Newstrike Brands Ltd.

(formerly Newstrike Resources Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED

DECEMBER 31, 2018

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 months and year ended December 31, 2018. The information in this MD&A is current as of March 25, 2019 and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018 (the "Financial Statements").

The Financial Statements 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 include the accounts of the Company and its subsidiaries, 1977121 Ontario Inc. (100% owned), UP Cannabis Inc. ("Up Cannabis") (formerly 8455562 Canada Inc.) (100% owned) and Neal Up Brands Inc. (60% owned).

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of Canadian dollars, except share and per share amounts, or as otherwise stated. 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 became a licensed producer of cannabis and related products under the *Access to Cannabis for Medical Purposes Regulations* (Canada) (the "ACMPR") on December 19, 2016 and is subject to its successor legislation the *Cannabis Act, 2018*, S.C. 2018, c. 16 and its regulations (the "Cannabis Act").

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.

Further information about the Company and its operations is available on Newstrike's website at www.newstrike.ca and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at 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 and provincial laws and 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 additional formats of adult-use cannabis; the availability and renewal 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; 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, supply and pricing 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 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 months and year ended December 31, 2018, Newstrike continued to focus primarily on the development and execution of Newstrike's growth strategy focused on adult-use cannabis. Strengthened by the financings closed in the first half of 2018, Newstrike's financial results demonstrated strong progress in the execution of its growth strategy. The Company has executed certain supply agreements and recorded approximately $8.9 million in revenue for sales of dried cannabis. Furthermore, the Company's expansion of the Niagara Facility continues to be on track and its aggregate inventory and cannabis in the pre-harvest stage ("Biological Assets") continues to increase.

Operational Highlights

For the Three Months Ended December 31, 2018

- The Company recognized sales of cannabis to the adult-use and wholesale markets in excess of $5.3 million;
- On December 11, 2018, the Company completed its acquisition of a minority interest in Neal Brothers Inc. and its incorporation of a joint venture entity with Neal Brothers Inc. for the development of specialty food products which will be infused, derived or otherwise include cannabis;
- On December 12, 2018, the Company received initial purchase orders from PEI Cannabis Management Corporation (PEICMC) for adult-use cannabis products; making it the sixth Canadian province with which the Company has announced supply agreements with; and
- On November 13 2018, Sean Byrne was appointed as Chief Financial Officer of the Company, replacing Jason Redman.

For the Year Ended December 31, 2018

- The Company recognized its first ever sales of cannabis to the adult-use and wholesale markets in excess of $8.9 million;
- 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 16, 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 $4.6 million;
- Raised approximately $134.4 million 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 and the first harvest took 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 22, 2018, the Company entered into an investment agreement (the "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. The Company paid $1.125 million in cash and issued 1,250,000 common shares and 1,125,000 common share purchase warrants exercisable at $0.99 for 2 years in exchange for 15,000,000 common shares and 7,500,000 common share purchase warrants

exercisable at $0.30 for two years of Inner Spirit;

- 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;
- 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;
- On July 1, 2018, Up Cannabis Niagara Inc. amalgamated with Up Cannabis;
- 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;
- On July 31, 2018, the Company closed its investment in and strategic alliance agreements with Inner Spirit Holdings, the parent company of Spirit Leaf, an Alberta-based cannabis retail franchisor; and
- On September 11, 2018, the Company announced its graduation from a Tier 2 to a Tier 1 issuer on the TSXV.

Sales and Distribution Channels

- 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 August 21, 2018, the Company entered into a cannabis master agreement with the Ontario Cannabis Retail Corporation;
- On August 24, 2018, the Company announced that it was selected by the Nova Scotia Liquor Corporation to be a supplier of cannabis;
- On September 12, 2018, the Company was notified by the Saskatchewan Liquor & Gaming Authority that it has been cleared as a supplier of cannabis to Saskatchewan Retail and Wholesale Permit Holders;
- On December 11, 2018, the Company entered into a supply agreement to provide for the supply of cannabis trim and shake for extraction purposes; and
- On December 12, 2018, the Company announced its agreement with the PEICMC to be a supplier of cannabis.

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);
- On June 28, 2018, Up Cannabis submitted its licence amendment application for sales from its Niagara Facility (as further described below);
- On July 20, 2018, Up Cannabis applied for its excise tax permit under the Excise Act, 2001 (the "Excise Act") and was issued its permit on August 2, 2018;
- On September 6, 2018, the Company submitted its licence amendment application to Health Canada to allow for the sale of cannabis produced in its Niagara Facility;
- On September 14, 2018, Health Canada issued an amendment to the Company's licence, thereby allowing Up Cannabis to sell cannabis in dried marihuana form to all authorized persons in accordance with the

ACMPR from the Niagara Facility (as further described below) for cannabis produced from its Brantford Facility (as further described below);

- On November 12, 2018, Health Canada issued an amendment to the Company's licence, thereby allowing Up Cannabis to sell cannabis in dried marihuana form to all authorized persons in accordance with the ACMPR from the Niagara Facility (as further described below) for cannabis produced from its Niagara Facility (as further described below);
- Health Canada issued to Up Cannabis its licence under the Cannabis Act, effective November 10, 2018 for the Brantford Facility; and
- Health Canada issued to Up Cannabis its licence under the Cannabis Act, effective November 8, 2018 for the Niagara Facility.

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;
- 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 Bathouse 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. Up Cannabis also hosted Meet Up at Yonge-Dundas Square in Toronto, Ontario; Up North in Creemore, Ontario; and participated at the Cowboys Music Festival during the Calgary Stampede; Country Thunder in Calgary Alberta and in Craven, Saskatchewan; the Rock the Shore and Rifflandia festivals in Victoria, British Columbia; and the Canadian Country Music Awards in Hamilton, Ontario; and
- Between October 9 – 11, 2018, Up Cannabis took over Toronto's Yonge-Dundas Square for its official 'Meet Up' in anticipation of legalization. During the takeover, Up Cannabis educated people about the responsible use of cannabis through activities including free outdoor yoga classes, live visual art displays, breakdance battles, live recordings of the Into the Weeds Podcast, and free concerts by Canadian artists, including Meghan Patrick and members of The Tragically Hip.

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 million (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 million (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 million, 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 million (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 $6.75 million (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 within 24 months from the closing date of the financing.

- 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 $48.4 million, 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 $4.6 million.

Repayment of Secured Debt Facility

- On February 15, 2018, the Secured Debt Facility was extended for one 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.

Employees

As at the date hereof, Newstrike has 179 full-time employees, four part-time employees and three 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".

Competition

As at December 31, 2018, there are 124 licences to cultivate dried and fresh marihuana and cannabis oil for medical purposes. There are 67 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*".

Subsequent Events

- On January 8, 2019, the Company announced that it has been accepted by the Manitoba Liquor and Lotteries Corporation as an official supplier of adult-use cannabis to the province's private sector retailers;
- On January 24, 2019, the Company entered into a supply agreement to provide cannabis to Zyus Life Sciences, Inc.;
- On February 12, 2019, the Company entered into a supply agreement to acquire wholesale cannabis resin;
- On February 22, 2019 the Company closed a transaction to acquire a minority interest in a vape manufacturing company for cash consideration of $6.6 million;
- On March 12, 2019, the Company entered into a definitive arrangement agreement under which all of its outstanding common shares will be acquired by Hexo Corp. by way of plan of arrangement, subject to customary regulatory, court and shareholder approvals; and
- On March 25, 2019 the Company announced that it had entered into a supply agreement with Cannabis New Brunswick, marking Up Cannabis' eighth retail cannabis provincial market.

Discussion of Principal Operations

Newstrike's cannabis business is primarily operated through its wholly-owned subsidiary, Up Cannabis. The Cannabis Act is the regulatory framework governing the activities of, *inter alia*, 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 cultivation and development of branded cannabis products targeting the Canadian adult-use market. 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 are the only entities permitted to supply the cannabis 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 Niagara Facility . In doing so, management expects that Up Cannabis will continue to build cannabis supply of a consistent and premium quality. At the same time, 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 Cannabis Act. Additionally, the 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 194,000 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 186,400 square feet has been retrofitted, as of January 2019, since obtaining its cultivation licence on March 29, 2018 and has begun to ramp up production ("Niagara Facility").

The Company, through Up Cannabis, is licensed to:

- cultivate and process an unlimited amount of cannabis at the Brantford Facility and Niagara Facility;
- produce an unlimited amount of cannabis oils at the Brantford Facility and Niagara Facility; and
- sell cannabis in all authorized forms to all authorized persons from the Brantford Facility and the Niagara Facility for cannabis produced in both these facilities.

Up Cannabis received licensing under the Cannabis Act on November 8, 2018 for its Niagara Facility and on November 10, 2018 for its Brantford Facility, replacing its licences under the ACMPR and allowing for cultivation, processing and sale.

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 capacity 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 set out by the Cannabis Act 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 one mothering room; the five aforementioned grow-rooms used for propagation, vegetation and flowering; one trimming room; one drying room; one packaging room; one extraction room and 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" 240,000 square foot greenhouse facility (of which approximately 186,400 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 20,000 kg of dried cannabis annually upon completion of the greenhouse retrofit. As at the date of this MD&A, the retrofit of the Niagara Facility has been completed. Cannabis is being cultivated in the new section of the retrofitted greenhouse with several harvests having already taken place. The current budget to complete the retrofit, construction of processing areas and the second greenhouse is $38.2 million and costs incurred to date are $19.1 million**.** As at the date of this MD&A, the construction of the second greenhouse and headhouse expansion is progressing as planned, with an occupancy permit having already been issued by the municipality for the new headhouse. The second greenhouse has its structure erected, walls and roof installed and is progressing with electrical, heating, ventilation and air conditioning work. Assuming no further interruptions in the construction schedule, the completion of the construction of the entire Niagara Facility (including the new processing administration areas and new greenhouse) is expected towards the end of the second quarter of 2019.

Assuming the full ramp up, including the construction of the new greenhouse and processing areas at the Niagara Facility, which is currently in progress, and the continued operational efficacy of the Brantford Facility, the complete potential aggregate annual production for all facilities will be approximately 42,000 kg of dried cannabis. This estimate is subject to change based on realized plant yields experienced.

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 fees equal to 2.5% of the net-revenue received by Up Cannabis from the sale of products inspired by the Hip.

SELECTED SUMMARY OF FINANCIAL RESULTS

Expressed in CDN $000's	December 31, 2018 YTD ($)	December 31,2017 YTD ($)	$ change % change
Gross Revenue	8,972	-	8,972 NM
Excise Tax	(899)	-	(899) NM
Net Revenue	8,073	-	8,073 NM
Inventory production costs expensed to cost of sales	(4,514)	-	(4,514) NM
Gross margin before the undernoted	3,559	-	3,559 NM
Fair value changes in biological assets included in inventory sold	(3,276)	-	(3,276) NM
Unrealized (loss) / gain on changes in fair value of Biological Assets	938	3,020	(2,082) (69%)
Gross Margin	1,221	3,020	(1,799) (60%)
Expenses	(31,634)	(8,674)	(22,960) 265%
Loss from operations	(30,413)	(5,654)	(24,759) 438%
Other Items	10,227	(8,436)	18,663 NM
Net Loss	(20,186)	(14,090)	(6,096) 43%
Other comprehensive Income	310	-	310 NM
Net and Comprehensive Loss	(19,876)	(14,090)	(5,786) (41%)
Net Loss per share (basic and diluted)	(0.04)	(0.06)	0.02 (45%)

NM – Not meaningful

NON-IFRS FINANCIAL MEASURES

The Company's "Adjusted EBITDA" is a Non-IFRS metric used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines the Adjusted EBITDA as the Income (loss) for the period, as reported, before accretion and interest, tax, and adjusted for removing the share-based compensation expense, depreciation and amortization, and the fair value effects of accounting for biological assets and inventories. Management believes "Adjusted EBITDA" is a useful financial metric to assess its operating performance on a cash basis before the impact of non-cash items. A reconciliation of net income to EBITDA is presented below:

Expressed in CDN $000's	December 31, 2018 YTD ($)	December 31,2017 YTD ($)
Loss from operations – as reported	(30,413)	(5,654)
Fair value changes in biological assets included in inventory sold	3,276	-
Unrealized gain on changes in fair value of biological asset	(938)	(3,020)
Share-based compensation expense	8,324	3,391
Depreciation and amortization	1,494	808
Adjusted EBITDA	(18,257)	(4,475)

Results of Operations – For years ended December 31, 2018 compared to 2017

Net Revenue

During the year ended December 31, 2018, the Company generated net revenue of $8,073 (December 31, 2017 - $Nil). $3,212 of revenue was from our shipments of dried cannabis to the provincial government wholesale distributors in Alberta, Ontario, British Columbia, Nova Scotia and Prince Edward Island for the adult-use market. $4,861 of revenue was from wholesale sales of cannabis.

Gross Margin

For the year ended December 31, 2018, $4,514 of costs incurred during the production process and capitalized to inventory were expensed upon sale. This resulted in gross margin of $3,559 before the fair value adjustment on the sale of this inventory. The expense of $3,276 for the fair value changes in biological assets included in inventory sold represents the amount of non-cash fair value adjustment being realized upon the sale of this inventory.

All of the costs of production have been accounted for as inventory of the 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 are 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 year ended December 31, 2018, the Company recognized a gain of $938 (December 31, 2017 -$3,020) related to the fair value adjustments of Biological Assets. This resulted in gross margin for the year ended December 31, 2018 of $1,221 (December 31, 2017 -$3,020).

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

The Company commenced the process of growing medical cannabis in January 2017. The Company received an amendment to its licence to sell under the ACMPR to all authorized persons on January 5, 2018. All plants are harvested for the sale of consumable product and take approximately fourteen to eighteen weeks to grow prior to harvest.

The unrealized gain on fair value changes in biological assets for the year ended December 31, 2018 is smaller than that of the prior year primarily because production in the prior year was only at the Brantford Facility. As discussed in the Production Facilities section above, the Brantford Facility is significantly smaller than the Niagara Facility at approximately a tenth of the size. Therefore, start-up and ramp-up costs in the prior year were significantly less than when compared to the current year when production commenced in the Niagara Facility in May. The Company expects the fair value changes in biological assets to be positive and larger once the Niagara Facility reaches full production.

The Company capitalizes the direct and indirect costs incurred related to the transformation of the biological assets between the point of initial recognition and the point of harvest. They include the direct costs of growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item 'cost of sales' on the statement of profit and loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the statement of profit and loss. Biological assets are measured at their fair value less costs to sell on the statement of financial position.

The significant unobservable inputs used in determining the fair value of biological assets are as follows:

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

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

Expenses

For the year ended December 31, 2018, total expenses were $31,448 (December 31, 2017 - $8,674). See below for a discussion on the expenses incurred.

	December 31, 2018 YTD ($)	December 31,2017 YTD ($)	$ change % change
Wages and Benefits	**5,670**	**1,022**	**4,648** **455%**
Rent and Facilities	**198**	**120**	**78** **65%**
Consulting and Professional Fees	**4,300**	**1,830**	**2,470** **135%**
Selling, General and Administrative	**4,378**	**917**	**3,461** **377%**
Sales, Marketing and Business Development	**8,309**	**1,051**	**7,258** **691%**
Share-based Compensation	**8,324**	**3,391**	**4,933** **145%**
Amortization	**455**	**343**	**112** **33%**
Total Expenses	**31,634**	**8,674**	**22,960** **265%**

NM – Not meaningful

Wages and Benefits

Wages and benefits expense consist of expenditures on head office staff in Oakville, Ontario and management staff at our production facilities. The Company's overall head count is approximately 179 team members and continues to grow quickly. For the year ended December 31, 2018, wages and benefits expenses were $5,670 (December 31, 2017 - $1,022). The increases are primarily due to headcount additions as the Company continues to grow and adds to its bench strength in order to execute on Newstrike's growth strategy.

Rent and Facilities

For the year ended December 31, 2018, rent and facilities expenses totaled $198 (December 31, 2017 - $120). These costs are predominantly for the rent paid for the corporate head office. The Company closed its Toronto office and took up additional office space adjacent to its existing Oakville head office, thereby consolidating the Company's head office by the end of the third quarter of 2018.

Consulting and Professional Fees

For the year ended December 31, 2018, consulting and professional fees totaled $4,300 (December 31, 2017 – $1,830). The increase in expenditures of $2,470 or 135% were primarily related to legal and advisory fees on various non-recurring projects including the plan of arrangement contemplated under the Arrangement Agreement with CanniMed, and for fees that were related to the Financings as further discussed in the Operational Highlights section above.

Selling, General and Administrative Expenses

For the year ended December 31, 2018, selling, general and administrative expenses totaled $4,378 (December 31, 2017 - $917). Costs have increased significantly as the Company operationalized its cannabis-focused business.

For the year ended December 31, 2018, costs increased by $3,461 or 377%. These were driven by increases in (i) selling expenses such as licensing fees, shipping costs and accruals for the cost recovery for the regulation of cannabis fees totaling $551 which were not incurred in the prior year as there were no sales; (ii) investor relations and TSXV filing services costs of $724; (iii) travel related costs of $495; (iv) directors fee expenses of $430; (v) general office expenses of $412; (vi) information technology costs of $223; (vii) insurance costs of $187; and (viii) other corporate costs of $439.

Sales, Marketing and Business Development Expenses

Branding, marketing and promotional expenses consist of expenditures on advertising, promotion, market awareness and branding. For the year ended December 31, 2018, branding, marketing and promotional expenses were $8,309 (December 31, 2017 - $1,051). These expenditures relate to designing and procuring branded materials, and conducting marketing and awareness campaigns. Expenditures were higher in the current year as the Company ramped up its marketing efforts ahead of the October 17, 2018 regulation changes which further restricted Cannabis promotions. Significant events the Company participated in included the Lift & Co. Cannabis Expo, the Juno Music Awards, The Bathouse 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. Up Cannabis also hosted Meet Up at Yonge-Dundas Square in Toronto, Ontario; Up North in Creemore, Ontario; and participated at the Cowboys Music Festival during the Calgary Stampede; Country Thunder in Calgary Alberta and in Craven, Saskatchewan; the Rock the Shore and Rifflandia festivals in Victoria, British Columbia; and the Canadian Country Music Awards in Hamilton, Ontario. The Meet Up held at Toronto's Yonge-Dundas Square featured responsible use of cannabis through activities including free outdoor yoga classes, live visual art displays, breakdance battles, live recordings of the Into the Weeds Podcast, and free concerts by Canadian artists.

The Meet-Up included a show-stopping focal point, the Upside Down House, which drew natural foot traffic and helped drive brand awareness, social sharing, and provide a means of consumer interaction with brand ambassadors for acquisition. The activation was complete with a performance by two-time CCMA Artist of the Year Meghan Patrick and an epic sing-along tribute to The Tragically Hip by Choir! Choir! Choir! featuring members of The Tragically Hip, Rob Baker and Johnny Fay.

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 year ended December 31, 2018, the share-based compensation expense was $8,324 (December 31, 2017 - $3,391). 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.

Amortization

For the year ended December 31, 2018, amortization expense not capitalized into biological assets was $455 (December 31, 2017 - $343). This expense represents amortization on non-production equipment.

Other Items

For the year ended December 31, 2018, other items were a gain of $10,227 (December 31, 2017 – loss of $8,436). See below for a discussion on the other items incurred.

	December 31, 2018 YTD ($)	December 31, 2017 YTD ($)	$ change % change
Accretion and Interest Expenses	**(643)**	**(654)**	**11** **(2%)**
Change in Fair Value of Investments	**-**	**(27)**	**27** **(-100%)**
Loss on sale of securities	**-**	**(7)**	**7** **(-100%)**
Listing Fee	**-**	**(7,099)**	**7,099** **(-100%)**
Impairment of Licence Application	**-**	**(652)**	**652** **(-100%)**
Loss on Sale of Licence Application	**(111)**	**-**	**(111)** **NM**
Interest Income	**1,481**	**3**	**1,478** **NM**
Termination Fee	**9,500**	**-**	**9,500** **NM**
Total Other Items	**10,227**	**(8,436)**	**18,663** **NM**

NM – Not meaningful

For the year ended December 31, 2018, other items yielded a gain of $10,227 (December 31, 2017 - loss of $8,436). $9,500 of the gain was from the Termination Fee, as further described in the Operational Highlights section above, and $1,481 was from interest income on short-term cash deposits. These were partially offset from the loss recognized on the sale of Enderlein after providing for the holdback receivable and by accretion and interest expenses. The loss in the prior year was primarily due to the Listing Fee costs ($7,099), an impairment recognized on Enderlein ($652) and accretion and interest expenses.

Accretion and interest expenses for the year ended December 31, 2018 were $643 (December 31, 2017 - $654). 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.

Other Comprehensive Income

During 2018, the Company made some strategic long-term investments in Canadian cannabis companies. The changes in fair value related to these investments have been recorded in other comprehensive income. For the year ended December 31, 2018, the changes in fair value was a gain of $310.

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.

Summary of Quarterly Information

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

Three months ended	Total Net revenue ($)	Net Income ($)	Basic profit (loss) per Share ($)	Diluted profit (loss) per Share ($)
December 31, 2018	4,652	(6,497)	(0.01)	(0.01)
September 30, 2018	3,420	(8,150)	(0.01)	(0.01)
June 30, 2018	Nil	(8,633)	(0.02)	(0.02)
March 31, 2018	Nil	3,094	0.01	0.01
December 31, 2017	Nil	(1,067)	(0.00)	(0.00)
September 30, 2017	Nil	(3,942)	(0.01)	(0.01)
June 30, 2017	Nil	(8,457)	(0.06)	(0.06)
March 31, 2017	Nil	(624)	(0.02)	(0.02)

Prior to the quarter ended December 31, 2016, operations were minimal. During the three months ended December 31, 2016, the Company obtained its licence from Health Canada to cultivate cannabis and entered into various agreements including a corporate reorganization to create a holding company structure for itself and the 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 calendar quarters principally because of, (i) the evolution of the legalization of the adult-use cannabis market, (ii) increased marketing and branding expenses in respect of such activity, (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 for Enderlein, (vi) increased salaries and wages as the organization experienced growth, (vii) debt and financing costs associated with the previously utilized short-term debt facilities and (viii) professional fees thereto. It is anticipated that certain costs are non-recurring and/or will normalize over time.

Results have varied in 2018 predominantly due to (i) the Termination Fee received in the first quarter of 2018, (ii) a gain was recognized in the second quarter of 2018 with the Enderlein sale and in the third quarter of 2018, an impairment loss was recognized on the provision of the holdback receivable connected to this sale, (iii) increasing salaries and wages and stock compensation expenses during the year as the organization experienced growth, (iv) increasing ramp-up and start-up activities at the Niagara Facility as production commenced and operations continue to scale up and (v) sales for the Company commenced for the first time in the third quarter of 2018.

Fourth Quarter 2018 Results

SELECTED SUMMARY OF QUARTERLY RESULTS

	Fourth Quarter 2018 ($)	Fourth Quarter 2017 ($)	$ change % change
Gross Revenue	**5,336**	**-**	**5,336** NM
Excise Tax	**(684)**		**(684)** NM
Net Revenue	**4,652**	**-**	**4,652** NM
Inventory production costs expensed to cost of sales	**(2,160)**	**-**	**(2,160)** NM
Gross margin before the undernoted	**2,492**	**-**	**2,492** NM
Fair value changes in biological assets included in inventory sold	**(2,219)**	**-**	**(2,219)** NM
Unrealized (loss) / gain on changes in fair value of Biological Assets	**13**	**3,020**	**(3,007)** **99%**
Gross Margin	**285**	**3,020**	**(2,735)** **(91%)**
Expenses	**(7,479)**	**(3,035)**	**(4,444)** **146%**
Loss from operations	**(7,194)**	**(15)**	**(7,179)** **47,860%**
Other Items	**697**	**(1,052)**	**1,749** NM
Net Loss	**(6,497)**	**(1,067)**	**(5,430)** **509%**
Other Comprehensive Loss	**(2,927)**	**-**	**2,927** NM
Net and Comprehensive Loss	**(9,423)**	**(1,067)**	**(8,356)** **783%**
Net Loss per share (basic and diluted)	**(0.01)**	**(0.00)**	**(0.01)** NM

NM – Not meaningful

Adjusted EBITDA	**Fourth Quarter 2018 ($)**	**Fourth Quarter 2017 ($)**
Loss from operations – as reported	**(7,194)**	**(15)**
Fair value changes in biological assets included in inventory sold	**2,219**	**-**
Unrealized gain on changes in fair value of biological asset	**(13)**	**(3,020)**
Share-based compensation expense	**96**	**645**
Depreciation and amortization	**525**	**219**
Adjusted EBITDA	**(4,367)**	**(2,171)**

Net Revenue

During the three month period ended December 31, 2018, the Company generated net revenue of $4,652 (December 31, 2017 - $Nil). $2,611 of revenue was from shipments of dried cannabis to the provincial government wholesale distributors in Alberta, British Columbia, Nova Scotia, Ontario and Prince Edward Island for the adult-use market. $2,041 of revenue was from wholesale sales of cannabis.

Gross Margin

During the three month period ended December 31, 2018, $2,160 of costs incurred during the production process and capitalized to inventory were expensed upon initial sale of inventory. This resulted in gross margin of $2,492 before the fair value adjustment on the sale of this inventory. The expense of $2,219 for the fair value changes in biological assets included in inventory sold represents the amount of non-cash fair value adjustment being realized upon the sale of this inventory.

For the three month period ended December 31, 2018, the Company recognized a gain of $13 (December 31, 2017 - $3,020) related to the fair value adjustments of Biological Assets. This resulted in gross margin for the three month period ended December 31, 2018 of $285 (December 31, 2017 - $3,020).

The unrealized gain on fair value changes in biological assets for the three month period ended December 31, 2018 was due to the production of cannabis at both production facilities, offset by the start-up and ramp-up costs in the Niagara Facility as explained above in the Results of Operations – For years ended December 31, 2018 compared to 2017 section above.

During 2017, the Company valued its biological assets at cost until it received approval on its licence amendment to allow for sales of cannabis. Revaluation of the biological assets resulted in an unrealized gain on fair value changes of $3,020 for the three month period ended December 31, 2017.

Expenses

For the three month period ended December 31, 2018, total expenses were $7,479 (December 31, 2017 - $3,035). See below for a discussion on the expenses incurred.

	Fourth Quarter 2018 ($)	Fourth Quarter 2017 ($)	$ change % change
Wages and Benefits	**2,342**	**502**	**1,840** **367%**
Rent and Facilities	**41**	**38**	**3** **8%**
Consulting and Professional Fees	**774**	**1,146**	**(372)** **(32%)**
Selling, General and Administrative	**2,138**	**289**	**1,849** **640%**
Sales, Marketing and Business Development	**1,988**	**368**	**1,620** **440%**
Share-based Compensation	**96**	**644**	**(548)** **(85%)**
Amortization	**100**	**48**	**52** **108%**
Total Expenses	**7,479**	**3,035**	**4,444** **146%**

NM – Not meaningful

Wages and Benefits

For the three months ended December 31, 2018, wages and benefits expenses were $2,342 (December 31 - $502). The increases are primarily due to additions to the management team as the Company continues to grow and adds to its bench strength in order to execute on Newstrike's growth strategy.

Rent and Facilities

For the three month period ended December 31, 2018, rent and facilities expenses totaled $41 (December 31, 2017 - $38). These costs are predominantly for the rent paid for the corporate head office.

Consulting and Professional Fees

For the three month period ended December 31, 2018, consulting and professional fees totaled $774 (December 31, 2017 - $1,146). The decrease in expenditures of $372 or 32% was primarily due to higher legal and advisory fees in the prior year related to the Arrangement Agreement with CanniMed and Financings as discussed in the Operational Highlights section above.

Selling, General and Administrative Expenses

For the three month period ended December 31, 2018, general and administrative expenses totaled $2,138 (December 31, 2017 - $289). Costs increased by $1,849 or 640% due to increases in (i) selling expenses such as licensing fees, shipping costs and accruals for the cost recovery for the regulation of cannabis fees totaling $257 which were not incurred in the prior year as there were no sales; (ii) travel related costs of $235; (iii) insurance costs of $223; (iv) investor relations and TSXV filing services costs of $186; (v) directors fee expenses of $145; (vi) information technology costs of $118; and (vii) other general office and corporate costs of $685.

Sales, Marketing and Business Development Expenses

For the three month period ended December 31, 2018, branding, marketing and promotional expenses were $1,988 (December 31, 2017 - $368). Expenses for the three months ended December 31, 2018 were primarily due to experiential marketing expenses such as the Meet Up event at Yonge and Dundas square in Toronto, and for expenses related to the development of the Company's online platforms and social media outlets.

Share-based Compensation

For the three months ended December 31, 2018, the share-based compensation expense was $96 (December 31, 2017 - $644). See discussion on Share-based Compensation in the Results of Operations – For the years ended December 31, 2018 compared to 2017 section above.

Amortization

For the three months ended December 31, 2018, amortization expense not capitalized into biological assets was $100 (December 31, 2017 - $48). This expense represents amortization on non-production equipment.

Other Items

For the three month period ended December 31, 2018, other items were $697 (December 31, 2017 – loss of $1,053). See below for a discussion on the other items incurred.

	Fourth Quarter 2018 ($)	Fourth Quarter 2017 ($)	$ change % change
Accretion and Interest Expenses	**(11)**	**(397)**	**386 (97%)**
Loss on sale of securities	**-**	**(7)**	**7 (-100%)**
Impairment of Licence Application	**-**	**(652)**	**652 (-100%)**
Interest Income	**708**	**3**	**705 23500%**
Total Other Items	**697**	**(1,053)**	**1,750 NM**

NM – Not meaningful

The gain during the current period was primarily due to net interest income on short-term cash deposits. The loss in the prior period was primarily due an impairment recognized on Enderlein ($652) and accretion and interest expenses.

Other Comprehensive Loss

See discussion on Other Comprehensive Income in the Results of Operations – For the years ended December 31, 2018 compared to 2017 section above.

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 December 31, 2018, cash was $96,640 (December 31, 2017 - $811). At December 31, 2018, the Company has working capital (current assets less current liabilities) of $103,441 (December 31, 2017 – (deficiency of $3,754)).

On January 24, 2018, the Arrangement Agreement was terminated and the Company received the Termination Fee of $9.5 million.

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

On February 22, 2018, the Company closed the January Financing for net proceeds to the Company of approximately $86,467, including an overallotment taken up for net proceeds of approximately $11,200. On June 19, 2018, the Company closed the May Financing for net proceeds to the Company of approximately $48,307, including an overallotment taken up for net proceeds of approximately $6,300. See below for a summary of these financings and their allocated use of proceeds. A total of approximately $134,774 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	$92,006	$86,467
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	$48,307

Offering – Closing Date	Use of Proceeds	Previously disclosed allocation of Proceeds ($)	Revised allocation of Proceeds ($)	Amount spent as at December 31, 2018 ($)	Remaining spend ($)
February 22, 2018	Niagara Facility – Phase I retrofit	10,500	15,800	10,000	5,800
February 22, 2018	Niagara Facility – Phase II construction and Fit-out	22,000	20,600	8,300	12,300
February 22, 2018	Niagara Facility – Oil Production Equipment and Fit-out	750	1,750	750	1,000
February 22, 2018	Debt Retirement	4,000	4,000	4,000	Nil
June 19, 2018	Strategic Opportunities	27,000	27,000	5,600	21,400
Total		64,250	69,150	28,650	40,500

Additional proceeds were allocated for the Niagara Facility – Phase I retrofit for the purposes of upgrading the lighting equipment. This work has been completed and the remaining spend is due to the timing of payments. Additional oil production equipment is being sourced to further increase oil production capacity for edibles, vape pens and other upcoming products that can be sold when regulations allow. The Company acquired a minority interest in Neal Brothers Inc. and also incorporated a joint venture with Neal Brothers Inc for the development of specialty food products which will be infused, derived or otherwise include cannabis. The Company continues to seek strategic opportunities to enhance its production capacity, new product development and distribution channels.

As at December 31, 2018, cash was expected to be sufficient to finance the Company's ongoing operations and capital programs. The Company may consider raising additional funds through either equity or debt offerings to meet future capital needs as and when required. The Company commenced its first sales in the third quarter of 2018 and expects that cash flows from operations will be positive in the future.

Cash Flow Statement

Summary Cash Flow Statement	Year ended December 31, 2018 ($)	Year ended December 31, 2017 ($)
Cash flows from (used in):		
Operating activities before working capital changes	(10,956)	(4,909)
Changes in non-cash working capital	(2,926)	(2,577)
Operating activities	(13,882)	(7,486)
Investing activities	(25,443)	(8,556)
Financing activities	135,154	16,774
Increase in cash	95,829	732
Cash and cash equivalents, beginning of period	811	79
Cash and cash equivalents, end of period	96,640	811

Operating Activities

Cash flows used in operating activities were $13,882 for the year ended December 31, 2018 (December 31, 2017 - $7,486). For the year ended December 31, 2018, operating activities were affected by the net change of ($2,926) (December 31, 2017 – ($2,577)) in non-cash working capital balances due to:

- accounts receivables net of payments received in advance increased $2,398 (December 31, 2017 - $Nil) as the Company commenced sales;
- other receivables decreased $252 (December 31, 2017 – increase $709) predominantly related to HST receivables;
- biological assets were a use of cash of $7,966 (December 31, 2017 - $984);
- inventory was a source of cash of $8,160 (December 31, 2017 – use of cash of $1,880);
- prepaid expenses increased $3,737 (December 31, 2017 –$565); and
- accounts payable and other liabilities increased in the amount of $2,763 (December 31, 2017 - $1,561).

As noted above, the Company has enhanced its liquidity through the Financings and debt financing/conversions. These were the principal sources of operating cash until the Company commenced sales to the retail and wholesale market. The Company continues to focus strategically on the adult-use cannabis market.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2018 was $25,443 (December 31, 2017 - $8,556), which was mostly for advance deposits made and actual expenditures for the acquisition of capital equipment for the retrofit and expansion of the Niagara Facility, as well as the minority interest investment made in Neal Brothers Inc., the joint venture established together with Neal Brothers Inc. and strategic investments made in other cannabis businesses, which were partially offset by the proceeds from the divestiture of Enderlein.

Financing Activities

Cash of $135,154 was generated from the Company's financing activities during the year ended December 31, 2018 (2017 - $16,774). See also "Financing Activities" within the "Operational Highlights" section above.

Liquidity

At December 31, 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 sales of its products. 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, and provide shareholder value. 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 and operational 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 shareholders' equity comprises of share capital, reserves, deficit, accumulated other comprehensive income, and non-controlling interest, which at December 31, 2018 totaled $146,880 (December 31, 2017 - $12,577).

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 year ended December 31, 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 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2018, the Company is compliant with TSXV Policy 2.5.

Share Capital

The authorized share capital of Newstrike consists of an unlimited number of Shares. As at March 25, 2019, the Company had 557,325,564 issued and outstanding Shares.

At December 31, 2018, the Company had 34,598,041 options outstanding, each exercisable to acquire one Share, as follows:

Expiry Date	Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
February 10, 2019	$1.00	0.11	1,312,500	1,312,500
February 10, 2019	$0.66	0.11	687,500	687,500
July 25, 2020	$0.38	1.57	17,314,809	12,693,610
March 29, 2021	$1.05	2.24	1,250,000	500,000
April 16, 2021	$1.06	2.29	1,200,000	300,000
April 27, 2021	$1.02	2.32	1,000,000	1,000,000
June 25, 2021	$0.66	2.48	1,438,232	875,732
July 6, 2021	$0.66	2.52	2,250,000	-
September 26, 2021	$0.75	2.74	700,000	-
November 26, 2021	$0.52	2.91	1,500,000	-
December 20, 2021	$0.20	2.97	320,000	320,000
February 23, 2023	$1.10	4.16	4,500,000	4,500,000
June 25, 2023	$0.66	4.48	1,125,000	1,125,000
		2.14	**34,598,041**	**23,314,342**

At December 31, 2018, the Company had 113,847,615 share purchase warrants outstanding, each exercisable to acquire one Share, as follows:

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

Corporate Information

On March 13, 2019, the Company entered into an arrangement agreement (the "**Arrangement Agreement**") with HEXO Corp. ("**HEXO**"). Under the Arrangement Agreement, HEXO has agreed to acquire, by way of a plan of arrangement under the *Business Corporations Act* (Ontario), all of Newstrike's issued and outstanding common shares in an all-share transaction valued at approximately $263 million (the "**Transaction**").

Under the terms of the Arrangement Agreement, Newstrike shareholders will receive 0.06332 of a HEXO common share in exchange for each Newstrike common share held. Upon completion of the Transaction, existing HEXO and Newstrike shareholders are expected to own approximately 86% and 14% of the pro forma company, respectively, on a fully diluted basis.

The Arrangement Agreement includes customary terms and conditions, including provisions relating to non-solicitation, subject to the right of Newstrike to accept a superior proposal in certain circumstances, with HEXO having a five business day right to match any such superior proposal for Newstrike. The Arrangement Agreement also provides for a termination fee of $7.5 million payable by Newstrike to HEXO if the Transaction is terminated in certain specified circumstances, as well as a reciprocal $1 million expense reimbursement fee to either party if the Transaction is terminated in certain other specified circumstances.

The Transaction has been unanimously approved by the board of directors of each of HEXO and Newstrike, and Newstrike's board of directors recommends that its shareholders vote in favour of the Transaction.

For further details of the Arrangement Agreement, please see the Arrangement Agreement of March 12, 2019 which is available on SEDAR at www.sedar.com. A management information circular will be issued prior to the annual general and special meeting on May 17, 2019.

Legal Proceedings

From time to time, the Company may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if considered likely to result in a loss and, when the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. The Company does not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

The outcome of all the proceedings and claims against the Company are subject to future resolution that includes the uncertainties of litigation. It is not possible for the Company to predict the result or magnitude of the claims described above due to the various factors and uncertainties involved in the legal process. If it becomes probable that the Company will be held liable for claims against the Company, the Company will recognize a provision during the period in which the change in probability occurs, which could be material to the Company's consolidated statements of income or consolidated statements of financial position.

Statement of Financial Position

Select Financial Position Data As At	December 31, 2018 ($)	December 31, 2017 ($)	$ Change	% Change
Current Assets	109,369	7,069	102,300	1,447 %
Non-Current Assets	43,439	17,812	25,627	144 %
Current Liabilities	5,928	10,823	(4,895)	(45 %)
Non-Current Liabilities	-	1,481	(1,481)	(100 %)
Shareholder's Equity	146,880	12,577	134,303	1,068 %

NM – Not meaningful

Assets

Newstrike's current assets as at December 31, 2018 are $109,369 and are comprised of cash and cash equivalents, accounts receivables, prepaid expenses, inventory and Biological Assets. The substantial increase from $7,069 at December 31, 2017 is due primarily from the cash raised through the Financings (see Financing Activities above).

Non-current assets are comprised of investment securities, deposits and prepaids related to the Niagara Facility expansion, intangibles and property, plant and equipment. The substantial increase in non-current assets to $43,439 as at December 31, 2018 from $17,812 at December 31, 2017 is primarily due to the deployment of the cash raised through the Financings into expanding our Niagara Facility and into the minority interest investment made in Neal Brothers Inc., the joint venture investment with Neal Brothers Inc. and strategic investments made in other cannabis businesses.

Liabilities

Current liabilities as at December 31, 2018 are $5,928 and are comprised of accounts payable and accrued liabilities and a payment received in advance. The substantial decrease from $10,823 as at December 31, 2017 is primarily due to the Company repaying the secured loan and convertible debentures which were classified as current liabilities.

Non-Current liabilities were $Nil as at December 31, 2018, compared to $1,481 at December 31, 2017, which is a result of the Company repaying its equipment finance lease obligations during the year and also the result of the Company exercising its option to purchase the Brantford Facility and settling the lease obligation during the last quarter of the year.

Shareholder's Equity

Shareholder's equity has increased to $146,880 as at December 31, 2018 from $12,577 as at December 31, 2017 as a result of the Financings and option and warrant exercises. Additionally, reserves have increased as a result of the vesting of stock options granted during the current and prior years and the issuance of warrants attached to the Financings completed during the year ended December 31, 2018. The accumulated deficit now stands at $36,034.

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.

Related Party Transactions

The remuneration of directors and key management personnel during the year ended December 31, 2018, is set out below:

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

In addition to the above, the Company 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, Nugen and Marrelli Support Services Inc .are shown below.

Receiving Parties	Year Ended December 31, 2018 ($)	Year Ended December 31, 2017 ($)
Macpherson & Associates (i)	113	145
Nugen (ii)	158	75
Marrelli Support Services Inc. (iii)	-	47
Total	271	267

(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 December 31, 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 and President of Operations (formerly Chief Commercial Officer), 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. As at December 31, 2018, Nugen was paid in full for all services provided.

(iii) The former Chief Financial Officer of the Company was the president of Marrelli Support Services Inc. ("MSSI"). Fees are related to the Chief Financial Officer function and accounting services provided by MSSI. As at December 31, 2018, MSSI was paid in full for all services provided.

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, investment securities, accounts payable and its finance lease liability. 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 December 31, 2018 ($)	As at December 31, 2017 ($)
Financial Assets:		
Cash and cash equivalents	96,640	811
Accounts receivable	2,488	-
Enderlein receivable	775	-
Investment securities	8,977	-
Loan receivable	-	89
Financial Liabilities:		
Accounts payable	2,453	2,302
Finance lease	-	2,015
Due to shareholder	-	10
Convertible debenture	-	3,291
Loan payable	-	4,011

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 and trade receivables. Cash is held with one major Canadian chartered bank and one major Canadian credit union, from which management believes the risk of loss to be minimal. The HST and trade receivables are due from the Government of Canada and provincial liquor boards, respectively, from which management believes the risk of loss to be minimal.

(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. For the year ended December 31, 2018, the Company primarily generated cash flow from the Financings**.** Commencing in the third quarter of the current year, the Company started generating revenue from sales which it expects to be the primary source of cash flow in the future. As at December 31, 2018, the Company had cash of $96,640 (December 31, 2017 - $811) to settle current liabilities of $5,928 (December 31, 2017 - $10,823). 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 with a Canadian chartered bank and a major Canadian credit union 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 and credit union. As at December 31, 2018, the Company has surplus cash which was not allocated to operational or capital project requirements.

(b) Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and a majority of its 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 materially impact the operations or the liquidity of the Company:

(i) the Company's cash balances are not exposed to material interest rate risk and there are no debt balances outstanding; 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.

Significant Accounting Policies and Critical Accounting Estimates

The preparation of condensed consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. It also requires management to exercise judgement in applying the Company's accounting policies. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances.

Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. See note 3 for the significant accounting policies applied in the preparation of the condensed consolidated financial statements. See note 4 for the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant have not changed from those previously disclosed.

Accounting Changes and Impact of Recently Issued Accounting Pronouncements

The standard issued but not yet effective or amended up to the date of issuance of the Company's annual condensed consolidated financial statements is listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The standard below should be read in conjunction with the annual audited consolidated financial statements for a complete description of future changes in accounting policies. The Company has not determined if they will early adopt any standards at this time.

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

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 licences would have a material adverse impact on the business, financial condition and operating results of Newstrike. The licences expire on December 19, 2019 and March 29, 2021 respectively. Although the Company believes it will meet the requirements of the Cannabis Act for extension of such licences, there can be no guarantee that Health Canada will extend or renew such licences 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 licences or should it renew such licences 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 was succeeded by the Cannabis Act in October 2018. 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 Government of Canada 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 Government of Canada released Bill C-45, which proposed the enactment of the 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 came into force on October 17, 2018, legalizing adult-use cannabis in Canada. Provincial legislation regulating the distribution and sale of cannabis for adult-use purposes has also been enacted according to the terms announced by such provinces.

On November 10, 2017, the Government of Canada 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 Government of Canada 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 which was confirmed in regulations which came into force on October 17, 2018. 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. On September 17, 2018, regulations under the Excise Act were announced which included, *inter alia*, additional adjustment rates in addition to cannabis duties as follows: Alberta, 16.8%; Nunavut, 19.3%; Ontario, 3.9%; and Saskatchewan, 6.45%.

The cumulative impact of fees and taxes by Provincial and Federal Governments for adult-use cannabis is unknown as the applicable regulatory regimes continue to evolve.

The U.S. Customs and Borders Protection Agency issued a statement on October 9, 2018 clarifying, *inter alia*, that Canadian citizens working in or facilitating the Canadian cannabis industry entering the U.S. for reasons unrelated to the cannabis industry will generally be admissible to the U.S. However, the statement advised that if a traveler is attempting to enter the U.S. for reasons related to the cannabis industry, they may be deemed inadmissible. The Company is not engaged in cannabis operations in the U.S., however it is unknown how the U.S. Customs and Border Protection will modify or enforce its policies, which may or may not have an impact on employees of Newstrike.

Limited Operating History

The Company has recently commenced generating 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. 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 growing activities and resources have been primarily limited to 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 expansion construction 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.

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 growing its business. If Newstrike's revenues do not increase sufficiently 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 raised adequate funding, it may require additional financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other corporate activities. There can be no assurance that additional financing will be available to Newstrike when needed or on terms which are acceptable to the Company. 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.

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 maturity 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 commenced 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.

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 are 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. 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 such services could have an adverse effect on its financial condition and results of operations. Rising costs associated with the delivery and 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, directors 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 are present. In that event, 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, health 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 waste, 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 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 may not have 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 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 ("ICOFR"), 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 interim 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.

The Company is executing against its four strategic pillars of (i) Brand; (ii) Production; (iii) Distribution; and (iv) Innovation.

(i) Building the "Up" Brand

The Company participated in various industry events, music festivals (prior to the coming into force of the Cannabis Act) and presented at a number of industry conferences across the country as discussed in the Operational Highlights section above. Continued promotional activity is subject to applicable legislation in the Cannabis Act.

(ii) Increasing Production Capacity

The Company is progressing with its plans to expand the Niagara Facility. The retrofit has been completed and cannabis production has also begun in this new section of the greenhouse. The construction of the greenhouse expansion is progressing as planned. Additionally, the Niagara Facility will house an oil processing facility to develop new product lines and for innovation. The Niagara Facility is currently cultivating plants and is packaging and dispatching cannabis inventory grown in both the Brantford Facility and Niagara Facility for distribution to various provinces.

(iii) Sales and Distribution Channels

The Company has secured supply agreements with the liquor boards of Alberta, British Columbia, Manitoba and Ontario. Saskatchewan selected the Company to be a registered cannabis supplier for the province and the Company has received orders from the Nova Scotia Liquor Corporation and the PEI Cannabis Management Corporation. In addition, the Company has entered into a strategic alliance agreement with Spirit Leaf, an Alberta-based cannabis retail franchise.

(iv) Innovation

The Company has secured partners for vaping and oil technologies and is actively exploring new products to add to its existing cannabis offering. New product development is focused on providing quality products which the Company anticipates will be permissible for sale in 2019, following the adoption of the appropriate regulations for cannabis edibles and other derivative products. Key to this strategy is the Company's partnership with the Neal Brothers. The Company will also continue to pursue other 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:

Details	Year ended December 31, 2018 ($)	Year ended December 31, 2017 ($)
Expenses		
Advertising and promotion	7,536	658
Amortization	454	343
Branding, web design	772	393
Consulting	2,587	567
Filing fees	441	388
Director fees	465	-
General and administrative expenses	1,677	119
Information technology	360	169
Insurance	232	57
Investor relations	328	-
Meals and entertainment	145	-
Professional fees	1,713	1,263
Rent	198	120
Repairs and maintenance	6	-
Royalty	221	-
Share-based payments	8,324	3,391
Site assessment consulting	12	48
Travel	355	136
Vehicle expense	138	-
Wages and benefits	5,670	1,022
Total expenses	**31,634**	**8,674**

Additional Information

Additional information regarding the Company is available on SEDAR at www.sedar.com.

The company has implemented IFRS 15 (Revenue) and IFRS 9 (Financial Instruments) starting from January 1, 2018 and the new policies have no material impact on the 2018 financials.