



**CANNAROYALTY CORP.  
D/B/A ORIGIN HOUSE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### TABLE OF CONTENTS

INTRODUCTION .....	3
DESCRIPTION OF THE BUSINESS .....	5
HIGHLIGHTS FOR THE THREE MONTHS ENDED JUNE 30, 2019 .....	6
FINANCIAL PERFORMANCE .....	10
RECENT DEVELOPMENTS .....	11
MATERIAL ASSETS AND INVESTMENTS.....	14
RESULTS OF OPERATIONS .....	17
FINANCIAL POSITION .....	31
LIQUIDITY .....	32
REGULATORY OVERVIEW, RISKS, UNCERTAINTIES AND FORWARD-LOOKING STATEMENTS .....	43
ADDITIONAL INFORMATION .....	108



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### INTRODUCTION

CannaRoyalty Corp. d/b/a Origin House ("Origin House" or the "Company") is a publicly traded company, incorporated under the *Business Corporations Act* (Ontario), with its head office located at 333 Preston Street, Ottawa, Ontario, Canada. Origin House's common shares trade on the Canadian Securities Exchange ("CSE") under the symbol "OH" and in the United States ("U.S.") on the OTCQX market under the symbol "ORHOF".

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Origin House is dated August 29, 2019. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements (the "Financial Statements") for the three and six months ended June 30, 2019, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. The Company prepared this MD&A of the Financial Condition and Results of Operations with reference to National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators ("CSA") and CSA Staff Notice 51-352 (revised) – Issuers with U.S. Marijuana Related Activities ("Staff Notice 51-352"). This MD&A provides information for the three and six months ended June 30, 2019 and subsequent events up to and including August 29, 2019. The Financial Statements and this MD&A have been approved by the Company's Board of Directors.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The accompanying Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and its wholly and partially owned subsidiaries: <b>Subsidiary</b>	<b>Jurisdiction of Incorporation/Formation</b>
GFCW Corp.	Canada
CRHC Holdings Corp. ("CRHC")	Canada
Electric Medialand ("EML") Inc., a wholly-owned subsidiary of CRHC	Canada
Bay Area Extraction Processing, a wholly-owned subsidiary of CRHC	California
CR Advisory Services Inc., a wholly-owned subsidiary of CRHC	Canada
Cannroy Delaware Inc. ("Cannroy Delaware"), a wholly-owned subsidiary of CRHC	Delaware
Cannroy Distribution LLC, a wholly-owned subsidiary of Cannroy Delaware	Delaware
Dreamcatcher Labs Inc., a wholly-owned subsidiary of Cannroy Delaware	California
Greenrock Botanicals Inc., a wholly-owned subsidiary of Cannroy Delaware	California
Cali-AntiFragile Corp. ("Cali-AntiFragile")	California
Kaya Management Inc. ("Kaya"), a wholly-owned subsidiary of Cali-AntiFragile	California
Alta Supply Inc. ("Alta")*, a wholly-owned subsidiary of Cali-AntiFragile	California
FloraCal, a wholly-owned subsidiary of Cali-AntiFragile	California
Collectively known as RVR Distribution ("RVR")* RPE Inc. ("RPE"), a wholly-owned subsidiary of Cali-AntiFragile River Distribution, LLC, a wholly owned subsidiary of RPE River Distributing Co., LLC, a wholly owned subsidiary of RPE	California California California
Cissonius LLC, a wholly-owned subsidiary of Cali-AntiFragile	California
The 180 Smoke group of companies ("180 Smoke") are wholly-owned direct and indirect subsidiaries of CRHC, and include the following companies: 2360149 Ontario Inc. 2488004 Ontario Inc. 180 VFC Inc. 180 Smoke LLC 420 Wellness Inc.	Ontario Ontario Canada Delaware Alberta
Cub City LLC ("Cub City"), a wholly-owned subsidiary of Cali-AntiFragile	California
Achelois LLC, a subsidiary of Cannroy Delaware with an ownership percentage of 70%	California
Trichome Financial Corp. ("Trichome"), a subsidiary of the Company, with an ownership percentage of 69%	Ontario

\* RVR and Alta together form the Company's distribution platform known as Continuum.

All inter-company balances and transactions have been eliminated upon consolidation.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See the "Adjusted EBITDA" section of this MD&A for more information on the Company's non-GAAP financial measures. See Adjusted EBITDA reconciliation. Additional information filed by the Company with the Canadian Securities Administrators is available on-line at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.originhouse.com](http://www.originhouse.com).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### DESCRIPTION OF THE BUSINESS

#### OVERVIEW OF ORIGIN HOUSE

Origin House is a cannabis products and brands company operating across key markets in the U.S. and Canada, with a strategic focus on becoming a preeminent global house of cannabis brands. The Company's primary focus is in California, the world's largest regulated cannabis market, where it delivers branded cannabis products to licensed dispensaries. Origin House's business is operated out of six licensed facilities located across California, and provides distribution, manufacturing, cultivation, and other services for its brand partners. In Canada, Origin House operates a nicotine vape business with retail, online, and wholesale revenues, as well as franchise locations.

California transitioned to an adult-use cannabis market in January 2018. It is the largest regulated cannabis market in the world and has a history of over 20 years of state-legalized medical use. The Company believes California, which is home to some of the world's most discerning consumers and a nexus of information and trends, will be the point of inception for the global cannabis brands of the future. In the Company's view, only superior products and brands will be able to succeed in the global cannabis market over the long term. Origin House believes that cannabis consumer products that win in California will have a unique advantage, competing not only in other U.S. jurisdictions, but also in Canada and across the globe.



### HIGHLIGHTS FOR THE THREE MONTHS ENDED JUNE 30, 2019

#### Highlights for the three months ending June 30, 2019

In 2019, the Company continued its acquisition strategy through the acquisition of 180 Smoke in the first quarter of 2019, and the acquisition of Cub City in the second quarter of 2019. The Company's acquisition strategy has led to significant year-over-year, and quarter-over-quarter growth, and the achievement of record revenues totalling \$21.4 million in the current quarter.

During the quarter, the Company entered into an agreement to be acquired (the "Arrangement") by Cresco Labs Inc. ("Cresco").

#### Acquisition of Origin House by Cresco

On April 1, 2019, the Company and Cresco entered into a definitive agreement pursuant to which Cresco will acquire all of the issued and outstanding shares of Origin House (the "Origin House Shares"). Under the terms of the Arrangement, holders of common shares of Origin House will receive 0.8428 (the "Exchange Ratio") subordinate voting shares of Cresco (the "Cresco Shares") for each Origin House Share.

In connection with the Arrangement, Origin House recorded two non-cash balance sheet adjustments and incurred transaction-related costs during the second quarter of 2019. These expenses totalled \$15.6 million, which significantly increased the Company's net loss during the quarter. Details regarding these adjustments are as follows:

- As a condition of the Arrangement, the Company sold its investment in Alternative Medical Enterprises LLC ("AltMed") for \$7.9 million (US \$6.0M) on July 16, 2019, resulting in a revaluation loss of \$7.0 million from AltMed's book value at March 31, 2019 of \$14.9 million (US \$11.2 million). As compared to the cost of the original investment, the sale of AltMed generated an ROI of 156%.
- In connection with the Arrangement, the Company recognized a \$6.5 million non-cash, revaluation adjustment to account for an acceleration of the 180 Smoke contingent shares, subject to an acceleration provision upon a change in control of Origin House.
- The Company expensed \$2.1 million in transaction costs relating to legal, regulatory, advisory, and other fees in connection with the Arrangement.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### *Updates on the Arrangement*

On May 14, 2019, the Company filed its management information circular in connection with the special meeting of shareholders to consider the Arrangement transaction.

On June 11, 2019, the Company received shareholder approval in connection with the Arrangement.

On June 13, 2019, the Company obtained a final order from the Ontario Superior Court of Justice approving the Plan of Arrangement.

### *Technical amendments to the Arrangement*

On June 6, 2019, the Company agreed with Cresco to certain technical amendments to the Arrangement. The amendments permitted outstanding Restricted Share Units ("RSUs") to remain outstanding following the completion of the Arrangement as opposed to automatically converting such RSUs into subordinate voting shares of Cresco. The amendments were agreed to as they provide additional flexibility to holders of the RSUs without effect to the treatment of Origin House's shareholders under the Arrangement.

### *U.S. Antitrust Review*

The Arrangement is subject to, among other things, certain regulatory approvals, including of the United States Department of Justice ("DOJ") under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"). On June 10, 2019, both the Company and Cresco received requests for additional information (the "Second Request(s)") from the DOJ. The Company and Cresco are in the process of complying with the Second Requests (see *Recent Developments* section of this MD&A).

### *Acceleration of milestone shares in 180 Smoke acquisition*

As was agreed with the sellers in the purchase agreement for the Company's acquisition of 180 Smoke, the contingent Origin House shares issuable to such sellers upon 180 Smoke meeting certain milestones would automatically accelerate and become issuable on a change of control of Origin House.

As the Arrangement would result in a change of control of Origin House, the Company has revalued the contingent milestone shares in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), resulting in a non-cash, \$6.5 million increase to the contingent consideration liability and corresponding increase to other expenses. The increased liability and expense are a result of the probability of the Arrangement closing and were determined using publicly available information.



### **Merger and acquisition**

#### *Cub City LLC*

On May 2, 2019, Origin House closed the acquisition of Cub City, a licensed premium craft cannabis producer based in Sonoma County, California for total consideration of \$7.6 million. The acquisition of Cub City adds a 24,600 square foot facility, which is being upgraded with a target completion in September 2019, with a projected annual production capacity of up to 1,400 kg of ultra-premium cannabis flower. Revenues from the facility are expected to begin in Q1 2020.

### **Financing**

On June 27, 2019, the Company signed a binding term sheet with Opaskwayak Cree Nation ("OCN") for \$12 million in debt financing ("OCN Loan"). The OCN Loan is subject to a 5% commitment fee, bears interest at a rate of 10% per annum on amounts advanced and matures on December 31, 2019. The purpose of the OCN Loan is to provide funds for the construction and expansion of the Company's cannabis production facilities in Sonoma County (Cub City and FloraCal), for costs related to closing of the Arrangement with Cresco, and for general corporate purposes. Upon closing, the first tranche of \$3.5 million was advanced. *(See Recent Developments)*

The OCN Loan replaced the Company's \$12.0 million debt facility with a subsidiary of Sprott Inc. ("Sprott"), which resulted in a non-cash acceleration of amortization of deferred financing fees totalling \$1.0 million.

### **Brand Accelerator Program**

The Brand Accelerator Program is designed by Origin House to develop cannabis brands of the future by providing them with access to Origin House capital, in-house services, and infrastructure.

The Company did not enter into any new Brand Accelerator Program arrangements in the quarter, however, continued to support existing brand accelerator partners with loans and activities initiated in previous quarters.

### **Cannabis licenses**

In March 2019, Kaya was issued an annual Type 6 non-volatile manufacturing license by the California Department of Public Health, and FloraCal was issued a one-year provisional cultivation license from the California Department of Food and Agriculture.

In April 2019, FloraCal received a Minor Use Permit ("MUP") from the County of Sonoma to undertake construction of the third and final phase of build-out and upgrades at its Santa Rosa facility. The finished facility will have an annual production capacity of approximately 5,500 kg of premium cannabis flower per year, as well as processing and distribution entitlements.



Cub City received a MUP from the County of Sonoma for cultivation, processing, non-volatile manufacturing, and distribution at its Santa Rosa facility. The MUP was approved by Sonoma County, following a public hearing held on March 28, 2019.

### **Trichome**

#### *Reverse takeover*

On October 2, 2018, Trichome entered into a Letter of Intent which outlined the general terms and conditions pursuant to which 22 Capital Corp. ("22 Capital") (TSXV: LFC.P) and Trichome have agreed to complete a transaction that will result in a reverse takeover of 22 Capital by the shareholders of Trichome (the "RTO").

The transaction constitutes 22 Capital's Qualifying Transaction as such term is defined in Policy 2.4 of the TSX Venture Exchange ("TSXV"), and it is anticipated that the resulting issuer will be listed as a Tier 1 Investment issuer on the TSXV.

During the three months ended June 30, 2019, Trichome progressed towards the RTO. (*See Recent Developments*)

#### *Blissco Holdings Ltd. ("Blissco") loan*

On May 14, 2019, Trichome entered into an agreement to provide a \$4.5 million trade finance facility (the "Blissco Facility") and a \$1.5 million mortgage loan (the "Blissco Mortgage") to Blissco Holdings Ltd. The Blissco Facility provides the borrower with up to \$4.5 million, to be drawn at its option, against qualifying receivables and inventory and matures 12 months from issuance with an option to extend for an additional 12 months. The Blissco Mortgage is for a term of 12 months with an option to extend for an additional 12 months and is secured by a first-ranking perfected security interest in the assets of Blissco and is guaranteed by Blissco Cannabis Corp. Upon close, \$1.5 million was advanced towards the Blissco Mortgage.

On May 16, 2019, Blissco announced that it had signed a definitive agreement to sell all of its outstanding shares to Supreme Cannabis Inc.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### FINANCIAL PERFORMANCE

The following are the major financial highlights of Origin House's operating results for the three months ended June 30, 2019, compared to the three months ended June 30, 2018:

- revenues were \$21.4 million as compared to \$3.5 million, an increase of 509%;
- gross margin was \$4.4 million as compared to \$0.8 million, an increase of 441%;
- operating expenses were \$23.5 million as compared to \$6.3 million, an increase of 274%;
- net loss of \$34.9 million as compared to net income of \$9.3 million, a decrease of 475%;
- net loss per basic shares of \$0.47 as compared to net earnings per share of \$0.18, a decrease of 361%;
- net loss per diluted shares of \$0.47 as compared to net earnings per share of \$0.17, a decrease of 376%; and
- adjusted EBITDA loss of \$21.0 million as compared to adjusted EBITDA income of \$11.1 million, a decrease of 290%.

The following is a summary of key balance sheet items as at June 30, 2019, compared to December 31, 2018:

- cash was \$14.8 million as compared to \$69.2 million, a decrease of 79%;
- restricted cash was \$8.2 million as compared to nil;
- current assets of \$57.0 million as compared to \$86.0 million, a decrease of 34%;
- total assets of \$258.8 million as compared to \$230.7 million, an increase of 12%;
- current liabilities of \$62.8 million as compared to \$26.2 million, an increase of 140%; and
- long-term debt financing of \$nil as compared to \$16.0 million, a decrease of 100%.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### RECENT DEVELOPMENTS

#### Acquisition of Origin House

##### *Update on U.S. Antitrust review*

On July 2, 2019, the Company provided an update to the previously disclosed Second Request from the DOJ pursuant to the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Origin House and Cresco are cooperating fully with the DOJ's investigation, are in active discussions with the DOJ regarding the Second Requests, have allocated the resources required to expeditiously and completely respond to the Second Requests, and look forward to completing the Arrangement.

#### Trichome Financial Corp.

##### *Reverse takeover of 22 Capital*

On July 8, 2019, Trichome and 22 Capital's shareholders approved the RTO.

Post-RTO, the Company will no longer control Trichome, and will not consolidate the financial results of Trichome. In connection with the RTO, Trichome is completing a private placement for gross proceeds of between \$15.0 million and \$30.0 million. The Company expects to own between 17.2% and 21.9%, approximately, of Trichome upon completion of the RTO, and expects to record Trichome as an equity accounted investee.

##### *Blissco loan*

On July 15, 2019, the outstanding balance on the Blissco Mortgage was repaid. No further amounts are outstanding from Blissco. The repayment was made in connection with Supreme Cannabis Inc.'s acquisition of Blissco, which closed on July 12, 2019.

##### *MYM Nutraceuticals ("MYM") loan*

On July 31, 2019, Trichome closed a \$5.5 million senior secured term loan ("MYM Loan") to MYM Nutraceuticals to finance cannabis and hemp projects across Canada, the United States and Colombia and to provide working capital for general corporate purposes. The MYM Loan was advanced through an initial tranche of \$3.0 million on closing, less transaction costs. The balance of the MYM loan will be advanced as a second tranche of \$2.5 million upon the satisfaction of certain conditions by MYM. The MYM Loan has a term of 12 months and may be extended for an additional 6 months at Trichome's discretion. The MYM Loan bears interest at a rate of 12% per annum, payable monthly in cash from a pre-established interest reserve account. MYM will also pay a standby fee of 6% per annum, payable monthly in cash on the second tranche until it is drawn or cancelled.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



In consideration for advancing the initial tranche of the MYM Loan, Trichome Financial received a set-up fee, an original issuer discount and 4,000,000 warrants to purchase non-assessable common shares of MYM, exercisable any time prior to June 10, 2022, at a strike price of \$0.30 per share. Trichome shall receive an additional 1,000,000 warrants, on the same terms as those already issued, upon closing of the second tranche.

The MYM Loan is secured by a perfected first lien on all current and future tangible and intangible assets and equity interests of MYM, and an assignment of all material contracts and licenses. The MYM Loan has been guaranteed by each of the direct and indirect wholly owned subsidiaries organized under MYM and by certain companies where the Borrower is a majority shareholder.

### *Good Buds Company International Inc. ("Good Buds") term loan*

On August 20, 2019, Trichome entered into an agreement to provide a \$2,350,000 senior secured term loan (the "Good Buds Loan") to Good Buds to finance the expansion of Good Bud's existing indoor facility and the development of its recently licensed outdoor cultivation operation. The Good Buds Loan bears interest at a rate of 11.5% per annum, payable monthly in cash, with the first 12 months of interest funded from a pre-established interest reserve account. The Good Buds Loan will mature on September 1, 2020.

Good Buds has the right to prepay all, but not less than all of the Good Buds Loan prior to the maturity date, subject to a prepayment premium equal to the lesser of (a) 6 months' interest on the outstanding balance and (b) the aggregate amount of interest owing on the loan for the balance of its remaining term as of the date of the prepayment. In consideration for providing the Good Buds Loan, Trichome received a set-up fee, original issuer discount, and 950,000 non-assignable warrants, exercisable any time prior to August 20, 2022, at a price per share of Good Buds, equal to the lesser of (1) \$0.60 and (2) the lowest price below \$0.60 at which Good Buds issues common shares or securities convertible into common shares.

The Good Buds Loan has been secured in a first-priority position against all assets of Good Buds (excluding cannabis and its derivatives) and has been guaranteed by each direct and indirect wholly owned subsidiary organized under Good Buds.

## **Financing**

### *OCN Loan*

On July 18, 2019, the Company received the second tranche of \$8.5 million in connection with the OCN Loan.



### **Cannabis licenses**

On July 30, 2019, Continuum received a provisional state distribution license for its West Sacramento location from the California Bureau of Cannabis Control. This is the third such license issued to Continuum, and the ninth annual or provisional license received by an Origin House subsidiary. It also marks the completion of Origin House's transition from temporary licensure to annual and provisional state licenses, which last a full year from issuance.

### **Investments**

#### *Sale of AltMed*

On July 25, 2019, the Company closed the sale of its investment in AltMed to Zola Global Investors Ltd. ("Zola") for proceeds of US \$6.0 million, resulting in a return on investment of 156%.

The Company received approximately US \$3.0 million on close, with the remaining portion to be paid in periodic installments, ending January 2020. While the Company generated a 156% return on investment on its AltMed stake, the sale was priced at a discount to the book value of the investment at March 31, 2019. As a result, the Company recognized a non-cash revaluation loss of \$7.0 million for the three months ended June 30, 2019. The discount in the sale price was influenced by the following factors:

- The short timeline available for the Company to sell the investment in AltMed given Cresco is prohibited from holding ownership in more than one licenced cannabis entity in Florida due to regulatory requirements within that state. The sale of AltMed was a condition of closing the Arrangement.
- Origin House was solely seeking buyers willing to pay cash.
- The overall decline in comparable valuations of public cannabis companies, with many cannabis companies seeing a decrease in market valuations of 20% to 30% between April and July 2019.

The Company's CEO is required to repurchase a portion of the sold interest in AltMed at the option of Zola.



### MATERIAL ASSETS AND INVESTMENTS

The following chart is a summary of the Company's material assets and investments. The Company has excluded ancillary intellectual property and other minor transactions and investments, with no such items having more than \$1,000,000 of tangible or intangible assets on the Company's consolidated balance sheet as of June 30, 2019. Furthermore, investments which were disposed in the current period, as well as investments that have been written-off or fully impaired in prior periods have been excluded. References to "Direct", "Indirect" or "Ancillary" classifications of each asset or investment have the meanings ascribed thereto in Staff Notice 51-352 (revised). All of the Company's investments that give the Company "Direct", "Indirect", or "Ancillary" involvement (as such terms are defined in the Staff Notice 51-352 (revised)) in the U.S. marijuana industry are included in the chart.

Prior to this fiscal year the Company made certain investments in equity, loans receivable, and royalties that were fully impaired as of December 31, 2017. These include loans of US \$2.8 million to Rich Extracts LLC and royalty investments of US \$807,000 in Cascadia Holdings LLC. The Company does not expect to collect on any of these investments and therefore considers them to be inactive. If the Company were to receive loan payments or royalty payments, as applicable, from any of these parties, the investment would be recorded as an interest at that time and at such time the Company's US cannabis involvement by way of its investment in any of Rich Extracts LLC or Cascadia Holdings LLC would be considered by the Company to be ancillary, indirect, or direct, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



Assets	Description	Classification	Investment Type	Geography	Jurisdiction
	Alta Supply Inc. distributes a wide range of cannabis products. It maintains a licensed facility in Oakland, California	Direct (Licensed Distributor)	Wholly owned subsidiary Total consideration was \$6.3 million	California	California
	Kaya Management Inc. is a licensed manufacturer of cannabis products from a licensed facility in Oakland, CA	Direct (Licensed manufacturer)	Wholly owned subsidiary Total consideration was \$7.3 million	California	California
	River Distribution is a licensed distributor of cannabis products in California	Direct (Licensed Distributor)	Wholly owned subsidiary Total consideration was approximately \$42.3 million	California	California
	FloraCal Farms is an ultra-premium, licensed cannabis cultivator in Sonoma County, CA.	Direct (Licensed Cultivator)	Wholly owned subsidiary Total consideration was approximately \$33.3 million	California	California
	Dreamcatcher is a technology, brand and IP company which designed a proprietary cartridge for the cannabis sector under the brand name GreenRock Botanicals.	Ancillary (Device and manufacturing IP)	Wholly owned subsidiary Total consideration was approximately \$6.0 million	California, Arizona	California
	EML is a marketing agency that provides marketing services to Origin House and other cannabis companies.	Ancillary (marketing services)	Wholly owned subsidiary Total consideration was approximately \$1.7 million	Canada, California	Canada
Cub City	Cub City is a premium, licensed cannabis cultivator in Sonoma County, CA.	Direct (Licensed Cultivator)	Wholly owned subsidiary Total consideration was approximately \$7.6 million	California	California
RESOLVE	Resolve Digital Health Inc. designs standardized dosing equipment for cannabis consumption.	Ancillary (Device intellectual property)	25.6% equity position Total consideration was \$2.5 million	Canada, Australia, United States	Canada



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



Assets	Description	Classification	Investment Type	Geography	Jurisdiction
	AltMed is a Florida-based company bringing pharma industry rigour to the development, production and dispensing of medical cannabis	Direct (Licensed cultivator and distributor)	5.1% equity position in AltMed, divested after quarter-end.  (See <i>Recent Developments</i> )	Arizona Florida	Arizona Florida
	Kurvana is a premium cannabis vape company.	Direct (Licenses manufacturer)	Up to \$13.4 million lending arrangement at 10% interest. \$2.7 million loaned as at June 30, 2019.	California	California



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### RESULTS OF OPERATIONS

The following tables set forth selected data from the consolidated statements of comprehensive (loss) income for the three and six months ended June 30, 2019 and June 30, 2018:

	Three months ended June 30			Six months ended June 30		
	2019	2018	% change	2019	2018	% change
<b>Consolidated statements of comprehensive (loss) income</b>						
Revenue	\$ 21,376,203	\$ 3,511,466	509%	\$ 32,537,364	\$ 4,154,903	683%
Gross margin, excluding fair value items	3,897,982	820,935	375%	5,414,757	791,305	584%
Gross margin, including fair value items	4,438,020	820,935	441%	6,090,747	791,305	670%
Operating expenses	23,467,862	6,280,216	274%	41,698,296	10,760,230	288%
Loss from operations	(19,029,842)	(5,459,281)	249%	(35,607,549)	(9,968,925)	257%
Net (loss) income	(34,902,333)	9,298,488	(475%)	(52,336,613)	4,644,015	(1227%)
Other comprehensive (loss) income	(5,334,252)	698,464	(864%)	(5,853,957)	1,244,069	(571%)
Total comprehensive (loss) income	(40,236,585)	9,996,952	(502%)	(58,190,570)	5,888,084	(1088%)
Net (loss) income attributable to owners of the Company	(34,535,980)	9,200,127	(475%)	(51,672,286)	4,571,124	(1230%)
Net (loss) income per common share - basic	(0.47)	0.18	(361%)	(0.73)	0.10	(830%)
Net (loss) income per common share - diluted	(0.47)	0.17	(381%)	(0.73)	0.09	(933%)
Weighted average common shares - basic	73,821,839	51,560,197	43%	71,215,343	48,536,866	47%
Weighted average common shares - diluted	73,821,839	55,308,327	33%	71,215,343	52,462,527	36%

The Company operates across the following segments:

- 1) The Corporate segment derives income from non-operating investments and services and encompasses the Company's corporate, strategic, and administrative activities.
- 2) The California Operations segment combines the Company's cultivation, manufacturing, and distribution businesses, located within California.
- 3) The Canadian Operations segment derives revenues from retail, online, wholesale, and franchise activities.
- 4) The Trichome segment consists of the operating activities of the Trichome Financial Corp. subsidiary. This subsidiary provides hard asset lending services to cannabis companies.

The following tables set forth selected data by segment for the three months ended June 30, 2019:

	Canadian operations segment	Corporate segment	California operations segment	Trichome	Consolidated
Revenues <sup>1</sup>	\$ 4,097,510	\$ 29,999	\$ 17,073,462	\$ 175,232	\$ 21,376,203
Net loss before tax	(8,230,740)	(17,845,501)	(8,692,825)	(971,617)	(35,740,683)
Current tax recovery (expense)	100,544	32,633	(422,123)	-	(288,946)
Depreciation of property, plant and equipment	(52,642)	(61,317)	(620,785)	-	(734,744)
Depreciation of right-of-use assets	(291,131)	(63,432)	(430,058)	-	(784,621)
Interest revenue	1,184	2,947	181,886	175,232	361,249
Interest expense	(344,995)	(254,786)	(397,934)	(461,134)	(1,458,849)
Loss on investments	-	(6,976,548)	-	-	(6,976,548)
Revaluation of acquisition related contingent consideration	(6,463,136)	-	-	-	(6,463,136)
Accelerated amortization of deferred financing fees	-	(954,033)	-	-	(954,033)
<b>Segment assets</b>	<b>49,730,374</b>	<b>20,933,368</b>	<b>165,660,997</b>	<b>22,494,722</b>	<b>258,819,461</b>
Equity accounted investments	-	1,273,697	-	-	1,273,697
Capital expenditures	182,536	40,243	5,011,827	-	5,234,606

<sup>1</sup> All revenues reported are from external customers



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The following tables set forth selected data by segment for the six months ended June 30, 2019:

	Canadian operations segment	Corporate segment	California operations segment	Trichome	Consolidated
<b>Revenues<sup>1</sup></b>	\$ 5,662,791	\$ 236,955	\$ 26,375,403	\$ 262,215	\$ 32,537,364
<b>Net loss before tax</b>	<b>(8,699,802)</b>	<b>(24,548,749)</b>	<b>(18,199,194)</b>	<b>(2,078,632)</b>	<b>(53,526,377)</b>
Current tax recovery (expense)	190,985	32,633	(422,123)	-	(198,505)
Depreciation of property, plant and equipment	(73,120)	(96,528)	(993,638)	-	(1,163,286)
Depreciation of right-of-use assets	(388,144)	(126,864)	(800,565)	-	(1,315,573)
Interest revenue	1,622	176,096	205,514	262,215	645,447
Interest expense	(415,745)	(575,715)	(739,467)	(904,182)	(2,635,109)
Loss on investments	-	(7,095,744)	-	-	(7,095,744)
Revaluation of acquisition related contingent consideration	(6,463,136)	-	-	-	(6,463,136)
Accelerated amortization of deferred financing fees	-	(954,033)	-	-	(954,033)
<b>Segment assets</b>	<b>49,730,374</b>	<b>20,933,368</b>	<b>165,660,997</b>	<b>22,494,722</b>	<b>258,819,461</b>
Equity accounted investments	-	1,273,697	-	-	1,273,697
Capital expenditures	260,036	79,446	7,681,858	-	8,021,340

<sup>1</sup> All revenues reported are from external customers

## REVENUE

The following is a summary of the Company's revenue by type for the three and six months ended June 30, 2019 and June 30, 2018:

	Three months ended			Six months ended		
	June 30, 2019	June 30, 2018	% Change	June 30, 2019	June 30, 2018	% Change
<i>California Operations segment</i>						
Product sales	\$ 16,911,449	\$ 3,110,617	444%	\$ 26,151,406	\$ 3,195,390	718%
Interest and other income	162,013	-	-	223,998	-	-
<i>Canadian Operations segment</i>						
Product sales	3,889,277	-	-	5,443,292	-	-
Royalties	67,063	-	-	78,329	-	-
Interest and other income	141,169	-	-	141,169	-	-
<i>Corporate segment</i>						
Services	27,053	238,344	(89%)	60,859	668,161	(91%)
Royalties	-	137,189	(100%)	-	256,247	(100%)
Interest and other income	2,947	21,754	(86%)	176,096	31,543	458%
<i>Trichome segment</i>						
Interest and other income	175,232	3,562	4820%	262,215	3,562	7262%
	\$ 21,376,203	\$ 3,511,466	509%	\$ 32,537,364	\$ 4,154,903	683%

### Product sales

Product sales within the California Operations segment increased in the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 due to the impact of acquisitions. The Company acquired Kaya and Alta in March 2018, FloraCal in July 2018, RVR in September 2018, and 180 Smoke in February 2019. Cub City, acquired in May 2019, is completing construction of its cannabis cultivation facility and cannabis sales from this facility are expected to commence in Fall 2019.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The California Operations segment's product sales continued to grow organically in the second quarter of 2019 from new customers and in-demand suppliers. Product sales within this operating segment consist primarily of cannabis flower, pre-rolls, vaporizer cartridges and edibles. Notable brands sold include FloraCal, Bhang, King's Garden, Utopia, Kurvana, Humboldt's Finest, Biscotti, Ionic, Papa's Herb and Viola, among others.

The Canadian Operations segment derives product sales from retail, wholesale, and online sales of nicotine vape and vape accessories through 180 Smoke. Sales include a mix of in-house brands and popular third-party brands. The Company plans to convert a portion of 180 Smoke's product sales into retail cannabis sales, however, this goal is subject to the Company's ability to obtain retail licenses.

### *Service revenues*

Service revenues have traditionally been from advisory activities relating to capital markets expertise provided in connection with clients' equity financing initiatives as well as third-party marketing services provided by the Company's EML subsidiary. The decrease from the comparative three-and six-month periods ended June 30, 2018 relates primarily to services provided for capital markets expertise and strategic financing, which have not been an area of focus for the Company in 2019.

### *Interest income*

Interest income increased for the three-and six-month periods ended June 30, 2019, as compared to the same periods in 2018, due to loans issued to Kurvana and Heritage Holding of California, Inc. d/b/a Henry's Original ("Henry's") within the California Operations segment, as well as interest earned on cash balances within the Corporate segment.

Trichome's revenues increased due to higher lending activity in the three and six months ended June 30, 2019, as compared to the same periods in 2018. Interest income was generated primarily on loans extended to Canadian licensed producers MYM, Blissco, and JWC, as well as an Ontario retail licence holder CGS d/b/a Ganjika House.

### *Royalty revenue*

Royalty revenue for the three and six months ended June 30, 2019 relates to royalties earned through franchise locations in the Company's Canadian Operations segment.

Royalty revenue for the three and six months ended June 30, 2018 relates to royalties earned through the Company's royalty arrangement with RVR.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### COST OF SALES

The following table represents the costs of sales by revenue type for the three-and six-month periods ended June 30, 2019 and June 30, 2018:

	Three months ended			Six months ended		
	June 30, 2019	June 30, 2018	% Change	June 30, 2019	June 30, 2018	% Change
<i>California Operations segment</i>						
Cost of product sales	\$ 14,787,607	\$ 2,378,378	522%	\$ 23,555,501	\$ 2,454,052	860%
<i>Canadian Operations segment</i>						
Cost of product sales	2,681,145	-	-	3,531,854	-	-
<i>Corporate segment</i>						
Cost of services	9,469	60,000	(84%)	18,214	269,023	(93%)
Cost of royalties	-	252,153	(100%)	17,038	640,523	(97%)
	\$ 17,478,221	\$ 2,690,531	550%	\$ 27,122,607	\$ 3,363,598	706%

#### *Cost of product sales*

For the three-and six-month periods ended June 30, 2019, the cost of product sales increased due to wholesale product costs driven by Continuum (formerly Alta and RVR) distribution sales, manufacturing costs related to sales generated by Kaya, production costs related to FloraCal cultivation activities, and sales of retail and wholesale products by 180 Smoke.

Excluded from cost of product sales, as presented above, are fair value impacts from cultivation activities within the California Operations segment recorded under IAS 41 – *Agriculture*. These impacts include realized fair value amounts of inventory sold totalling \$1.8 million (2018 – nil) and \$2.8 million (2018 – nil) for the three and six months ended June 30, 2019, respectively. In addition, impacts related to unrealized fair value gains on growth of biological assets totalling \$2.4 million (2018 – nil) and \$3.5 million (2018 – nil), for the three and six months ended June 30, 2019, respectively.

#### *Cost of service revenues*

Cost of service revenues are associated with labor costs for marketing, branding, and promotional services to external customers, and costs incurred for external providers used to provide financing related advisory services with the Company's Corporate segment.

#### *Cost of royalty revenues*

Cost of royalty revenue for the three and six months ended June 30, 2019 and 2018 relates to amortization of royalty costs in connection with the Company's royalty arrangement with RVR and NuTrae.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### GROSS MARGINS

The following tables represent the gross margin amounts and percentages for the three-and six-month periods ended June 30, 2019 and June 30, 2018:

	Three months ended			Six months ended		
	June 30, 2019	June 30, 2018	% Change	June 30, 2019	June 30, 2018	% Change
<i>California Operations segment</i>						
Product sales	\$ 2,123,842	\$ 732,239	190%	\$ 2,595,905	\$ 741,338	250%
Interest and other income	162,013	-	-	223,998	-	-
<i>Canadian Operations Segment</i>						
Product sales	1,208,132	-	-	1,911,438	-	-
Royalties	67,063	-	-	78,329	-	-
Interest and other income	141,169	-	-	141,169	-	-
<i>Corporate segment</i>						
Services	17,584	178,344	(90%)	42,645	399,138	(89%)
Royalties	-	(114,964)	(100%)	(17,038)	(384,276)	(96%)
Interest and other income	2,947	21,754	(86%)	176,096	31,543	458%
<i>Trichome segment</i>						
Interest and other income	175,232	3,562	48.20	262,215	3,562	72.62
	<b>3,897,982</b>	<b>820,935</b>	<b>375%</b>	<b>5,414,757</b>	<b>791,305</b>	<b>584%</b>
Realized fair value amount of inventory sold	(1,849,594)	-	-	(2,820,737)	-	-
Unrealized fair value gain on biological assets	2,389,632	-	-	3,496,727	-	-
<b>Gross profit</b>	<b>\$ 4,438,020</b>	<b>\$ 820,935</b>	<b>441%</b>	<b>\$ 6,090,747</b>	<b>\$ 791,305</b>	<b>670%</b>

	Three months ended			Six months ended		
	June 30, 2019	June 30, 2018	% Change	June 30, 2019	June 30, 2018	% Change
<i>California Operations segment</i>						
Product sales	13%	24%	(47%)	10%	23%	(57%)
Interest and other income	100%	-	-	100%	-	-
<i>Canadian Operations Segment</i>						
Product sales	31%	-	-	35%	-	-
Royalties	100%	-	-	100%	-	-
Interest and other income	100%	-	-	100%	-	-
<i>Corporate segment</i>						
Services	65%	75%	(13%)	70%	60%	17%
Royalties	-	(84%)	(100%)	-	(150%)	(100%)
Interest and other income	100%	100%	-	100%	100%	-
<i>Trichome segment</i>						
Interest and other income	100%	100%	-	100%	100%	-
	<b>18%</b>	<b>23%</b>	<b>(22%)</b>	<b>17%</b>	<b>19%</b>	<b>(13%)</b>
Effects on change in fair value of biological assets on gross margin	3%	-	-	2%	-	-
<b>Gross margin</b>	<b>21%</b>	<b>23%</b>	<b>(11%)</b>	<b>19%</b>	<b>19%</b>	<b>-</b>

#### Product sales gross margin

Gross margin on product sales within the California Operations Segment increased for the three-and six-month periods ended June 30, 2019 as compared to the three-month period ended June 30, 2018. Gross margin increased primarily due to the impact of acquisitions during 2018 and 2019. In addition, sales volumes increased within the California Operations segment, leading to higher gross margins. The gross margin percentage decreased due to competition within the market, which is more developed in 2019 than in 2018, as well as product mix.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The acquisition of 180 Smoke added gross margins within the Canadian Operations segment. 180 Smoke increased overall gross margins due to the higher-margin nature of retail sales.

### OPERATING EXPENSES

The following tables represent operating expenses by segment for the three-and six-month periods ended June 30, 2019:

	Three months ended			Six months ended		
	June 30, 2019	June 30, 2018	% Change	June 30, 2019	June 30, 2018	% Change
<i>California Operations segment</i>						
Sales and marketing	\$ 4,421,132	\$ 276,683	1498%	\$ 8,135,553	\$ 369,247	2103%
Research and product development	897,936	39,875	2152%	1,684,161	43,025	3814%
General and administrative	4,490,766	588,967	662%	8,721,080	799,966	990%
Amortization of intangibles	1,637,440	507,421	223%	3,154,344	661,064	377%
<i>Canadian Operations segment</i>						
Sales and marketing	1,591,513	-	-	2,198,855	-	-
General and administrative	1,033,108	-	-	1,340,671	-	-
Amortization of intangibles	278,402	-	-	403,836	-	-
<i>Corporate segment</i>						
Sales and marketing	48,114	935,445	(95%)	168,231	1,321,397	(87%)
Research and product development	-	35,570	(100%)	-	108,385	(100%)
General and administrative	8,244,385	3,697,403	123%	14,334,045	7,199,033	99%
Amortization of intangibles	-	21,646	(100%)	-	43,110	(100%)
<i>Trichome segment</i>						
Sales and marketing	1,028	6,938	(85%)	4,130	6,938	(40%)
General and administrative	824,038	170,268	384%	1,553,390	208,065	647%
	\$ 23,467,862	\$ 6,280,216	274%	\$ 41,698,296	\$ 10,760,230	288%

The following table represents operating expenses on a consolidated basis for the three-and six-month periods ended June 30, 2019 and June 30, 2018:

	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Sales and marketing	\$ 6,061,787	\$ 1,219,066	397%	\$ 10,506,769	\$ 1,697,582	519%
Research and product development	897,936	75,445	1090%	1,684,161	151,410	1090%
General and administrative	14,592,297	4,456,638	227%	25,949,186	8,207,064	227%
Amortization of intangibles	1,915,842	529,067	262%	3,558,180	704,174	262%
<b>Total</b>	<b>\$ 23,467,862</b>	<b>\$ 6,280,216</b>	<b>274%</b>	<b>\$ 41,698,296</b>	<b>\$ 10,760,230</b>	<b>288%</b>

Total operating expenses increased for the three-and six-month periods ended June 30, 2019 as compared to the three-and six-month periods ended June 30, 2018 primarily due to:

- The acquisitions of Kaya, Alta, FloraCal, RVR, 180 Smoke, and Cub City which added operational costs and employees.
- Approximately \$2.1 million and \$2.4 million, for the three and six months ended, respectively, related to legal, regulatory, advisory, and other costs associated with the Arrangement with Cresco.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



- Operational expansion in California and corporate expansion in Canada to support and grow acquired assets.
- RTO and expansion costs of the Trichome operating segment. Overall, Trichome added \$0.6 million in additional operating expenses.
- Higher amortization on intangible assets acquired. Amortization of intangibles was \$1.4 million higher for the three months ended June 2019, and \$2.9 million higher for the six months ended June 30, 2019, as compared to same periods in 2018.
- Depreciation related to phase 1 of FloraCal's cultivation facility expansion, as well as other property, plant, and equipment acquired through acquisitions. Depreciation was \$0.6 million higher for the three months ended June 2019, and \$1.0 million higher for the six months ended June 30, 2019, as compared to same periods in 2018.

Sales and marketing ("S&M") expenses increased for the three-and six-month periods ended June 30, 2019 as compared to the three-and six-month periods ended June 30, 2018 to support and market Origin House and supplier brands in California and Canada. During the three-month period ended June 30, 2019, selling costs, including warehouse and delivery costs for distribution activities were incurred through Continuum and 180 Smoke.

Research and product development ("R&D") expenses increased for the three-and six-month periods ended June 30, 2019 compared to the three-and six-month periods ended June 30, 2018 due to the Company's strategy in California, which has resulted in more investment in product and brand development.

General and administrative ("G&A") expenses increased for the three-and six-month periods ended June 30, 2019 compared to the three-and six-month periods ended June 30, 2018 due to an expanding asset base and significant hiring initiatives, mostly in the final quarter of 2018 and first quarter of 2019. G&A costs include employees across corporate support functions, strategy, sales, and operations management, as well as increased compliance, legal, and advisory costs related to ongoing acquisition and licensing activities. During the three and six months ended June 30, 2019, the Company's headcount increased from 360 to 370, and 182 to 370, respectively. For the three and six months ended June 30, 2019, G&A costs included \$2.1 million and \$2.4 million, respectively, in transaction costs relating to legal, regulatory, advisory, and other fees in connection with the Arrangement with Cresco.

Increased amortization for the three-and six-month periods ended June 30, 2019 compared to the three-and six-month periods ended June 30, 2018 relates primarily to the addition of new intangible assets that were acquired since early 2018, namely those acquired from Kaya and Alta in March 2018, FloraCal in July 2018, RVR in September 2018, 180 Smoke in February 2019, and Cub City in May 2019.



### Share-based compensation

Share-based compensation, a non-cash expense, was \$0.7 million and \$1.4 million for the three-and six-month periods ended June 30, 2019, as compared to \$1.1 million and \$3.1 million for the three-and six-months periods ended June 30, 2018, respectively.

In the first quarter of 2018, additional expenses were incurred due to Restricted Share Units ("RSUs") granted, which had a quarter of its shares vest within one month of grant. RSUs were first issued in April 2016. Since the beginning of fiscal 2018, most Origin House share-based grants have been in the form of share options.

The RSU expenses mostly relate to shares issued under a share unit plan whereby the executive team, the founding members of the Board of Directors, and select employees were granted RSUs that continued to vest in the three-and six-month periods June 30, 2019 as service conditions were reached. For these RSUs, one-third or one-quarter of the shares vested immediately or within one month upon issuance.

During the second quarter of fiscal 2019, 232,500 performance-based RSUs were granted and will vest equally over a four-year period based on the achievement of annual performance targets set by management of the company. The expense for the period was determined based on the probability of achieving set targets determined by observation of performance levels attained by similar employees in the prior annual period. Total expense recorded for these RSUs was \$201,957.

The Company's subsidiary, Trichome, also issued share-based compensation in shares of Trichome. These costs are included within the consolidated share-based compensation expense. Share-based compensation expense related to Trichome totalled \$0.2 million and \$0.4 million for the three-and six-month periods ended June 30, 2019, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### OTHER INCOME AND EXPENSES

	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
<i>California operations segment</i>						
Post combination remuneration	\$ (203,071)	\$ -	-	\$ (380,324)	\$ -	-
Impairment of loans receivable	(400,080)	-	-	(400,080)	-	-
Interest expense	(389,666)	-	-	(692,497)	-	-
<i>Canadian operations segment</i>						
Revaluation of acquisition related contingent consideration	(6,463,136)	-	-	(6,463,136)	-	-
Interest expense	(57,236)	-	-	(415,745)	-	-
<i>Corporate segment</i>						
Changes in fair value of investments	(6,976,548)	15,222,971	(146%)	(7,095,744)	15,565,077	(146%)
Impairment of loans receivable	(70,015)	-	-	(70,015)	-	-
Gain on investments	-	-	-	174,773	-	-
Accelerated amortization of deferred financing fees	(954,033)	-	-	(954,033)	-	-
Impairment of convertible notes receivable	186,704	-	-	186,704	(375,472)	(150%)
Gain on disposal of royalty investments	-	-	-	383,869	-	-
Loss from equity accounted investees, net of tax	(212,366)	(295,246)	(28%)	(436,338)	158,558	(375%)
Foreign exchange (loss) gain	(123,939)	111,145	(212%)	(196,286)	35,115	(659%)
Interest expense	(550,813)	(341,293)	61%	(622,686)	(661,283)	(6%)
<i>Trichome segment</i>						
Fair value loss on warrants	(35,508)	-	-	(33,109)	-	-
Penalties for non-completion of share swap transaction	-	-	-	-	-	-
Interest expense	(461,134)	-	-	(904,181)	-	-
<b>Total</b>	<b>\$ (16,710,841)</b>	<b>\$ 14,697,577</b>	<b>(214%)</b>	<b>\$ (17,918,828)</b>	<b>\$ 14,721,995</b>	<b>(222%)</b>

Significant portions of other income are non-recurring or one-time in nature and will vary across reporting periods. The primary elements of Other Income and Expenses are as follows:

#### *Revaluation of acquisition related contingent consideration*

Under IFRS 3 *Business Combinations*, contingent consideration that is settled in a variable number of shares is treated as a liability and remeasured each quarter under IFRS. A significant portion of the contingent consideration within the 180 Smoke acquisition is settled in a variable number of shares, and was therefore recorded as a liability, and must be remeasured each quarter.

The 180 Smoke contingent consideration accelerates upon a change in control of Origin House. As such, the Company remeasured the contingent consideration, which resulted in a significant increase to other expenses of \$6.5 million.



### *Changes in fair value of investments*

During the three-and six-month periods ended June 30, 2019, the Company recorded a net fair value loss on its investments. The loss was primarily driven by revaluation of the AltMed investment, due to its sale in July 2019 in connection with the Arrangement with Cresco. The discounted sale price for the AltMed investment was influenced by the following factors:

- The short timeline available for the Company to sell the investment in AltMed. Cresco is prohibited from holding ownership in more than one licenced cannabis entity in Florida due to regulatory requirements within the state. The sale of AltMed was a condition of closing the Arrangement.
- Origin House was solely seeking buyers willing to pay cash.
- The overall decline in comparable valuations of public cannabis companies, with many cannabis companies seeing a decrease in market valuations of 20% to 30% between April and July 2019.

In the second quarter of 2018, the Company had gains of \$15.3 million related to its investment in Anandia.

### *Accelerated amortization of deferred financing fees*

In connection with the Sprott Inc. ("Sprott") line of credit ("Sprott Line") in 2017, Origin House issued Sprott 1,800,000 non-transferable common share purchase warrants, valued at \$1,922,400. The warrants were recorded as a transaction cost, which offset the line of credit balance. The transaction cost was to be amortized on a straight-line basis over the three-year term of the Sprott Line, with a remaining unamortized balance of \$1.0 million in the second quarter of 2019. In June 2019, the Company replaced the Sprott Line with the OCN Loan. As a result, the unamortized portion of the Sprott Line was derecognized, and a \$1.0 million, non-cash loss was recorded within other expenses.



### *Post combination remuneration*

In connection with the acquisition of FloraCal, certain cash consideration to be issued in future periods is considered post-combination remuneration, resulting in post-combination remuneration expenses in the second quarter of 2019.

### *Impairment of loan receivable*

On July 18, 2019, Henry's paid a portion of the balance owed on its loan receivable. The Company recorded an impairment charge on the loan of \$400,080.

### *Loss from equity accounted investees net of tax*

The Company's loss from equity accounted investees was primarily driven by a loss incurred by an associate company still in early stages of development. This loss resulted from a proportionate net loss pickup from equity accounted investees of \$0.2 million in the three months ended June 30, 2019 as compared to a proportionate net loss of \$0.3 million in the three months ended June 30, 2018.

### *Interest expense*

The Company incurred higher interest expense in the current quarter due to a number of factors. The increase was primarily related to the Class A preferred shares issued by Trichome in the third quarter of 2018, which are liability-classified. These Class A preferred shares added \$0.5 million and \$0.9 million to interest expense for the three and six months ended June 30, 2019, respectively. The Trichome interest expense will cease upon Trichome's RTO.

Due to the implementation of IFRS 16 *Leases* in 2019, the Company recorded additional interest expense on capitalized leases, resulting in \$0.6 million and \$1.0 million in additional interest expense for the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018.

## **DEFERRED TAX RECOVERY**

The Company realized a deferred tax recovery of \$1.1 million and \$1.4 million and during the three-and six-month periods ended June 30, 2019, respectively, as compared to a recovery of \$0.2 million and \$0.01 million for the three-and six-month periods ended June 30, 2018, respectively. The increase in the recovery amount is due to the additional deferred tax recovery on intangibles assets acquired in the Company's 2018 and 2019 acquisitions, as well as future loss carry forwards from the Company's operations in California which can offset deferred tax liabilities in these operations. This was partially offset during the six-month period by the derecognition of a deferred tax asset of \$0.4 million which was reversed when the conversion feature on the convertible debt was triggered and accelerated in March 2019.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### NET LOSS AND LOSS PER SHARE

Net loss for the three-and six-month periods ended June 30, 2019, increased to \$34.9 million and \$52.3 million, respectively, as compared to net income of \$9.3 million and \$4.6 million, respectively, for the three-and six-month periods ended June 30, 2018.

The Company's net loss increased for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018, primarily due to the following factors:

Related to Arrangement with Cresco:

- As a condition of the Arrangement with Cresco, the Company sold its investment in AltMed for \$7.9 million (US \$6.0M) resulting in a revaluation loss of \$7.0 million from AltMed's book value at March 31, 2019 of \$14.9 million (US \$11.2 million). This is contrasted with a gain of \$15.3 million related to the Company's investment in Anandia in the second quarter of 2018.
- In connection with the Arrangement with Cresco, the Company recognized a \$6.5 million non-cash, revaluation adjustment to account for an acceleration of the 180 Smoke contingent shares, subject to an acceleration provision upon a change in control of Origin House.
- The Company expensed \$2.1 million in legal, regulatory, advisory, and other fees in connection with the Arrangement with Cresco.

Related to existing operations:

- Acquired companies, which are in the process of expansion, do not yet have sufficient revenues to offset operating expenses. Expansion efforts include:
  - Completing construction at FloraCal. Phase 2 of construction was completed in July 2019, and Phase 3 is expected to be completed by the first quarter of 2020. Overall, cultivation capacity will increase by approximately 3x from levels in the second quarter of 2019 once construction is completed.
  - Planned expansion of a new facility for Kaya, expected to increase floorspace by approximately 2x.
  - Completing a remodel at Cub City's cultivation facility, expected to be a 24,600 square foot facility when complete in September 2019.

Due to the increase in net losses and increased shares issued in financings and acquisitions, the Company's basic loss per share increased to \$0.47 and \$0.73 for the three-and six-month periods ended June 30, 2019, respectively, as compared to earnings per share of \$0.18 and \$0.10 for the three-and six-month periods ended June 30, 2018, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### OTHER COMPREHENSIVE (LOSS) INCOME

For both the three-and six-month periods ended June 30, 2019, other comprehensive (loss) income increased significantly in the second quarter of fiscal 2019 as compared to the second quarter of fiscal 2018 due to foreign currency translation adjustments in connection with the Company's increased activities in U.S. dollars.

### EBITDA AND ADJUSTED EBITDA

EBITDA and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, the Company's method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation. Management defines Adjusted EBITDA as EBITDA adjusted for other non-cash items such as the impacts of biological asset realized and unrealized fair values under IAS 41, share-based compensation expense, impairments, and one-time gains and losses. Certain comparative amounts have been reclassified to conform to the current presentation. We caution readers that Adjusted EBITDA should not be substituted for determining net loss as an indicator of operating results or as a substitute for cash flows from operating and investing activities.

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<i>Add (Subtract)</i>				
<b>Net loss for the period</b>	\$ (34,902,333)	\$ 9,298,488	\$ (52,336,613)	\$ 4,644,015
Depreciation of property and equipment	734,744	80,530	1,163,286	125,798
Amortization of intangible assets	1,915,842	537,306	3,558,180	704,174
Amortization of royalty investments	-	252,153	17,038	640,523
Amortization of right of use assets	784,621	-	1,315,573	-
Interest expense	1,458,849	341,293	2,635,109	661,283
Interest income	(361,249)	(25,316)	(645,447)	(35,105)
Current income taxes	288,946	115,898	198,505	116,332
Deferred income tax recovery	(1,127,296)	(176,090)	(1,388,269)	(7,277)
<b>EBITDA</b>	<b>(31,207,876)</b>	<b>10,424,262</b>	<b>(45,482,638)</b>	<b>6,849,743</b>
Recovery of convertible notes receivable	(186,704)	-	(186,704)	-
Post combination remuneration	203,071	-	380,324	-
Realized fair value amounts included in inventory sold	1,849,594	-	2,820,737	-
Unrealized fair value gain on growth of biological assets	(2,389,632)	-	(3,496,727)	-
Recovery on Achelois inventory	-	(441,370)	-	(441,370)
Impairment of loans receivable	470,095	-	470,095	-
Share-based compensation	688,842	1,092,235	1,361,162	3,032,278
Transaction costs on acquisitions	-	-	495,559	282,126
Cresco acquisition related costs	2,139,395	-	2,369,395	-
Revaluation of non-cash contingent consideration	6,463,136	-	6,463,136	-
Accelerated amortization of deferred financing fees	954,033	-	954,033	-
<b>TOTAL ADJUSTED EBITDA</b>	<b>\$ (21,016,046)</b>	<b>\$ 11,075,127</b>	<b>\$ (33,851,628)</b>	<b>\$ 9,722,777</b>
Weighted average number of common shares outstanding - basic	73,821,839	51,560,197	71,215,343	48,536,866
Weighted average number of common shares outstanding - diluted	73,821,839	55,308,327	71,215,343	52,462,527
<b>ADJUSTED EBITDA per share - basic</b>	<b>(0.28)</b>	<b>0.21</b>	<b>(0.48)</b>	<b>0.20</b>
<b>ADJUSTED EBITDA per share - diluted</b>	<b>(0.28)</b>	<b>0.20</b>	<b>(0.48)</b>	<b>0.19</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### SELECTED CONSOLIDATED QUARTERLY RESULTS

	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019
Revenue	744,302	1,072,399	643,437	3,511,466	6,623,998	7,914,049	11,161,161	<b>21,376,203</b>
Gross margin, excluding fair value items	128,010	111,465	(29,630)	820,935	508,396	208,250	1,516,775	<b>3,897,982</b>
Fair value adjustments on biological assets	-	-	-	-	(209,777)	(206,844)	135,952	<b>540,038</b>
Operating expenses	2,834,939	4,631,512	4,480,014	6,280,216	10,064,130	15,413,769	18,230,434	<b>23,467,862</b>
Loss from operations	(2,706,929)	(4,520,047)	(4,509,644)	(5,459,281)	(9,765,511)	(15,412,363)	(16,577,707)	<b>(19,029,842)</b>
Net (loss) income	(3,295,477)	(1,248,719)	(4,654,473)	9,298,488	(7,502,098)	(6,175,650)	(17,434,280)	<b>(34,902,333)</b>
Comprehensive (loss) income	(3,618,961)	(1,318,057)	(4,108,868)	9,996,952	(9,265,872)	1,062,861	(20,481,885)	<b>(40,236,585)</b>
Net (loss) income per share - basic	(0.08)	(0.03)	(0.10)	0.18	(0.12)	(0.09)	(0.25)	<b>(0.47)</b>
Weighted average shares - basic	42,156,344	42,876,608	45,075,695	51,560,197	57,621,347	63,110,849	68,579,886	<b>73,821,839</b>
Net (loss) income per share - diluted	(0.08)	(0.03)	(0.10)	0.17	(0.12)	(0.09)	(0.25)	<b>(0.47)</b>
Weighted average shares - diluted	42,156,344	42,876,608	45,075,695	55,308,327	57,621,347	63,110,849	68,579,886	<b>73,821,839</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### FINANCIAL POSITION

The following table sets forth consolidated statement of financial position data at June 30, 2019 and December 31, 2018:

	June 30 2019	December 31 2018	Change	% Change
<b>Selected consolidated statement of financial position data</b>				
Cash and cash equivalents	\$ 14,781,857	\$ 69,206,193	\$ (54,424,336)	(79%)
Restricted cash	8,248,598	-	8,248,598	
Working capital	(5,830,927)	59,810,772	(65,641,699)	(110%)
Total investments (1)	13,204,864	21,741,531	(8,536,667)	(39%)
Total assets	258,819,461	230,698,045	28,121,416	12%
Long term and convertible debt	-	16,026,098	(16,026,098)	(100%)
Shareholders' equity	162,953,361	172,972,132	(10,018,771)	(6%)
Dividend per share	-	-	-	

(1) This represents the sum of investments, royalty investments, and interests in equity method investees

- Cash decreased due to operating cash flows used to support the operational and working capital needs of acquired businesses, lending and Brand Accelerator activities, as well as expansion of corporate support functions. In addition, funds were used for capacity expansion through investments in FloraCal and Cub City's cultivation facilities and through increasing the number of 180 Smoke retail locations. Moreover, the Company used cash to fund transaction costs related to the Arrangement with Cresco, however, has not raised significant additional cash outside of the first tranche of the OCN Loan.
- Restricted cash related to deposits received in connection with Trichome's private placement was removed from cash and cash equivalents.
- Working capital decreased due to a reduced cash position, cash consideration payable from the Cub City and FloraCal acquisitions, increased short-term lending, new lease obligations under IFRS 16 *Leases*, and increases in trade accounts payable. In addition, due to the Arrangement with Cresco, \$9.3 million of purchase consideration in the 180 Smoke acquisition was recorded as a current liability.
- Total investments decreased due to revaluation of the Company's investment in AltMed.
- Total assets increased largely due to tangible and intangible asset additions from the acquisition of 180 Smoke and Cub City, as well as new right-of-use assets under IFRS 16 *Leases*.
- Shareholders' equity decreased largely due to an increased accumulated deficit.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### LIQUIDITY

The Company's objectives in managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, acquisition, organic growth, expansion, and contractual requirements. The Company monitors its liquidity primarily by focusing on total liquid assets and working capital, as well as forecasting expected spending and investments.

#### *Arrangement with Cresco*

The Company cancelled plans to obtain new financing in the second quarter of 2019 due to it entering into the Arrangement with Cresco. The close of the Arrangement was originally anticipated to occur in June 2019 but was delayed due to Second Requests received from the DOJ. The delayed close of the Arrangement and cash used in expanding operations in California and Canada, have led to decreased liquidity compared to the Company's historical levels.

The table below sets out relevant liquidity related financial information at June 30, 2019 and December 31, 2018:

	June 30 2019	December 31 2018
Cash and cash equivalents	\$ 14,781,857	\$ 69,206,193
Liquid assets (1)	37,283,232	80,353,704
Quick ratio (2)	0.59	3.07
Working capital	(5,830,927)	59,810,772
Working capital ratio (3)	0.91	3.29
Convertible debt	-	16,030,312
Drawn against secured credit facility (4)	3,500,000	-
Secured credit facility available	8,500,000	12,000,000

(1) Liquid assets include cash, amounts receivable, and inventory

(2) Quick ratio is defined as liquid assets divided by current liabilities

(3) Working capital ratio is defined as current assets divided by current liabilities

(4) Drawn amount excludes commitment fee of \$600,000

The Company's level of liquid assets is relevant to meet its current operating needs and it uses the quick ratio to measure its short-term liquidity.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The Company's quick ratio, working capital, and liquid asset metrics decreased due to the investment of cash into long-term assets such as a facility expansion at FloraCal and Cub City, and retail footprint expansion at 180 Smoke. The Company also invested cash in the form of loans, which further converted short-term cash into long-term assets. The quick ratio and liquid asset metrics were further reduced by increased accounts payable from the acquisition of 180 Smoke and Cub City, increased operating activities of the Company, as well as significant short-term deposits collected by Trichome in its private placement, which are liability-classified and recorded as restricted cash. Lastly, due to the Arrangement with Cresco, \$9.3 million of purchase consideration in the 180 Smoke acquisition was recorded as a current liability.

The Company has incurred cash losses to date; however, management anticipates that eventual cash profitability should increase its liquid assets. At this relatively early stage of Origin House's development, and the cannabis industry in general, there cannot be absolute assurance that the Company will be able to generate sufficient positive cash flows to reach sustained profitability. The Company's objectives are to generate sufficient cash to fund its operations through increased economies of scale and vertically integrated operations.

Origin House monitors its level of working capital and working capital ratio to assess its ability to enter into strategic opportunities and providing start-up working capital to brand partners and its existing and future acquirees.

Through each of the Company's acquisitions, the Company has minimized its working capital needs via the use of share consideration as a significant element of overall purchase consideration. Beyond minimized cash used in purchase consideration, the Company will generally make significant capital investment outlays in its acquisitions to increase or accelerate their growth potential.

The Company has historically issued shares as the primary component of purchase consideration for acquisitions, however, there can be no assurance that the Company will be able to continue to finance its strategic opportunities via the issuance of shares.

The chart below highlights the Company's cash flows during the six-month periods ended June 30, 2019 and June 30, 2018:

	Six months ended	
	June 30, 2019	June 30, 2018
<b>Net cash provided (used) by</b>		
Operating activities	\$ (28,352,610)	\$ (6,350,876)
Financing activities	1,041,498	22,262,133
Investing activities	(23,314,444)	(4,766,885)
Effect on movements in foreign exchange on cash	(3,798,780)	57,829
Cash, beginning	69,206,193	4,522,644
<b>Cash, end</b>	<b>\$ 14,781,857</b>	<b>\$ 15,724,845</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### CASH USED IN OPERATING ACTIVITIES

Cash used in operating activities during the six-month period ended June 30, 2019 increased due to cash-based operating expenses, which in the current stage of the business, are not offset by sufficient gross margins. The Company used more cash from operations in the first two quarters of fiscal 2019 as compared to the first two quarters of fiscal 2018 primarily to fund its acquisitions and to support headcount growth in finance, legal, administrative, sales and marketing, as well as regulatory compliance roles to support expansion to drive further growth. A significant portion of operating cash flows were also used in transaction costs related to the Arrangement with Cresco.

### CASH FROM FINANCING ACTIVITIES

Cash provided by financing activities during the six months ended June 30, 2019 decreased by \$21.2 million as compared to the six months ended June 30, 2018 primarily due to \$15.6 million of proceeds from a bought deal financing completed in April 2018 and proceeds of \$7.4 million from the exercise of warrants in 2018. In the current period, there have been no proceeds from the exercise of warrants as nearly all warrants were accelerated prior to December 31, 2018. This decrease in cash was partially offset by a net raise of proceeds of \$2.9 million from an OCN Loan updated in June 2019 to replace the Company's Sprott line of credit. Further gross proceeds from the OCN Loan of \$8.5 million were received in July 2019.

The Company has not obtained any net new equity financing in anticipation of closing the Arrangement.

### CASH FROM (USED IN) INVESTING ACTIVITIES

Investing activities used cash of \$23.3 million during the six months ended June 30, 2019 in comparison to the six months ended June 30, 2018 during which investing activities used \$4.8 million in cash. The primary use of cash during the six months ended June 30, 2019, were loans and advances of \$12.1 million, the addition of property, plant and equipment of \$8.0 million, outflows of \$3.9 million related to the acquisitions of 180 Smoke and Cub City, which were offset by proceeds of \$0.8 million on the sale of investments. The majority of loans and advances relate to loans granted by Trichome and to Brand Accelerator partners. The majority of spending on property, plant and equipment relates to growth of the cultivation facilities at FloraCal and Cub City.

### FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its ability to raise additional funds through debt and/or equity financing to support expansion via acquisition, investment, continued operations, and to meet liabilities and commitments. Specifically, as of June 30, 2019, the Company has a history of losses with an accumulated deficit of \$86.7 million, share capital of \$211.3 million and working capital deficit of \$5.8 million. This compares to an accumulated deficit of \$35.2 million, share capital of \$154.2 million and working capital of \$59.8 million as at December 31, 2018.



### **CAPITAL ACTIVITIES**

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's equity and any debt it may issue. The Company manages its capital structure based on the funds available to support its activities. Upon approval from the Board, management will undertake to balance its overall capital structure through new share or debt issuances, or by undertaking other activities as deemed appropriate under specific circumstances including the divestiture of non-core assets.

The Company's principal capital needs are for funds to use towards its current investments, pipeline projects, upcoming product launches, expansion into new markets and general working capital requirements to support growth; these include the March 2018 acquisition of Kaya and Alta, the July 2018 acquisition of FloraCal, the September 2018 acquisition of RVR, the February 2019 acquisition of 180 Smoke, and the May 2019 acquisition of Cub City. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock and convertible debt.

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its investment growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed primarily of share capital of \$211.3 million. The Company's primary uses of capital are to invest in the expansion of its cultivation, manufacturing, and distribution footprint in California, in the commercialization of its brands and the development and acquisition of other branded products, as well as 180 Smoke in Canada. The Company also uses capital to finance operating losses, capital expenditures and increases in non-cash working capital. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to help build its investments to ultimately generate above market returns.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. To maximize flexibility to finance the Company's ongoing growth, Origin House does not currently pay a dividend to holders of its common shares. Other than refocusing efforts on its California expansion and moving away from passive investments which are now considered non-core, the Company did not institute any changes to its capital management strategy during this fiscal year.

### **Outstanding and potentially dilutive share count information**

The Company's authorized share capital is an unlimited number of common shares of which 67,530,615 were issued and outstanding as at June 30, 2019 (December 31, 2018 – 60,263,768 common shares).



Also issued were 3,017,498 RSUs that have not been exercised as at June 30, 2019 including 2,313,124 that have vested (December 31, 2018 – 3,431,210 including 2,551,839 that had vested). As of June 30, 2019, there are nil share purchase warrants and broker warrants outstanding that can potentially be converted to shares (December 31, 2018 – 12,938). The Company has issued 900,875 share options that have not been exercised as at June 30, 2019 including 401,500 that have vested (December 31, 2018 – 929,000 including 420,125 that had vested). A total of 1,483,680 common shares related to equity-classified milestones and up to an additional \$15.0 million in common shares related to liability-classified milestones may be issued in the acquisition of 180 Smoke over the next three years (December 31, 2018 – nil and \$nil). Upon a change in control of Origin House, the 180 Smoke milestone shares accelerate. The Company has outstanding 56,547 Class A Compressed Shares and 12,721 RPE shares which can each be converted into 100 common shares, or a total of 6,926,800 common shares (December 31, 2018 – 35,088 Class A and 21,001 RPE compressed shares convertible to 5,608,900 common shares). There are an additional 35,088 Class A Compressed Shares that can be issued upon meeting certain milestones and 35,000 RPE shares that may be issued over the next 24 months.

### **Normal Course Issuer Bid (“NCIB”)**

Subsequent to the close of the convertible debentures financing and after securing significant proceeds on the sale of investments, the Company decided to pursue a NCIB to repurchase its own shares. The decision was made in August 2018 after a careful evaluation of potential alternatives to deploy excess capital. The Company felt that it had raised sufficient capital to address foreseeable needs at the time.

Under the NCIB, the Company can purchase up to 5% of its issued and outstanding common shares. The NCIB commenced on August 14, 2018 and will terminate on the earlier of August 13, 2019 or the date on which the maximum number of common shares that can be acquired has been attained. Haywood Securities was appointed as the Company’s broker to conduct the NCIB on its behalf and has been instructed to execute share purchases in a manner consistent with Origin House’s commitment to capital discipline. The actual number of common shares that may be purchased under the NCIB and the timing of any such purchases will be determined by the Company. Origin House believes that depending on the trading price of its common shares and other relevant factors, purchasing its own shares represents an attractive investment opportunity and is in the best interests of the Company and its shareholders.

The Company reserves the right to revoke the NCIB earlier if it determines that it is appropriate to do so. All common shares purchased under the NCIB are on the open market through the facilities of the CSE and payment for the common shares are made in accordance with CSE policies. The price paid for the common shares will be the prevailing market price at the time of purchase and all common shares acquired by the Company will be cancelled.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



For the three- and six-month period ended June 30, 2019 the Company purchased nil and 22,700, respectively, of its shares at a weighted average price of \$6.39 per share and a total cost of \$145,122.

As at June 30, 2019, the Company has repurchased 998,600 shares under the NCIB at a total cost of \$6.1 million. A further 1,698,585 shares may still be repurchased.

No further shares were re-purchased between June 30, 2019, and August 13, 2019 the date for which the NCIB terminated.



### ACCOUNTING MATTERS

#### Internal controls over financial reporting

The Chief Executive Officer and Chief Financial Officer, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the interim financial report and this interim MD&A (the "Interim Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the Interim Filings do not contain any untrue statement of a 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 was made, with respect to the period covered by the filings; and (b) the Interim Filings together with the other financial information included in these Interim Filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the Interim Filings. 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 Disclosure Controls and Procedures and Internal Controls Over Financial Reporting 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.

#### Critical accounting estimates

The Financial Statements include certain amounts that are inherently uncertain and judgmental in nature. As a result, management is required to make assumptions and best estimates to determine the reported values. The Company considers an accounting estimate to be critical if: (1) it requires that significant assumptions be made to deal with uncertainties; and (2) changes in the estimate could have a material impact on operating results, financial condition or liquidity. The Company believes that the material items requiring such subjective and complex estimates, as disclosed in the note 3 to the consolidated financial statements for the three and six months ended June 30, 2019 are:

- Impairment of non-financial assets (goodwill, intangible assets, property and equipment and royalty investments);
- Business combinations (recording fair value on acquisition of subsidiaries);
- Biological assets and inventory;
- Fair value estimates of investments and loans;
- Estimates and assumptions used in applying IFRS 2 *Share Based Payments*;
- Fair value of financial instruments;
- Estimated useful lives, as well as depreciation and amortization of property and equipment, intangible assets, and royalty investments;



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



- Recoverability of amounts receivable, loans and advances;
- Discount rate on compound financial instruments;
- Income and other taxes;
- Going concern;
- Revaluation of liability classified contingent consideration;
- Lease assumptions used upon implementing IFRS 16 *Leases*.

The Company believes that the amounts included in the Financial Statements reflect management's best judgment. However, factors including, without limitation, those noted under "Risks and Uncertainties" in our annual MD&A could cause actual events or results to differ materially from our underlying assumption and estimates. Accordingly, this could lead to a material adverse impact on the Company's results of operations, financial condition and/or liquidity.

### **Off-balance sheet arrangements**

The Company has no off-balance sheet arrangements.

### **Adoption of new accounting standards**

#### *IFRS 16, Leases ("IFRS 16")*

This standard specifies the recognition, measurement, presentation and disclosure of leases. This standard is effective for annual periods beginning on or after January 1, 2019. Effective January 1, 2019, the Company adopted IFRS 16, which is based on a single lessee accounting model to determine how to recognize, measure, and present leases.

The Company currently has long-term lease agreements in Canada and the United States. Under IFRS 16, these leases result in an additional right of use asset and lease liability recorded on the Company's balance sheet. The standard also impacts the treatment of favourable leases recorded as intangible assets from acquisitions. The Company has recorded the impacts within the unaudited condensed interim consolidated financial statements.

The Company has elected to use the Modified Retrospective approach. Under this approach, the company has elected to measure the right-of-use asset as if IFRS 16 had always been applied but using the Company's incremental borrowing rate on initial transition. The Company has also elected to use the initial direct costs practical expedient. Under this practical expedient the Company will exclude any initial direct costs associated with the identified leases from the calculation of the right-of-use asset and lease liability on transition.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



	<b>January 1, 2019</b>
Right-of-use asset	\$ 9,838,296
Lease liability	<b>(8,807,472)</b>
Accumulated amortization - favourable lease	<b>60,536</b>
Cost - favourable lease	<b>(1,091,360)</b>
Retained earnings	-

- (1) Under IFRS 16, any favourable or unfavourable operating leases previously recognized as an intangible asset are derecognized on transition. The value of the right-of-use asset on initial transition is adjusted by the net book value of the favourable or unfavourable lease at the time of transition. At December 31, 2018 the Company had one favourable lease recognized as an intangible asset from the acquisition of FloraCal. On January 1, 2019, the net book value of FloraCal's favourable lease was reclassified as a right-of-use asset.

### Related party transactions

The following is a summary of the related party balances at June 30, 2019 and December 31, 2018:

	<b>June 30, 2019</b>	December 31, 2018
Management bonus and vacation payable (1)	<b>(266,878)</b>	(545,560)
Working capital adjustment due from acquiree (2)	<b>467,941</b>	487,786
Working capital adjustment due to acquiree (3)	<b>(317,522)</b>	(331,009)
<b>Net payable</b>	<b>(116,459)</b>	(388,783)

- (1) The management bonus and vacation payable are included in the amounts payable and accrued liabilities balance.
- (2) A working capital adjustment in connection with the Alta acquisition, in the amount of \$467,941 (US \$357,562) is owed by a member of key management, and former owner of Alta. This balance is included in amounts receivable. (December 31, 2018 - \$487,786)
- (3) A working capital adjustment in connection with the FloraCal acquisition, in the amount of \$317,522 (US \$230,113) is owed to members of key management, who were the former shareholders of FloraCal. This balance is recorded within other payables. (December 31, 2018 - \$331,009)



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The following is a summary of related party transactions, excluding key management salary-based compensation for the three and six months ended June 30, 2019 and June 30, 2018:

- i) The Company has an exclusive distribution rights agreement with a party that is significantly influenced by a member of key management. During the three- and six-month periods ended June 30, 2019, the Company incurred royalties of \$213,438 and \$503,919 respectively (June 30, 2018 – nil and nil).
- ii) During the three- and six- month periods ended June 30, 2019, the Company paid rent of \$271,054 and \$536,670 respectively related to leases in California, for premises partially owned by a Board member (June 30, 2018 - nil and nil).

### Financial instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk, interest rate risk, liquidity risk and credit risk of non-performance by counter parties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

The following table sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below. Unless otherwise noted, carrying values approximate fair values for each financial instrument:

			June 30, 2019	December 31, 2018
Cash and cash equivalents	FVTPL	Level 1	\$ 14,781,857	\$ 69,206,193
Restricted cash	FVTPL	Level 1	8,248,598	-
Investments	FVTPL	Level 1	-	542,940
Investments	FVTPL	Level 2	9,681,670	283,637
Investments	FVTPL	Level 3	1,922,322	17,730,553
Derivative assets	FVTPL	Level 2	205,483	-
Loans receivable	Amortized cost		9,306,842	-
Loans receivable	FVTPL	Level 3	1,502,659	1,929,684
Amounts receivable	Amortized cost		9,010,256	3,110,989
Amounts payable	Amortized cost		18,837,337	11,015,285
Current purchase consideration	Amortized cost		15,495,191	683,167
Convertible debt	Amortized cost		-	16,030,312
Non-current purchase consideration	Amortized cost		2,465,061	1,184,482
Loans payable and other liability	Amortized cost		25,975,809	13,649,360



### **Determination of fair value**

The estimated fair values of cash, trade and amounts receivable, loans receivable, loans payable, and trade and amounts payable approximate their carrying values due to the relatively short-term nature of the instruments.

Fair value measurements recognized in the consolidated statements of financial position must be categorized in accordance with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments carried at fair value consist of cash (Level 1), and investments (Level 1, 2 and 3). Financial instruments are valued using observable market inputs such as prime rate of borrowing and the Company's stock price. Level 3 valuations have been completed for investments using observable share price data from completed financing transactions.



## **REGULATORY OVERVIEW, RISKS, UNCERTAINTIES AND FORWARD-LOOKING STATEMENTS**

### **REGULATORY OVERVIEW**

Staff Notice 51-352 is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly and indirectly involved through its subsidiaries and investments. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

#### **Summary of U.S. Cannabis Activity**

Origin House has exposure to U.S. cannabis-related activities through (i) the manufacture and sale of its cannabis consumer products in the State of California, (ii) material investments in companies it does not control that operate in the States of California, Arizona and Florida and (iii) immaterial investments or ancillary involvement in companies it does not control that operate in Oregon, Washington and Puerto Rico.

Historically, the Company has manufactured its cannabis consumer products in the State of California through licensed third-party contract manufacturers. The finished products have been primarily sold through licensed distributors to licensed retailers, although some direct sales to licensed retailers were completed through a California cannabis collective controlled by the Company. All such activity is recorded through U.S. operating subsidiaries in which the Company has a controlling interest and is also reflected in the Company's financial statements as intangible assets arising from acquisitions.

With the Company's acquisitions of Kaya, Alta, FloraCal, RVR, and Cub City, the Company has acquired two licensed cultivators, a licensed manufacturer and two licensed distributors in the State of California and as a result, is by extension engaged in buying and selling cannabis consumer products.

The non-controlling investments held by the Company include equity-accounted investments, investments without significant influence, royalty investments and receivables, loans and advances receivable, and convertible notes receivable.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The following table is a summary of Origin House's balance sheet exposure to U.S. cannabis-related activities as of June 30, 2019:

	Operating Subsidiaries	Non-controlling Investments	Total
Current assets	\$ 31,334,669	\$ 959,516	\$ 32,294,185
Non-current assets	133,652,847	9,471,613	143,124,460
Total Assets	\$ 164,987,516	\$ 10,431,129	\$ 175,418,645
Current liabilities	(79,130,016)	(47,129,058)	\$ (126,259,074)
Non-current liabilities	(21,938,625)	(689,575)	(22,628,200)
Total Liabilities	\$ (101,068,641)	\$ (47,818,633)	\$ (148,887,274)

Goodwill and intangibles related to the acquisition of U.S.-based subsidiaries are included within the operating subsidiaries non-current assets balance. Current liabilities include balances owed to Canadian subsidiaries.

The following is a summary of operating losses from U.S. cannabis-related activities for the six months ended June 30, 2019:

	Operating Subsidiaries	Non-controlling Investments	Total
Revenue	\$ 26,333,498	\$ 43,470	\$ 26,376,968
Cost of sales	(23,555,449)	(17,090)	(23,572,539)
Realized fair value amount of inventory sold	(2,820,737)	-	(2,820,737)
Unrealized fair value gain on growth of biological assets	3,496,727	-	3,496,727
Gross margin	3,454,039	26,380	3,480,419
Less - Operating expenses			(26,178,246)
			\$ (22,697,827)
<i>Other Income</i>			
Changes in fair value of investments			(6,714,676)
Gain on sale of royalty investments			385,053
Interest expense			(739,467)
Impairment of loans and advances			(400,080)
Impairment of convertible notes receivable			186,704
Post combination remuneration			(380,324)
Net Loss before tax			\$ (30,360,617)



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The operating expenses above include expenses directly incurred by U.S. subsidiaries, the Company's U.S. corporate office, and the amortization of intangible assets. These operating expenses do not include any allocation of costs incurred at the Company's Canadian head office or for its employees based in Canada. They also exclude any share-based compensation, and service charges from the Company's Canadian marketing subsidiary which are eliminated on consolidation.

During the three-month period ended June 30, 2019, the Company's Canadian-based subsidiaries have provided services of \$17,266 to non-related companies in the U.S. cannabis sector.

The following represents the portion of certain assets on Origin House's consolidated balance sheet that pertain to U.S. cannabis activity as at June 30, 2019:

<b>Balance sheet item</b>	<b>Percentage which relates to investments/holdings with U.S. marijuana-related activities</b>
Investments	67%
Loans receivable and advances	45%
Royalty investments	100%
Intangible assets and goodwill	73%

The Company has looked at all its holdings that are based in the United States and given that none of these holdings have any Canadian operating activity, the Company's full investment in such entities was included in its assets.

Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that support its Annual Financial Statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.



## CANNABIS - UNITED STATES FEDERAL OVERVIEW

In the United States, 33 states, Washington D.C. and Puerto Rico have legalized cannabis for medical patients, and ten states and Washington D.C. have legalized adult-use recreational cannabis. At the federal level, however, cannabis, other than hemp (i.e., cannabis with less than 0.3% THC), currently remains a Schedule I drug under the Controlled Substances Act of 1970. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. On December 20, 2018, hemp was removed as a Schedule I drug and made an ordinary agricultural commodity in accordance with the Agriculture Improvement Act of 2018, commonly known as the "2018 Farm Bill". However, the 2018 Farm Bill regulations have not yet been promulgated by the United States Department of Agriculture, and these regulations might contain currently unknown restrictions including the possibility that individual states may be allowed to lower the 0.3% THC permitted threshold. Furthermore, this law did not affect other cannabis product and, as such, most cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use, or distribution of cannabis (other than hemp), remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws over the past five years has been limited, with an emphasis on states without medical cannabis laws in place and the interdiction of interstate cannabis transfers. On August 29, 2013, the U.S. Department of Justice ("DOJ"), issued a memorandum known as the "2013 Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The 2013 Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or recreational cannabis programs.

While not legally binding, and merely prosecutorial guidance, the 2013 Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018 the 2013 Cole Memorandum was revoked by former Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the 2013 Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the 2013 Cole Memorandum's guidelines should not be a prosecutorial priority, vesting the U.S. Attorneys with considerably greater discretion regarding cannabis enforcement.

In addition to his revocation of the 2013 Cole Memorandum, former Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum". The Sessions Memorandum confirmed the rescission of the 2013 Cole Memorandum and explained the rationale of the DOJ in doing so: the 2013 Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the 2013 Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."



While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a “dangerous drug and that marijuana activity is a serious crime,” it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. Our outside counsel, Vicente Sederberg LLP, continuously monitors all U.S. Attorney comments related to regulated medical and adult-use cannabis laws to assess various risks and enforcement priorities within each jurisdiction. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. In California, Greg Scott, the U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would “evaluate violations of those laws in accordance with our district’s federal law enforcement priorities and resources.”

On February 14, 2019, William Barr was confirmed by the U.S. Senate as the next Attorney General. On January 15, 2019, during his confirmation hearing, Mr. Barr indicated that he personally believes cannabis should remain illegal but he also stated that if confirmed, he would not “go after companies that have relied on the 2013 Cole Memorandum” and that his approach with regard to federal cannabis law enforcement would be “not to upset settled expectations.” Mr. Barr doubled down on these statements in response to written questions from senators writing “[a]s discussed at my hearing, I do not intend to go after parties who have complied with state law in reliance on the 2013 Cole Memorandum.”

Mr. Barr did not commit to formally replacing the 2013 Cole Memorandum in such responses, writing “I have not closely considered or determined whether further administrative guidance would be appropriate following the 2013 Cole Memorandum and the [Sessions Memorandum], or what such guidance might look like ... If confirmed, I will give the matter careful consideration.”

Mr. Barr’s approach to cannabis federal law enforcement may prove less aggressive than Attorney General Sessions’ get-tough on cannabis stance and could reduce the uncertainty stemming from Attorney General Sessions’ tenure. However, Mr. Barr has made it clear that he does not support federal legalization and until he begins implementing these policies, considerable uncertainty remains.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the 2013 Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It is unclear whether the risk of enforcement has been altered by former Attorney General Sessions or will be altered by the current Attorney General William Barr.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit



or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a guidance in February of 2014 (the “FinCEN Guidance”) outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a “suspicious activity report” (“SAR”) as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution’s belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Guidance was published, the DOJ issued a memorandum (the “2014 Cole Memorandum”) directing prosecutors to apply the enforcement priorities of the 2013 Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the 2013 Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, former Attorney General Sessions’ revocation of the 2013 Cole Memorandum and the 2014 Cole Memorandum has not thus far affected the status of the FinCEN Guidance, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Guidance itself.

Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Guidance to work in tandem, the FinCEN Guidance can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the 2013 Cole Memorandum. As such, the FinCEN Guidance remains intact. Like the (now rescinded) 2013 Cole Memorandum, the FinCEN Guidance is not law, but enforcement guidance, and would not protect a cannabis business if a prosecution were to materialize.

### ***Enforcement of U.S. Federal Laws***

For the reasons set forth above, the Company’s existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s ability to invest in the United States or any other jurisdiction. See “Risk Factors”.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public’s perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company’s expansion strategy may have a material adverse effect on the Company’s business, financial condition and results of operations. See “Risk Factors”.



Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matter or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors".

### ***Federal - U.S. Enforcement Proceedings***

Although the 2013 Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts (currently the "Rohrabacher-Blumenauer Amendment"; previously known as the "Rohrabacher-Farr Amendment") to prevent the Department of Justice from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law.

Although the Rohrabacher-Blumenauer Amendment protects medical marijuana operations that are in compliance with state and local laws, the amendment does not provide any protection to recreational marijuana operations.

Following the government shutdown from December 2018 - January 2019, the Rohrabacher-Blumenauer Amendment was renewed on January 25, 2019 as part of a short-term spending bill that was in effect through February 15, 2019. On February 15, 2019 the Rohrabacher-Blumenauer Amendment was renewed in the 2019 Consolidated Appropriations Acts which shall remain in effect until the end of the FY 2019 (i.e., September 30, 2019). At such time, there are several possibilities: Congress could pass a FY 2020 budget, in which case it could either include the Rohrabacher-Blumenauer Amendment (or a similar provision), or Congress could fail to pass any kind of a budget, in which case a government shutdown would result and the protections of the Rohrabacher-Blumenauer Amendment would end.

### ***Federal - Ability to Access Public and Private Capital***

The Company has historically, and continues to have, access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada. While the Company is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has access to equity financing through the public markets in Canada although pursuant to the terms of the pending Arrangement with Cresco, Origin House would be required to obtain the prior approval of Cresco to any proposed equity financing of the Company, and such activities would dilute the Company's shares. Furthermore, any proposed debt financing of the Company over a prescribed threshold would also require the prior approval of Cresco.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The Company's executive team and board also have extensive relationships with sources of private capital (such as funds and high net worth individuals), that could be investigated at a higher cost of capital. Further, the Company is actively pursuing an asset rationalization strategy to divest itself of portfolio assets that do not relate to its core business. Proceeds from the sale of such assets would be used to finance the continued growth of the Company's business.

If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "Risk Factors - Banking" and "Risk Factors - Additional Financing".

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. 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 the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.



### **CANNABIS – UNITED STATES STATE-LEVEL OVERVIEW**

The following sections present an overview of market and regulatory conditions for the marijuana industry in U.S. states in which Origin House has a substantial operating presence and is presented as of June 30, 2019, unless otherwise indicated.

Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis would neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company.

#### **California Summary**

In 1996, California voters approved Proposition 215, also known as the Compassionate Use Act, allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the "Medical Marijuana Regulation and Safety Act" ("MCRSA"). In 2016, California voters passed "The Adult Use of Marijuana Act" ("AUMA"), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combined California's medicinal and adult-use cannabis regulatory frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act ("MAUCRSA").

Pursuant to MAUCRSA: (i) CalCannabis, a division of the California Department of Food and Agriculture, issued licenses to cannabis cultivators; (ii) the Manufactured Cannabis Safety Branch (the "MCSB"), a division of the California Department of Public Health, issues licenses to cannabis manufacturers; and (iii) the California Department of Consumer Affairs, via its agency the Bureau of Cannabis Control (the "BCC"), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and updated them with revisions in June 2018. The three agencies released their permanent rulemakings on January 16, 2019 which are now in effect. All three agencies began issuing temporary licenses in January 2018 and are currently evaluating annual license applications. The issuance of temporary licenses ended on December 31, 2018, though previously-issued temporary licenses remain valid until their expiration dates.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure from all three state licensing agencies, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. California has not set a limit on the number of state licenses an entity may hold, unlike other states that have restricted how many cannabis licenses an entity may hold in total or for various types of cannabis activity. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

The Company is “directly” involved in the cultivation and distribution of cannabis in California through its subsidiaries Alta, RVR, FloraCal, Kaya and Cub City (collectively, the “California Operators”). Prior to their acquisition, the California Operators represented to the Company that their businesses were conducted in compliance with the regulatory framework enacted by the State of California. The California Operators are in compliance with all applicable California laws, regulations, and guidelines.

The following table outlines the current licences held by the Company’s wholly-owned subsidiaries:

<b>Company</b>	<b>Location</b>	<b>Current License Type</b>
Alta	Oakland	Provisional - Distribution
Cub City	Sonoma	Provisional - Cultivation
FloraCal	Sonoma	Provisional - Cultivation
	Sonoma	Provisional - Processor
Kaya	Oakland	Annual – Manufacturing (Non-volatile)
RVR	La Habra	Provisional - Distributor
	West Sacramento	Provisional - Distributor

### ***California - Local Licensure, Zoning and Land Use Requirements***

To obtain a state license, cannabis operators must first obtain local authorization, which is a prerequisite to obtaining state licensure. All three state regulatory agencies require confirmation from the applicable locality that an applicant is in compliance with local requirements and has either been granted authorization to, upon state licensure, continue previous cannabis activities or commence cannabis operations. One of the basic aspects of obtaining local authorization is compliance with all local zoning and land use requirements. Local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. Some localities have limited the number of authorizations an entity may hold in total or for various types of cannabis activity. Others have tiered the authorization process, granting the initial rounds of local authorization to applicants that previously conducted cannabis activity pursuant to the Compassionate Use Act or those that meet the locality’s definition of social equity.



### ***California - Record-Keeping and Continuous Reporting Requirements***

California's state license application process additionally requires comprehensive criminal history, regulatory history and personal disclosures for all owners. Any criminal convictions or civil penalties or judgments occurring after licensure must promptly be reported to the regulatory agency from which the licensee holds a license. State licenses must be renewed annually. Disclosure requirements for local authorization may vary, but generally tend to mirror the State's requirements.

Licensees must also keep detailed records pertaining to various aspects of the business for up to seven years. Such records must be easily accessible by the regulatory agency from which the licensee holds a license. Additionally, licensees must record all business transactions, which must be uploaded to the statewide traceability system.

### ***California - Operating Procedure Requirements***

Applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with the State's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

### ***California - Site-Visits & Inspections***

The California Operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.



### **California - Compliance Procedures**

The California Operators utilize Simplifya, an enterprise compliance platform, which integrates the California Operators' inventory management program and standard operating procedures with the software's compliance checklists and auditing features to facilitate continued compliance with state and local requirements. Simplifya is a comprehensive compliance software solution that was developed specifically for the cannabis industry in collaboration with the nation's premier marijuana law firm, Vicente Sederberg LLP, who has been instrumental in the drafting and implementation of state and local cannabis regulatory programs across the country and in multiple California municipalities. The software features a robust auditing system that allows for both internal as well as third-party compliance auditing, covering all state and municipal, facility and operational requirements. Regulations are monitored in real-time and software updates are timely released to account for any changes. Simplifya offers standard operating procedure building tools to facilitate the implementation and maintenance of compliant operations and tracks all required licensing maintenance criteria, which include countdown features and automatically generated reminders for initiating renewals and required reporting.

The Company's purchase of each of the California Operators was contingent on both companies' continued ability to operate in compliance with state and local law. The Company has the right to visit and inspect each of the California Operator's facilities and operations to monitor and ensure continued compliance. The Company has developed a robust Compliance Program designed to ensure operational and regulatory requirements continue to be satisfied, and has retained Vicente Sederberg LLP, as local outside counsel to monitor the Company's compliance with U.S. state law on an ongoing basis.

The Company will continue to work closely with Vicente Sederberg LLP to develop and improve its internal Compliance Program and will defer to their legal opinions and risk mitigation guidance regarding California's complex regulatory framework. The internal Compliance Program, including the use of Simplifya, requires continued monitoring by managers and executives of the California Operators' to ensure all operations conform with legally compliant standard operating procedures. The Company further requires its California Operators to report and disclose all instances of non-compliance, regulatory, administrative, or legal proceedings that may be initiated against them.

### **Arizona Summary**

The Arizona Medical Marijuana Program ("AZDHS Program"), is governed by Title 9; Chapter 17 Department of Health Services Medical Marijuana Program (the "AZDHS Rules") and A.R.S. § 36-2801 et seq., as amended from time to time (the "Act") (the AZDHS Rules and the Act collectively referred to herein as the "AMMA"). The Act, which was approved by the Arizona voters in 2010, provides the legal requirements and restrictions in conjunction with the applicable rules, guidelines and requirements promulgated by the Arizona Department of Health Services ("AZDHS").

In addition, each local municipality has also implemented various zoning and entitlement rules, regulations and restrictions applicable to the various medical marijuana uses, implementing distance and setback limitations, square footage maximums, security requirements and special use permit obligations, among others.



All AZDHS applications related to the licensing and operation of a medical marijuana facility requires, in addition to the AZDHS approvals, verification that such property and/or building(s) comply with all local zoning, land use laws and entitlements. This is accomplished with the execution and submittal of a “Zoning Attestation” in conjunction with the applicable AZDHS application and required documentation.

The law permits physicians to recommend cannabis for an inclusive set of qualifying conditions including severe and chronic pain and created a regulatory system for a limited number of non-profit medical marijuana dispensaries. Residency is not required to operate a medical marijuana business in Arizona. Arizona limits the total number of non-profit medical marijuana dispensary registration certificates by Community Health Analysis Area (“CHAA”). Although vertical integration is not required for medical marijuana businesses in Arizona (a dispensary could only sell and not produce cannabis), a dispensary license is required if a business wants to cultivate or produce edible products. The application for a dispensary registration certificate is competitive and applications are accepted on a limited basis.

ARS § 36-2801(11) defines a “non-profit medical cannabis dispensary” as not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses cannabis or related supplies and educational materials to cardholders (a “Dispensary”). In order for an applicant to receive a Dispensary Registration Certificate (a “Certificate”) they must: (i) fill out an application on the form prescribed by AZDHS; (ii) submit the applying entity’s articles of incorporation and by-laws; (iii) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies; (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the Dispensary will operate in compliance; and (v) designate an Arizona licensed physician as the Medical Director for the Dispensary.

Certificates are renewed annually so long as the Dispensary is in good standing with AZDHS, pays the renewal fee, and submits an independent third-party financial audit.

Once an applicant has been issued a Certificate, they are required to establish one physical retail dispensary location and may establish one cultivation location which is co-located at the dispensary’s retail site (if allowed by local zoning) as well as one additional off-site cultivation location. None of these sites can be operational, however, until the Dispensary receives an approval to operate from AZDHS for the applicable site. This approval to operate requires: (i) an application on the AZDHS form; (ii) demonstration of compliance with local zoning regulations; (iii) a site plan and floor plan for the applicable property; and (iv) an in-person inspection by AZDHS of the applicable location to ensure compliance with the Rules and consistency with the Dispensary’s applicable policies and procedures.

Any Dispensary facility (both retail and cultivation) must abide by an exhaustive list of compliance and security requirements, including, but not limited to: (i) ensuring that access to the facilities is limited to authorized Dispensary Agents who are in possession of a Dispensary Agent card; and (ii) equipping the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days’ video storage, (f) failure notifications and battery backups for the security system and (g) panic buttons inside each building.



Dispensaries may transport medical cannabis between their own sites, or between their sites and another Dispensary's sites, and must comply with the following rules: (i) prior to transportation, the Dispensary's agent must complete a trip plan showing: (a) the name of the dispensary agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported; and (d) the anticipated route of transportation; (ii) during transport the Dispensary Agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible; and (iii) Dispensaries must maintain trip plan records.

AZDHS may inspect a facility at any time upon five days' notice to the Dispensary. However, if someone has alleged that the Dispensary is not in compliance with the AMMA or the Rules, AZDHS may conduct an unannounced inspection. AZDHS will provide written notice to the Dispensary of any deficiencies found during any inspection and the Dispensary then has 20 working days to take corrective action and notify AZDHS.

AZDHS has the right to commence proceedings to withdraw a Certificate if a Dispensary: (i) operates before obtaining approval to operate a dispensary from the Department; (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another dispensary with a valid dispensary registration certificate issued by the Department, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card; (iii) acquires usable cannabis or mature cannabis plants from any entity other than another dispensary with a valid dispensary registration certificate issued by the Department, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card; (iv) if a principal officer or board member has been convicted of an excluded felony offense; or (v) does not: (a) comply with the requirements of the AMMA or the Rules; or (b) does not implement the required policies and procedures or comply with the statements provided to the Department with the Dispensary's application.

Although Arizona Proposition 205 to legalize and regulate marijuana like alcohol failed to pass in 2016, with 48.7% of the vote in favor, the medical marijuana program in the state has remained strong and is currently one of the largest in the country. As of December 2018, there were approximately 130 dispensaries licensed by state, following the most recent licensing process conducted in July 2016 in which the Department of Health accepted applications for an additional 31 dispensary licenses. It is unknown at this time when or whether the Department will again accept new applications. As of the April 2019 Arizona Medical Marijuana Program Report, there are 197,025 qualifying patients.

### ***Arizona - Prosecutorial Statements and Actions***

Elizabeth Strange, Acting U.S. Attorney for the District of Arizona, has made no public comments regarding her stance on prosecuting cannabis. She has a noteworthy policy of only prosecuting cases that involve cross-border trafficking of at least 500 pounds of marijuana.

There is currently a case under review with the Arizona Supreme Court (*State v. Jones*, 245 Ariz. 46), which deals with whether the state Medical Marijuana Law permits the sale, possession, and use of marijuana extracts by patients. The appeals court found that the law does not permit such use.



### **Arizona - Compliance**

The Company is in full compliance with the applicable licensing requirements and regulatory framework governing the cannabis industry enacted by the State of Arizona, and has received no notices of noncompliance, citations, or notices of violation from any applicable Arizona regulator.

### **Florida Summary**

Florida previously had only a limited low-THC cannabis program, which was signed into law on June 16, 2014. On November 8, 2016, Florida passed, by voter initiative with over 71% of the electorate voting in favor, a medical marijuana law that has expanded both the range of conditions and types of medical marijuana and medical marijuana products available to patients. Since the passage of Amendment 2 which resulted in a large expansion of qualifying conditions and the legalization of full-THC medical marijuana, the patient count is rising quickly. As of May 2019, there are 290,222 total patients, with 220,320 registered as qualified patients.

Florida's current expansive medical marijuana program increases the number of qualifying conditions for treatment by a Medical Marijuana Treatment Center ("MMTC") to include: epilepsy, glaucoma, positive status for human immunodeficiency virus (HIV), acquired immune deficiency syndrome (AIDS), posttraumatic stress disorder (PTSD), amyotrophic lateral sclerosis (ALS), Crohn's disease, Parkinson's disease, multiple sclerosis, and other debilitating medical conditions "of the same kind or class as or comparable to those enumerated, and for which a physician believes that the medical use of marijuana would likely outweigh the potential health risks for a patient." While chronic non-malignant pain is not a stand-alone qualifying condition, if the pain is due to one of the other enumerated conditions, it may qualify a patient.

Late in the legislative session in 2017, the Florida legislature passed Senate Bill 8-A, which implemented Amendment 2 but restricted the original constitutional initiative by prohibiting the sale of whole plant cannabis flower and smoking of medical cannabis, requiring vertical integration, giving each MMTC the ability to open 25 dispensaries initially, and limiting the number of additional MMTC licenses at the state level. These restrictions have been challenged and heavily litigated, and this has caused major delays in the issuing of additional MMTC licenses. Notably, on October 5, 2018, a circuit court Judge ordered an injunction and deemed certain portions of F.S. 381.986 (2017) to be unconstitutional (the "Injunction"). The decision is expected to be appealed by the Department. On March 18, 2019, SB 182 was signed into law by the Governor which allows for smokable medical marijuana.



As of May 2019, there have been twenty-two (22) MMTC licenses issued by the Florida Department of Health's Office of Medical Marijuana Use (the "Department"): three (3) licenses are for delivery only; nine (9) licenses, eight (8) of which were licensed in April 2019, currently have neither dispensing locations nor any production quantities reported to the Office of Medical Marijuana; and ten (10) licenses have a total of one hundred and twenty-three (123) dispensing facilities. Each MMTC is required to be vertically integrated, therefore each licensee must cultivate, process, transport, and dispense medical marijuana and low-THC cannabis and products. Under F.S. 381.986 (2017), the Department was required to issue ten (10) new MMTC licenses. At this time, only three (3) remain outstanding and are expected to be issued during the next round of applications. In July 2018, the Department settled with Nature's Way Nursery of Miami, Inc ("Nature's Way") by giving Nature's Way a license and, thus, reduced the number of slots to (3) three. Currently, there is a requirement that one (1) of the three (3) licenses must be issued to an applicant that is a class member of *Pigford v. Glickman* or *In Re Black Farmers Litigation*. An application process with instructions have been proposed by the Department, however the rules have been challenged, further delaying the application process. Further, due to the Injunction, whether and when the application process for these licenses will move forward remains unclear. Nature's Way was acquired by Acreage Holding in January of 2019, so Acreage Holding received the MMTC license but it has not established a dispensing location or produced any product that has been reported to the Office of Medical Marijuana.

Applicants must demonstrate (and licensed MMTC's must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years; (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture; (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis; (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC; (v) they have the ability to maintain accountability of all raw materials, finished products, and any by-products to prevent diversion or unlawful access to or possession of these substances; (vi) they have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department; (vii) they have the financial ability to maintain operations for the duration of the 2-year approval cycle, including the provision of certified financial statements to the department; (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC; and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Local governments have been pre-empted from regulating MMTCs but may ban retail dispensing locations within their limits. If the locality chooses not to ban dispensaries, it may only regulate them in the same manner they regulate pharmacies and may not place additional restrictions on them. As a result, many localities have chosen to ban retail dispensing facilities outright.

Upon approval of the application by the Department, the applicant must post a performance bond of up to US\$5 million, which may be reduced by meeting certain criteria.



An MMTC may not dispense more than a 70-day supply of cannabis to any patient within such time frame. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) each qualified patient and the caregiver have an active registration in the registry and active and valid medical cannabis use registry identification card; (ii) the amount and type of cannabis dispensed matches the physician certification in the registry; and (iii) the physician certification has not already been filled. An MMTC may only dispense to the caregiver of a qualified patient younger than 18 years of age. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug-related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed; (ii) the type of cannabis delivery device dispensed; and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

With respect to security requirements, an MMTC must maintain a fully operational alarm system that secures all entry points and perimeter windows, and is equipped with motion detectors, pressure switches, and duress, panic and hold-up alarms. The MMTC must also have a 24-hour video surveillance system and must retain video surveillance recordings for at least 45 days, or longer at the request of law enforcement.

An MMTC's outdoor premises must have sufficient lighting from dusk until dawn. An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area and such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may otherwise operate and deliver to qualified patients 24 hours a day.

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include a variety of detailed information to track all inventory and discourage diversion. A copy of the transportation manifest must be provided to each individual MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.



The Department shall conduct announced or unannounced inspections of MMTCs to determine compliance with the laws and rules. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

### ***Florida - Prosecutorial Statements and Actions***

The State of Florida has three federal judicial districts and U.S. Attorneys: Ariana Orshan of the Southern District, Lawrence Keefe of the Northern District, and Maria Lopez of the Middle District. None have made public statements regarding their attitude toward enforcement of federal cannabis laws since the revocation of the Cole Memorandum on January 4, 2018.

### ***Florida - Compliance***

The Company is in full compliance with the applicable licensing requirements and regulatory framework governing the cannabis industry enacted by the State of Florida, and has received no notices of noncompliance, citations, or notices of violation from any applicable Florida regulator.

### ***Puerto Rico Summary***

In May of 2015 the Governor Alejandro Garcia Padilla of Puerto Rico signed an executive order legalizing medical cannabis. The Puerto Rico Health Department ("PRHD") was tasked with developing regulations for the production, manufacturing, and sales of medical cannabis and medical cannabis products. In January of 2016, the PRHD published their initial set of regulations governing the medical program. Puerto Rico permits the use of medical cannabis pills, creams, patches, tinctures, suppositories, and cannabis for vaporization only. Smoking medical cannabis is prohibited in Puerto Rico. The program has a wide range of qualifying conditions including chronic pain, severe nausea, and migraines as well as cancer, HIV, AIDS, Crohn's disease and other conditions often included in state medical marijuana programs. Further regulations were promulgated by the Regulations of Puerto Rico Department of Health No. 8766 in July of 2017 before being amended and then repealed.

Puerto Rico's medical cannabis system is now governed by Ley 42-2017 and the regulations promulgated pursuant thereto (Reglamento 9038, which was implemented July 2, 2018). These changes have created a better-regulated system of medical cannabis for Puerto Rico. Puerto Rico has six distinct classes of traditional business licenses: cultivation, manufacturing, dispensing, distribution, transportation, and laboratory. Occupational licenses are also issued to (and required for) those working in the industry (including owners), all of whom are subject to background check. PRHD has the authority to determine the number of licensees in each category within statutory limitations, taking into account the geographic distribution of dispensaries, among other factors.



Dispensaries are limited to dispensing a 30-day supply of medical cannabis, and patients may purchase only one ounce per day, which will be enforced through the use of a patient database to ensure that one patient does not obtain more than the allowed amount by visiting multiple dispensaries. Patients must have a valid medical card issued by PRHD in order to obtain any medical cannabis from a licensed dispensary.

Medical cannabis licensees in Puerto Rico must comply with strict operating requirements to maintain their licensure. The premises of any licensed business must have appropriate access restrictions, including developments of limited access areas to ensure that only authorized individuals may be present. Licensees must also ensure that their premises meet strict requirements for sanitation and safety, included but not limited to ensuring that adequate first-aid precautions are taken. Premises are subject to inspection by the PRHD to ensure compliance with all of these rules.

Licensees must implement an inventory tracking system capable of tracking medical cannabis from seed to sale and must also use a required tracking system to protect against the laundering of money. Since April 24, 2018, the PRHD has required use of the BioTrackTHC inventory tracking system to ensure compliance with territorial laws. Puerto Rico has also implemented an online portal to facilitate the registration process for both doctors and patients that will provide easier access to the regulated medical cannabis program.

Security regulations are extensive. Ley 42-2017 requires that licensees have a security system capable of continuous 24/7 monitoring and transmitting videos and photos in real time to a central location from which the system is monitored. All licensees must have at least one security guard during all hours of operations or when otherwise open to the public.

Puerto Rico has strict residency requirements for medical cannabis business ownership that stipulate the business entity must be held at least 51% by Puerto Rican residents. Applicants are further required to demonstrate sufficient financial ability to keep their business operational for twelve months by proving adequacy of funds and a sound business plan. The medical marijuana program does not require cultivation and dispensing operations to be vertically integrated, but also does not prohibit a single entity from holding a cultivation, manufacturing, and dispensing license.

### ***Puerto Rico - Prosecutorial Statements and Actions***

Since the revocation of the Cole Memorandum and promulgation of the Sessions Memorandum on January 4, 2018, US Attorney Rosa E. Rodriguez-Velez of the District of Puerto Rico has made no public statements regarding her stance toward enforcement of federal laws related to cannabis in Puerto Rico. The Puerto Rico Health Department contains links to both memoranda on its website.

### ***Puerto Rico - Compliance***

The Company is in full compliance with the applicable licensing requirements and regulatory framework governing the cannabis industry enacted by the Territory of Puerto Rico, and has received no notices of noncompliance, citations, or notices of violation from any applicable Puerto Rico regulator.



### Oregon Summary

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority (the "OHA") after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

On June 30, 2015, Governor Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators and processors. In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed marijuana businesses.

The OHA licenses and regulates medical marijuana businesses and the Oregon Liquor Control Commission (the "OLCC") licenses and regulates adult-use marijuana businesses. There are four distinct types of license for medical businesses: producers, processors, dispensaries and laboratories. There are six distinct types of license types that are available for adult-use businesses: producers, processors, wholesalers, retailers, laboratory and a research certificate. Vertical integration between producers, processors, and retailers is permissible, but not required, for both medical and adult-use.

While the law does not impose a limit on the number of licenses at the state level, the OLCC announced on May 30, 2018 that they will temporarily pause the processing of adult use marijuana license applications. The OHA is currently accepting applications for medical marijuana businesses on a rolling basis. Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

The state of Oregon has selected Franwell Inc.'s METRC system as the state's seed-to-sale tracking system used to track commercial cannabis activity and movement across the distribution chain. The METRC system has been implemented state-wide since 2015. The system allows for third-party system integrations via API.



To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Company is required to do the following in Oregon:

- 1) maintain a fully operational security alarm system;
- 2) contract for security guard services;
- 3) maintain a video surveillance system that records continuously 24 hours a day;
- 4) ensure that the facility's outdoor premises have sufficient lighting;
- 5) not dispense from its premises outside of permissible hours of operation;
- 6) store cannabis and cannabis product only in areas per the premises diagram submitted to the state of Oregon during the licensing process;
- 7) store all cannabis and cannabis products in a secured, locked room or a vault;
- 8) report to local law enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and
- 9) to ensure the safe transport of cannabis and cannabis products between licensed facilities, maintain a delivery manifest in any vehicle transporting cannabis and cannabis products.

On May 15, 2019; Senate Bill 582 passed the state senate. If signed into law, the Bill would allow Oregon to work with other states to transport marijuana through interstate commerce if it becomes federally legal.

### ***Oregon - Prosecutorial Statements and Actions***

On May 18, 2018, Billy Williams, U.S. Attorney for the District of Oregon, issued a memorandum outlining his office's enforcement priorities related to marijuana. Williams listed the following primary enforcement priorities in the memorandum: (1) overproduction and interstate trafficking; (2) protecting Oregon's children; (3) violence, firearms, or other public safety threats; (4) organized crime; and (5) protecting federal lands, natural resources, and Oregon's environment. As to overproduction in particular, Williams stated, "there can be no doubt that there is significant overproduction of marijuana in Oregon... a thriving black market is exporting marijuana across the country, including two states that have not legalized marijuana under their state laws." He also made clear that he "will not make broad proclamations of blanket immunity from prosecution to those who violate federal law," but added that his "office's resources are finite" and that they "must use appropriate discretion before prosecuting any federal case." He went on to explain that his office will explore the use of civil law enforcement mechanisms, coordinate closely with partners in state, tribal, and local governments around the state, and "focus enforcement efforts on federal violations implicating one or more of the priority elements of this [memorandum]." Williams has told Oregon Governor Kate Brown's senior policy advisor that he would like to see limits on licenses for marijuana producers and retailers.



In June 1999, the White House Office of National Drug Control Policy created the Oregon-Idaho High Intensity Drug Trafficking Area program (“HIDTA”) to “facilitate, support and enhance collaborative drug control efforts among law enforcement agencies and community-based organizations; thus significantly reducing the impacts of illegal trafficking and use of drugs throughout Oregon and Idaho.” In August 2018, HIDTA released a report entitled “An Initial Assessment of Cannabis in Oregon.” In response to this report’s findings, U.S. Attorney Williams issued the following statement:

The recent HIDTA Insight Report on marijuana production, distribution, and consumption in Oregon confirms what we already know—it is out of control. The industry’s considerable and negative impacts on land use, water, and underage consumption must be addressed immediately. State officials should respond quickly and in a comprehensive manner to address the many concerns raised by this assessment. To date, we’ve seen insufficient progress from our state officials. We are alarmed by revelations from industry representatives, landowners, and law enforcement partners describing the insufficient and underfunded regulatory and enforcement structure governing both recreational and medical use. A weakly-regulated industry will continue to detract from the livability and health of communities throughout the state.

What is often lost in this discussion is the link between marijuana and serious, interstate criminal activity. Overproduction is rampant and the illegal transport of product out of state—a violation of both state and federal law—continues unchecked. My ask continues to be for transparency, responsible regulation, adequate funding, and a willingness to work together. It’s time for the state to wake up, slow down, and address these issues in a responsible and thoughtful manner.

In late August 2018, federal prosecutors made six arrests related to marijuana allegedly being trafficked from Oregon to Florida, Texas, and Virginia. Those arrested were not affiliated with licensed recreational or medical programs in Oregon. In response to these arrests, Williams said, “These cases provide clear evidence of what I have repeatedly raised concerns over: Oregon’s marijuana industry is attracting organized criminal networks looking to capitalize on the state’s relaxed regulatory environment.”

### ***Oregon - Compliance***

The Company is in full compliance with the applicable licensing requirements and regulatory framework governing the cannabis industry enacted by the State of Oregon, and has received no notices of noncompliance, citations, or notices of violation from any applicable Oregon regulator.

### **Washington Summary**

Washington State has both medical and adult-use marijuana programs. The original medical law, passed by voters in 1998, allows physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting cannabis businesses. But, unlike Colorado, the legislature was unable to pass laws regulating the medical marijuana businesses that developed around 2008.



When Initiative 502 legalized marijuana for adults 21 years of age and older in 2012, it regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. The Governor of Washington then signed Senate Bill 5052 in 2015, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a “medical marijuana endorsement” to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board (“WSLCB”) regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities (“processors”), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a “true party of interest” in a marijuana business license must have at least six months of Washington residency.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses. In late 2018, the WSLCB adopted rules related to recently enacted statutory changes which provided a regulatory framework for the introduction of CBD products into the regulated cannabis industry, in addition to other technical changes.

The WSLCB re-opens its application process for growers, processors or retail stores at its discretion, taking into consideration factors such as patient consumption data and population dynamics. The state is currently not accepting new applications for growers, processors or retail stores.

In Washington, the WSLCB requires the use of MJ Freeway inventory tracking software, specifically its traceability solution known as Leaf Data System, for its licensees to ensure compliance with state law and prevent diversion of products out-of-state. MJ Freeway software is capable of tracking inventory from seed to its eventual sale, and is capable of interacting with third-party tracking software.

### ***Washington - Prosecutorial Statements and Actions***

Annette L. Hayes, the previous U.S. Attorney for the Western District of Washington, has made the following statement regarding the enforcement of federal marijuana laws by her office following the revocation of the Cole Memorandum:



Today the Attorney General reiterated his confidence in the basic principles that guide the discretion of all U.S. Attorneys around the country, and directed that those principles shepherd enforcement of federal law regarding marijuana. He also emphasized his belief that U.S. Attorneys are in the best position to address public safety in their districts, and address the crime control problems that are pressing in their communities. Those principles have always been at the core of what the United States Attorney's Office for Western Washington has done – across all threats to public safety, including those relating to marijuana. As a result, we have investigated and prosecuted over many years cases involving organized crime, violent and gun threats, and financial crimes related to marijuana. We will continue to do so to ensure – consistent with the most recent guidance from the Department – that our enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve.

The current U.S. Attorney for the Western District of Washington is Brian T. Moran. Moran has stated, with respect to marijuana, that “the federal governments prosecution resources in this district are not well spent going after legal marijuana...the voters voted for it – I accept that... I just want to make sure the state doesn't take an eye off the marijuana market.” Additionally, he has specified that even if he wanted to go after the state's legal marijuana industry, he “just couldn't.”

Joseph H. Harrington, U.S. Attorney for the Eastern District of Washington, has made the following statement regarding the enforcement of federal marijuana laws by his office following the revocation of the Cole Memorandum:

The Attorney General reiterated his confidence in the long-established principles of federal prosecution that guide the discretion of each United States Attorney around the country (U.S. Attorney's Manual, chapter 9-27.000), and directed that those principles shepherd enforcement of federal law regarding marijuana. With those principles in mind, the Attorney General emphasized his belief that United States Attorneys are in the best position to weigh all relevant considerations – to include the nature and seriousness of an offense, the potential deterrence effect of prosecution, a putative defendant's culpability in connection with an offense, a putative defendant's criminal history and other circumstances, and the limited federal resources -- when deciding which cases to prosecute in their respective communities. When weighing those considerations public safety is always at the fore. Those principles have always been at the core of what the United States Attorney's Office for the Eastern District of Washington does – across all threats to public safety, including those that may relate to marijuana. This United States Attorney's Office will continue to ensure, consistent with the most recent guidance from the Department of Justice, that its enforcement efforts with our federal, state, local, and tribal law enforcement partners focus on those who pose the greatest safety risk to the communities in Eastern Washington, by disrupting criminal organizations, tackling the growing drug crisis, thwarting violent crime, and corralling white-collar fraudsters in this District. This Statement is not intended to, does not, and may not be relied upon to create any rights, substantive or procedural, enforceable at law by any party in any matter civil or criminal.



### ***Washington - Compliance***

The Company is in full compliance with the applicable licensing requirements and regulatory framework governing the cannabis industry enacted by the State of Washington, and has received no notices of noncompliance, citations, or notices of violation from any applicable Washington regulator.

### **Nevada Summary**

Nevada has a medical marijuana program and passed adult-use legalization through the ballot box in November 2016.

In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

Beginning in 2014, Nevada accepted medical marijuana business applications, and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process is merit-based, competitive, and currently closed.

Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients. Nevada requires the use of METRC software to track marijuana from seed to sale.

Under Nevada's adult-use marijuana law, the Department of Taxation licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. The Nevada Division of Public and Behavioral Health licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation."

For the first eighteen months, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



In February 2017, the Nevada Department of Taxation announced plans to issue “early start” recreational marijuana establishment licenses in the summer of 2017. These licenses, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana, and expired at the end of the year. Starting July 1, 2017, medical and adult-use marijuana have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis have incurred an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

On January 16, 2018, the Marijuana Enforcement Division of the Department of Taxation issued final rules governing its adult-use marijuana program, pursuant to which up to sixty-six (66) permanent adult-use marijuana dispensary licenses will be issued. Existing adult-use marijuana licensees under the “early start” regulations must re-apply for licensure under the permanent rules in order to continue adult-use sales. In December of 2018, the Department of Taxation issued sixty-one (61) conditional dispensary licenses.

### ***Nevada - Prosecutorial Statements and Actions***

Nicholas A. Trutanich, U.S. Attorney for the District of Nevada, has made the following public statements regarding his office’s attitude toward enforcement of federal cannabis laws: “Nevada’s not safer, because marijuana is available on every single street corner. What I will say about the federal enforcement of marijuana laws is that we do so consistent with the priorities of the office and the resources of the office...we evaluate cases that are brought to us based on the sufficiency of the evidence and resources that we have in the office...I enforce federal law consistent with priorities and resources of the office.”

### ***Nevada - Compliance***

The Company is in full compliance with the applicable licensing requirements and regulatory framework governing the cannabis industry enacted by the State of Nevada, and has received no notices of noncompliance, citations, or notices of violation from any applicable Nevada regulator.

### **Compliance with Applicable State Law in the United States**

Each of the Company’s investees that is involved in the U.S. marijuana industry (which are identified on the Company’s material assets and investments set out above as having “Direct” or “Indirect” involvement in the U.S. marijuana industry) (collectively, the “Licensed Entities”) hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in its respective state in the United States. Each of the Company’s investees currently classified as having a “Direct” involvement in the U.S. marijuana industry (being the California Operators) is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. With respect to the Company’s investees currently classified as having an “Indirect” involvement in the U.S. marijuana industry, the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.



Additionally, the Company is not aware of: (i) any non-compliance by any Licensed Entity with respect to its marijuana-related activities, or (ii) any notices of violation with respect to any Licensed Entity's marijuana-related activities by its respective regulatory authority. For a description of the compliance program for the Company's investees currently classified as having "Direct" involvement in the U.S. marijuana industry (being the California Operators) please see the section entitled "State Level Overview – California Summary – Compliance Procedures".

Except as otherwise disclosed herein, for each of the Company's investees that is involved in the U.S. marijuana industry listed in the chart of the Company's material assets and investments set out above and classified as having anything other than "Direct" or "Indirect" involvement in the U.S. marijuana industry, to the best of the Company's knowledge, the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state for any of such Non-Licensed Entity's business and the Company is not aware of: (i) any non-compliance by that Non-Licensed Entity with respect to its marijuana-related activities, or (ii) any notices of violation with respect to any Non-Licensed Entity's marijuana-related activities by its respective regulatory authority.

While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law.

### **CANNABIS - CANADA FEDERAL OVERVIEW**

On October 17, 2018, the Cannabis Act and the Cannabis Regulations came into force, legalizing the sale of cannabis for adult recreational use. Prior to the Cannabis Act and the Cannabis Regulations coming into force, only the sale of medical cannabis was legal and was regulated by the Access to Cannabis for Medical Purposes Regulations (Canada) (the "ACMPR") made under the Controlled Drugs and Substances Act (Canada) (the "CDSA"). The Cannabis Act and the Cannabis Regulations also replaced the CDSA and the ACMPR as the governing laws and regulations in respect of the production, sale and distribution of medical cannabis and related oil extract.

The Cannabis Act permits the recreational adult use of cannabis and regulates the production, distribution and sale of cannabis and related oil extracts in Canada, for both recreational and medical purposes. Under the Cannabis Act, Canadians who are authorized by their health care practitioner to use medical cannabis have the option of purchasing cannabis from one of the producers licensed by Health Canada and are also able to register with Health Canada to produce a limited amount of cannabis for their own medical purposes or to designate an individual who is registered with Health Canada to produce cannabis on their behalf for personal medical purposes.

Pursuant to the Cannabis Act, subject to provincial regulations, individuals over the age of 18 are able to purchase fresh cannabis, dried cannabis, cannabis oil, and cannabis plants or seeds and are able to possess 30 grams of dried cannabis, or the equivalent amount in fresh cannabis or cannabis oil. The Cannabis Act also permits households to grow a maximum of four plants. This limit applies regardless of the number of adults that reside in the household.



In addition, the Cannabis Act provides provincial and municipal governments the authority to prescribe regulations regarding retail and distribution, as well as the ability to alter some of the existing baseline requirements, such as increasing the minimum age for purchase and consumption.

Provincial and territorial governments in Canada have made varying announcements on the proposed regulatory regimes for the distribution and sale of cannabis for adult-use purposes. For example, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Yukon and the Northwest Territories have chosen the government-regulated model for distribution, whereas Saskatchewan and Manitoba have opted for a private sector approach. Alberta, Ontario, Newfoundland & Labrador, Nunavut and British Columbia have announced plans to pursue a hybrid approach of public and private sale and distribution.

In connection with the new framework for regulating cannabis in Canada, the Federal Government has introduced new penalties under the Criminal Code (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the Canadian border, giving or selling cannabis to a youth and involving a youth to commit a cannabis-related offence.

On July 11, 2018, the Federal Government published regulations in the Canada Gazette to support the Cannabis Act, including the Cannabis Regulations (“Cannabis Regulations”), the new Industrial Hemp Regulations (“IHR”, and together with the Cannabis Regulations, collectively, the “Regulations”), along with proposed amendments to the Narcotic Control Regulations and certain regulations under the Food and Drugs Act. The Regulations, among other things, outline the rules for the legal cultivation, processing, research, analytical testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licences that can be granted, and set standards for cannabis and hemp products. The Regulations include strict specifications for the plain packaging and labelling and analytical testing of all cannabis products as well as stringent physical and personnel security requirements for all federally licensed production sites. The Regulations also maintain a distinct system for access to cannabis. With the Cannabis Act now in force, cannabis has ceased to be regulated under the CDSA and is instead regulated under the Cannabis Act, and both the ACMPR and the IHR have been repealed effective October 17, 2018.

On June 26, 2019, the Government of Canada published in the Canada Gazette new regulations for edible cannabis, cannabis extracts, and cannabis topicals, which will come into force on October 17, 2019. The Cannabis Regulations will be updated to establish rules for the legal production and sale of cannabis edibles, extracts and topics, which consumers can expect to gradually become available for purchase in retail and online stores beginning later in the year.

### ***British Columbia***

Blisco, a Trichome investee, is a licensed distributor of dried cannabis products currently available in BC Cannabis Stores and select retailers across the province of British Columbia. British Columbia has a hybrid retail and distribution model that would allow private retail distribution of cannabis through storefronts, with public distribution of cannabis through an online platform and storefronts. The *Cannabis Control and Licensing Act* and the *Cannabis Licensing Regulation* regulate private storefronts.



The *Cannabis Control and Licensing Act* includes provisions to limiting relationships between federal producers and licensed retailers by preventing licensing of entities that in the opinion of the Liquor and Cannabis Regulation Branch (“LCRB”) are likely to favour the products of one federal producer to the exclusion of another, or who is likely to promote the sale of the federal producer’s products because of a connection to the federal producer. These provisions have no history of enforcement and it is unclear how the LCRB will make a subjective determination about connections between federal producers and licensed retailers.

On April 26, 2018, the Government of British Columbia introduced Bill C-30, the *Cannabis Control and Licensing Act* and Bill C-31, the *Cannabis Distribution Act*, which along with the *Cannabis Licensing Regulation* provide the legal framework for adult use cannabis sales in British Columbia. The *Cannabis Control and Licensing Act* and the *Cannabis Licensing Regulation*, among other things:

- establish rules governing cannabis retail stores similar in some respects to rules currently in place for liquor retail stores;
- establish public and private retailers will have similar operating rules;
- prohibit co-location of cannabis retail stores with any other businesses, such as liquor stores or pharmacies.
- set the minimum age to purchase, sell or consume adult use cannabis in British Columbia as 19;
- stipulate that adults will be allowed to possess up to 30 grams of cannabis in a public space;
- prohibit the use of cannabis on school properties and in vehicles;
- prohibit promotion of cannabis without a license to promote cannabis; and
- authorize adults to grow up to four cannabis plants per household, other than in properties that are used as day-cares, and requires that such plants not be visible from public spaces off the property.

The *Cannabis Control and Licensing Act* was passed on May 17, 2018 and subsequently received royal assent on May 31, 2018. The *Cannabis Control and Licensing Act* came into effect alongside the *Cannabis Licensing Regulation* on October 17, 2018. The *Cannabis Licensing Regulation* limits the total number of licenses per retailer to eight.

### **Saskatchewan**

Blissco is also approved to sell dried cannabis products in Saskatchewan with plans to deliver product to this market in the coming months. In Saskatchewan, *The Cannabis Control (Saskatchewan) Act* and *The Cannabis Control (Saskatchewan) Regulations* allow private cannabis retailers to sell cannabis, cannabis accessories and ancillary items in standalone storefront operations and deliver province-wide. In addition to private cannabis retail shops, *The Cannabis Control (Saskatchewan) Act* and *The Cannabis Control (Saskatchewan) Regulations* allow private sector to provide cannabis at the wholesale level, meaning the private sector will be permitted to source cannabis products from licensed producers and sell to private retailers.



On March 14, 2018 the Government of Saskatchewan released its framework for cannabis legalization, provided details regarding its plan for the distribution, sale and use of cannabis in Saskatchewan and began the lottery-based selection process for 51 retail cannabis permits. Private retailers awarded operating permits in the province have the ability to sell cannabis products on-line throughout Saskatchewan. The Saskatchewan provincial government has indicated that they intend to operate with this market structure for three years before review.

### **Alberta**

Blissco is also approved to sell dried cannabis products in Alberta with plans to deliver product to this market in the coming months. On November 30, 2017, the Government of Alberta passed Bill 26, *An Act to Control and Regulate Cannabis ("Bill 26")*, which contained the regulatory framework for adult use cannabis sales in Alberta. Bill 26 amended the *Gaming and Liquor Act* (Alberta), including with a name change to the *Gaming, Liquor and Cannabis Act*. On February 16, 2018, the Government of Alberta released amendments to the *Gaming and Liquor Regulation* (Alberta) establishing the *Gaming, Liquor and Cannabis Regulation*, which regulates the sale of adult use cannabis in Alberta, including the licensing of privately-owned retail cannabis stores.

The *Gaming, Liquor and Cannabis Act* regulates the purchase, distribution, sale and consumption of adult use cannabis in the Province of Alberta. Under the Alberta Cannabis Act, cannabis distribution in Alberta is through a hybrid retail model under the oversight of Alberta Gaming, Liquor and Cannabis ("**AGLC**"). Private retailers can own and operate licensed cannabis storefronts, such as those operated by the Company. A retail cannabis store license from AGLC is required to operate a cannabis storefront. Online distribution of cannabis is restricted to a website operated by the AGLC.

Together, the *Gaming, Liquor and Cannabis Act*, the *Gaming, Liquor and Cannabis Regulation* and the AGLC Cannabis Store Handbook include the following restrictions:

- no one licensee can control more than 15% of the retail cannabis store licenses issued in Alberta and no group of licensees can control more than 15% of the retail cannabis store licenses in Alberta where, in the opinion of the AGLC, the retail cannabis store licenses are or would likely be subject to common control in any material respect;
- cannabis retailers are required to hire individuals that are over eighteen years of age, have successfully completed training requirements set by the AGLC, and that have passed a criminal background check;
- cannabis retail stores cannot be located within 100 meters of a provincial health care facility or a school;
- cannabis retail stores cannot be open outside the hours of 10 a.m. and 2 a.m.;
- cannabis retail stores must implement inventory tracking, count and sales systems and security measures, including alarms, video surveillance and secured product storage;
- cannabis consumption at retail cannabis stores is prohibited;
- cannabis suppliers and their representatives cannot offer, nor can retail cannabis licensees accept, perks such as loans, money, rebates, concessions, discounts, furnishings, storage equipment, fixtures, decorations, signs, supplies or anything of value; and



- transfers of retail cannabis store licenses are prohibited, and any change in ownership of a retail cannabis store business must be preapproved by the AGLC.

The Alberta provincial government has provided guidance that there is no cap on the total number of retail licences; however, no person or entity can hold more than 15 per cent of retail cannabis licences in the province.

As a result of the national cannabis supply shortage, on November 23, 2018, the AGLC announced its decision to temporarily suspend accepting applications and issuing any additional cannabis retail licenses until further notice. On May 30, 2019, due to a steady increase in the AGLC's supply, the moratorium on accepting new retail licence applications and issuing new retail licences has been lifted.

### **New Brunswick**

Blissco is also approved to sell dried cannabis products in New Brunswick and has commenced delivery of their products to this market. In New Brunswick, recreational cannabis is sold through a network of tightly-controlled, stand-alone stores through Cannabis NB, a subsidiary of the New Brunswick Liquor Corporation.

### **VAPE – CANADA FEDERAL OVERVIEW**

On May 23, 2018, the *Tobacco and Vaping Products Act* ("TVPA") was enacted to regulate the manufacture, sale, labelling and promotion of tobacco products and vaping products sold in Canada. The *Tobacco and Vaping Products Act* replaced the Tobacco Act, which was originally enacted in 1997, but its purpose with respect to tobacco products remains the same, protecting the health of Canadians, preventing access to tobacco by young persons and enhancing public awareness of the health hazards associated with using tobacco products, and a ban on the use of menthol cigarettes. The TVPA also creates a legal framework for the regulation of vaping products providing guidelines on the advertising and promotion of vaping products.

On November 19, 2018, additional restrictions under the TVPA came into force to further support its objectives, which include the regulation and sale and promotion of vaping products and their appeal to youth, including interesting shapes or sounds; the promotion of flavours; and product promotion by testimonials.

Health Canada and the U.S. Food and Drug Administration (the "FDA") acknowledge the potential for vaping products to allow adult smokers to make informed choices for their health, while also recognizing the need to take proactive measures to regulate the evolving market. Currently under the TVPA, the minimum age of access for vaping products is eighteen years, subject to provincial regulations which may increase the age to access to vaping products.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



Provincial governments in Canada have made varying announcements on the proposed regulatory regimes for the distribution, sale and use of vaping products, and not all provinces and/or territories have implemented legislation on the use, sale or promotion of vaping products. For example, the Northwest Territories, Nunavut and the Yukon Territory do not have any proposed or enacted vaping product related legislation, whereas Quebec is viewed to have a strict approach to the regulation of electronic-cigarettes and vaping products. In Ontario, the sale of tobacco and vapour products also requires compliance with the rules in the Smoke-Free Ontario Act, 2017, with penalties and prohibitions on violations, in addition to those outlined in the *Tobacco and Vaping Products Act*.

On February 5, 2019, Health Canada announced a notice of intent to reduce the impact of vaping product advertising on youth and non-users of tobacco products under the authority of the TVPA. This notice offers stakeholders an opportunity to submit comments on the proposed considerations to inform the discussion and ensure an informed dialogue on the development of future policy and regulation. The notice highlights the fluid regulatory landscape with respect to the rapid evolution of the vape product market.

On April 11, 2019, Health Canada began seeking input on additional regulatory measures aimed at reducing youth use of vaping products, which included among other proposals, prohibiting the manufacture and sale of vaping products with certain flavours or flavour ingredients and/or prohibiting the promotion of certain flavours; restricting the concentration and/or delivery of nicotine in vaping products; regulating design features; and restricting online retail access and restricting product packaging.

On June 21, 2019, Health Canada introduced proposals expected to help protect the health and safety by increasing awareness of the health hazards of nicotine and creating consistency amongst vaping product labels and packages so that adults who choose to use them can more easily understand their contents. Some of the proposals would require that all vaping substances be labelled with a list of ingredients and those vaping products containing nicotine would be required to display a standardized nicotine concentration statement together with a health warning about the addictiveness of nicotine, as well as mandate child-resistant container and a toxicity warning.

### **RISK FACTORS**

### **FORWARD-LOOKING STATEMENTS**

The words “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates” “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or statements that certain actions, events, or results “may”, “could”, “would”, “might”, or “will” be taken, occur or to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.



Such factors include, but are not limited to, the factors discussed in the section entitled "RISKS AND UNCERTAINTIES". Although the Company has attempted to identify key factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

The following are certain risk factors relating to the business carried on by the Company that prospective holders of Origin House shares should carefully consider.

### **RISKS AND UNCERTAINTIES RELATED TO UNITED STATES OPERATIONS**

#### ***1. Risks Specifically Related to the United States Cannabis Regulatory System***

The Company's investments operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company's investments incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs 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's investments and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company's investments and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's investments' earnings and could make future capital investments or the Company's investments' operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.



**The Company is expected to continue to derive a portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law.** While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. Origin House is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company is indirectly and directly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. **The enforcement of relevant laws is a significant risk.**

Thirty-three (33) of the states in the United States, Washington D.C. and Puerto Rico have enacted comprehensive legislation to regulate the sale and use of medical cannabis, and ten (10) states and Washington D.C. have chosen to regulate adult-use (or recreational) cannabis. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis (other than hemp) continues to be categorized as a Schedule I controlled substance under the United States Controlled Substances Act of 1970. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It had been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



On February 8, 2018, following discussions with the Canadian Securities Administrators (“CSA”) and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“TMX MOU”) with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, and investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company (“DTC”) for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

The activities of Origin House’s investments are, and will continue to be, subject to evolving regulation by governmental authorities. The Company’s investments are directly or indirectly engaged in the medical and recreational cannabis industry in the United States, where local state law permits such activities, and in the legal cannabis industry in Canada. The legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions.

Origin House’s investments have been focused in states that have legalized the recreational use of cannabis. Currently, the states of Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont, Washington and the District of Columbia have legalized recreational use of cannabis. Two thirds of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. However, other than the recent passage of the Agriculture Improvement Act of 2018 (which only legalizes hemp), the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Further, on January 4, 2018, former U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the 2013 Cole Memorandum. The 2013 Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the 2013 Cole Memorandums were never legally binding; however, the revocation removed the DOJ’s guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the 2013 Cole Memorandum’s guidelines should not be a prosecutorial priority. The current Attorney General, William Barr, did indicate that he would not “go after” parties who are involved in the cannabis business and are compliant with state law; however, until he begins enacting his policies, substantial uncertainty regarding federal enforcement remains.



Regardless, the federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memoranda does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's investments in such businesses would be materially and adversely affected notwithstanding the fact that the Company is not directly engaged in the sale or distribution of cannabis, only engaging in such activity through its subsidiaries. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the 2013 Cole Memorandum discussed above, on February 8, 2018 the CSA published a staff notice (Staff Notice 51-352) setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

Origin House's funding of the activities of investments involved in the medical and recreational cannabis industry through loans, royalties or other forms of investment, is illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

There is still uncertainty surrounding the Trump Administration and current Attorney General William Barr, and their influence and policies in opposition to the cannabis industry as a whole.

Many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation:

- The Company has several investments into businesses that operate in the U.S., where cannabis is federally illegal;
- The activities of the Company are subject to evolving regulation that is subject to changes by governmental authorities in Canada and the U.S.;
- Third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities;
- The Company's ability to repatriate returns generated from investments in the U.S. may be limited by the Bank Secrecy Act, the Patriot Act and anti-money laundering laws;
- Under Section 280E of the Internal Revenue Code, normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, the Company will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company will not be subject to 280E in the future, and accordingly, there is no certainty that the impact that 280E has on the Company's margins will ever be reduced;



- Federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's accounts and risks associated with uninsured deposit accounts. There is no certainty that the Company will be able to maintain its existing accounts or obtain new accounts in the future; and
- Although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

### ***2. The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations***

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, FinCEN issued the FinCEN Guidance on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities. The FinCEN Guidance states that banks which provide services to cannabis-related businesses will not be an enforcement priority for FinCEN in connection with the attendant violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors in the 2014 Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the 2013 Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

Former Attorney General Sessions' revocation of the 2013 Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Guidance, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Guidance itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Guidance to work in tandem, the FinCEN Guidance appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded 2013 Cole Memorandum. Although the FinCEN Guidance remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Guidance.



The Company's investments, and any proceeds thereof, are considered proceeds of crime due to the fact that cannabis remains illegal federally in the United States. This restricts the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

### **3. Risk of RICO prosecution or civil liability**

The Racketeer Influenced Corrupt Organizations Act ("RICO") criminalizes the use of any profits from certain defined "racketeering" activities in interstate commerce. While intended to provide an additional cause of action against organized crime, due to the fact that cannabis is illegal under U.S. federal law, the production and sale of cannabis qualifies cannabis related businesses as "racketeering" as defined by RICO. As such, all officers, managers and owners in a cannabis related business could be subject to criminal prosecution under RICO, which carries substantial criminal penalties.

RICO can create civil liability as well: persons harmed in their business or property by actions which would constitute racketeering under RICO often have a civil cause of action against such "racketeers," and can claim triple their amount of estimated damages in attendant court proceedings. The Company as well as its officers, managers and owners could all be subject to civil claims under RICO, which would be expected to have a material adverse effect on the operations of the Company.

Notably, in late October 2018, a Colorado cannabis cultivator won a milestone victory in a RICO suit wherein it was alleged he created a noxious odor and other nuisances that depressed neighboring property values. While similar cases have been brought in other U.S. states, and at least one has reached a settlement, this was the first time a suit filed under RICO went to a jury, and it highlighted the high burden of proof a plaintiff must shoulder when filing suit.

### **4. Civil Asset Forfeiture**

Because the cannabis industry remains illegal under federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

### **5. Enforceability of Contracts**

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Notwithstanding that cannabis-related businesses operate pursuant to the laws of states in which such activity is legal under state law, state courts have, on a number, of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law.



There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. If borrowers fail or refuse to repay loans and the Company is unable to legally enforce its contracts, the Company may suffer substantial losses for which it has no legal remedy, which would be expected to have a material adverse effect on the operations of the Company.

### ***6. The Company's investments in the United States may be subject to heightened scrutiny by Canadian authorities***

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, and investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with DTC for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations, and adult-use cannabis under the Cannabis Act, investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of thirty-three (33) states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, may be in violation of federal law in the United States.



As previously stated, the United States Congress has passed appropriations bills each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law.

The Rohrabacher-Blumenauer Amendment was renewed on January 25, 2019 as part of a short-term spending bill that was in effect through February 15, 2019. On February 15, 2019 the Rohrabacher-Blumenauer Amendment was renewed in the 2019 Consolidated Appropriations Acts which shall remain in effect until the end of the FY 2019 (i.e., September 30, 2019). At such time, there are several possibilities: Congress could pass a FY 2020 budget, in which case it could either include the Rohrabacher-Blumenauer Amendment (or a similar amendment), or Congress could fail to pass any kind of a budget, in which case a government shutdown would result and the protections of the Rohrabacher-Blumenauer Amendment would end.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress declines to include the Rohrabacher-Blumenauer Amendment in the 2020 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

As previously stated, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The approach to the enforcement of cannabis laws are subject to change or may not proceed as previously outlined.



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

The Company's current and proposed operations are subject to a variety of laws, regulations and guidelines, including, but not limited to, those relating to the manufacture, management, transportation, storage and disposal of cannabis, as well as laws and regulations relating to health and safety (including those for consumable products), the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations. If any changes to such laws, regulations and guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operation. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned operations.

Changes in regulations, more vigorous enforcement thereof, the imposition of restrictions on the Company's ability to operate in the U.S. as a result of the federally illegal nature of cannabis in the U.S. or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs 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. Additionally, the voters or legislatures of states in which cannabis has been legalized could potentially repeal applicable laws which permit both the operation of medical and retail cannabis businesses. These actions might force the Company to cease the Company business in those states.

Continued development of the cannabis industry is dependent upon continued legislative and regulatory authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further progress is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative and regulatory process. Any one of these factors could slow or halt business operations relating to cannabis or the current tolerance for the use of cannabis by consumers, which would negatively impact the Company Business.

### **8. Operation Permits and Authorizations**

The Company's investments may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company's investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on an investment's ability to operate in the cannabis industry, which could have a material adverse effect on the Company's business.



### **9. Reliance on Third-Party Suppliers, Manufacturers and Contractors**

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company and its investees' third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

### **10. Unfavourable Publicity or Consumer Perception**

The regulated cannabis industry in the United States and Canada is at an early stage of its development. The Company believes the medical and recreational cannabis industry is highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception 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 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 cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect on the business of the Company. 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 legally, appropriately or as directed.

Public opinion and support for medical and recreational cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. Legalization of medical and recreational cannabis remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, legalization of medical marijuana as opposed to legalization in general).

Each of Origin House's investments' ability to gain and increase market acceptance of its products may require it, and/or Origin House, to establish and maintain brand names and reputation. Federal protection of trademarks may be difficult or impossible for Origin House to obtain in the United States, given the federal illegality of cannabis and the necessity of making "lawful use" of the trademark in commerce to obtain federal protection. While state-level protection is available, this nevertheless increases the risks in protecting Origin House's brands until such time as the Controlled Substances Act is amended by federal legislation. Furthermore, in order to obtain such protection, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful, and their failure may have an adverse effect on the Company.



## **11. Competition**

The Company competes with other companies for financing and investment opportunities in the cannabis industry. Some of these companies may possess greater financial resources than the Company. Such competition may result in the Company being unable to enter into desirable strategic agreements or similar transactions, to recruit or retain qualified employees or to acquire the capital necessary to fund its investments. Existing or future competition in the cannabis industry, including, without limitation, the entry of large multinational entities into the industry, could materially adversely affect the Company's prospects for entering into additional agreements in the future. In addition, the Company currently competes with other cannabis streaming and royalty companies, some of which may possess greater financial resources than the Company.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Company. Increased competition by larger and better financed competitors, including competitors to the Company's investments, could materially and adversely affect the business, financial condition and results of operations of the Company.

It is possible that larger competitors could establish price setting and cost controls which would effectively "price out" certain of the Company's investments operating within and in support of the medicinal and recreational cannabis industry.

Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support. Origin House may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

Additionally, the pharmaceutical industry may attempt to dominate the cannabis industry through the development and distribution of synthetic products which emulate the effects and treatment of organic cannabis. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of the Company to secure long-term profitability and success through the sustainable and profitable operation of its business.

## **12. Banking**

Since the production and possession of cannabis is currently illegal under U.S. federal law, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the cannabis industry. The inability to open bank accounts with certain institutions could materially and adversely affect the business of the Company.



### ***13. Liability, Enforcement Complaints, etc.***

Origin House's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company or its investments. Litigation, complaints, and enforcement actions involving either of the Company or its investments could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

### ***14. Product Liability***

Certain of the Company's investments manufacture, process and/or distribute products designed to be ingested by humans, and therefore face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury. In addition, previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against an investment entity of Origin House could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on the results of operations and financial condition of the Company.

### ***15. Reliance on Key Inputs***

The cultivation, extraction and processing of cannabis and derivative products is dependent on a number of key inputs and their related costs including raw materials, 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 the Company's investments. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the relevant investment entity might be unable to find a replacement for such source in a timely manner or at all. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of an investment, and consequently, the Company.

### ***16. Available Talent Pool***

As the Company grows, it will need to hire additional human resources to continue to develop the business. However, experienced talent in the areas of medical marijuana research and development, growing marijuana and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.



### **17. Intellectual Property**

The success of the Company will depend, in part, on the ability of the Company's investments to maintain and enhance trade secret protection over the various existing and potential proprietary techniques and processes of the Company's investments. The Company's investments may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary products and trade secrets of the Company's investments. In addition, effective future patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. In the United States, federal trademark protections are unavailable to those who cannot make "lawful use" of such trademarks, creating a risk that state-level trademark protections will be insufficient for the Company's needs. However, it should be noted that on May 2, 2019, the United States Patent and Trademark Office (the "USPTO" issued a clarification statement regarding the "Examination of Marks for Cannabis and Cannabis-Related Goods and Services After the 2018 Farm Bill" and it appears that the USPTO will begin registering marks filed after December 20, 2018 that identify hemp derived goods encompassing CBD or other cannabis product, which comply with the 2018 Farm Bill.

In addition, other parties may claim that an investment's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

### **18. Operational Risks**

Origin House and its investments may be affected by a number of operational risks and may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; and natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's investments' properties, grow facilities and extraction facilities, personal injury or death, environmental damage, adverse impacts on the Company's investments' operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition on the Company. Also, the Company's investments may be subject to or affected by liability or sustain loss for certain risks and hazards against which they may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

### **19. Insurance**

In the United States, many cannabis related companies are subject to a lack of adequate insurance coverage including, without limitation, general coverage for cultivating cannabis and traditional commercial insurance covering dispensary transit.



In addition, many insurance companies may deny claims for any loss relating to cannabis for reasons such as it is illegal under federal law, a contract for an illegal item is unenforceable or there can be no insurable interest in an illegal item. Failure to obtain adequate insurance coverage could open the Company up to additional liabilities that businesses not operating in the cannabis industry would face due to cannabis being illegal at the federal level.

### **20. Constraints on Marketing Products**

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the United States limits companies' abilities to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and results of operations could be adversely affected.

### **21. Risk of Criminal Charges Against Origin House**

Mr. Wilkinson, the principal of Rich Extracts, was arrested in Nebraska for possession of marijuana with intent to distribute. The possession and distribution of marijuana are illegal in Nebraska. Although Origin House was unaware of Mr. Wilkinson's criminal activities, there is a risk that Origin House could face allegations, criminally or otherwise, in connection with Mr. Wilkinson's actions.

## **RISKS AND UNCERTAINTIES RELATED TO CANADIAN OPERATIONS**

### **1. Risks Specifically Related to the Canadian Vape Regulatory System**

Origin House's newly-acquired subsidiary, 2360149 Ontario Inc. d.b.a. 180 Smoke operates in the Canadian vape industry, an industry that is highly regulated and is in a market which is unique, very competitive and rapidly evolving. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

180 Smoke's ability to manufacture, purchase and sell vape, electronic-juice ("e-juice") and electronic-cigarettes ("e-cigarettes") is dependent on both provincial and federal rules and legislation and the need to maintain licenses, permits and registrations in good standing. Failure to comply with the requirements of applicable licenses, permits and registrations or any failure to maintain them would have a material adverse impact on the business, financial condition and operating results of the Company.

180 Smoke will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to 180 Smoke's operations, increased compliance costs 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or 180 Smoke's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

180 Smoke's business as a vape product retailer which is subject to the Smoke-Free Ontario Act, 2017 and the federal Tobacco and Vape Products Act and other guidelines represents a new industry and new market resulting from the evolution of the traditional tobacco industry and its regulated regime. In addition to being subject to general business risks and to risks inherent in the nature of a business in a rapidly evolving market, a business involving tobacco and vape products and a regulated consumer product, 180 Smoke will need to continue to build brand awareness in the industry and market through significant investments in its strategy, compliance with relevant municipal, provincial and federal regulations and best practices. These activities may not promote the 180 Smoke brand and products as effectively as intended. This new market and industry into which management has entered will have competitive conditions, consumer tastes, and unique circumstances, and spending patterns that differ from existing markets.

In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond 180 Smoke's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies that may be imposed. Changes in government levies, including taxes, could reduce 180 Smoke's earnings and could make future capital investments or 180 Smoke's operations uneconomic.

There are significant restrictions and may be additional restrictions imposed on the marketing, branding, product formats and/or distribution channels allowed under the law, which may reduce the value of certain products and brands or negatively impact 180 Smoke's ability to compete in the vape product and e-cigarette markets. The Tobacco and Vape Products Act legislation includes a requirement for health warnings on product packaging, the limited ability to use logos and branding and restrictions on types and avenues of marketing. Additional restrictions may be imposed at the provincial level. While 180 Smoke is reasonably certain it will be able to adapt its brands and products to satisfy these restrictions and to package and successfully distinguish its brands in the marketplace while remaining compliant with the approved or proposed legislation (including all provincial legislation) that has been proposed or passed to date, provincial or other legislation may contain additional restrictions, such as a complete ban on marketing, that impact our ability to do so. Such additional restrictions may impair 180 Smoke's ability to develop vape products and brands, and a complete ban on marketing may make it uneconomic or unfeasible to introduce certain brands or products into the Canadian market.



Further, each province and territory of Canada has the ability to separately impose certain regulations on vape products, and any rules adopted by these provinces or territories may vary significantly. Such variance may make participation in the vaping product and e-cigarette markets uneconomic or of limited economic benefit and could result in significant additional compliance or other costs and limitations on 180 Smoke's ability to compete successfully in each such market.

180 Smoke's operations will be subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, export, management, packaging/labeling, advertising, sale, transportation, storage and disposal but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Due to matters beyond the control of 180 Smoke, these laws, regulations, guidelines and policies may cause adverse effects to its operations. The vape products industry is a new industry and evolving rapidly, and 180 Smoke anticipates that such regulations will be subject to change as the Federal Government monitors the use, marketing and advertising and user-health in action.

The vape product industry is continuously evolving and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect 180 Smoke's ability to conduct sales and marketing activities and could have a material adverse effect on 180 Smoke's business, operating results or financial condition.

### **2. Environmental Regulations and Risks**

The Company's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of air quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of vaping products or from proceeding with the development of its operations as currently proposed.

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. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.



Amendments to current laws, regulations and permits governing the manufacturing and sale of vaping products, or more stringent implementation thereof, could have a material adverse impact on 180 Smoke or the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

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

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of the Company's management, it is currently in compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations and the financial condition of the Company. While the Company intends to comply with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations. The Company may also incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's proposed business, financial condition and results of operation.

While the impact of any such changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Company's operations that is materially different than the effect on similar-sized companies in the same business as the Company.

As the industry continues to evolve, Health Canada may impose further packaging, labelling and advertising restrictions on suppliers and producers of vaping products. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for the Company's products, then sales and operating results could be adversely affected. Further, if the Company fails to comply with the packaging, labelling and advertising restrictions, the Company may be subject to consequences for non-compliance as outlined at the federal and provincial levels, including loss or suspension of applicable licenses or permits.

### **4. *Government Regulation on Retail Cannabis***

The recreational cannabis industry is a new industry in Canada which is subject to extensive controls and regulations. The Company cannot predict the impact of the changes to the regulatory regime in the Province of Ontario and in other jurisdictions in Canada and the effect such regulations may have on the Company's future growth, as execution of any retail cannabis strategy implemented by the Company will be contingent upon compliance with provincial and municipal regulatory requirements. The Company may also incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties, or in restrictions on the Company's operations.



The Company's future growth may therefore be affected by numerous factors that are beyond the Company's control and which cannot be predicted, including changes to government regulations, more vigorous enforcement thereof or other unanticipated events which could require extensive changes to the Company's operations, increased compliance costs or may give rise to material liabilities, which could have an adverse effect on the Company's business, financial condition, liquidity and results of operations.

### **5. Franchise Regulation**

180 Smoke is subject to provincial franchise requirements, provincial laws regulating the offer and sale of franchises in Canada through the provision of franchise disclosure documents to potential franchisees containing certain mandatory disclosures, and various provincial laws regulating the franchise relationship. Although the Company believes that 180 Smoke's franchise disclosure documents, together with any applicable province-specific versions or supplements, and its franchising procedures comply in all material respects with all applicable provincial laws regulating franchising in those provinces in which it offers and grants new franchise arrangements, noncompliance could adversely impact the Company's fundraising activities and thereby reduce anticipated royalty income, which in turn could materially adversely affect the Company's business, financial condition and results of operations.

### **6. Reliance on Current and Future Locations**

To date, 180 Smoke's proposed activities and resources have been primarily focused in the Province of Ontario. The Company expects to continue the focus on this region for the foreseeable future. Adverse changes or developments affecting the current locations could have a material and adverse effect on the Company's business, financial condition and prospects.

### **7. Opening of Franchise Stores**

The opening of franchised 180 Smoke stores depends, in part, upon the availability of prospective franchisees who meet the Company's criteria. The Company may not be able to identify, recruit or contract with suitable franchisees in its target markets on a timely basis or at all. In addition, 180 Smoke's potential franchisees may not ultimately be able to access the financial or management resources that they need to open the stores contemplated by their agreements with 180 Smoke, or they may elect to cease store development for other reasons. If the Company or 180 Smoke is unable to recruit suitable franchisees or if franchisees are unable or unwilling to open new stores as planned, 180 Smoke's growth may be slower than anticipated, or cease, which could materially adversely affect its ability to increase its revenue and materially adversely affect its business, financial condition and results of operations and, in turn, the Company. In addition, it is likely that franchise stores will be subject to various anticipated laws, regulations and guidelines relating to the management, packaging/labelling, advertising, sale, transportation, storage and disposal. While the Company intends to comply with all such laws and to ensure that its franchisees comply with all such laws, there is a risk that franchises will fail to do so.



### **8. Risks of Retail Store Operations**

Growth of the Company's retail network depends, among other things, on its ability to secure desirable locations on terms acceptable to the Company. The Company potentially faces competition for retail locations from the cannabis industry, its competitors and from operators of other businesses. The success of many retail locations is significantly influenced by location. There can be no assurance that 180 Smoke's current retail locations will continue to be attractive, or that additional retail storefronts can be located and secured as demographic and traffic patterns change. Also, there is no guarantee that the property leases in respect of prospective retail locations can be established on terms acceptable to the Company, or at all, and that property leases in respect of existing retail locations will be renewed or that suitable alternative locations will be obtained and, in such event, retail locations could be closed. It is possible that the current locations or economic conditions where retail locations are currently located could decline in the future, resulting in reduced sales in those locations. There is no assurance that future sites will produce the same results as past sites.

### **9. Reliance on Key Inputs**

The Company'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, and other utilities. Any significant interruption or negative change in the availability or economics of the supply chain, including price volatility, for key inputs could materially impact the financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

The Company's retail business, through 180 Smoke, is also dependent, in part, on 180 Smoke's ability to anticipate and react to changes in supply costs of its products, including cannabis and cannabis-related products. Volatility in connection with these supply costs could impact 180 Smoke's revenues, costs and margins and, in turn, the Company. If supply costs rise, 180 Smoke's storefronts may experience reduced sales due to decreased consumer demand at retail prices that have been raised to offset increased supply costs, which may reduce retail profitability.

### **10. Brand Risks**

The Company's success is reliant on, among other things, the value of the Company and its investees' brands, and other popular e-juices and vaping products, and the failure to preserve value and relevance could have a negative impact on the Company's results of operations. To be successful in the future, the Company must preserve, enhance and leverage the value of its brands. Brand value is based in part on consumer tastes, preferences and perceptions on a variety of factors, including the quality of the Company's products and business practices. Consumer acceptance of the Company's products may be influenced by or subject to change for a variety of reasons. For example, adverse publicity associated with vaping products or 180 Smoke's products or business practices may drive popular opinion against the Company's brands, which may impact the demand for the Company's products. If we are unsuccessful in addressing any such adverse perceptions, the Company's brands and results of operations may suffer.



### **11. Consumer Preference and Trends**

Consumer trends are subject to sudden shifts. The Company's results will continue to depend in part on its ability to accurately predict and respond to changes in such trends and consumer preferences in a timely manner. Any variation in expectations and predictions of the Company from its customers' preferences, may subject the Company to face excess inventories for some products and/or missed opportunities for others. Excess inventories can result in lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Low inventory levels can adversely affect 180 Smoke's ability to meet customer demand, which may lead to lost sales and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in consumer preferences could have a material adverse effect on the Company's business and any significant misjudgments regarding inventory levels could adversely impact the Company's results of operations.

The Company's ability to sell popular brands that are favoured by consumers is important to its ability to respond to consumer preferences. If vendors of popular brands cease doing business with the Company, or the terms and conditions with such vendors (including vendor allowances and merchandise cost) change materially, including our ability to be an exclusive seller of certain brands, our results could be adversely affected. There can be no assurance that our existing vendors will continue to provide us with a sufficient assortment and quantity of inventory to satisfy the Company's demands.

### **12. Competition**

The Company will face intense competition from other companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing experience than the Company. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of the Company.

If the number of users of medical and recreational cannabis in Canada increases, the demand for vape products may increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

### **13. Operating Risk and Insurance Coverage**

The Company has insurance to protect its assets, operations and employees. Such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.



#### **14. Improving and Enhancing Online Retail Platform**

If the Company fails to improve and enhance the functionality, performance, reliability, design, security and scalability of its online platform the online retail business of 180 Smoke may be adversely affected. The market in which the Company competes is characterized by constant change and innovation and this market is expected to continue to evolve rapidly. The Company's success through 180 Smoke is based on the ability to identify and anticipate and design and maintain a platform needed to operate successfully. The Company may experience difficulties with software or platform development that could delay or prevent the development, introduction or implementation of enhancements to the online retail platform which may have a material adverse effect on 180 Smoke's business, financial condition, results of operations and prospects and, in turn, the Company.

#### **15. Online Security**

Security breaches, denial of service attacks, or other hacking and phishing attacks on our systems or other security breaches could delay or interrupt service to consumers, harm the Company's reputation to significant liability, and adversely affect the company's business and financial results.

Failure to prevent or mitigate security breaches and improper access to or disclosure of the Company's data could result in the loss or misuse of such data, which could harm the Company's business and reputation. The security measures the Company has integrated into its internal networks and platform, which are designed to prevent or minimize security breaches, may not function as expected or may not be sufficient to protect the Company's internal networks and platform against certain attacks. In addition, techniques used to sabotage or to obtain unauthorized access to networks in which data is stored or through which data is transmitted change frequently. As a result, the Company may be unable to anticipate these techniques or implement adequate preventative measures to prevent an electronic intrusion into our networks.

If a security breach were to occur, as a result of third-party action, employee error, malfeasance, or otherwise, and the confidentiality, integrity or availability of our merchants' data was disrupted, the Company could incur significant liability to individuals, and the Company's platform may be perceived as less desirable, which could negatively affect the Company's business and damage its reputation.

#### **16. Third Party Transportation**

In order for customers of the Company to receive products, the Company must rely on third party transportation services. This can cause logistical problems with and delays in customers obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance.

Moreover, security of the product during transportation to and from the Company's consumers is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach could affect the Company's ability to successfully operate and provide online retail services.



### ***17. Unfavorable Publicity or Consumer Perception***

Management of the Company believes the vape product industry is highly dependent upon both consumer perception and government regulations regarding the safety, efficacy and quality. Consumer perception of the Company's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding, including the consumption of medical and non-medical 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 vape product 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 the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions and government regulations 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 the Company, the demand for the Company's proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of products in general, or the Company's proposed products specifically, or associating the consumption of e-juice or use of vape products with illness or other negative effects or events, could have such 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.

### ***18. Product Liability***

As a distributor of products designed to be ingested or inhaled, the Company 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 the Company's products would involve the risk of injury and loss to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury, illness or loss, 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 180 Smoke could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company. There can be no assurances that the Company 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 protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.



### **19. 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 the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company 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 the Company intends to have detailed procedures in place for testing its 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 the Company's brands or products were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### **RISKS AND UNCERTAINTIES RELATED TO THE ARRANGEMENT**

Readers should carefully consider the risk factors relating to the Arrangement set out in the "Notice of Meeting and Management Information Circular for the Special Meeting of Shareholders of CannaRoyalty Corp. d.b.a. Origin House to be Held on June 11, 2019" dated May 13, 2019, copies of which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **OTHER RISKS AND UNCERTAINTIES**

#### **1. Resale of Shares**

Although the Common Shares are listed on the CSE, there can be no assurance that, an active and liquid market for the Company Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company. In addition, there can be no assurance that the publicly-traded stock price of the Company will be high enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company's shares would be diminished.

#### **2. Price Volatility of Publicly Traded Securities**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies.



There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of Origin House will be subject to market trends generally, notwithstanding any potential success of Origin House in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. An active public market for the Company's shares might not develop or be sustained. If an active public market for the Company's shares does not develop, the liquidity of a shareholder's investment may be limited, and the share price may decline.

### ***3. Costs of Maintaining a Public Listing***

As a public company, there are costs associated with legal, accounting and other expenses related to regulatory compliance. Securities legislation and the rules and policies of the CSE and the OTC require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and disclose material information, all of which add to a company's legal and financial compliance costs. Origin House may also elect to devote greater resources than it otherwise would have as a private company on communication and other activities typically considered important by publicly traded companies.

### ***4. Difficulty Implementing Business Strategy***

The growth and expansion of the Company is heavily dependent upon the successful implementation of its business strategy. There can be no assurance that the Company will be successful in the implementation of its business strategy.

### ***5. Conflicts of Interest***

Certain of the Company's directors and officers are, and may continue to be, involved in other business ventures through their direct and indirect participation in, among other things, corporations, partnerships, joint ventures, that may become potential competitors of the technologies, products and services the Company intends to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers, conflict with or diverge from the Company's interests. In accordance with applicable corporate law, directors who have a material interest in or who are parties to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the transaction. In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.



### **6. Holding Company**

Origin House is a holding company and essentially all of its assets are the capital stock of its material subsidiaries. As a result, investors in Origin House are subject to the risks attributable to its subsidiaries. Consequently, Origin House's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and investments and the distribution of those earnings to Origin House. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of Origin House's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before Origin House.

### **7. Investments May be Pre-Revenue**

The Company may make investments in entities that have no significant sources of operating cash flow and no revenue from operations. As such, the Company's investments are subject to risks and uncertainties that new companies with no operating history may face. In particular, there is a risk that the Company's investments will not be able to:

- implement or execute their current business plan, or create a business plan that is sound;
- maintain their anticipated management team; and/or
- raise sufficient funds in the capital markets or otherwise to effectuate their business plan.

If the Company's investments cannot execute any one or more of the foregoing, its businesses may fail, which could have a materially adverse impact on the business, financial condition and operating results of the Company.

### **8. Lack of Control Over Operations of Investments**

The Company relies on its investments to execute on their business plans and produce medical and/or recreational cannabis products and holds contractual rights and minority equity interest relating to the operation of the Company's investments. The operators of the Company's investments have significant influence over the results of operations of the Company's investments. Further, the interests of the Company and the operators of the Company's investments may not always be aligned. As a result, the cash flows of the Company are dependent upon the activities of third parties which creates the risk that at any time those third parties may: (i) have business interests or targets that are inconsistent with those of the Company; (ii) take action contrary to the Company's policies or objectives; (iii) be unable or unwilling to fulfill their obligations under their agreements with the Company; or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations. In addition, payments may flow through the Company's investments, and there is a risk of delay and additional expense in receiving such revenues. Failure to receive payments in a timely fashion, or at all, under the agreements to which the Company is entitled may have a material adverse effect on the Company.



In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the Company's investments, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by investment entities to the Company contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

### **9. Private Companies and Illiquid Securities**

The Company may invest in securities of private companies. In some cases, the Company may be restricted by contract or generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market, and the inability to sell such securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

### **10. Risks Associated with Acquisitions**

As part of the Company's overall business strategy, the Company intends to pursue select strategic acquisitions, which would provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. The success of any such acquisitions will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company. Future acquisitions may expose it to potential risks, including risks associated with: (i) the integration of new operations, services and personnel; (ii) unforeseen or hidden liabilities; (iii) the diversion of resources from the Company's existing business and technology; (iv) potential inability to generate sufficient revenue to offset new costs; (v) the expenses of acquisitions; and (vi) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

While the Company intends to conduct reasonable due diligence in connection with such strategic acquisitions, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Origin House Shares. The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such strategic acquisition with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations.



### **11. Bankruptcy or Insolvency of Investments**

There is no guarantee that the Company will be able to effectively enforce any interests it may have in the Company's investments. A bankruptcy or other similar event related to an investment of Origin House that precludes a party from performing its obligations under an agreement may have a material adverse effect on the Company. Because cannabis is federally illegal in the United States, bankruptcy proceedings will be unavailable in the event of a plant-touching subsidiary's insolvency. Further, as an equity investor, should an investment have insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities owed to the Company. In addition, bankruptcy or other similar proceedings are often a complex and lengthy process, the outcome of which may be uncertain and could result in a material adverse effect on the Company.

### **12. Additional Financing**

Origin House requires equity and/or debt financing to maintain its current business operation, to meet working capital requirements, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms that are commercially viable. Origin House's inability to raise financing could limit its ability to meet operational objectives, pursue its growth strategy and may have a material adverse effect upon future profitability.

The Company has historically, and continues to have, access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada. While the Company is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has access to equity financing through the public markets in Canada although pursuant to the terms of the pending Arrangement with Cresco, Origin House would be required to obtain the prior approval of Cresco to any proposed equity financing of the Company, and such activities would dilute the Company's shares. Furthermore, any proposed debt financing of the Company over a prescribed threshold would also require the prior approval of Cresco. The Company's executive team and board also have extensive relationships with sources of private capital (such as funds and high net worth individuals), that could be investigated at a higher cost of capital. Further, the Company is actively pursuing an asset rationalization strategy to divest itself of portfolio assets that do not relate to its core business. Proceeds from the sale of such assets would be used to finance the continued growth of the Company's business.

If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately.



Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its 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. 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 the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

### **13. Reliance on Management**

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management 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. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the Company's lean management structure may be strained as the Company pursues growth opportunities in the future. The loss of the services of such individuals or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. Furthermore, to the extent that the senior management of the Company is involved with any subsidiary licensed in the United States to do business as a cannabis company, there is a risk that such managers or officers could be disqualified from such operations, particularly if such managers or officers were convicted of certain types of felonies. This would be expected to have a material adverse effect on the operations of the Company.

Origin House's future success depends substantially on the continued services of its executive officers, its key research and development personnel and its key growth and extraction personnel. If one or more of its executive officers or key personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose know-how, key professionals and staff members. These executive officers and key employees could compete with and take customers away.

### **14. Management of Growth**

Origin House may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its



officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. Origin House's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

### **15. Dividends**

Origin House has not paid dividends in the past, and the Company does not anticipate paying any dividends in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they sell their shares of the Company for a price greater than that which such investors paid for them.

### **16. Litigation**

Origin House 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 the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for Origin House Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources. Litigation may also create a negative perception of the Company's brand.

### **17. Insurance Coverage**

Origin House will require insurance coverage for a number of risks. Although the management of the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

### **18. Currency Fluctuations**

Origin House's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition, and operating results.



Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations and to maintain purchasing power within U.S. operations; however, there can be no assurance that such a program will effectively mitigate all currency risks. When the Company obtains financing, a significant portion is transferred to US based subsidiaries who have upcoming financial commitments, including acquisitions and capital investments.

### **19. Passive Foreign Investment Company**

There is a risk that the Company may, in the future, be construed as a passive foreign investment company ("PFIC"). If the Company is a passive foreign investment company, its shareholders in the U.S. are likely subject to adverse U.S. tax consequences. Under U.S. federal income tax laws, if a company is a PFIC for any year, it could have adverse U.S. federal income tax consequences to a U.S. shareholder with respect to its investment in the Company's shares. The Company earns significant royalty and franchise revenue which may be treated as passive income unless the royalty and franchise revenue is derived in the active conduct of a trade or business. Assessing whether royalty or franchise revenue received by the Company and its subsidiaries is derived in the active conduct of a trade or business involves substantial factual and legal ambiguity. Based on current business plans and financial expectations, the Company expects that it will not be a PFIC for its current tax year. PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question and is determined annually. Furthermore, because PFIC determinations are made annually, it is possible that the Company will meet the requirements to be treated as a PFIC in one or more years, but not meet such requirements in other years. U.S. shareholders should consult their own tax advisors regarding the potential adverse tax consequences to owning PFIC stock, and whether they are able to and should make any elections or take other actions to mitigate such potential adverse tax consequences.

*If the Company is deemed to be an investment company under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"), it may be required to institute burdensome compliance requirements and its activities may be restricted*

The Company intends to conduct its operations so that it is not required to register as an investment company under the United States Investment Company Act of 1940, as amended, which we refer to as the Investment Company Act. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40.0% of the value of the issuer's total assets (exclusive of government securities and cash items) on an unconsolidated basis. However, any issuer primarily engaged, directly or through a wholly-owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities is exempt from the requirements of the Investment Company Act under Section 3(b)(1).

The Company's historical business model consisted of making investments in a broad portfolio of cannabis-related assets and, in some cases, taking minority stakes in business ventures, which may have resembled certain aspects of an investment company within the definition of the Investment Company



Act. However, the Company believes that its current mix of controlled holdings and wholly-owned brands, in addition to its current focus on being an operator in the legal cannabis space, is not that of an investment company and it is the Company's intent that its business continues to evolve in this direction. As a result, the Company believes that it is not "primarily engaged" in the business of investing, reinvesting, owning, holding or trading in securities and thus qualifies for the exemption under Section 3(b)(1) of the Investment Company Act. Nevertheless, the Company's substantial investments, including those in minority companies, royalty interests and diverse portfolio of other assets may leave it vulnerable to being classified as an investment company in the future should its asset mix change.

If the Company is deemed to be an investment company under the Investment Company Act, its activities may be restricted, including restrictions on the nature of the Company's investments and restrictions on the issuance of securities. In addition, the Company may have imposed upon it burdensome requirements, including:

- registration as an investment company;
- adoption of a specific form of corporate structure; and
- reporting, record keeping, voting, proxy and disclosure requirements and other rules and regulations.

In sum, if the Company were to be characterized as an investment company, the inability of the Company to satisfy such regulatory requirements, whether on a timely basis or at all, could, under certain circumstances, have a material adverse effect on the Company and its ability to continue pursuing its business plan could be limited. Furthermore, if the Company is deemed to be an investment company, its existing contracts may be voided, and it may be unable to continue its existing business.

### **20. Research and Market Development**

Although the Company, itself and through its investments, is committed to researching and developing new markets and products and improving existing products, there can be no assurances that such research and market development activities will prove profitable or that the resulting markets and/or products, if any, will be commercially viable or successfully produced and marketed.

The Company 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 medical and recreational cannabis industry in Canada and the U.S. and in other international jurisdictions.

The Company is operating its business in a relatively new medical and recreational cannabis industry and market. Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the recreational or medical cannabis industry or market could have a material adverse effect on the Company's business, financial condition and results of operations. Due to the early stage of the regulated cannabis industry, forecasts regarding the size of the industry and the sales of products by the Company's investments are inherently difficult to prepare with a high degree of accuracy and reliability. A failure in the demand for products to materialize as a result of competition, technological change or other factors could have a material adverse



effect on the business, results of operations and financial condition of the Company's investments, and consequently, the Company.

### ***21. Limited Operating History***

Origin House and its investments have varying and limited operating histories, which can make it difficult for investors to evaluate the Company's operations and prospects and may increase the risks associated with investment into the Company.

Origin House has not generated significant profits or revenues in the periods covered by its financial statements included herein, and, as a result, has only a very limited operating history upon which its business and future prospects may be evaluated. Although the Company expects to generate some revenues from its investments, many of the investments will only start generating revenues in future periods and accordingly, the Company is therefore expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees, making effective use of limited resources, achieving market acceptance of existing and future solutions, competing against companies with greater financial and technical resources, acquiring and retaining customers, and developing new solutions. There is no assurance that the Company 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019 (expressed in Canadian Dollars)



### **ADDITIONAL INFORMATION**

Our Canadian filings, including our management information circular, are available on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).