



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### 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 November 28, 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 nine months ended September 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 nine months ended September 30, 2019 and subsequent events up to and including November 28, 2019. The Financial Statements and this MD&A have been approved by the Company’s Board of Directors.



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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% as at September 30, 2019. See <i>Recent Developments</i>	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).



## 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. 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 from five 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.

### SUMMARY OF ACQUISITION OF ORIGIN HOUSE BY CRESCO LABS INC. ("CRESCO")

On April 1, 2019, the Company and Cresco entered into an arrangement agreement (the "Arrangement Agreement") pursuant to which Cresco will acquire all of the issued and outstanding shares of Origin House (the "Arrangement").

On June 6, 2019, the Company agreed with Cresco to certain technical amendments to the Arrangement Agreement. The amendments permitted outstanding Origin House's Restricted Share Units ("RSUs") to remain outstanding following the completion of the transaction 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 Amended Arrangement.

#### *U.S. Antitrust review*

Pursuant to the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"), as amended, Origin House was required to file a notification to U.S. antitrust authorities and observe a waiting period before completing the Arrangement. On June 10, 2019, pursuant to the HSR Act, the Company received a request for additional information (the "Second Request") from the United States Department of Justice Antitrust Division. The Second Request extended the HSR Act waiting period for 30 days after Origin House and Cresco each substantially complied with the Second Request, which they did on September 16, 2019.



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Upon substantially complying with the Second Request, Origin House and Cresco agreed to further amend the Arrangement Agreement by extending the outside date to complete the Transaction to November 15, 2019.

On October 16, 2019, the HSR Act waiting period expired with respect to the Arrangement transaction, and the parties were then free from a U.S. antitrust perspective to complete the transaction.

### *The Amended Arrangement*

On November 12, 2019, the Company and Cresco signed an amendment to the Arrangement Agreement (the "Amendment") that provided for certain changes to its covenants and agreements. In connection with the Amendment, Origin House is in the process of completing a non-brokered financing (the "Financing") of up to 9,705,882 common shares of Origin House ("Common Shares") at a price of \$4.08 per common share for aggregate gross proceeds of up to \$39.6 million, which proceeds will be held in trust pending closing of the Arrangement.

Pursuant to the Amendment, the consideration payable under the Arrangement is reduced from 0.8428 of a subordinate voting share of Cresco (each a "Cresco Share") for each Common Share and 84.28 Cresco Shares for each Origin House class A compressed share (each, a "Class A Share"), to 0.7031 of a Cresco Share for each Common Share and 70.31 Cresco Shares for each Class A Share.

### *Completion of the Financing*

On November 25, 2019, Origin House completed the Financing, issuing approximately 9,800,000 Common Shares at a price of \$4.08 per Common Share for aggregate net proceeds of approximately \$39.6 million. The Financing was fully subscribed, and substantially all of the proceeds are held in escrow pending closing of the Arrangement.



### *Financial statement impact*

In preparation for the acquisition by Cresco, the Company recorded the following impacts on its financial statements:

- In connection with Arrangement, the Company expensed \$7.1 million in transaction costs relating to legal, regulatory, advisory, and other fees in connection with the Arrangement for the three months ended September 30, 2019, and \$9.5 million in the nine months ended September 30, 2019.
- As a condition to closing of the Arrangement transaction, the Company sold its investment in Alternative Medical Enterprises LLC ("AltMed") for approximately \$8.0 million (US \$6.0M) on July 26, 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), which was recorded in the second quarter of 2019. As compared to the cost of the original investment, the sale of AltMed generated an ROI of 156%.
- In connection with the Arrangement, for the three and nine months ended September 30, 2019, respectively, the Company recognized a \$0.1 million and \$6.6 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.

### *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 then-remaining 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 transaction 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, \$0.1 and \$6.6 million increase to the contingent consideration liability and corresponding increase to other expenses for the three and nine months ended September 30, 2019, respectively. The increased liability and expense are a result of the probability of the Amended Arrangement closing and were determined using publicly available information.



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

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

The Company's organic growth has led to the achievement of record revenues totalling \$22.8 million in the current quarter, up 7% from \$21.4 million generated in the quarter ending June 30, 2019. The Company's acquisition strategy, along with organic growth, has led to significant revenue growth of 244% as compared to the quarter ending September 30, 2018.

The Company paused its acquisition activities in preparation for the pending acquisition by Cresco Labs Inc., and as such, did not acquire additional businesses during the third quarter of 2019.

#### Cultivation capacity expansion

During the third quarter, the Company increased its cannabis cultivation capacity by a factor of approximately 3x. The Company completed Phase 2 of its expansion of the FloraCal facility in July 2019 and finalized a renovation at Cub City's cultivation facility in September 2019. Phase 3 of FloraCal's expansion is expected to be completed by the first quarter of 2020.

#### Track and trace

The Company achieved full integration with the California Cannabis Track-and-Trace system at each of its six licensed facilities in the state.

#### Reduced operating expenses

The Company began certain operating cost reduction initiatives in 2019. The initiatives partially resulted in a reduction of total operating expenses by \$1.2 million. Operating expenses totalled \$19.8 million in the third quarter of 2019, down from \$21.0 million in the second quarter of 2019.

#### Financing

On September 17, 2019, the Company signed a binding term sheet with Opaskwayak Cree Nation ("OCN") in connection with a second tranche of \$15.0 million in debt financing ("Second OCN Loan"). The Second OCN Loan is subject to a 7.5% commitment fee, bears interest at a rate of 10% per annum on amounts advanced and matures in December 2019. The purpose of the Second OCN Loan was 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 acquisition by Cresco, and for general corporate purposes.



### **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 lasts a full year from issuance.

### **Trichome**

*Spin-off of Trichome Financial Corp. through a Reverse Takeover with 22 Capital Corp.*

Trichome, a subsidiary of the Company at September 30, 2019, is a specialty finance company focused on providing flexible and creative credit-based capital solutions to the global legal cannabis market. Trichome was created to address the lack of credit availability in the large, growing and increasingly complex cannabis market. Founded by industry leaders Origin House and Stoic Advisory, among others, Trichome's experienced management team has a unique edge to capitalize on proprietary deal flow and insight while developing a first-mover advantage as a global cannabis focused specialty finance company. Trichome provides customized financing solutions across the industry value chain to support growth, capital expenditures, M&A, working capital and other needs. Transactions are typically structured to earn attractive rates of contractual cash flows, retain optionality on value creation and ensure return of capital. Leveraging the combined resources and knowledge of its founders and management, it is able to offer significant value-added financial, product, market and operational support to its partner companies. Trichome's current assets are all based in Canada and it has no operations or assets in the United States or the rest of the world at this time.

Trichome has been active in rapidly building-out a pipeline of unique income-generating credit investments across the cannabis value chain, including Licensed Producers ("LPs"), extraction and processing companies, hardware and ancillary product manufacturers, distributors, hemp farmers and CBD producers, real estate assets, retail operators and networks, media platforms and software and technology companies. Most recently, Trichome has also introduced receivables financing to its offering of credit solutions for Canadian LPs in need of working capital financing.

On October 4, 2019, Trichome completed its amalgamation with 22 Capital Corp. ("22 Capital") and began trading on the TSX Venture Exchange ("TSXV") on October 10, 2019 under the trading symbol "TFC". See *Recent Developments*.

The Company will cease to consolidate Trichome in the fourth quarter of 2019. Due to the liability-classified nature of Trichome's preferred shares and subscription receipts related to financings raised before the RTO, the Company will no longer record liabilities of approximately \$25.3 million.



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

On July 31, 2019, Trichome closed a \$5.5 million senior secured term loan ("MYM Loan") to MYM Nutraceuticals. 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, and 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.

Upon signing the term sheet with MYM in connection with the lending arrangement, the Company was issued 1,500,000 common share purchase warrants. In consideration for advancing the initial tranche of the MYM Loan, Trichome Financial received a set-up fee, an original issuer discount, and an additional 2,500,000 warrants to purchase common shares of MYM, exercisable any time prior to July 31, 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.

### *Loan to Good Buds Company International Inc. ("Good Buds")*

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 the company's existent indoor facility and the development of its recently licensed outdoor cultivation operation. The Good Buds Loan bears interest at the rate of 11.5% per annum, payable monthly in cash, with the first 12 months of interest being funded out of 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 Financial 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.



*Early repayment of loan to C.G.S Foods Inc. ("CGS" d/b/a "Ganjika House")*

During the quarter, loans to CGS were repaid early by borrower. On July 4, 2019, CGS elected to repay principal of \$500,000 against the outstanding balance of Facility A. On September 10, 2019, the remaining \$250,000 balance of principal was repaid, Facility A was fully repaid. On September 17, 2019, Facility B was fully repaid.

Trichome retains warrants and warrants receivable in CGS valued at \$87,371 and \$42,004, respectively.

*Early repayment of loan to Blissco Holdings Ltd ("Blissco")*

On July 15, 2019, the outstanding balance of \$1.4 million on the Blissco mortgage loan was repaid early by the borrower. The repayment was made in connection with Supreme Cannabis Inc.'s acquisition of Blissco, which closed on July 12, 2019. No further amounts are outstanding from Blissco.

**Investments**

*Sale of AltMed*

On July 26, 2019, the Company closed the sale of its investment in AltMed to Zola Global Investors Ltd. ("Zola") for proceeds of \$7.9 million (US \$6.0 million), resulting in a return on investment of 156%.

The Company received approximately \$4.0 million (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 nine-months ending September 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 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<sup>1</sup>.

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

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<sup>1</sup> Based on publicly available share prices and *ETFMG Alternative Harvest ETF*



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### FINANCIAL PERFORMANCE

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

- revenues were \$22.8 million as compared to \$6.6 million, an increase of 244%;
- gross margin was \$5.7 million as compared to \$0.3 million, an increase of 1796%;
- operating expenses were \$19.8 million as compared to \$10.1 million, an increase of 97%;
- net loss of \$25.6 million as compared to net loss of \$7.5 million, an increase of 242%;
- net loss per basic and diluted share of \$0.34 as compared to net loss per share of \$0.12, an increase of 183%;
- adjusted EBITDA loss of \$12.1 million as compared to adjusted EBITDA loss of \$2.1 million, an increase of 470%.

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

- cash was \$22.4 million as compared to \$69.2 million, a decrease of 68%;
- restricted cash was \$9.3 million as compared to \$nil;
- current assets of \$81.6 million as compared to \$86.0 million, a decrease of 5%;
- total assets of \$274.1 million as compared to \$230.7 million, an increase of 19%;
- current liabilities of \$103.1 million as compared to \$26.2 million, an increase of 294%; and
- long-term debt financing of \$nil as compared to \$16.0 million, a decrease of 100%.



## RECENT DEVELOPMENTS

### Trichome Financial Corp.

*Spin-off of Trichome Financial Corp. through a Reverse Takeover with 22 Capital Corp.*

On October 4, 2019, Trichome and 22 Capital Corp. ("22 Capital), a Capital Pool Company, completed an amalgamation which constituted an RTO by Trichome. On October 10, 2019, Trichome began trading on the TSXV under trading symbol 'TFC'.

Post-RTO, the Company will no longer control Trichome, and will not consolidate the financial results of Trichome. As at the date of the RTO, the Company owned approximately 24% of Trichome.

Upon completion of the RTO, Trichome completed a three for one share split, and issued 70,208 (post share split) common share options to the former shareholders of 22 Capital at a strike price of \$1.42 (post share split). In addition, Trichome issued 751,221 common shares (post share split) at a share price of \$2.10 to the former shareholders of 22 Capital.



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### 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 \$2,000,000 of tangible or intangible assets on the Company's consolidated balance sheet as of September 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.



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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
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



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### RESULTS OF OPERATIONS

The following tables set forth selected data from the consolidated statements of comprehensive loss for the three and nine months ended September 30, 2019 and September 30, 2018:

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% change	2019	2018	% change
<b>Consolidated statements of comprehensive loss</b>						
Revenue	\$ 22,780,252	\$ 6,623,998	244%	\$ 55,317,616	\$ 10,778,901	413%
Gross margin, excluding fair value items	3,819,714	508,396	651%	9,234,471	1,299,701	611%
Gross margin, including fair value items	5,662,921	298,619	1796%	11,753,668	1,089,924	978%
Operating expenses	19,801,997	10,064,130	97%	58,993,316	20,824,360	183%
Loss from operations	(14,139,076)	(9,765,511)	45%	(47,239,648)	(19,734,436)	139%
Net loss	(25,643,403)	(7,502,098)	242%	(77,980,016)	(2,858,083)	2628%
Other comprehensive income (loss)	1,439,159	(1,763,774)	(182%)	(4,414,798)	(519,705)	749%
Total comprehensive loss	(24,204,244)	(9,265,872)	161%	(82,394,814)	(3,377,788)	2339%
Net loss attributable to owners of the Company	(25,303,233)	(7,179,771)	252%	(76,975,519)	(2,608,647)	2851%
Net loss per common share - basic & diluted	(0.34)	(0.12)	173%	(1.06)	(0.05)	1998%
Weighted average common shares - basic & diluted	74,681,038	57,621,347	30%	72,376,151	51,634,187	40%

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 former subsidiary provides hard asset lending services to cannabis companies.



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

For the three months ended September 30, 2019	Canadian operations segment	Corporate segment	California operations segment	Trichome	Consolidated
<b>Revenues<sup>1</sup></b>	\$ 3,483,811	\$ 9,854	\$ 18,874,283	\$ 412,304	\$ 22,780,252
<b>Net loss before tax</b>	(1,924,450)	(17,787,706)	(6,214,177)	(1,068,595)	(26,994,929)
<b>Selected items impacting net loss:</b>					
Current tax expense	-	-	(82,583)	-	(82,583)
Depreciation of property, plant and equipment	(61,184)	(39,985)	(666,938)	-	(768,107)
Depreciation of right-of-use assets	(290,687)	(84,792)	(433,697)	-	(809,177)
Interest revenue	6,050	-	4,027	431,153	441,230
Accretion expense on liability-classified preferred	-	-	-	(221,886)	(221,886)
Interest expense	(342,991)	(552,737)	(476,487)	-	(1,372,214)
Loss on investments	-	(775,641)	-	-	(775,641)
Transaction costs related to acquisition by Cresco Labs	-	(7,125,252)	-	-	(7,125,252)
<b>Segment assets</b>	<b>49,228,297</b>	<b>23,406,729</b>	<b>176,987,742</b>	<b>24,513,377</b>	<b>274,136,144</b>
Equity accounted investments	-	(140,401)	-	-	(140,401)
Capital expenditures	120,765	14,668	4,837,316	-	4,972,749

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

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

For the nine months ended September 30, 2019	Canadian operations segment	Corporate segment	California operations segment	Trichome	Consolidated
<b>Revenues<sup>1</sup></b>	\$ 9,146,602	\$ 227,960	\$ 45,249,686	\$ 693,368	\$ 55,317,616
<b>Net loss before tax</b>	(10,624,252)	(42,336,455)	(24,413,372)	(3,147,227)	(80,521,306)
<b>Selected items impacting net loss:</b>					
Current tax recovery (expense)	190,985	32,633	(504,706)	-	(281,088)
Depreciation of property, plant and equipment	(134,304)	(136,513)	(1,660,577)	-	(1,931,394)
Depreciation of right-of-use assets	(678,831)	(211,656)	(1,234,263)	-	(2,124,750)
Interest revenue	7,671	176,097	209,541	693,368	1,086,677
Accretion expense on liability-classified preferred	-	-	-	(1,126,068)	(1,126,068)
Interest expense	(758,736)	(1,128,451)	(1,215,954)	-	(3,103,141)
Loss on investments	-	(7,696,612)	-	-	(7,696,612)
Revaluation of acquisition related contingent	(6,580,549)	-	-	-	(6,580,549)
Accelerated amortization of deferred financing fees	-	(954,033)	-	-	(954,033)
Transaction costs related to acquisition by Cresco Labs	-	(9,494,647)	-	-	(9,494,647)
<b>Segment assets</b>	<b>49,228,297</b>	<b>23,406,729</b>	<b>176,987,742</b>	<b>24,513,377</b>	<b>274,136,144</b>
Equity accounted investments	-	1,133,296	-	-	1,133,296
Capital expenditures	380,801	94,114	12,519,160	-	12,994,075

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



### REVENUE

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

	Three months ended			Nine months ended		
	September 30, 2019	September 30, 2018	% Change	September 30, 2019	September 30, 2018	% Change
<i>California Operations segment</i>						
Product sales	\$ 18,869,125	\$ 6,250,991	202%	\$ 45,020,530	\$ 9,446,382	377%
Interest and other income	5,158	-	-	229,156	-	-
<i>Canadian Operations segment</i>						
Product sales	3,358,578	-	-	8,801,871	-	-
Royalties	-	-	-	78,329	-	-
Interest and other income	125,233	-	-	266,402	-	-
<i>Corporate segment</i>						
Services	-	69,760	(100%)	53,344	737,921	(93%)
Royalties	-	108,306	(100%)	-	364,553	(100%)
Interest and other income	9,854	185,573	(95%)	174,616	217,115	(20%)
<i>Trichome segment</i>						
Interest revenue	412,304	9,368	4301%	693,368	12,930	5262%
	\$ 22,780,252	\$ 6,623,998	244%	\$ 55,317,616	\$ 10,778,901	413%

#### Product sales

Product sales within the California Operations segment increased in the three and nine months ended September 30, 2019 as compared to the three and nine months ended September 30, 2018 due to the impact of acquisitions, as well as organic growth throughout 2019. 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, completed construction of its cannabis cultivation facility in September 2019 and cannabis sales from this facility are expected to commence in the fourth quarter of 2019.

The California Operations segment's product sales continued to grow organically in the third quarter of 2019 from new customers and in-demand suppliers, up \$2.0 million. Product sales within this operating segment consist primarily of cannabis flower, pre-rolls, vaporizer cartridges, and edibles. Notable brands sold include FloraCal, Cresco, Bhang, King's Garden, Utopia, 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 nicotine/cannabis 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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 nine-month periods ended September 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 revenue*

Interest revenue increased for the three-and nine-month periods ended September 30, 2019, as compared to the same periods in 2018, due to loans issued to certain suppliers within the California Operations segment, as well as interest earned on cash balances within the Corporate segment.

Trichome's interest revenues increased due to higher lending activity in the three and nine months ended September 30, 2019, as compared to the same periods in 2018. Interest revenue was generated primarily through loans extended to Canadian cannabis companies such as Good Buds, MYM, Blissco, and James E. Wagner Cultivation Corporation ("JWC"), as well as an Ontario retail licence holder CGS d/b/a Ganjika House. The Blissco and CGS loans were fully repaid in the third quarter of 2019. Trichome completed a reverse takeover on October 4, 2019 and is currently a standalone public company. Origin House will no longer consolidate the financial results of Trichome.

### **COST OF SALES**

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

	Three months ended			Nine months ended		
	September 30, 2019	September 30, 2018	% Change	September 30, 2019	September 30, 2018	% Change
<i>California Operations segment</i>						
Cost of product sales	\$ 17,372,402	\$ 5,935,571	193%	\$ 40,927,903	\$ 8,389,623	388%
<i>Canadian Operations segment</i>						
Cost of product sales	1,588,136	-	-	5,119,990	-	-
<i>Corporate segment</i>						
Cost of services	-	-	-	18,218	269,023	(93%)
Cost of royalties	-	180,031	(100%)	17,034	820,554	(98%)
	\$ 18,960,538	\$ 6,115,602	210%	\$ 46,083,145	\$ 9,479,200	386%



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



### *Cost of product sales*

During the three-and nine-month periods ended September 30, 2019, the costs of product sales increased due to wholesale product costs driven by Continuum's (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 \$2.5 million (2018 – \$1.2 million) and \$5.3 million (2018 – \$1.2 million) for the three and nine months ended September 30, 2019, respectively. In addition, impacts related to unrealized fair value gains on growth of biological assets totalling \$4.3 million (2018 – \$1.0 million) and \$7.8 million (2018 – \$1.0 million), for the three and nine months ended September 30, 2019, respectively, were excluded from cost of product sales.

### *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.

## GROSS MARGINS

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

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% Change	2019	2018	% Change
<i>California Operations segment</i>						
Product sales	\$ 1,496,723	\$ 315,420	375%	\$ 4,092,627	\$ 1,056,759	287%
Interest and other income	5,158	-	-	229,156	-	-
<i>Canadian Operations Segment</i>						
Product sales	1,770,442	-	-	3,681,881	-	-
Royalties	-	-	-	78,329	-	-
Interest and other income	125,233	-	-	266,402	-	-
<i>Corporate segment</i>						
Services	-	69,760	(100%)	35,126	468,898	(93%)
Royalties	-	(71,725)	(100%)	(17,034)	(456,001)	(96%)
Interest and other income	9,854	185,573	(95%)	174,616	217,115	(20%)
<i>Trichome segment</i>						
Interest revenue	412,304	9,368	4301%	693,368	12,930	5262%
	<b>3,819,714</b>	<b>508,396</b>	<b>651%</b>	<b>9,234,471</b>	<b>1,299,701</b>	<b>611%</b>
Realized fair value amount of inventory sold	(2,480,788)	(1,161,471)	114%	(5,301,525)	(1,161,471)	356%
Unrealized fair value gain on biological assets	4,323,995	951,694	354%	7,820,722	951,694	722%
<b>Gross profit</b>	<b>\$ 5,662,921</b>	<b>\$ 298,619</b>	<b>1796%</b>	<b>\$ 11,753,668</b>	<b>\$ 1,089,924</b>	<b>978%</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



	Three months ended September 30			Nine months ended September 30		
	2019	2018	% Change	2019	2018	% Change
<i>California Operations segment</i>						
Product sales	8%	5%	57%	9%	11%	(19%)
Interest and other income	100%	-	-	100%	-	-
<i>Canadian Operations Segment</i>						
Product sales	53%	-	-	42%	-	-
Royalties	-	-	-	100%	-	-
<i>Corporate segment</i>						
Services	-	100%	(100%)	66%	64%	4%
Royalties	-	(66%)	(100%)	-	(125%)	(100%)
Interest and other income	100%	100%	-	100%	100%	-
<i>Trichome segment</i>						
Interest revenue	100%	100%	-	100%	100%	-
	17%	8%	118%	17%	12%	38%
Effects on change in fair value of						
biological assets on gross margin	8%	(3%)	-	5%	-	-
<b>Gross margin</b>	<b>25%</b>	<b>5%</b>	<b>451%</b>	<b>21%</b>	<b>10%</b>	<b>100%</b>

### *Product sales gross margin*

Gross margin on product sales within the California Operations Segment increased for the three-and nine-month periods ended September 30, 2019 as compared to the three-and nine-month period ended September 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 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.

### *Biological assets*

The unrealized fair value gain on biological assets increased due to increased capacity of approximately 3x from 2018. The Company's higher capacity stems from completion of Phase 2 of FloraCal's cultivation facility in July 2019, as well as completion of construction at Cub City's cultivation facility in September 2019. The final phase of expansion at FloraCal, Phase 3, is expected to be complete early in the first quarter of 2020, at which point cultivation will commence. In total, the Company's cultivation capacity is expected to be approximately 4x more than capacity as at June 30, 2019.

Realized fair value amounts of inventory sold increased due to higher sales of the Company's cultivated cannabis.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



### OPERATING EXPENSES

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

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% Change	2019	2018	% Change
<i>California Operations segment</i>						
Sales and marketing	\$ 4,027,529	\$ 1,332,522	202%	\$ 12,163,082	\$ 1,592,277	664%
Research and product development	168,515	209,710	(20%)	1,852,676	362,227	411%
General and administrative	4,027,787	1,382,923	191%	12,611,285	2,182,889	478%
Amortization of intangibles	1,703,147	1,438,974	18%	4,857,491	2,100,038	131%
<i>Canadian Operations segment</i>						
Sales and marketing	1,518,104	-	-	3,716,959	-	-
General and administrative	1,332,240	-	-	2,672,911	-	-
Amortization of intangibles	278,401	-	-	682,237	-	-
<i>Corporate segment</i>						
Sales and marketing	150,097	604,093	(75%)	318,328	1,925,490	(83%)
Research and product development	-	1,759	(100%)	-	110,144	(100%)
General and administrative	5,665,455	4,236,246	34%	17,630,105	11,435,279	54%
Amortization of intangibles	-	7,991	(100%)	-	51,101	(100%)
<i>Trichome segment</i>						
Sales and marketing	5,602	11,091	(49%)	9,732	18,029	(46%)
General and administrative	925,120	838,821	10%	2,478,510	1,046,886	137%
	\$ 19,801,997	\$ 10,064,130	97%	\$ 58,993,316	\$ 20,824,360	183%

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

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% Change	2019	2018	% Change
Sales and marketing	\$ 5,701,332	\$ 1,947,706	193%	\$ 16,208,101	\$ 3,535,796	358%
Research and product development	168,515	211,469	(20%)	1,852,676	472,371	292%
General and administrative	11,950,602	6,457,990	85%	35,392,811	14,665,054	141%
Amortization of intangibles	1,981,548	1,446,965	37%	5,539,728	2,151,139	158%
<b>Total</b>	\$ 19,801,997	\$ 10,064,130	97%	\$ 58,993,316	\$ 20,824,360	183%



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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

- The acquisitions of Kaya, Alta, FloraCal, RVR, 180 Smoke, and Cub City which added operational costs, and transaction fees.
- Higher amortization on intangible assets acquired. Amortization of intangibles was \$0.5 million higher for the three months ended September 2019, and \$3.4 million higher for the nine months ended September 30, 2019, as compared to same periods in 2018.
- Operational expansion in California and corporate expansion in Canada to support and grow acquired assets in early 2019. In the third quarter of 2019, the Company planned and executed on certain cost-saving initiatives.
- RTO and expansion costs of the Trichome operating segment. Overall, Trichome added \$0.9 million and \$2.5 million in additional operating expenses for the three- and nine-month periods, including stock-based compensation. The Company ceased to consolidate Trichome in the fourth quarter of 2019.

Sales and marketing (“S&M”) expenses increased for the three-and nine-month periods ended September 30, 2019 as compared to the three-and nine-month periods ended September 30, 2018 to support and market Origin House and supplier brands in California and Canada. During the three-month period ended September 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 nine-month period ended September 30, 2019 compared to the nine-month period ended September 30, 2018 due to the Company’s strategy in California, which has resulted in more investment in product and brand development. The Company did not devote as much resources as it has historically toward R&D during the three-month period ended September 30, 2019 when compared to the same period in September 30, 2018.

General and administrative (“G&A”) expenses increased for the three-and nine-month periods ended September 30, 2019 compared to the three-and nine-month periods ended September 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 compliance, legal, and advisory costs.

Increased amortization of intangible assets for the three-and nine-month periods ended September 30, 2019 compared to the three-and nine-month periods ended September 30, 2018 relates 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 \$0.8 million and \$2.2 million for the three-and nine-month periods ended September 30, 2019, as compared to \$1.1 million and \$4.2 million for the three-and nine-months periods ended September 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.

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 nine-month periods September 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 nine months ended September 30, 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 incremental expense recorded for these RSUs was \$343,307 and \$545,264 for the three and nine months ended September 30, 2019.

During October 2019 the Board of Directors approved the grant of an additional 2,059,500 RSUs to employees. The grant prices were \$5.91 and \$6.08.

The Company's former 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 \$0.6 million for the three-and nine-month periods ended September 30, 2019, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



### OTHER INCOME AND EXPENSES

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% Change	2019	2018	% Change
<i>California operations segment</i>						
Post combination remuneration	\$ (166,260)	\$ -	-	\$ (546,584)	\$ -	-
Impairment of loans receivable	-	-	-	(400,080)	-	-
Interest expense	(523,458)	-	-	(1,215,954)	-	-
Gain on settlement of interests at acquisition	-	1,098,374	(100%)	-	1,098,374	(100%)
Impairment of other assets	(227,325)	-	-	(227,325)	-	-
Expected credit loss on loan receivable	(787,590)	-	-	(925,172)	-	-
Fair value loss on asset held for sale	(1,112,399)	-	-	(1,112,399)	-	-
<i>Canadian operations segment</i>						
Revaluation of acquisition related contingent consideration	(117,413)	-	-	(6,580,549)	-	-
Interest expense	(342,993)	-	-	(758,738)	-	-
<i>Corporate segment</i>						
Changes in fair value of investments	(775,641)	(2,802,373)	(72%)	(7,696,612)	12,762,704	(160%)
Impairment of loans receivable	(241,124)	-	-	(311,139)	-	-
Gain on the sale of licensed technology	-	4,196,477	(100%)	-	4,196,477	(100%)
Accelerated amortization of deferred financing fees	-	-	-	(954,033)	-	-
Recovery of convertible notes receivable	-	379,572	(100%)	186,704	4,100	4,454%
Impairment of intangible assets	(272,151)	-	-	(272,151)	-	-
Gain on disposal of royalty investments	-	-	-	383,869	-	-
Transaction costs related to acquisition by Cresco Labs	(7,125,252)	-	-	(9,494,647)	-	-
(Loss) profit from equity accounted investees, net of tax	(140,401)	10,106	(1,489%)	(576,739)	168,664	(442%)
Foreign exchange (loss) gain	(76,634)	213,941	(136%)	(272,920)	249,056	(210%)
Interest expense	(505,763)	(1,097,598)	(54%)	(1,128,449)	(1,758,881)	(36%)
<i>Trichome segment</i>						
Fair value loss on warrants	(333,628)	104,344	(420%)	(366,737)	104,344	-
Accretion expense on liability-classified preferred shares of subsidiary	(221,886)	(87,659)	153%	(1,126,068)	(87,659)	1,185%
Gain on settlement of loans	71,278	-	-	71,278	-	-
Gain on modification of loans	42,787	-	-	42,787	-	-
<b>Total</b>	<b>\$ (12,855,853)</b>	<b>\$ 2,015,184</b>	<b>(738%)</b>	<b>\$ (33,281,658)</b>	<b>\$ 16,737,179</b>	<b>(299%)</b>

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

#### *Transaction costs related to acquisition by Cresco*

The Company has incurred significant costs related to the acquisition by Cresco Labs due to the delayed timeline of closing and related costs to obtain regulatory approval in the United States. Transaction costs are primarily related to legal expenses, however, also include regulatory, investor relations, printing, accounting, advisory, and other costs. For the three and nine months ended September 30, 2019 the Company expensed \$7.1 million and \$9.5 million related to these transaction costs.



### *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, with differences recorded in profit or loss. 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 based on the probability of the Cresco acquisition closing, which was determined based on publicly available share price information. The remeasurement resulted in an increase to other expenses of \$0.1 million and \$6.6 million for the three and nine months ended September 30, 2019, respectively.

### *Changes in fair value of investments*

During the three months ended September 30, 2019, the Company recorded a fair value decrease on its investment in Green Relief of \$0.9 million based on recently completed equity transactions of the investee.

During the nine-month periods ended September 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<sup>2</sup>.

In the third quarter of 2018, the Company recorded gains of \$4.3 million related to the sale of its licenced technology obtained from Wagner Dimas.

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<sup>2</sup> Based on publicly available share prices and *ETFMG Alternative Harvest ETF*



*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 through a loan agreement whereby OCN would loan the Company \$12.0 million (the "First 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 during the nine months ended September 30, 2019.

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 third quarter of 2019.

*Expected credit loss on loan receivable*

The Company recorded an expected credit loss related to a loan receivable in accordance with IFRS 9 *Financial Instruments*.

*Fair value loss on asset held for sale*

During the period ended September 30, 2019, the Company commenced the sale of one of its planned distribution and manufacturing facilities in Sonoma County. Based on a sales agreement completed in October 2019, the value of the facility and subsequent leasehold improvements was written down to the expected sale value less associated costs to sell resulting in a fair value loss of \$1.1 million.

*Accretion expense on liability-classified preferred shares of subsidiary*

The Company's former subsidiary, Trichome, issued preferred shares in connection with its reverse takeover. These preferred shares were liability-classified under IFRS, and as a result, the Company recorded an accretion expense. Trichome completed a reserve takeover on October 4, 2019, and the Company will no longer record this expense.

*Interest expense*

The Company recorded higher interest expense for the three and nine-months ended September 30, 2019 due to the First and Second OCN loans.

Due to the implementation of IFRS 16 *Leases* in 2019, the Company recorded additional interest expense on capitalized leases, resulting in \$0.7 million and \$1.6 million in additional interest expense for the three and nine months ended September 30, 2019, respectively, as compared to the same periods in 2018.



### *Gain on the sale of licenced technology*

In the third quarter of fiscal 2018, the Company recorded a gain of \$4.3 million on the sale of Canadian Licensed Technology it had obtained from Wagner Dimas. This licence was obtained in return for the forgiveness of a loan of US\$150,000. Total proceeds of \$4.5 million were in the form of Aurora shares.

### **DEFERRED TAX**

The Company realized a deferred tax recovery of \$1.4 million and \$2.8 million and during the three-and nine-month periods ended September 30, 2019, respectively, as compared to a recovery of \$0.4 million and \$0.4 million for the three-and nine-month periods ended September 30, 2018, respectively. The increase in the recovery amount is due to the additional amortization expense 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 nine-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.

### **NET LOSS AND LOSS PER SHARE**

Net loss for the three-and nine-month periods ended September 30, 2019, increased to \$25.6 million and \$78.0 million, respectively, as compared to a net loss of \$7.5 million and \$2.9 million, respectively, for the three-and nine-month periods ended September 30, 2018.

Due to the increase in net losses and increased shares issued in financings and acquisitions, the Company's basic loss per share increased to \$0.34 and \$1.06 for the three-and nine-month periods ended September 30, 2019, respectively, as compared to loss per share of \$0.12 and \$0.05 for the three-and nine-month periods ended September 30, 2018, respectively.

### **OTHER COMPREHENSIVE LOSS**

For both the three-and nine-month periods ended September 30, 2019, other comprehensive loss fluctuated in the third quarter of fiscal 2019 as compared to the third quarter of fiscal 2018 due to foreign currency translation adjustments in connection with the Company's increased activities in U.S. dollars and the impact of the foreign exchange rate for the periods.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian 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 September 30		Nine months ended September 30	
	2019	2018	2019	2018
<i>Add (Subtract)</i>				
<b>Net loss for the period</b>	\$ (25,643,403)	\$ (7,502,098)	\$ (77,980,016)	\$ (2,858,083)
Depreciation of property and equipment	768,107	174,274	1,931,393	300,072
Amortization of intangible assets	1,981,548	1,446,965	5,539,728	2,151,139
Amortization of royalty investments	-	180,030	17,038	820,553
Amortization of right of use assets	809,177	-	2,124,750	-
Interest expense	1,372,214	1,097,598	3,103,141	1,758,881
Interest income	(441,230)	(194,940)	(1,086,677)	(230,045)
Current income taxes	82,583	191,258	281,088	307,590
Deferred income tax recovery	(1,434,109)	(439,487)	(2,822,378)	(446,764)
<b>EBITDA</b>	<b>(22,505,113)</b>	<b>(5,046,400)</b>	<b>(68,891,933)</b>	<b>1,803,343</b>
Transaction costs related to acquisition by Cresco Labs	7,125,252	-	9,494,647	-
Fair value loss on asset held for sale	1,112,399	-	1,112,399	-
Recovery of convertible notes receivable	-	(379,572)	(186,704)	(4,100)
Accretion expense on liability-classified preferred shares of subsidiary	221,886	87,659	1,126,068	87,659
Gain on settlement of interests at acquisition	-	(1,098,374)	-	(1,098,374)
Expected credit loss on loan receivable	787,590	-	925,172	-
Impairment of intangible assets & goodwill	272,151	-	272,151	-
Change in fair value of derivative assets	333,628	(104,344)	366,737	(104,344)
(Loss) gain on investments	775,641	2,802,373	7,696,612	(12,762,704)
Impairment of other assets	227,325	-	227,325	-
Post combination remuneration	166,260	-	546,584	-
Realized fair value amounts included in inventory sold	2,480,788	1,161,471	5,301,525	1,161,471
Unrealized fair value gain on growth of biological assets	(4,323,995)	(951,694)	(7,820,722)	(951,694)
Impairment of loans receivable	241,124	-	711,219	-
Share-based compensation	826,726	1,143,050	2,187,888	4,222,563
Transaction costs on acquisitions	-	254,714	495,559	536,840
Revaluation of non-cash contingent consideration	117,413	-	6,580,549	-
Accelerated amortization of deferred financing fees	-	-	954,033	-
<b>Total adjusted EBITDA</b>	<b>\$ (12,140,925)</b>	<b>\$ (2,131,117)</b>	<b>\$ (38,900,891)</b>	<b>\$ (7,109,340)</b>
Weighted average number of common shares outstanding - basic & diluted	74,681,038	57,621,347	72,376,151	51,634,187
<b>Adjusted EBITDA per share - basic &amp; diluted</b>	<b>(0.16)</b>	<b>(0.04)</b>	<b>(0.54)</b>	<b>(0.14)</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 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	September 30, 2019
Revenue	744,302	1,072,399	643,437	3,511,466	6,623,998	7,914,049	11,161,161	21,376,203	<b>22,780,252</b>
Gross margin, excluding fair value items	128,010	111,465	(29,630)	820,935	508,396	208,250	1,516,775	3,897,982	<b>3,819,714</b>
Fair value adjustments on biological assets	-	-	-	-	(209,777)	(206,844)	135,952	540,038	<b>1,843,207</b>
Operating expenses	2,834,939	4,631,512	4,480,014	6,280,216	10,064,130	15,413,769	18,230,434	20,960,885 *	<b>19,801,997</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)	(16,522,865)*	<b>(14,139,076)</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)	(34,902,333)	<b>(25,643,403)</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)	(40,236,585)	<b>(24,204,244)</b>
Net (loss) income per share - basic	(0.08)	(0.03)	(0.10)	0.18	(0.12)	(0.09)	(0.25)	(0.47)	<b>(0.34)</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	73,821,839	<b>74,681,038</b>
Net (loss) income per share - diluted	(0.08)	(0.03)	(0.10)	0.17	(0.12)	(0.09)	(0.25)	(0.47)	<b>(0.34)</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	73,821,839	<b>74,681,038</b>

\* Certain operating expenses have been re-classified to other expenses in order to conform with current period presentation.

### FINANCIAL POSITION

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

	September 30, 2019		December 31, 2018		Change	% Change
<b>Selected consolidated statement of financial position data</b>						
Cash and cash equivalents	\$	<b>22,376,979</b>	\$	69,206,193	\$ (46,829,214)	(68%)
Restricted cash		<b>9,325,663</b>		-	9,325,663	
Working capital		<b>(21,460,130)</b>		59,810,772	(81,270,902)	(136%)
Total investments (1)		<b>4,445,101</b>		21,741,531	(17,296,430)	(80%)
Total assets		<b>274,136,144</b>		230,698,045	43,438,099	19%
Long term convertible debt		-		16,026,098	(16,026,098)	(100%)
Shareholders' equity		<b>139,602,743</b>		172,972,132	(33,369,389)	(19%)
Dividend per share		-		-	-	-

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

- Cash decreased due to the operational and working capital needs of acquired businesses, lending, as well as expansion of corporate support functions. In addition, funds were used for capacity expansion through investments in FloraCal's cultivation facility (Phase 2 completed in July 2019) and Cub City's cultivation facility (completed in September 2019) and through increasing the number of 180 Smoke retail locations. Moreover, the Company used significant levels of cash to fund transaction costs related to the Arrangement with Cresco, however, has not raised significant additional cash outside of the OCN loans.
- Restricted cash related to deposits received in connection with Trichome's private placement was segregated from cash and cash equivalents as it was held in trust until the RTO was completed on October 4, 2019.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



- Working capital decreased due to a reduced cash position, cash consideration payable for the Cub City and FloraCal acquisitions, increased lending by Trichome, Cresco acquisition-related costs, new lease obligations under IFRS 16 *Leases*, and increases in trade accounts payable. In addition, due to the Arrangement with Cresco, \$9.5 million of purchase consideration in the 180 Smoke acquisition is recorded as a current liability.
- Total investments decreased due to sale of the Company's investment in AltMed, and fair value adjustment on the Company's investment in Green Relief.
- Total assets increased largely due to tangible and intangible asset additions from the acquisition of 180 Smoke and Cub City, cash raised through the OCN loans, as well as new right-of-use assets under IFRS 16 *Leases*.
- Shareholders' equity decreased largely due to an increased accumulated deficit.

### 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 equity financing in the second quarter of 2019 as a result of it entering into the Arrangement Agreement with Cresco. The close of the Arrangement was originally anticipated to occur in June 2019 but was delayed due to the receipt of the Second Request from the U.S. Department of Justice. The delayed close of the Arrangement, including related transaction costs, as well as 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 September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 22,376,979	\$ 69,206,193
Liquid assets (1)	58,423,276	80,353,704
Quick ratio (2)	0.57	3.07
Working capital	(21,460,130)	59,810,772
Working capital ratio (3)	0.79	3.29
Convertible debt	-	16,030,312
Secured credit facility available	-	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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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.

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, \$9.5 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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

	Nine months ended	
	September 30, 2019	September 30, 2018
<b>Net cash (used) provided by:</b>		
Operating activities	\$ (46,216,239)	\$ (14,253,645)
Financing activities	24,742,499	68,836,068
Investing activities	(23,334,793)	16,477,344
Effect on movements in foreign exchange on cash	(2,020,681)	(300,063)
Cash, beginning	69,206,193	4,522,644
<b>Cash, end</b>	<b>\$ 22,376,979</b>	<b>\$ 75,282,348</b>

### CASH USED IN OPERATING ACTIVITIES

Cash used in operating activities during the three- and nine-month periods ended September 30, 2019 increased due to cash-based operating expenses, which in the current stage of the business, are not offset by sufficient gross margins. A significant portion of operating cash flows were also used in transaction costs related to the Arrangement with Cresco.

### CASH FROM (USED IN) INVESTING ACTIVITIES

Investing activities used cash of \$23.3 million during the nine months ended September 30, 2019 in comparison to the nine months ended September 30, 2018 during which investing activities generated \$16.5 million in cash. The primary use of cash during the nine months ended September 30, 2019, were loans and advances of \$16.6 million, the addition of property, plant and equipment of \$12.4 million, outflows of \$3.9 million related to the acquisitions of 180 Smoke and Cub City, which were offset by proceeds of \$4.7 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.

### CASH FROM FINANCING ACTIVITIES

Cash provided by financing activities during the three and nine months ended September 30, 2019 increased due to proceeds from the First and Second OCN loans, as well as funds raised in the Company's former subsidiary, Trichome, related to a private placement.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



### 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 September 30, 2019, the Company has a history of losses with an accumulated deficit of \$112.0 million, share capital of \$212.1 million and working capital deficit of \$21.5 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 \$212.1 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 72,637,774 were issued and outstanding as at September 30, 2019 (December 31, 2018 – 60,263,768 common shares).

Also issued were 2,986,498 RSUs that have not been exercised as at September 30, 2019 including 2,291,499 that have vested (December 31, 2018 – 3,431,210 including 2,551,839 that had vested). As of September 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 895,875 share options that have not been exercised as at September 30, 2019 including 458,375 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 19,435 Class A Compressed Shares and 1,217 RPE shares which can each be converted into 100 common shares, or a total of 2,065,200 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 terminated on August 13, 2019. 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.

For the three- and nine-month period ended September 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.

Under the full term of the now terminated NCIB, the Company repurchased 998,600 shares under the NCIB at a total cost of \$6.1 million.



## 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 nine months ended September 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;



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



- Estimated useful lives, as well as depreciation and amortization of property and equipment, intangible assets, and royalty investments;
- 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 assumptions and estimates. Accordingly, this could lead to a significant negative 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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.

	<b>January 1, 2019</b>
Right-of-use asset	\$ 9,838,296
Lease liability	(8,807,472)
Accumulated amortization - favourable lease	60,536
Cost - favourable lease	(1,091,360)
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 September 30, 2019 and December 31, 2018:

	<b>September 30, 2019</b>	December 31, 2018
Management bonus and vacation payable (1)	\$ (672,812)	\$ (545,560)
Working capital adjustment due from acquiree (2)	473,519	487,786
Working capital adjustment due to acquiree (3)	(304,739)	(331,009)
<b>Net payable</b>	<b>\$ (504,032)</b>	<b>\$ (388,783)</b>

- (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 \$473,519 (US \$357,562) is owed from a former 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 \$304,739 (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 nine months ended September 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 nine months ended September 30, 2019 and September 30, 2018:

- i) The Company has an exclusive trademark license agreement with a party that is significantly influenced by a former member of key management. During the three- and nine-month periods ended September 30, 2019, the Company incurred royalties of \$156,382 and \$660,301 respectively (September 30, 2018 – \$143,904 and \$186,474).
- ii) During the three- and nine- month periods ended September 30, 2019, the Company paid rent of \$274,049 and \$810,719 respectively related to leases in California, for premises partially owned by a Board member as well as certain members of key management of the Company (September 30, 2018 - \$168,531 and \$168,531). The lease was inherited through the acquisition of FloraCal.

### 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:

			September 30, 2019	December 31, 2018
Cash and cash equivalents	FVTPL	Level 1	\$ 22,376,979	\$ 69,206,193
Restricted cash	FVTPL	Level 1	9,325,663	-
Investments	FVTPL	Level 1	-	542,940
Investments	FVTPL	Level 2	1,050,196	283,637
Investments	FVTPL	Level 3	1,925,584	17,730,553
Derivative assets	FVTPL	Level 2	574,216	-
Loans receivable	Amortized cost		8,974,989	-
Loans receivable	FVTPL	Level 1	36,789	1,929,684
Amounts receivable	Amortized cost		16,555,861	3,110,989
Amounts payable	Amortized cost		32,834,102	11,015,285
Purchase consideration payable - current	FVTPL	Level 3	16,386,634	683,167
Purchase consideration payable - non-current	FVTPL	Level 3	1,974,430	1,184,482
Convertible debt	Amortized cost		-	16,030,312
Liability-classified preferred shares of subsidiary	Amortized cost		14,676,241	-
Deposits for shares in subsidiary	Amortized cost		10,484,856	-
Loans payable and other liability	Amortized cost		25,773,622	99,188



### 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, Nevada 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 nine months ended September 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 September 30, 2019:

	Operating Subsidiaries	Non-controlling Investments	Total
Current assets	\$ 42,700,242	\$ 5,282,381	\$ 47,982,623
Non-current assets	133,700,095	1,862,652	135,562,747
<b>Total Assets</b>	<b>\$ 176,400,337</b>	<b>\$ 7,145,033</b>	<b>\$ 183,545,370</b>
Current liabilities	(120,481,117)	(52,075,599)	\$ (172,556,716)
Non-current liabilities	(19,836,799)	(686,397)	(20,523,196)
<b>Total Liabilities</b>	<b>\$ (140,317,916)</b>	<b>\$ (52,761,996)</b>	<b>\$ (193,079,912)</b>

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 nine months ended September 30, 2019:

	Operating Subsidiaries	Non-controlling Investments	Total
Revenue	\$ 45,204,573	\$ 46,782	\$ 45,251,355
Cost of sales	(40,697,716)	(17,038)	(40,714,754)
Realized fair value amount of inventory sold	(5,301,525)	-	(5,301,525)
Unrealized fair value gain on growth of biological assets	7,820,722	-	7,820,722
Gross margin	7,026,054	29,744	7,055,798
Less - Operating expenses			(37,976,835)
			<b>\$ (30,921,037)</b>
<i><u>Other Income</u></i>			
Expected credit loss			(925,172)
Changes in fair value of investments			(6,626,062)
Interest expense			(1,215,954)
Impairment of loans and advances			(398,760)
Recovery of convertible notes receivable			186,088
Impairment of intangible assets & goodwill			(163,828)
Gain on disposal of royalty investments			383,783
Loss on impairment of other assets			(227,325)
Fair value loss on asset held for sale			(1,112,399)
Post combination remuneration			(546,584)
<b>Net Loss before tax</b>			<b>\$ (41,567,250)</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 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 September 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 September 30, 2019:

<b>Balance sheet item</b>	<b>Percentage which relates to investments/holdings with U.S. marijuana-related activities</b>
Investments	0%
Loans receivable and advances	20%
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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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 significant negative impact 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 significant negative impact 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.

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 significant negative impact 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 September 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.

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:

Company	Location	Current License Type
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.

A.R.S. § 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.

#### ***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 on 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 2013 Cole Memorandum, 2014 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.

### **Nevada Summary**

The Company has exposure to the Nevada cannabis market through investments made by its subsidiary Trichome into MYM, a company that has a partnership in Nevada.

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."



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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.

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 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 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

To the Company's knowledge, each of the Company's investees that are 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

Origin House has exposure to Canadian cannabis-related activities through its subsidiary Trichome's material investment in a company it does not control, which company is subject to federal, and not provincial, cannabis legislation.

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 has opted for a private sector approach. Alberta, Manitoba, 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.



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On July 11, 2018, the Federal Government published regulations in the *Canada Gazette* to support the *Cannabis Act*, including the *Cannabis Regulations* (the “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* (“FDA”). 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 came 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 topicals, which consumers can expect to gradually become available for purchase in retail and online stores beginning later in the year.



## VAPE – CANADA FEDERAL AND PROVINCIAL OVERVIEW

Origin House has exposure to the Canadian vaping market through its subsidiary 180 Smoke, who manufactures and distributes vaping products in Ontario, and also sells vaping products (i) in retail stores in Ontario and Alberta; (ii) to franchisees with locations in Ontario; and (iii) across Canada through its e-commerce platform.

### ***Tobacco and Vaping Products Act***

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 TVPA replaced the former *Tobacco Act* enacted in 1997 which had a similar purpose - 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.

In light of the growing presence of vaping products on the Canadian market, and in response to the 2015 report of the House of Commons' Standing Committee on Health entitled “Vaping: Toward a Regulatory Framework for E-Cigarettes”, the TVPA created a new legal framework for regulating vaping products to protect young persons from nicotine addiction and tobacco use, while allowing adults access to vaping products as a less harmful alternative to smoking.

On November 19, 2018, additional restrictions under the TVPA came into force to further support the objective of the TVPA, which included bans on the regulation and sale and promotion of vaping products and their appeal to youth, on the association of vaping products to interesting shapes or sounds; the promotion of flavours; and product promotion by testimonials or endorsements.

### ***Health Canada***

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 offered 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 highlighted 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 launched public consultations for the proposed *Vaping Products Labelling and Packaging Regulations*. The proposed regulations strive to increase awareness of the health effects of nicotine, create consistent labelling and packaging standards for vaping products, and fill gaps in the regulation of refillable vaping devices and their parts. 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. Health Canada has yet to provide a future timetable for these proposed regulations. Although it is not possible to predict with certainty when final regulations will be issued, recent findings of negative respiratory health effects associated with vaping may accelerate their finalization. The 75-day comment period for the proposed regulations, inviting stakeholders to make submissions to the government regarding the draft regulations, ended September 5, 2019. The final form of the regulations must be approved, registered, and published in the *Canada Gazette*, Part II. The draft regulations currently stipulate a coming-into-force date of 180 days after their publication in the Gazette.

### ***Food and Drugs Act***

The FDA and its regulations apply to vaping products that make a health claim, e.g. “help quit smoking”. This includes products that contain nicotine or any other drugs as defined by the FDA. These products must receive an authorization from Health Canada before they can be advertised, sold in Canada, or commercially imported.

Before issuing a market authorization, Health Canada carefully reviews the evidence provided by the product sponsor. This review is done to confirm the product meets safety, efficacy and quality requirements. A valid site licence from Health Canada is also required before a vaping product in Canada can be labelled, imported, packaged, or manufactured.

### ***Canada Consumer Product Safety Act***

Vaping products that do not make health claims are governed by the *Canada Consumer Product Safety Act* (“CCPSA”), which addresses risks such as the electrical, mechanical, and toxicological hazards posed by vaping products. The CCPSA allows Health Canada to carry out inspections, order recalls or other measures.

### ***Consumer Chemicals and Containers Regulations, 2001***

Vaping liquids are also subject to the *Consumer Chemicals and Containers Regulations* (“CCCR”), 2001.

### ***Non-Smokers' Health Act***

The *Non-Smokers' Health Act* (“NSHA”) addresses the issue of second-hand smoke and vapour. The NSHA applies to federally regulated workplaces, such as banks, ferries, commercial aircraft, and federal government offices.



### ***Provincial Regulations***

Provincial, territorial and municipal laws also set forth regulations for vaping products and their use.

In Ontario, the *Smoke-Free Ontario Act, 2017* ("SFOA, 2017") regulates the sale, supply, display and promotion of tobacco and vapour products at retail.

In Alberta, there currently is no provincial legislation regulating electronic-cigarettes ("e-cigarettes") or other vaping products. In October 2019, the Alberta Government announced that it would launch an evidence-based review of the province's tobacco regulations, the *Tobacco and Smoking Reduction Act*, to potentially add vaping regulation, and that it would complete this review by the end of 2019 in order to allow for amendments for Alberta's *Tobacco and Smoking Reduction Act* to be introduced in 2020.



### 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 significant negative impact 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 significant negative 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 legalize and regulate adult-use (or recreational) cannabis. An additional fifteen (15) states have effectively decriminalized adult-use cannabis. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis (other than hemp) continues to be



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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.

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 significant negative impact 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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.



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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.

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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact on the ability of holders of Common Shares to make and settle trades. In particular, the



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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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact on the Company's business and operational results.

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

The regulated cannabis industry in the United State 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 Canadian Cannabis Regulatory System***

The Company's operations will be subject to various anticipated laws, regulations and guidelines relating to the manufacture, management, packaging, labelling, advertising, sale, transportation, storage and disposal of cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. 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 significant negative impact on the Company's proposed business, financial condition and results of operation. Moreover, the legalization of recreational cannabis in Canada has been politically driven by the federal Liberal government, and there is no assurance that other political parties, if elected to government, will not reverse the steps taken by the Liberal government towards legalization of recreational cannabis or impose more stringent and prohibitive regulatory frameworks. Such actions could have a material adverse effect on the business or financial condition of the Company, or the viability of its business model. Furthermore, future changes in provincial or municipal governments may also result in similar unfavourable changes to laws, regulations and guidelines pertaining to recreational cannabis.

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

Origin House's subsidiary, 2360149 Ontario Inc. d.b.a. 180 Smoke operates in the Canadian vape industry, an industry that is highly regulated, very competitive and rapidly evolving. Sometimes new risks emerge which management may not be able to predict.

180 Smoke's ability to manufacture, purchase, market, distribute and sell vape, electronic-juice ("e-juice") and e-cigarettes is subject to federal, provincial and municipal legislation, and various licensing and permitting regimes. Failure to comply with the requirements of laws or licensing and permitting bodies or failure to maintain any such licenses or permits could have a negative 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 its operations. In addition, changes in regulations, enhanced enforcement thereof or other unanticipated events could require changes to 180 Smoke's operations, increased compliance costs or give rise to material liabilities.

Under applicable laws, there are significant restrictions on the marketing, branding, product formats and distribution channels of vaping and e-cigarette products. The TVPA requires health warnings to be placed on product packaging, and limits 180 Smoke's ability to use logos and branding elements in its marketing, among other restrictions on marketing. Additional restrictions may be imposed in the future that could negatively impact 180 Smoke's ability to compete in the vape product and e-cigarette markets.



Each province and territory of Canada may amend its existing or impose new regulations on vaping products, which could result in significant variation in the regulatory regime across the country. Such variation may make national participation in the vaping industry expensive and burdensome or of limited economic benefit and could result in significant additional compliance or other costs to 180 Smoke and limit its ability to operate across multiple jurisdictions.

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

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

The regulated cannabis and vape industries in Canada are both at early stages of their development. The Company believes that the medical and recreational cannabis and vape industries are highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis and vape products. Consumer perceptions regarding morality, consumption, safety, efficacy and/or quality of cannabis and vape 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 and vape 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 or vape 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 significant negative impact on the demand for cannabis and /or vape 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 or vape with illness or other negative effects or events, could have such a significant negative impact 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.

In particular, the occurrence of vaping-related lung illnesses across the United States and limited cases in Canada have received significant media and consumer attention in both Canada and the United States. Health Canada, working with its US counterparts, have issued multiple information updates for Canadians on the potential risk of pulmonary illness associated with vaping products. As of November 2019, Health Canada had reported three confirmed cases of severe lung illness in Quebec and five probable cases, including two in New Brunswick and three in British Columbia. Subsequently, Health Canada and the Center for Disease and Control and Prevention in the United States (the "CDC") identified illicit sources as a concern and a possible chemical cause of the vaping-related lung illnesses. In addition, the CDC stated that many affected users had reported using vaping products containing tetrahydrocannabinol (THC) and/or nicotine, but that no consistent product, substance or additive had been identified in all reported cases. The CDC identified vitamin E acetate as a chemical of concern among affected users and recommended that consumers not consume vaping products containing THC and not to purchase



products from informal sources, such as friends, family, or online dealers. Such reports and the associated media attention could have a negative impact on the Company, the demand for 180 Smoke's products, and the business, results of operations, financial condition and cash flows of the Company.

#### **4. *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 significant negative impact 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.

#### **5. *Operation Permits and Authorizations***

The Company 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 may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis and vape industries. 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 and/or vape industry, which could have a significant negative impact on the Company's business.



## **6. 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 and vape industries. Due to the uncertain regulatory landscape for regulating cannabis and vape in Canada, 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 significant negative impact on the Company's business and operational results.

## **7. Competition**

The Company competes with other companies for financing and investment opportunities in the cannabis and vape industries. 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. Increased competition by larger and better financed competitors, including competitors of investments of Trichome, could materially and adversely affect the business, financial condition and results of operations.

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

Because of the early stages of the industries in which the Company operates in, the Company can expect to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support. The Company 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.

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.



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

Participation in the cannabis and vape industries may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, provincial, or local governmental authorities against the companies or their investments. Litigation, complaints, and enforcement actions could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the future cash flows, earnings, results of operations and financial condition of the Company.

## **9. *Product Liability***

The Company manufactures, processes and/or distributes 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 and vape, in each case, alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a significant negative impact on the results of operations and financial condition of the Company.

## **10. *Reliance on Key Inputs***

The cultivation, extraction and processing of cannabis and derivative products and vaping 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. 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 the Company.

## **11. *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 cannabis research and development, growing cannabis and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable. Without adequate personnel and expertise, the growth of the Company may suffer.

## **12. *Intellectual Property***

The success of the Company will depend, in part, on its ability to maintain and enhance trade secret protection over the various existing and potential proprietary techniques and processes. The Company 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. 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 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.

### **13. Operational Risks**

The Company 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, properties, grow facilities and extraction facilities, personal injury or death, environmental damage, adverse impacts on the investments' operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on their future cash flows, earnings and financial condition. Also, 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 future cash flows, earnings, results of operations and financial condition of the Company.

### **14. 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 Canada limits companies' abilities to compete for market share in a manner similar to other industries. If 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 sales and results of operations could be adversely affected.

### **15. 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.

### ***16. 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.

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

Adverse changes or developments affecting the current locations in which the Company operates could have a significant negative impact on the Company's business, financial condition and prospects.

### ***18. 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.



### **19. 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.

### **20. 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 vaping-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.

### **21. 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.



## **22. 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 significant negative impact 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.

## **23. 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.



#### **24. 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.

#### **25. 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 significant negative impact on 180 Smoke's business, financial condition, results of operations and prospects and, in turn, the Company.

#### **26. 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.

#### **27. 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 significant negative impacts 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.

### **28. Product Liability**

Certain of the Company's subsidiaries and investees 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 loss or injury. In addition, previously unknown adverse reactions resulting from human consumption of vaping products alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a significant negative impact on the results of operations and financial condition of the Company.

### **29. 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 significant negative impact 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

### 1. Risks Related to the Arrangement

Some of the risks include, but are not limited to: risks that the Company may fail to complete the Arrangement or that the Arrangement may be completed on different terms; risks that regulatory approvals may have significant negative impacts on the Arrangement, Origin House and/or Cresco; risks associated with non-solicitation covenants and no right to terminate the Arrangement for a superior proposal; risks that the anticipated benefits of the Arrangement may not occur; risks associated with a fixed exchange ratio; risk that the Consideration payable under the Arrangement may be reduced in accordance with the terms of the Arrangement; risk that the termination fee, if triggered, may discourage other parties from attempting to acquire the Company; risks that the Company will incur substantial transaction-related costs in connection with the Arrangement; risk that, while the Arrangement is pending, the Company is restricted from taking certain actions; risk that the pending Arrangement may divert the attention of the Company's management; risk that directors and senior officers of the Company may have interests in the Arrangement that are different from those of the Origin House Shareholders; risk that, if the Arrangement is terminated, there can be no assurances that another party will be willing to pay an equivalent or more attractive price than under the Arrangement; risk that greater exposure to enforcement under U.S. federal and state forfeiture laws could negatively impact the Company's business operations; risks associated with greater exposure to unfavorable tax treatment of cannabis businesses; and risks associated with tax classification of Cresco as a U.S. domestic corporation.

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).

In addition to the risk factors relating to the Arrangement set out above, there are also significant risks associated with Cresco's businesses.

Additional risks and uncertainties, including those currently unknown or considered immaterial by Cresco, may also adversely affect the business of the Company and Cresco following completion of the Arrangement. These risks could have a significant negative impact on, among other things, the operating results, earnings, properties, business and condition (financial or otherwise) of Cresco.



## 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 significant negative impact 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 its 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 significant negative impact 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 (expressed in Canadian Dollars)



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 significant negative impact 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 significant negative impact 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.

### **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).