impacting any of the Company's other business objectives and milestones. The Company continues to seek strategic opportunities to enhance its production portfolio, production capacity and distribution channels.

As at June 30, 2018, cash was expected to be sufficient to finance the Company's ongoing operations and capital programs. The Company may plan to raise additional funds through either equity or debt offerings to meet future capital needs.

**Cash Flow Statement**

<b>Summary Cash Flow Statement</b>	<b>Six months ended June 30, 2018 (\$)</b>	<b>Six months ended June 30, 2017 (\$)</b>
<b>Cash flows from (used in):</b>		
Operating activities before working capital changes	384,906	(1,806,802)
Changes in non-cash working capital	(2,160,997)	(448,419)
Operating activities	(1,776,091)	(2,255,221)
Investing activities	(8,884,127)	(65,454)
Financing activities	134,336,903	8,785,634
Increase in cash	123,676,685	6,464,959
Cash and cash equivalents, beginning of period	811,028	78,885
Cash and cash equivalents, end of period	124,487,713	6,543,844

**Operating Activities**

Cash flows used in operating activities were \$1,776,091 for the six months ended June 30, 2018 (June 30, 2017 - \$2,255,221). Operating activities were affected by the net change of (\$2,160,997) (June 30, 2017 - (\$448,419)) in non-cash working capital balances because of a net increase in other receivables of \$1,615,935 (June 30, 2017 - \$350,148) and Biological Assets of \$2,207,215 (June 30, 2017 - \$1,063,246) and other assets in the amount of \$176,486 (June 30, 2017 - \$102,808) and a net increase in accounts payable and other liabilities in the amount of \$1,838,639 (June 30, 2017 - \$1,067,783) for the six months ended June 30, 2018.

As noted above, the Company has enhanced its liquidity through the recent Financings and debt financing/conversions. These were the principal sources of operating cash until the Company can affect sales through its licence amendment for sales and when the Cannabis Act comes into force on October 17, 2018. The Company is considering all possible revenue streams including retail and wholesale distribution of cannabis, and mostly maintaining its initial strategic focus on the adult-use cannabis market.

**Investing Activities**

Net cash used in investing activities during the six months ended June 30, 2018 was \$8,884,127 (June 30, 2017 - \$65,454), which was mostly for advance deposits made and actual expenditures made on capital equipment for the retrofit and expansion of the Niagara Facility, as well as investments in strategic investments made in other cannabis businesses, which were partially offset by the proceeds from the divestiture of Enderlein.

**Financing Activities**

Cash of \$134,336,903 was generated from the Company's financing activities during the six months ended June 30, 2018 (2017 - \$8,785,634).

**NEWSTRIKE BRANDS LTD.**  
**Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018**  
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**Liquidity**

At June 30, 2018, the Company had sufficient cash on hand to meet its current financial obligations as they came due. Liquidity is primarily influenced by the operational performance of its production facilities, the level of spending on its branding and marketing initiatives and capital programs, the ability to obtain external sources of financing, and results of any future sales of product. It is the Company's estimate that it has sufficient cash on hand at this time to meet its current and future working capital requirements.

The Company monitors its liquidity on a continuous basis to ensure there is sufficient capital to meet business requirements, provide adequate returns to shareholders, and benefits to other stakeholders. The Company manages the capital structure considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may, where necessary, control the amount of working capital, pursue financing and manage the timing of its capital, branding and marketing expenditures.

## **Capital Management**

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new Shares, repurchasing outstanding Shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company's shareholder's equity comprises of share capital, reserves and deficit, which at June 30, 2018 totaled \$157,500,117 (December 31, 2017 - \$12,577,446).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to operating and growth plans.

The Company's capital management objectives, policies and processes have remained unchanged during the six months ended June 30, 2018. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSXV, which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of June 30, 2018, the Company is compliant with TSXV Policy 2.5.

**NEWSTRIKE BRANDS LTD.**  
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## Share Capital

The authorized share capital of Newstrike consists of an unlimited number of Shares. As at August 9, 2018, the Company had 553,997,185 issued and outstanding Shares.

At June 30, 2018, the Company had 35,759,579 options outstanding, each exercisable to acquire one Share, as follows:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Remaining Contractual Life (years)</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>
July 25, 2020	\$0.38	2.07	20,526,347	11,175,731
March 29, 2021	\$1.05	2.75	2,000,000	-
April 16, 2021	\$1.06	2.80	1,400,000	-
April 27, 2021	\$1.02	2.83	1,000,000	1,000,000
May 8, 2021	\$1.00	2.84	2,100,000	1,050,000
June 25, 2021	\$0.66	2.99	2,538,232	1,238,232
December 20, 2021	\$0.20	3.48	320,000	320,000
February 23, 2023	\$1.10	4.65	4,750,000	4,750,000
June 25, 2023	\$0.66	4.99	1,125,000	1,125,000
		<b>2.72</b>	<b>35,759,579</b>	<b>20,658,963</b>

At June 30, 2018, the Company had 113,779,840 share purchase warrants outstanding, each exercisable to acquire one Share, as follows:

<b>Date issued</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Number of warrants outstanding</b>
September 20, 2016	September 20, 2021	\$0.075	1,256,250
February 16, 2018	September 21, 2020	\$ 1.75	60,610,000
February 22, 2018	February 21, 2020	\$ 1.75	13,273,590
June 19, 2018	June 19, 2023	\$ 1.00	34,500,000
June 19, 2018	June 19, 2020	\$ 0.75	4,140,000
			<b>113,779,840</b>

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## Statement of Financial Position

Select Financial Position Data as at	June 30, 2018 (\$)	December 31, 2017 (\$)	% Change
Total Assets	163,204,487	24,881,426	556%
Current Liabilities	4,851,575	10,822,955	(55)%
Non-Current Liabilities	852,795	1,481,025	(42%)
Shareholder’s Equity	157,500,117	12,577,446	1152%

### Assets

Newstrike’s assets are comprised of cash and cash equivalents, inventory, Biological Assets, miscellaneous receivables, intangibles and property, plant and equipment. The substantial increase in total assets to \$163,204,487 as at June 30, 2018 from December 31, 2017 of \$24,881,426 is due primarily from the cash raised through the Financings.

### Liabilities

Current liabilities were \$4,851,575 as at June 30, 2018, a substantial decrease of 55% over December 31, 2017 of \$10,822,955 due to the Company repaying the secured loan and convertible debentures which were classified as current liabilities.

Non-Current liabilities were \$852,795 as at June 30, 2018, a decrease of 42% over December 31, 2017 of \$1,481,025, which is a result of the Company repaying its finance lease obligations during the year.

### Shareholder’s Equity

Shareholder’s equity has increased to \$157,500,117 as at June 30, 2018 from \$12,577,446 as at December 31, 2017 as a result of the Financings and option and warrant exercises. Additionally, reserves have increased as a result of vesting of stock options granted during the current and prior periods and the issuance of warrants attached to the Financings completed during the six months ended June 30, 2018. The accumulated deficit now stands at \$21,386,904.

## Off-Balance Sheet Arrangements

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

**NEWSTRIKE BRANDS LTD.****Management’s Discussion & Analysis for the Three and Six Months Ended June 30, 2018****Dated – As at August 9, 2018****Related Party Transactions**

The remuneration of directors and key management personnel during the six months ended June 30, 2018, is set out below:

	June 30, 2018	June 30, 2017
Consulting fees (included in professional fees)	\$ 274,167	\$ 72,000
Salaries and benefits	542,284	222,917
Share based payments	3,212,119	-
	\$ 4,028,570	\$ 294,917

In addition to the above, the Company has entered into the following transactions with related parties:

- Provision of Corporate Secretarial and Financial Reporting Services by Macpherson & Associates; and
- Provision of Strategy Services by Nugen Capital Corp (“Nugen”).

The amounts paid to each of Macpherson & Associates and Nugen are shown below.

Names	Six months Ended June 30, 2018 (\$)	Six months Ended June 30, 2017 (\$)
Macpherson & Associates <sup>(i)</sup>	112,500	37,500
Nugen <sup>(ii)</sup>	161,667	34,500
<b>Total</b>	274,167	72,000

(i) The former Chief Financial Officer of the Company is the President and principal shareholder of Macpherson & Associates. Fees are related to the Chief Financial Officer function and accounting services provided by Macpherson & Associates. As at June 30, 2018, Macpherson & Associates was paid in full for all services provided.

(ii) On February 1, 2017, Nugen, a company controlled by Peter Hwang, a director, entered into a consulting agreement to provide services in respect of the development and execution of the Company’s marketing and branding initiatives and to map out its strategy going forward in anticipation of the legalization of the adult-use market for cannabis. Effective July 9, 2018, Peter Hwang was appointed as the Chief Commercial Officer of the Company.

## Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Management does not believe that the Company is exposed to significant interest, currency or credit risk arising from these financial instruments.

### List of Significant Financial Instruments

	As at June 30, 2018 (\$)	As at December 31, 2017 (\$)
<b>Financial Assets:</b>		
Cash and cash equivalents	124,487,713	811,028
Enderlein receivable	1,025,000	-
Marketable securities	980,000	-
Loan receivable	-	88,602
<b>Financial Liabilities:</b>		
Amounts payable	2,683,876	2,343,091
Due to shareholder	-	10,170
Convertible debenture	-	3,290,617
Loan payable	-	4,011,408

### Financial Risk

The Company's activities may expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and commodity and equity price risk).

Risk management is developed and executed by the Company's management team and overseen by the Audit Committee pursuant to policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

#### (i) 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 receivable. 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 receivable is due from the Canadian Federal Government, from which management believes the risk of loss to be minimal.

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company currently generates cash flow primarily from its financing activities. As at June 30, 2018, the Company had cash of \$124,487,713 (December 31, 2017 - \$811,028) to settle current liabilities of \$4,851,575 (December 31, 2017 - \$10,822,955). The Company's financial liabilities are comprised of shorter term payables subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity. Management believes the cash resources available will be sufficient to support the Niagara Facility expansion and ongoing operations. Please also see "Liquidity and Capital Resources" section above.

(iii) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices.

(a) Interest Rate Risk

The Company's current policy is to invest excess cash in certificates of deposit issued by a Canadian chartered bank with which it keeps its bank accounts. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its Canadian chartered bank. As at June 30, 2018, the Company has surplus cash which was not allocated to operational or capital project requirements.

In 2018, the Company has placed excess funds in certificates of deposit on 90-day term deposit rates.

(b) Foreign Currency Risk

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

**Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following market risk movements are reasonably possible over a twelve-month period, but do not impact the operations or the liquidity of the Company:

- (i) the Company's cash balances are not exposed to material interest rate risk; and
- (ii) the Company does not hold any material balances receivable or payable in foreign currencies to give rise to exposure to foreign exchange risk.

## **Risks and Uncertainties**

### ***Reliance on Licence***

Up Cannabis' ability to grow, store and sell cannabis in Canada is dependent on the continued good standing as an LP. Failure to maintain or comply with the requirements of its licence would have a material adverse impact on the business, financial condition and operating results of Newstrike. The licence expires on December 19, 2020. Although the Company believes it will meet the requirements of the ACMPR for extension of such licence, there can be no guarantee that Health Canada will extend or renew such licence or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms, or other terms that may be acceptable to Newstrike or at all. Should Health Canada not extend or renew such licence or should it renew such licence on alternate terms, the business, financial condition and results of the operation of Newstrike could be materially adversely affected.

In addition, Up Cannabis will, as the need arises, apply for all necessary licences, including any approvals required to operate ancillary/adjunct site locations, to carry on the activities it expects to conduct in the future. However, the ability of Newstrike to obtain, sustain or renew any such licences on acceptable terms is subject to changes in regulations and policies and at the discretion of the applicable authorities. Any loss of interest in any such required licence, or the failure of any governmental authority to issue or renew such licences upon acceptable terms, could have a material adverse impact.

### ***Regulatory Risks***

The activities of Newstrike's wholly-owned subsidiary, Up Cannabis, are subject to governmental regulation, particularly by Health Canada and its Office of Medical Cannabis. Achievement of Newstrike's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. Newstrike cannot predict the time required to secure all appropriate regulatory approvals, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of Newstrike.

The ACMPR was established in August 2016 and is being replaced by the Cannabis Act in October 2017. As such, revisions to the regime could be implemented which could have an impact on operations. There may also be uncertainty regarding the interpretation of certain regulatory provisions by the regulator. Any such revisions or uncertainties could significantly reduce the addressable market and could materially and adversely affect the business, financial condition and results of operations of Newstrike.

### ***Change in Laws, Regulations and Guidelines***

Newstrike's operations are subject to a variety of laws, regulations and guidelines relating to the manufacturing, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. While to the knowledge of Newstrike's management, Newstrike is currently in compliance with all such laws in all material respects, changes to such laws, regulations and guidelines due to matters beyond the control of Newstrike may cause adverse effects to Newstrike's operations.

On June 30, 2016, the Canadian Federal Government established the Task Force on Cannabis Legalization and Regulation (the "Task Force") to seek input on the design of a new system to legalize, strictly regulate and restrict access to adult-use cannabis. On December 13, 2016, the Task Force completed its review and published a report outlining its recommendations.

On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposed the enactment of the

## **NEWSTRIKE BRANDS LTD.**

### **Management's Discussion & Analysis for the Three and Six Months Ended June 30, 2018**

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Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use. On June 20, 2018, the Cannabis Act was passed in Parliament and on June 21, 2018, it was given royal assent. The Cannabis Act is not yet in force, and it is unknown how the regulatory changes will be implemented with respect to certain product categories. The date of the Cannabis Act coming into force is October 17, 2018. In addition, there is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult-use purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the opportunities for growth anticipated by the Company.

On November 10, 2017, the Canadian Federal Government proposed that federal tax on cannabis for adult-use purposes should not exceed \$1 per gram or 10% of the producer's price, whichever is higher, with retail sales taxes levied on top of that amount. The Canadian Federal Government introduced Bill C-74, which proposes amendments to the Excise Act, which provides for, inter alia, the aforementioned cannabis-related taxes. In addition, Health Canada launched a 30-day consultation on a proposed cost recovery regime for cannabis on July 12, 2018 for the following fees: (i) screening licence applications; (ii) conducting security screenings; (iii) reviewing applications to import or export cannabis for scientific or medical purposes; and (iv) an annual regulatory fee of a proposed 2.3% of revenue for non-medical cannabis producers. On July 18, 2018, the province of Manitoba announced a social responsibility fee of 6% of revenue from adult-use cannabis sales payable by all provincially licensed cannabis retailers commencing in 2019. The cumulative impact of fees and taxes by Provincial and Federal Governments for adult-use cannabis is unknown as the applicable regulatory regimes are not yet in force.

#### ***Limited Operating History***

The Company has yet to generate revenue from the sale of products. Newstrike is therefore subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Newstrike will be successful in achieving a return on shareholders' investment, and the likelihood of success must be considered in light of the early stage of operations.

#### ***Reliance on Limited Production Capacity***

To date, Newstrike's activities and resources have been primarily focused on the Brantford Facility. As a result, adverse changes or developments affecting this facility could have a material and adverse effect on Newstrike's business, financial condition and prospects. As noted above, on March 29, 2018 the Niagara Facility obtained approval from Health Canada to cultivate cannabis. A delay in the retrofit, construction or additional licensing of the Niagara Facility could have a material and adverse effect on Newstrike's business and financial condition due to additional cost and or lost sales due to the inability to access timely supply from this facility.

#### ***Risks Related to Medical Cannabis***

Cannabis is not an approved drug or medicine in Canada. The Canadian Federal Government does not endorse the use of cannabis, but Canadian courts have required reasonable access to a legal source of cannabis when authorized by a healthcare practitioner.

#### ***Reliance on Management***

The success of Newstrike is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on Newstrike's business, operating results or financial condition.

***Attraction and Retention of Key Personnel Including Directors***

Newstrike has a small management team and the loss of a key individual or inability to attract suitably qualified staff could have a material adverse impact on its business. Newstrike may also encounter difficulties in obtaining and maintaining suitably qualified staff in certain of the jurisdictions in which it conducts business. Newstrike will continue to ensure that management, directors and any key employees are provided with appropriate incentives; however, their services cannot be guaranteed.

***Newstrike Losses***

Newstrike has incurred losses in recent periods. Newstrike may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, Newstrike expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If Newstrike's revenues do not increase to offset these expected increases in costs and operating expenses, Newstrike will not be profitable.

***Additional Financing***

The continued execution of the Newstrike Growth Strategy is dependent in part on the expansion of operations through the acquisition and construction of additional specialized facilities, including without limitation, the retrofit and build out of the Niagara Facility. There can be no assurance that the costs of such undertakings will not exceed those currently estimated by Newstrike. In addition, although Newstrike has now raised additional funding, it may require additional financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to Newstrike when needed or on terms which are acceptable. Newstrike's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit Newstrike's growth and may have a material adverse effect upon future profitability. Newstrike may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those they possess prior to such issuances. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for Newstrike to obtain additional capital and to pursue business opportunities, including potential acquisitions.

***Competition***

The production, sales and distribution of cannabis is increasingly competitive. Newstrike faces strong competition from other companies, many of which have greater financial resources, technical capabilities, and operational, manufacturing and marketing experience than Newstrike. As a result, Newstrike may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, Newstrike's revenues, operations and financial condition could be materially adversely affected.

In addition, because of the early stage of the cannabis industry in Canada, Newstrike expects to continue to face additional competition from new entrants. As the number of users of medical cannabis in Canada increases and retail sales for adult-use cannabis commences on October 17, 2018, the demand for products will increase, and Newstrike expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, Newstrike will require a continued high level of investment in branding, research and development, marketing, sales and customer support. Newstrike may not have sufficient resources to maintain branding, research and development, marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect its business, financial condition and results.

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Furthermore, synthetic substitutes for cannabis are being developed to mimic and replicate the effects of cannabis which may displace a portion of the adult-use cannabis market. Such synthetic substitutes may be less costly to produce and sell and may threaten the competitiveness of Newstrike's business.

***Management of Growth***

Newstrike may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Newstrike to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Newstrike to deal with this growth may have a material adverse effect on Newstrike's business, financial condition, results of operations and prospects.

***Risks Inherent in an Agricultural Business***

Newstrike's business involves the growing of an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and the application, use, and regulation of pesticides as well as similar agricultural risks. Although Newstrike grows its products indoors under climate-controlled conditions and carefully monitors the growing conditions with trained personnel, natural elements or production issues may arise which could have a material adverse effect on the production of its products.

Costs and obligations related to ensuring continuous compliance with environmental and employee health and safety matters is inherent in being a producer of agricultural products. Failure to maintain such compliance may result in additional costs for corrective measures, penalties or in restrictions on manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

***Reliance on Key Inputs***

Newstrike's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of Newstrike. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, Newstrike might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to Newstrike in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on its business, financial condition and operating results.

***Vulnerability to Rising Energy Costs***

Newstrike's growing operations consume considerable energy, making Newstrike vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of Newstrike and its ability to operate profitably.

***Transportation Disruptions***

Due to the perishable and premium nature of Newstrike's products, Newstrike will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on its financial condition and results of operations. Rising costs associated with the courier services Newstrike may use to ship its products may also adversely impact the business of Newstrike and its ability to operate profitably.

***Unfavourable Publicity or Consumer Perception***

Newstrike believes the cannabis industry in general is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of Newstrike's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the legal cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for Newstrike's products and the business, results of operations, financial condition and cash flows of Newstrike. Newstrike's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on Newstrike, the demand for Newstrike's products, and the business, results of operations, financial condition and cash flows of Newstrike. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of legal cannabis in general, or Newstrike's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

***Product Liability***

As a manufacturer and distributor of products designed to be consumed by humans, Newstrike faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of Newstrike's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of Newstrike's products alone or in combination with other medications or substances could occur. Newstrike may be subject to various product liability claims, including, among others, that Newstrike's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Newstrike could result in increased costs, could adversely affect Newstrike's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of Newstrike. There can be no assurances that Newstrike will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Newstrike's potential products.

***Product Recalls***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of Newstrike's products are recalled due to an alleged product defect or for any other reason, Newstrike could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Newstrike may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Newstrike has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of Newstrike's significant brands were subject to recall, the image of that brand and Newstrike as its owner could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Newstrike's products and could have a material adverse effect on the results of operations and financial condition of Newstrike. Additionally, product recalls may lead to increased scrutiny of Newstrike's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***Dependence on Suppliers and Skilled Labour***

The ability of Newstrike to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Newstrike will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by Newstrike's capital expenditure program may be significantly greater than anticipated by Newstrike's management, and may be greater than funds available to Newstrike, in which circumstance Newstrike may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of Newstrike.

***Difficulty to Forecast***

Newstrike must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on its business, results of operations and financial condition.

***Operating Risk and Insurance Coverage***

Newstrike has insurance to protect its assets, operations and employees. While Newstrike believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which Newstrike is exposed. In addition, no assurance can be given that such insurance will be adequate to cover Newstrike's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If Newstrike were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if Newstrike were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

### ***Potential Conflicts of Interest***

Some of Newstrike's directors are also directors and/or officers of other reporting and non-reporting issuers. To the knowledge of the directors and officers of Newstrike, there are no existing conflicts of interest between Newstrike and any of these individuals. Situations may however arise where conflicts do arise. Any conflicts will be subject to and governed by the laws applicable to directors' and officers' conflicts of interest. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the Company's directors are required to act honestly, in good faith and in the best interests of Newstrike.

### ***Litigation***

Newstrike may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which Newstrike becomes involved be determined against Newstrike, such a decision could adversely affect Newstrike's ability to continue operating and the market price for the Shares and could use significant resources. Even if Newstrike is involved in litigation and wins, litigation can redirect significant company resources.

### ***Volatile Stock Price***

The market price of the Shares may be subject to wide fluctuations in response to many factors, including variations in its operating results, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in business prospects, general economic conditions, legislative changes, and other events and factors outside of its control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Shares.

### ***Environmental and Employee Health and Safety Regulations***

Newstrike's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Newstrike will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Newstrike's operations or give rise to material liabilities, which could have a material adverse effect on its business, results of operations and financial condition.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

***TSXV Restrictions on Business***

As a condition to initially listing the Shares on the TSXV pursuant to the Transaction, the TSXV required that the Company deliver an undertaking (the "Undertaking") confirming that, while listed on TSXV, the Company will only conduct the business of the production, sale and distribution of medicinal cannabis in Canada pursuant to one or more licences issued by Health Canada in accordance with applicable law, unless prior approval is obtained from TSXV. The Undertaking could have an adverse effect on the Company's ability to do business or operate outside of Canada and on its ability to expand its business into other areas, including the provision of non-medical cannabis in the event that the laws were to change to permit such sales, if Newstrike is still listed on the TSXV and remains subject to the Undertaking at such time. The Undertaking may prevent the Company from expanding into new areas of business when the Company's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of operations of the Company.

***Dividend Policy***

Newstrike has never paid dividends. Payment of any future dividends, if any, will be at the discretion of the Board of Directors after taking into account many factors, including operating results, financial condition, and current and anticipated cash needs.

## **Disclosure of Internal Controls**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the Financial Statements and (ii) the Financial Statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Filings ("NI 52-109"), the certificate required for venture issuers (as such term is defined in NI 52-109) does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed consolidated financial statements for external purposes in accordance with the Company's GAAP (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate required pursuant to NI 52-109. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of and annual filings and other reports provided under securities legislation.

## **Outlook**

A detailed discussion of the Company's business outlook may be found in the Annual Information Form of the Company dated May 30, 2018 and other related materials disclosed and available at [www.sedar.com](http://www.sedar.com).

More particularly, with sufficient funding now in place, the Company plans to execute the Newstrike Growth Strategy by (i) increasing production capacity, (ii) continue brand building and marketing activities (iii) attract and retain quality people to the Company, (iv) establish distribution channels for its products and (v) seeking strategic opportunities for the organization to grow and enhance shareholder value.

### **(i) Increasing production capacity**

As the Niagara Facility has now received its cultivation licence, the Company intends to optimize its production capacity as soon as possible and add to its existing inventory of dried flower. Additionally, the site may be suitable for the development of an oil processing facility to develop product lines and capture additional segments of market share. Several important steps have been completed with respect to the Niagara Facility, including grading of the site and the excavation and pouring of concrete footings. The Niagara Facility is currently cultivating plants and is holding some of the dried flower inventory that was harvested at the Brantford Facility.

### **(ii) Building the "Up" Brand**

The Company attended various industry events, music festivals and presented at a number of industry conferences across the country as discussed in the Operation Highlights section above. Continued promotional activity is subject to applicable legislation in the Cannabis Act.

### **(iii) Attract and Retain Talent**

As the organization grows the Company will continue to focus on hiring suitable talent to add to its bench strength and absorb the additional workload required to build the organization.

### **(iv) Sales and Distribution Channels**

Subsequent to the end of the second quarter of 2018, the Company has secured supply agreements with the liquor boards of Alberta and British Columbia, and the Company is very focused on securing distribution channels for its product lines in other provinces of Canada.

### **(v) Strategic Opportunities**

In order to maximize shareholder value, the Company will continue to pursue vertical and horizontal strategic opportunities in this rapidly developing sector.

For more information, please refer to the "Risks and Uncertainties" section above.

## **Additional Disclosure for Venture Corporations**

Set forth below is a breakdown of the major operational costs incurred by the Company for the following periods:

<b>Details</b>	<b>Six months ended June 30, 2018 (\$)</b>	<b>Six months ended June 30, 2017 (\$)</b>
<b>Expenses</b>		
Advertising and promotion	2,551,974	241,504
Amortization	264,585	165,581
Branding, web design	714,487	174,997
Consulting	1,034,546	302,158
Filing fees	424,274	-
Director fees	86,062	-
General and administrative expenses	108,116	76,790
Insurance	55,447	6,292
Investor relations	183,165	14,434
Meals and entertainment	41,233	-
Professional fees	1,170,172	484,384
Rent	108,561	30,553
Repairs and maintenance	65,448	-
Wages and benefits	2,390,449	265,739
Share-based payments	7,194,855	-
Site assessment consulting	11,675	18,550
Telecommunications and utility	90,516	13,352
Training and development	19,256	-
Transfer agent	11,899	-
Travel	163,560	16,565
Vehicle expense	14,669	-
<b>Total expenses</b>	<b>16,704,949</b>	<b>1,810,899</b>

## **Additional Information**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

There have been no changes in accounting policies in the six months ended June 30, 2018.