Trichome FINANCIAL

Trichome Financial Corp.

(formerly 22 Capital Corp.)

Management's Discussion and Analysis of the Condensed Interim Consolidated Financial Condition and Results of Operations

For the three months ended March 31, 2020

(Expressed in Canadian Dollars)

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DEFINED TERMS

Company names:

- 180 Smoke Inc. ("180 Smoke")
- 22 Capital Corp. ("22 Capital")
- 2673943 Ontario Inc. ("Hello Cannabis")
- C.G.S Foods Inc. ("CGS" d/b/a "Ganjika House")
- Canadian Securities Administrators ("CSA")
- Canadian Securities Exchange ("CSE")
- Cresco Labs Inc. ("Cresco")
- Good Buds Company International Inc. ("Good Buds")
- Heritage Cannabis Holdings Corp. ("Heritage")
- James E. Wagner Cultivation Corporation ("JWC")
- MYM Nutraceuticals Inc. ("MYM")
- Pure Alpha Holdings Ltd. ("Pure Alpha")
- Superette Inc. ("Superette")
- Trichome Financial Cannabis Private Credit Fund ("Trichome Private Credit" or "the Fund")
- Trichome Financial Corp. (the "Company", "Trichome Financial" or "Trichome")
- TSX Venture Exchange ("TSXV")

Terminology:

- Consolidated Financial Statements (the "Financial Statements")
- Debtor-in-Possession Loan ("DIP Loan")
- Effective Interest Rate ("EIR") - The interest rate, in accordance with IFRS, derived from the effective interest rate method, which determines the return of a loan based on the fair value of all loan incentives, such as warrants, OID, and set-up fees.
- Expected Credit Losses ("ECLs") – the probability weighted calculation of credit losses
- Generally Accepted Accounting Principles ("GAAP")
- Guaranteed Investment Certificate ("GIC")
- International Accounting Standard 32 - *Financial Instruments: Presentation* ("IAS 32")
- International Financial Reporting Standard 9 - *Financial Instruments* ("IFRS 9")
- International Financial Reporting Standards ("IFRS")
- Licensed Producers ("LPs")
- Management's Discussion and Analysis ("MD&A")
- Original Issue Discount ("OID") – The discount on issuance from face value of a loan.
- Reverse takeover ("RTO")
- Set-up fee - The discount on issuance from face value of a loan to compensate for costs associated with setting up the loan.

INTRODUCTION

Trichome Financial Corp. (the "Company" or "Trichome" or "Trichome Financial"), formerly 22 Capital Corp. was incorporated pursuant to the provisions of the *Business Corporations Act* of Ontario on January 4, 2017. The Company is located at 150 King Street West, Suite 200, Toronto, Ontario, Canada. On October 4, 2019, in connection with Trichome Financial Corp.'s reverse takeover ("RTO") of 22 Capital Corp., the Company completed a three to one share split.

This MD&A of the Financial Condition and Results of Operations of Trichome Financial is dated May 28, 2020. The MD&A should be read in conjunction with the Company's Financial Statements for the period ended March 31, 2020, 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 CSA. This MD&A provides information for the three months ended March 31, 2020 and subsequent events up to and including May 28, 2020. The Financial Statements and this MD&A have been approved by the Company's Board of Directors.

The accompanying Financial Statements were prepared in accordance with Canadian GAAP that incorporates the requirements of IFRS.

Under GAAP, certain expenses and income items 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. Where the Company presents non-GAAP financial measures in this MD&A, a reconciliation to GAAP is provided.

As at March 31, 2020 Trichome Financial was comprised of the following entities:

Legal entity	Relationship with Trichome Financial Corp.
Trichome Financial Corp.	-
22 Capital Corp.	Amalgamated with Trichome Financial Corp. upon RTO
Trichome Financial Cannabis GP Inc.	Wholly-owned subsidiary
Trichome Financial Cannabis Manager Inc.	Wholly-owned subsidiary
Trichome Financial Cannabis Private Credit LP.	Limited Partnership
Trichome Asset Funding Corp.	Wholly-owned subsidiary

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The words "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (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 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 at the date of this 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.

With respect to the forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things: (i) our ability to generate cash flow from operations and obtain necessary financing on acceptable terms; (ii) general economic, financial market, regulatory and political conditions in which we operate; (iii) market demand for our financial products and services; (iv) competition; (v) anticipated and unanticipated costs; (vi) government regulation of our activities and products and services and those of our borrowers; (vii) our ability to obtain qualified staff and appropriate services in a timely and cost efficient manner; (viii) the ability of our borrowers to repay or refinance our loans; and (ix) the creditworthiness of factoring counterparties and prompt payment by such counterparties.

Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Forward-looking statements are based on material assumptions, including those listed above, that were applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances. While we consider these assumptions to be reasonable based on information currently available to management, there is no assurance that such assumptions will prove to be reasonable.

The forward-looking statements contained herein are made as of the date of this MD&A and are based on the beliefs, estimates, expectations, opinions and assumptions of management on the date such forward-looking statements are made. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise or to explain any material difference between subsequent actual events and such forward-looking statements, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.

SUMMARY OF THE BUSINESS

OVERVIEW OF TRICHOME FINANCIAL

Trichome Financial is a specialty finance company focused on providing creative capital solutions and advisory services to participants in the global legal cannabis market. Trichome Financial was created to address the lack of credit availability in the increasingly complex cannabis market and has since broadened its platform to offer private equity solutions and advisory services. Trichome Financial's experienced management team and founding partners have a unique edge to capitalize on proprietary deal flow and insight while developing an early-mover advantage as a global cannabis focused specialty finance company. With the depth and breath of knowledge Trichome Financial has obtained, the Company is well positioned to weather the uncertainties brought-on by the everchanging North American cannabis industry, as well as COVID-19.

The Trichome Financial Platform

The Company operates across three business segments as of May 2020, each of which is designed to seamlessly leverage the expertise, insights and existing infrastructure of Trichome Financial:

Trichome Private Credit

Trichome Private Credit provides customized credit-based financing solutions across the industry value chain to support growth, capital expenditures, mergers and acquisitions, working capital, restructurings and other needs. Transactions are typically structured to earn attractive rates of contractual cash flows and additional consideration in the form of warrants, bonus shares or royalties. Trichome Private Credit's current assets are primarily diversified across numerous market segments in Canada, and recently the Company has expanded its lending base to the United States.

Trichome Private Credit will continue to deploy its own capital as well as capital from third party investors. Revenue from this segment is expected to continue to be derived from coupon interest, setup fees, OIDs, and equity or royalty bonuses, in addition to revenue streams such as management fees and carried interest from third party capital.

Trichome Special Opportunities ("TSO")

In response to challenges in the current cannabis market, Trichome Financial launched Trichome Special Opportunities on May 4, 2020, a private equity unit focused on providing strategic capital to companies operating across the cannabis value chain that are experiencing financial and/or operational difficulties.

Leveraging Trichome Financial's extensive underwriting experience and network in the cannabis sector, TSO seeks to provide capital to companies operating across the cannabis value chain that are experiencing financial and/or operational difficulties due to adverse market conditions. Such investments may include the acquisition of assets both inside and outside of a court supervised restructuring process, sponsoring recapitalization transactions, asset carve-out transactions, and making control or significant influence investments in companies that require a strategic and long-term capital partner. TSO seeks to earn multiples of its own invested capital as well as fees and carried interest from capital raised from third parties.

Trichome Financial has recently commenced its first TSO opportunity with James E. Wagner Cultivation Corporation, see *Borrowers in financial difficulty* section below.

Trichome Advisory Partners ("TAP")

On May 4, 2020, Trichome Financial launched Trichome Advisory Partners, a fee-driven advisory business focused on providing critical financial, strategic and operational support to cannabis companies, lenders and investors. Leveraging the expertise and network of Trichome Financial, TAP will focus on providing advice with respect to financial and operational restructurings, stakeholder engagement, asset recovery, and capital structure enhancement.

Trichome Financial was recently engaged by a private lender to recover assets lent to a publicly traded cannabis company. TAP's fees are entirely success based and there is no capital commitment from Trichome Financial.

Each of the business units will leverage the resources of the existing team and infrastructure of Trichome Financial and all revenue streams from each business unit will flow entirely to Trichome Financial for the benefit of its shareholders.

BUSINESS OUTLOOK

While challenging and unprecedented, the current environment in the cannabis sector is favourable for each of Trichome Financials' business segments. Trichome Financial's business model is unique in that it benefits from both the structural, long-term growth of the global cannabis industry as well as periods of market volatility when investor confidence wanes. Since the middle of 2019, a series of events have contributed to creating a negative feedback loop for investor confidence in the cannabis sector. More recently, the effects of COVID-19 and measures being taken to suppress it have exacerbated the operating and capital plans of many participants in the cannabis sector. The potential trends for Trichome Financial's business model include:

- An increase in the number of companies in need of Trichome Financial's solutions, including term debt, receivables financing, capital for recapitalizations, financial advice, and restructurings;
- An increase in overall borrower quality as a result of being able to select from a larger pool of opportunities;
- Improving risk-adjusted returns, with both increasing contractual returns as well as higher warrant or equity coverage at more attractive valuations; and
- An ability to negotiate favourable structural enhancements on transactions that serve to protect Trichome Financial's capital.

FINANCIAL OUTLOOK

Trichome Financial has raised gross proceeds of approximately $31.8 million to construct a portfolio of diligently underwritten and structured income generating credit investments. To date, Trichome Financial has closed fifteen credit transactions to ten unique counterparties, with six of those loans having been repaid.

As at March 31, 2020, the par value of loans outstanding was $18.5 million with unfunded commitments of $1.8 million. Subsequent to quarter-end, the par value of loans outstanding increased to approximately $23.0 million, with unfunded commitments of $3.3 million. As of May 28, 2020, Trichome Financial had approximately $6.2 million in cash and cash equivalents on hand. The weighted average effective interest rate of the portfolio is approximately 16.4%, excluding warrants, bonus shares, or royalties.

Interest revenue is expected to grow commensurately with further deployment of the Company's cash into income-generating credit investments. This amount could be partially offset by any prepayments, early terminations, or arrears. Additional consideration in the form of warrants, bonus shares or royalties may contribute to overall profitability. Modest increases in the operating expense base to continue the buildout of Trichome Financial's infrastructure may be warranted to the extent that the capital base of Trichome Financial increases, either through the management of third-party fee-paying assets or by adding balance sheet leverage.

No significant capital expenditures are required in order for Trichome Financial to execute on its business model. Management believes that the proceeds from the disposition of warrants and shares, fee income from managing third-party assets, the accretive effect of adding portfolio leverage, and the potential to launch complimentary business lines has the potential to increase overall profitability.

LOAN SUMMARY

Active loans as at March 31, 2020:	**Market segment**	**Maturity date**	**Coupon Interest rate**	**Effective interest rate[1]**	**Loan principal**	**Committed**	**Fair value of warrants or equity held[4]**
JWC - Initial loan	Premium cultivator	2021-02-19	9.3%	13.9%	$ 3,500,000	$ -	$ -
JWC - Tranche 1	Premium cultivator	2021-11-06	9.3%	13.3%	2,850,000	-	118,105
JWC - Tranche 2	Premium cultivator	2021-11-06	9.3%	13.8%	1,150,000	-	126,300
Good Buds	Premium cultivator	2020-09-01	11.5%	17.5%	2,350,000	-	95,128
Cresco	MSO - cultivation, distribution, retail	2021-07-31	12.7%	14.8%	2,785,594 [3]	-	-
Heritage	Extraction, medical, cultivation	2022-01-31	9.5%	14.6%	4,875,000	1,825,000	-
Hello	Retail (Ontario)	2021-08-28	10.5%	13.1%	1,000,000	-	-
Portfolio Weighted Average [2] / Subtotal			10.2%	14.6%	*18,510,594*	*1,825,000*	*339,533*
Loans issued after March 31, 2020 and up to date of MD&A:		**Maturity date**	**Coupon Interest rate**	**Effective interest rate[1]**	**Loan principal**	**Committed**	**Fair value of warrants or equity held[5]**
JWC - DIP loan	Premium cultivator	2020-06-30	10.0%	23.4%	4,024,000	1,476,000	-
Good Buds 2	Premium cultivator	2020-09-01	11.5%	25.7%	550,000	-	30,040
Subtotal					*4,574,000*	*1,476,000*	*30,040*
Portfolio Weighted Average[2] / Total			**10.2%**	**16.4%**	**$ 23,084,594**	**$ 3,301,000**	**$ 369,573**

Loans fully repaid during quarter:		**Settlement date**	**Coupon Interest rate**	**IRR[6]**	**Loan amount**	**MOIC[7]**	**Fair value of warrants or equity held[4]**
Pure Alpha	Retail (Ontario)	2020-02-19	0.0%	0.0%	50,000	-	-
Settled Weighted Average[2] / Total			**0.0%**	**0.0%**	**$ 50,000**	**-**	**$ -**

(1) Annualized effective return excludes the impact of warrants, equity, royalty, or transaction costs.

(2) Weighted average based on loan amount.

(3) Cresco loan is denominated in USD. Foreign exchange rate on March 31, 2020 was used to calculate balance in Canadian dollars.

(4) As at March 31, 2020. Note: JWC ceased trading on TSXV on April 7, 2020 therefore value will have subsequently decreased.

(5) As at date of loan issuance.

(6) Internal Rate of Return on the loan

(7) Multiple on Invested Capital

GEOGRAPHIC DIVERSIFICATION

The Company's portfolio is geographically diversified to limit risks related to regulatory uncertainty, market inefficiencies, and other factors. The Company expects that it will continue to enter into loans in new jurisdictions.

The table below shows the primary operating jurisdictions of the Company's current borrowers:

Borrower	Primary operating jurisdiction(s)
JWC	Ontario
Good Buds	British Columbia
Cresco	California
	Illinois
	Pennsylvania
Heritage	Ontario
	British Columbia
Hello Cannabis	Ontario

The jurisdictions above represent the primary operating jurisdictions of borrowers, and generally exclude non-core operations, newly expanded operations, investments, and early-stage jurisdictions.

Note that Cresco also operates to some degree in other jurisdictions, such as Canada, Ohio, Arizona, New York, Massachusetts, Maryland, and Michigan.

HIGHLIGHTS FOR THE THREE MONTHS ENDED MARCH 31, 2020

Achievements during the quarter:

Loan to Heritage

On January 30, 2020, Trichome Financial entered into a senior secured term loan with Heritage Cannabis Holdings Corp. (CSE: CANN). Trichome Financial agreed to advance up to $6.7 million by way of two tranches ($4.875 million for Tranche 1 and $1.825 million for Tranche 2), where the second tranche would not be advanced until certain conditions are met.

Heritage is a publicly listed Canadian company and through its subsidiaries offers turnkey extraction solutions, contract and toll processing, and product manufacturing services to Canadian LPs with a focus on high-margin segments of the extraction/formulation continuum. The core of Heritage's business model resides within its formulation expertise with specific regard to vape pens. Heritage's extraction team at their subsidiary, Purefarma have built a long-standing reputation as one of the most skilled operators in the value-added extraction segment.

The loan is for two years and carries an interest rate of 9.5% per annum, payable monthly. Tranche 1 of the loan was issued on January 30, 2020, net of a set-up fee, an original issue discount, and an interest reserve account equal to nine months of interest payments. Upon the completion of certain conditions, Tranche 2 will be issued net of the same original issue discount on the face value of Tranche 2 and an interest reserve account totalling a year of interest payments.

Included in the loan arrangement with Heritage is a voluntary prepayment feature which allows Heritage to repay the loan in whole or in part, subject to a prepayment premium, mandatory prepayment under certain conditions, financial covenants in addition to other standard terms and conditions for a transaction of this nature.

After issuance of Tranche 1, but before maturity of the loan, Heritage may request an increase in the loaned funds by an additional $2.3 million, subject to the Company's approval.

Loan to Cresco Labs

On January 30, 2020, Trichome Financial entered into a senior secured term loan with Cresco, as a syndicated member. The syndicated loan was for aggregate proceeds of US$100 million, of which US$2.0 million was advanced by Trichome Financial.

Cresco Labs Inc. (CSE:CL) is a licensed cultivator, manufacturer, and seller of retail and medical cannabis as well as other cannabis products in the United States.

The loan is for a period of 18 months and bears interest at 12.7% per annum, along with an OID. The loan includes both a voluntary and mandatory prepayment option, as well as an applicable prepayment premium if such prepayment options are exercised by Cresco. Interest is paid to the Company on a quarterly basis.

Loan to Pure Alpha

On February 19, 2020, the Company settled its outstanding loan with Pure Alpha in connection with its retail location in Ottawa, Ontario; Superette.

Loan to Hello Cannabis

On March 2, 2020, the Company entered into a loan agreement with Hello Cannabis, a retail cannabis operator in Ontario. The senior secured term loan has a face value of $1.0 million, with the ability to increase the loan up to an additional $1.25 million. Upon closing, the Company advanced the $1.0 million to Hello Cannabis, gross of a set-up fee and interest reserve account, to fund capital expenditures as well as inventory purchases.

The loan bears interest at a rate of 10.5% with a maturity of 18 months. At the time of issuing the loan, the Company also entered into a royalty agreement. The royalty agreement includes a monthly fee based on 2.0% of monthly gross revenues of Hello Cannabis' retail location in Sault Ste. Marie, Ontario. The royalty agreement is for a period of 18 months commencing the first month after the month in which the retail location is operational. The retail location began operations in March 2020.

Expanded pipeline of investments

Trichome Financial continues to expand its pipeline of potential investees. Refer to *Recent Developments* below for advancements made by the Company in expanding its investment portfolio.

FINANCIAL PERFORMANCE

The following are the major financial highlights of Trichome Financial's operating results for the three months ended March 31, 2020, in comparison to the three months ended March 31, 2019 respectively:

- Interest revenues were $635,079, as compared to $57,262;
- Operating expenses were $1,212,467 (inclusive of non-cash stock-based compensation of $164,949 and non-cash expected credit losses of $221,326), as compared to $604,363 (inclusive of non-cash stock-based compensation of $242,729 and non-cash expected credit losses of $9,758);
- Net loss of $0.8 million, as compared to $0.9 million;
- Net loss per basic and dilutive shares of $0.03, as compared to $0.13; and
- Adjusted loss[1] of $0.5 million, as compared to $0.2 million.

The following is a summary of key balance sheet totals as at March 31, 2020, compared to December 31, 2019:

- Cash was $11.7 million, as compared to $20.9 million;
- Derivative assets, investments, royalty investment, and loans receivable totaled $16.4 million, as compared to $7.7 million;
- Total assets of $28.6 million, as compared to $28.9 million; and
- Total liabilities of $1.7 million, as compared to $1.3 million.

[1] Refer to *Adjusted Loss* section for definition

RECENT DEVELOPMENTS

Lending activities

Loan to Good Buds

On April 6, 2020, the Company advanced an additional $0.6 million to Good Buds to be used for the purchase of equipment. This advance is pursuant to the original loan agreement signed between both parties on August 20, 2019. As part of that agreement, Good Buds was given the ability to request additional increases in the loan balance up to a maximum of $2.5 million. The loan bears interest at an annual interest rate of 11.5% and matures on September 1, 2020. In connection with the additional advance, the Company obtained 222,340 Good Buds common share purchase warrants. The warrants expire on April 6, 2023 and have an exercise price of $0.60 per warrant. The exercise price of the warrants can be adjusted lower than $0.60 per warrant in the event Good Buds issues common share at a value of less than $0.60 per share or there is a liquidity event.

COVID-19

The World Health Organization declared COVID-19 a global pandemic, greatly impacting financial markets and leading governments within the jurisdictions of the Company's borrowers to implement certain social distancing and quarantine measures. As at the date of this MD&A, any impact to the Company's borrowers remains uncertain, however, the impact of COVID-19 may effect ECLs on a go-forward basis should any of the Company's borrowers be unable to maintain liquidity, cultivation activities, or sales to customers. The impact of COVID-19 on financial markets may delay timing of Trichome Financial's Fund.

Borrowers in financial difficulty

Loans to JWC

On February 19, 2020, the Company issued an additional tranche ("Tranche 2") to JWC at a face value of $1.15 million, with a November 6, 2021 maturity date and annual interest of 9.25%. Tranche 2 was advanced at a face value of $1.15 million, gross of OID, debt service reserve, and transaction costs. Upon closing, the Company received 1,052,500 common shares of JWC for nominal consideration.

On March 31, 2020, JWC agreed to a plan of consensual restructuring (the "Restructuring") wherein JWC would seek approval for an Initial Order approving an application for creditor protection under the *Companies' Creditors Arrangement Act* ("CCAA"). The Restructuring was reviewed and recommended by the Special Committee of the Board of JWC (the "Special Committee") and approved unanimously by the entire Board through a resolution on March 31, 2020. The Initial Order granting JWC's application for CCAA was granted on April 1, 2020 by the Ontario Superior Court of Justice.

In connection with the Restructuring, Trichome Financial and JWC agreed to (i) a Debtor-in-Possession Loan ("DIP Loan") in which Trichome Financial will provide up to $4.0 million in interim financing over the term of the Restructuring; (ii) the appointment of KSV Kofman Inc. as monitor in the CCAA proceedings; (iii) an offer by Trichome Financial to purchase the assets of JWC which contemplates that Trichome Financial will be the "stalking-horse" in the Sales and Investor Solicitation Process ("SISP"), which will be managed by Stoic Advisory and will be overseen by the Special Committee and the monitor (the "Stalking-horse Bid"); and (iv) the appointment of Howard Steinberg, a Trichome Financial Board member, as the Chief Restructuring Officer.

The DIP Loan matures on the earlier of: (i) the occurrence of any event of default which has not been cured; (ii) the implementation of a court approved plan of compromise approved by a majority of JWC's creditors, which includes Trichome; (iii) the closing of a court approved sale of JWC to Trichome through its Stalking-horse Bid, or to a successful third-party bidder, which will require the repayment of the JWC Loan and the DIP Loan; (iv) conversion of the CCAA proceedings into a proceeding under the *Bankruptcy and Insolvency Act (Canada)*; and (v) June 30, 2020.

On May 15, 2020, the Company was confirmed as the successful bidder for the assets of JWC. It is expected that a Sale and Approval hearing will be held on or around May 29, 2020 with the Ontario Superior Court of Justice and final closing to occur upon Health Canada license approval. The assets of JWC are to be purchased free and clear of any liabilities for an effective purchase price equal to the Company's pre-filing secured claim of $7.5 million plus the estimated amount of the outstanding DIP financing upon closing. On May 15, 2020, the DIP financing commitment was increased by $1.5 million. As at the date of this MD&A, the DIP Loan balance was $4.0 million with an unfunded commitment of $1.5 million.

RESULTS OF OPERATIONS

The following table sets forth results of operations data for the three months ended March 31, 2020 and March 31, 2019:

	March 31, 2020	March 31, 2019
Consolidated Statements of Net Loss		
Interest revenue	**$ 635,079**	$ 57,262
Operating expenses	**1,212,467**	604,363
Operating loss	**(577,388)**	(547,101)
Other expenses	**227,558**	372,453
Total net and comprehensive loss	**(804,946)**	(919,554)
Net loss per common share - basic & diluted	**(0.03)**	(0.13)
Adjusted loss	**(518,510)**	(178,681)
Adjusted loss per share	**$ (0.02)**	$ (0.03)
Weighted average common shares - basic & diluted	**25,074,828**	6,960,000

ADJUSTED LOSS

Adjusted loss is a non-GAAP financial measure and accordingly it is not an earnings measure recognized by IFRS and does not carry standard prescribed significance. Moreover, the Company's method for calculating adjusted loss may differ from that used by other companies using the same designation. Management defines adjusted loss as net loss and comprehensive loss adjusted for other non-cash items such as share-based compensation expense, as well as certain non-recurring items. The Company cautions readers that adjusted loss should not be substituted as an indicator of operating results or as a substitute for cash flows from operating activities.

	March 31, 2020	March 31, 2019
Net loss and comprehensive loss	**$ (804,946)**	$ (919,554)
Non-cash accretion expense	**-**	443,048
Non-cash share-based compensation	**164,949**	242,729
Non-cash expected credit loss	**221,326**	9,758
Non-cash foreign exchange gain	**(166,507)**	-
Non-cash accretion income included in interest revenue	**(406,835)**	(20,629)
Non-cash changes in fair value of derivative and investment assets	**394,065**	(19,658)
Non-recurring Fund set-up costs	**79,438**	-
Costs incurred to list on stock exchange	**-**	85,625
Adjusted loss	**$ (518,510)**	$ (178,681)
Adjusted loss per share	**(0.02)**	(0.03)

Non-cash accretion income included in interest revenue includes set-up fees, original issue discounts, interest reserve accounts, the fair value of warrants and common shares recorded upon initial recognition of loans through the effective interest rate method.

Change in fair value of derivative assets includes unrealized gains and losses on warrants, warrants receivable, and common shares of the Company's borrowers.

Accretion expense ceased after conversion of the liability-classified preferred shares to equity upon completion of the RTO, which occurred on October 4, 2019. The Company has accrued discretionary bonuses of $114,753 for the three months ended March 31, 2020.

INTEREST REVENUE

	March 31, 2020	March 31, 2019
James E. Wagner Cultivation Corporation	**$ 300,082**	$ 39,475
Good Buds Company International Inc.	**142,211**	-
Heritage Cannabis Corporation	**96,941**	-
Cresco Labs Inc.	**61,630**	-
Hello Cannabis Corp.	**18,881**	-
Guaranteed Investment Certificate	**15,334**	-
180 Smoke Inc.	**-**	5,903
C.G.S. Foods Inc.	**-**	11,884
Revenue	**$ 635,079**	$ 57,262

The Company's interest revenue consists of effective interest rate method calculations on loans and interest earned on short-term investments. Effective interest can be higher or lower than cash-based interest, depending on factors such as derivative assets or common shares issued with loans, capitalization of transaction costs under IFRS, OIDs, set-up fees, prepaid interest reserves, or royalty agreements. Generally, effective interest is higher than cash interest when the Company receives derivative assets, common shares, or royalty agreements with a loan, or the Company disburses less than face value at inception of a loan through original issuer discounts, set-up fees, or prepaid interest reserves. The fair value of derivative assets, such as warrants, as well as common shares in the borrower, in connection with a loan are generally recognized separately from the loan value on initial recognition.

Interest revenue from JWC will be impacted in future quarters as the Company converts its loans to JWC into purchase consideration for the acquisition of JWC's assets. Excluding interest revenue from the loans to JWC, the estimated interest revenue over the next 12-month period is approximately $1.5 million. This will however vary based on any additional loans added, foreign exchange rates, settlement or modification of loans prior to maturity, as well as the outcome of royalty payments on the loan with Hello Cannabis. The Company also expects to earn cannabis sales revenue from JWC's cultivation activities.

OPERATING EXPENSES

		March 31, 2020		March 31, 2019
General and administrative				
Salary and benefits	**$**	**243,592**	$	166,263
Paid and accrued bonuses		**114,753**		42,616
Professional fees		**47,917**		50,726
Marketing and investor relations		**72,486**		3,102
Executive and advisory fee		**30,655**		31,644
Rent		**20,673**		10,357
Insurance		**28,587**		9,255
Office and administration costs		**33,562**		2,267
Legal fees		**201,270**		18,514
Travel costs		**8,588**		8,657
Transaction fees		**-**		8,475
Public company costs		**24,109**		-
Total general and administrative expenses		**826,192**		**351,876**
Share-based compensation				
Restricted share units		**164,926**		241,229
Performance share units		**-**		1,437
Stock options		**23**		63
Total share-based compensation		**164,949**		242,729
Expected credit loss		**221,326**		9,758
Total operating expenses	**$**	**1,212,467**	$	604,363

In comparison to the three months ended March 31, 2019, operating expenses increased due to an active increase in operations, which included hiring new employees, leasing office space, insurance, and the issuance of stock-based compensation. In addition, the Company incurred expenses, such as legal, professional, and travel costs to perform due diligence, issue new loans, and set up the Fund. Fund set-up costs during the quarter totalled $76,938. Further, as a publicly traded company, added costs are incurred, such as investor relations and regulatory fees.

OTHER INCOME AND EXPENSES

		March 31, 2020		March 31, 2019
Other income and expenses				
Accretion expense	**$**	**-**	$	443,048
Change in fair value of investments		**394,065**		(19,658)
Gain on settlement of loan		**-**		(136,562)
Foreign exchange gain		**(166,507)**		-
Costs incurred to list on stock exchange		**-**		85,625
Net other income and expenses	**$**	**227,558**	$	372,453

Accretion expense

In 2019, the Company recorded non-cash accretion expense of $1,254,027 related to the liability-classification of the Class A preferred shares under IAS 32. Upon completing the RTO on October 4, 2019, the Class A preferred shares were reclassified as equity, and accretion expense ceased. The Company therefore did not incur any accretion expense for the three months ended March 31, 2020.

Changes in fair value of investments

(Increase)/Decrease		**March 31, 2020**		March 31, 2019
Derivative Assets				
180 Smoke Inc. warrants	**$**	**-**	$	17,314
C.G.S. Foods Inc. warrants & warrants receivable		**(12,933)**		453
James E. Wagner Cultivation Corporation warrants		**118,442**		(37,425)
Good Buds Company International Inc. warrants		**72,473**		-
MYM Nutraceuticals Inc. warrants		**28,883**		-
Total decrease (increase) in fair value of derivative assets	**$**	**206,865**	$	(19,658)
Investments				
James E. Wagner Cultivation Corporation common shares		**187,200**		-
Total decrease in fair value of investments	**$**	**187,200**	$	-
Total decrease (increase) in fair value of derivative assets and investments	**$**	**394,065**	$	(19,658)

The decreases in fair value of the Good Buds warrants are due to changes in Level 3 inputs within the Black-Scholes calculations. The increases in fair value of the CGS warrants are due to changes in Level 3 inputs within the Black-Scholes calculations. The decreases in fair values of the JWC and MYM warrants are due to changes in key Level 1 inputs based on publicly available share prices.

On March 31, 2020, JWC filed for creditor protection under the *Companies' Creditors Arrangement Act*. As a result, JWC's common shares halted trading on the TSX Venture Exchange on April 7, 2020.

Gain on settlement and modification of loans

In 2019, the Company recorded a gain on settlement of a loan in accordance with IFRS 9. Generally, a gain arises when the book value of a loan is less than the cash received on settlement or the book value is less than the fair value of the loan upon remeasurement after modification. During the quarter ended March 31, 2019, the settlement of the 180 Smoke loan resulted in a gain on settlement of $136,562.

Foreign exchange gain

At the end of each reporting period, the Company fair values items that are denominated in currencies other than the Company's reporting currency, the Canadian Dollar. Changes in fair value are recorded in Other income and expense. During the three months ended March 31, 2020, the Company recorded a foreign exchange gain of $166,507 (2019 - Nil) primarily in relation to the loan with Cresco, which is denominated in U.S. Dollars.

Costs incurred to list on stock exchange

These costs primarily consist of legal, professional, and regulatory fees related directly to the Company's listings on the TSXV and CSE. These amounts have been included in the adjusted loss calculation, as they are non-recurring.

NET LOSS AND LOSS PER SHARE

Net loss and comprehensive loss for the three months ended March 31, 2020 was $804,946 (2019 - $919,554). The decrease in net loss is due to the cessation of accretion expense, higher operating expenses and ECLs, offset by an increase in interest revenue.

Due to the decrease in net loss and the issuance of new shares, the Company's basic loss per share has decreased to $0.03 for the three months ended March 31, 2020 (2019 - loss per share of $0.13).

SELECTED QUARTERLY RESULTS

	June 30, 2019	September 30, 2019	**December 31, 2019**	March 31, 2020
Revenue	223,802	412,304	**571,195**	635,079
General and administrative	505,393	724,825	**952,287**	826,192
Share-based compensation	169,442	154,210	**425,296**	164,949
Expected credit loss	-	(9,758)	**328,450**	221,326
Loss from operations	(451,033)	(456,973)	**(1,134,838)**	(577,388)
Net loss and comprehensive loss	(1,109,765)	(1,117,908)	**(2,646,524)**	(804,946)
Net loss per share	(0.16)	(0.16)	**(0.11)**	(0.03)
Outstanding common shares	6,960,000	6,960,000	**25,074,828**	25,074,828

	June 30, 2018	September 30, 2018	**December 31, 2018**	March 31, 2019
Revenue	3,493	9,437	**9,604**	57,262
General and administrative	143,894	548,158	**148,048**	351,876
Share-based compensation	73,234	347,451	**272,908**	242,729
Expected credit loss	-	-	**-**	9,758
Loss from operations	(213,635)	(886,172)	**(411,352)**	(547,101)
Net loss and comprehensive loss	(217,068)	(918,226)	**(1,073,613)**	(919,554)
Net loss per share	(0.03)	(0.13)	**(0.15)**	(0.13)
Outstanding common shares	6,960,000	6,960,000	**6,960,000**	6,960,000

The Company has reclassified certain prior year balances in order to conform to the current presentation. Costs associated with the RTO and listing costs have been reclassified from general and administrative expenses to costs incurred to list on stock the exchange which has been applied retrospectively.

FINANCIAL POSITION

The following table sets forth key statement of financial position data at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Selected statement of financial position data		
Cash and cash equivalents	**$ 11,661,703**	$ 20,887,704
Working capital	**18,909,213**	21,825,075
Total investments	**16,435,374**	7,704,649
Total assets	**28,623,844**	28,927,956
Current liabilities	**1,679,022**	1,343,137
Shareholders' equity/(deficit)	**26,944,822**	27,584,819
Dividends, per share	**-**	-

- Cash decreased primarily due to $8.8 million in lending throughout the period, as well as operating cash outflows.
- Working capital decreased primarily due to the increased long-term lending activities of $8.0 million offset by the increase in current assets reallocated from long term lending within the quarter of $5.0 million.
- Total investments are comprised of the loans receivable from JWC, Hello Cannabis, Heritage Cannabis, Cresco, and Good Buds, as well as derivative assets and shares obtained in certain lending arrangements (2019 – JWC, Pure Alpha, and Good Buds, as well as derivative assets and shares obtained in certain lending arrangements).
- Current liabilities are comprised of trade payables, accrued liabilities, deposits, payroll obligations, and other obligations.

LIQUIDITY

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

The table below sets out relevant liquidity related financial information at March 31, 2020 and December 31, 2019:

		March 31, 2020		December 31, 2019
Cash and cash equivalents	**$**	**11,661,703**	$	20,887,704
Working capital		**18,909,213**		21,825,075
Committed capital		**(1,825,000)**		(1,150,000)
Uncommitted working capital	**$**	**17,084,213**	$	20,675,075

The decrease in working capital is primarily attributed to $8.8 million advanced as part of the lending arrangements with Cresco Labs Inc., Heritage Cannabis Holdings Corp., and Hello Cannabis Corporation during the quarter, offset by reclassification of the JWC loans from long-term to short-term.

Subsequent to March 31, 2020, the Company's uncommitted working capital was decreased by the following:

- The loan to Good Buds with principal of $0.55 million
- The DIP Loan to JWC. As at the date of this MD&A, $4.0 million was advanced to JWC in connection with the DIP Loan, with an unfunded commitment of $1.5 million.

The Company has incurred cash losses to date; however, management anticipates eventual positive operating cash flows as a result of an increase in its lending activities and growth of its capital base. At this relatively early stage of the Company's development, there cannot be absolute assurance that the Company will be able to generate sufficient positive operating cash flows to self-finance its operations.

Trichome Financial monitors its level of working capital to assess its ability to enter into strategic lending opportunities. As at March 31, 2020, $3.0 million of cash and cash equivalents is comprised of a GIC that can be drawn upon, in part or in whole, at any time.

The chart below highlights the Company's cash flows during the three months ended March 31, 2020 and March 31, 2019:

		March 31, 2020		March 31, 2019
Net cash provided (used) by				
Operating activities[1]	**$**	**(9,213,288)**	$	(3,962,803)
Investing activities		**(12,713)**		-
Financing activities		**-**		3,512,741
Cash, beginning		**20,887,704**		13,810,095
Cash, end of the period	**$**	**11,661,703**	$	13,360,033

(1) Cash used in operating activities includes cash outflows of principal to borrowers.

CASH USED IN OPERATING ACTIVITIES

The $9.3 million used in operating activities for the quarter-ended March 31, 2020 can mainly be attributed to $8.8 million of cash advances for new loans entered into with James E. Wagner Cultivation Corporation, Heritage Cannabis Holdings Corp., Hello Cannabis Corporation, and Cresco Labs Inc. Also, the decrease can be attributed to an overall net loss for the quarter of $0.8 million, offset by non-cash related revenue and expense of $0.2 million, and finally a $0.2 million increase in net working capital.

CASH USED IN INVESTING ACTIVITIES

During the three months ended March 31, 2020, the Company invested into an intangible asset to assist with future factoring arrangements.

CASH PROVIDED BY FINANCING ACTIVITIES

The Company did not have financing activity during the quarter.

FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its ability to raise additional funds through debt, equity, and third-party managed funds to support investments, continued operations, and to meet liabilities and commitments. As at March 31, 2020, the Company has a history of losses with an accumulated deficit. From inception of the Company to March 31, 2020, approximately $5.5 million of historical operating expenses were non-cash, and primarily relate to accretion expense on liability-classified Class A preferred shares, and share-based compensation. As well, as part of the RTO, the Company incurred non-recurring expenses of $0.6 million.

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 its outstanding equity, any debt it may issue, and third-party managed funds. The Company manages its capital structure based on the funds available to support its activities. Upon approval from the Board of Directors, management will undertake to balance its overall capital structure by seeking to leverage its balance sheet with third-party lenders, by raising capital through fee-paying funds to be managed by Trichome Financial or through new share issuances, or any combination thereof.

The Company's principal capital needs are funds to use towards its investments and operational needs. The Company anticipates that it has sufficient liquidity and capital resources to successfully execute its business plan over the next year. However, the Company does face certain liquidity risks moving forward. The risk of collection from financing arrangements is present as the Company expands its portfolio of investments. The Company manages this risk through thorough due diligence as well as through structuring arrangements in a manner that decreases the probability of collection risk. If the Company begins to experience significant collection risk, there is the chance that the Company cannot execute the business plan as originally planned. The Company's objective in managing capital is to ensure sufficient liquidity to pursue its investment growth strategy, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's primary uses of capital are to invest in its pipeline of cannabis related lending opportunities to Canadian and other participants in fully legalized international marketplaces. The Company's investments are most frequently structured as secured debt instruments. The Company also uses capital to finance operating losses and increases in non-cash working capital. The Company's objectives when managing capital are to ensure the Company will continue to have enough liquidity to continue to expand its portfolio and 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, Trichome Financial does not currently pay a dividend to holders of its common shares.

Outstanding and potentially dilutive share count information

The Company's authorized share capital comprises an unlimited number of common shares, of which 25,074,828 were issued and outstanding as at March 31, 2020 (2019 – 25,074,828 common shares).

As at March 31, 2020, the Company has 2,060,300 outstanding Restricted Share Units ("RSUs"), 630,000 outstanding Performance Share Units ("PSUs"), and 85,208 outstanding Stock Options. During the three months ended March 31, 2019, no RSUs were forfeited. The value of vested RSUs totalled $1,251,990 and the value of vested PSUs totalled $52,500, which are shares yet to be issued, and have been recorded in share-based reserve.

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 financial report and this MD&A (the "Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the 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 financial report together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the 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.

Related Party Balances and Transactions

Prior to the RTO on October 4, 2019, the Company was a subsidiary of Origin House. All intercompany expenses were recorded as related party expenses and all balances due to or due from Origin House were recorded as due to or due from Trichome Financial's parent company. After completion of the RTO, Origin House held approximately 23% of common shares of the Company and all intercompany transactions were still considered related party transactions. All balances owing to or due from Origin House at March 31, 2020, were recorded as due to or due from a related party.

The Company recorded the following related party transactions during the three months ended March 31, 2020:

- The Company's employees were included in the Origin House benefits plan. During the three months ended March 31, 2020, $7,579 of benefits expense (2019 – $3,288), which includes payroll costs which were still being paid by Origin House on behalf of the Company, were charged by Origin House to the Company. This charge related specifically to the cost of the benefits associated with the Company's employees.

- For the three months ended March 31, 2020, Origin House provided $30,655 in executive and administrative services (2019 – $31,644).

- Stock-based compensation expense for the three months ended March 31, 2020 of $791 was recorded by Origin House relating to an employee of the Company (2019 - $6,190).

- Origin House paid certain shared corporate expenses for the Company which were recorded as general and administrative expenses for the three months ended March 31, 2020, in the amounts of Nil (2019 – $15,487).

- For the three months ended March 31, 2020, Origin House paid nil in professional fees for the Company which has been capitalized as part of one of the lending arrangements (2019 – $15,814).

As at March 31, 2020, the Company recorded a balance owing to related parties of $15,442 (2019 - receivable balance of $23,583) related to administrative services and the shared benefits plan. These transactions are in the normal course of operations and are measured at the exchange amounts agreed to by the related party.

Amounts not included in amounts due to related parties, but are related party transactions include:

- The Company recorded key management compensation in the form of share-based payments for the three months ended March 31, 2020 in the amounts of $90,129 (2019 - $7,926). The Company also recorded key management compensation in the form of salaries and benefits for the three months ended March 31, 2020 in the amount of $170,253 (2019 - $31,923).

- Origin House acquired 180 Smoke on February 19, 2019. As part of the acquisition, Origin House settled the Company's outstanding loan receivable on behalf of 180 Smoke. The Company received proceeds of $589,999 and recorded a gain on the settlement of the loan of $136,562 during the year ended December 31, 2019.

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:

				March 31, 2020		December 31, 2019
Cash and cash equivalents	FVTPL	Level 1	**$**	**11,661,703**	$	20,887,704
Amounts receivable	Amortized cost			**118,744**		109,969
Loans receivable	FVTPL	Level 3		**928,608**		-
Loans receivable	Amortized cost			**15,014,162**		7,023,217
Due from related parties	Amortized cost			**-**		23,583
Due to related parties	Amortized cost			**15,442**		-
Investments	FVTPL	Level 1		**244,405**		226,368
Derivative assets	FVTPL	Level 2		**6,818**		154,143
Derivative assets	FVTPL	Level 3		**241,381**		300,921
Amounts payable and accrued liabilities	Amortized cost			**1,632,135**		1,264,160
Deposits	Amortized cost			**31,445**		78,977

Fair Value Through Profit and Loss ("FVTPL").

Determination of fair value

The estimated fair values of cash, trade and amounts receivable, certain loans receivable, derivative assets, 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 has not transferred any financial instruments between Level 1, 2, or 3 of the fair value hierarchy.

REGULATORY OVERVIEW

Canada

The *Cannabis Act* received royal assent on June 21, 2018 and came into force on October 17, 2018. The *Cannabis Act* outlines the framework for the legalization of adult-use cannabis in Canada. Pursuant to the *Cannabis Act*, including amendments that came into force on October 17, 2019, individuals over the age of 18 are permitted to purchase fresh cannabis, dried cannabis, cannabis oil, and cannabis plants or seeds and to possess 30 grams of dried cannabis, or the equivalent amount in fresh cannabis or cannabis oil, as well as edible cannabis, cannabis extracts and cannabis topicals. Federally licensed entities with authorization to produce and sell edible cannabis, cannabis extracts, and cannabis topicals must provide 60-days notice to Health Canada of their intent to sell these newly legalized classes of products. 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 of cannabis.

In connection with the *Cannabis Act*, the federal government 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. Provincial and territorial governments in Canada have adopted varying policies for the distribution and sale of cannabis for adult-use purposes. For example, Québec, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, Yukon and the Northwest Territories have chosen a government owned and operated model for distribution, whereas Saskatchewan and Newfoundland & Labrador have opted for a private sector approach. Ontario, Alberta, British Columbia, and Nunavut have adopted a hybrid approach of public distribution and private or public/private sale.

The federal regulatory regime under the *Cannabis Act* provides for the issuance of cultivation licenses for standard cultivation, micro-cultivation, industrial hemp cultivation and nursery cultivation, licenses for standard processing and micro-processing, and sales licenses for medical or non-medical use. In addition, the regime includes personnel and physical security obligations. Further, all cannabis products must be packaged in a tamper-evident and child-resistant manner and product labels must contain specified product information, such as the name of the processor who packaged the products, product lot number, and THC/CBD content.

In addition, federal regulations include packaging and labeling restrictions for cannabis products, aimed to minimize the appeal to children and youth, protect against accidental consumption and ensure consumers are informed of the potential risks and harms of cannabis. Specifically, labeling and branding restrictions require plain packaging, including a standardized cannabis symbol on every label; mandatory health warning messages (including specifics regarding size, placement and appearance); a limit of only one brand element, aside from the brand name; no other image or graphic; backgrounds need to be a single, uniform colour; use of fluorescent or metallic colours is prohibited; labels and packaging cannot have any coating or embossing; and no inserts can be included.

The Company, as a lender to the legal cannabis industry in Canada, has assessed the cannabis regulatory regime from the perspective of secured debt financing and has noted a gap in the regulatory scheme as it applies to the ability of lenders to secure collateral, including regulated assets and regulatory licenses themselves. In the event of a default, it is currently unclear how or if a lender would be able to realize on its security because it is unclear whether security can be taken in the relevant cannabis licenses themselves, whether cannabis licenses may be transferred in such circumstances, and whether a lender could take possession of regulated collateral. Canadian cannabis regulations are silent on these topics, and accordingly there can be no assurance that a lender in the cannabis industry will be in a position to enforce security in regulated assets or regulatory licenses. The Company continues to monitor market practice and legal developments in this area.

Provincial Regulatory Framework for Recreational Cannabis

The Cannabis Act provides the provinces and territories of Canada with authority to adopt their own laws governing the distribution, sale and consumption of cannabis and cannabis accessory products within the province or territory, permitting, for example, provincial and territorial governments to set lower possession limit for individuals and higher age requirements. Currently each of the Canadian provincial and territorial jurisdictions has established a minimum age of 19 years old, except for Québec and Alberta, where the minimum age is 18.

All Canadian provinces and territories have implemented or announced proposed regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. Provincial/territorial bodies act as intermediaries between entities licensed federally under the Cannabis Act and consumers, such bodies acting in some jurisdictions as exclusive cannabis wholesalers and distributors, and in some instances such bodies acting as exclusive retailers. The laws continue to evolve, and differences in provincial and territorial regulatory frameworks could result in, among other things, increased compliance costs, and increased supply costs.

Municipal and regional governments may also choose to impose additional requirements and regulations on the sale of recreational cannabis, adding further uncertainty and risk to the company's business. Municipal by-laws may restrict the number of recreational cannabis retail outlets that are permitted in a certain geographical area or restrict the geographical locations wherein such retail outlets may be opened.

Activities Outside Canada

The Company does not currently conduct business outside of Canada and has deployed the majority of its deployed capital in Canada. However, the Company has made a loan to Cresco, a multi-state cannabis operator in the United States, and now evaluates lending opportunities in the U.S. cannabis sector.

As a result of the loan to Cresco, the Company may have ancillary "U.S. marijuana-related activity" as defined in Canadian Securities Administrators Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*. The Company is not aware of any non-compliance by Cresco with the state-level cannabis licensing requirements and regulatory frameworks in the states in which Cresco operates.

Marijuana is illegal under U.S. federal law and enforcement of relevant laws is a significant risk.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the "Cole Memo". With the Cole Memo rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis-related violations of U.S. federal law. If the Department of Justice policy was to aggressively pursue financiers of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from borrowers with U.S. marijuana-related activities, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the U.S. *Controlled Substances Act of 1970* for aiding and abetting and conspiring to violate the *Controlled Substances Act of 1970* by virtue of providing financial support to state- licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Company who are not U.S. citizens face the risk of being barred from entry into the United States for life. The Company assesses enforcement risks on an ongoing basis and has sought general legal advice regarding compliance with applicable state regulatory frameworks and potential exposure and implications arising from U.S. federal law.

As a result of these risks, the Company faces significant additional risk that third-party service providers, such as banks and professional advisors, could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the Company's ability to operate in the U.S.

As at the date of this MD&A, the loan to Cresco represents approximately 12% of the Company's loan portfolio.

RISKS AND UNCERTAINTIES

We are subject to various risks that could have a material impact on us, our financial performance, condition and outlook. These risks could cause actual results to differ materially from those expressed or implied in the forward-looking statements included in this MD&A, our Financial Statements and our other reports and documents. These risks include, but are not limited to, the following risks, which are discussed in greater detail under the heading "Risk Factors" in the Company's management information circular filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers:

- Risk of loan defaults;
- The risk that we may not be able to realize the security we take in our loans;
- We may issue additional equity securities;
- The market price of our common shares may be volatile;
- The requirements of being a public issuer may strain our resources;
- No or limited control over cannabis operations of our investees;
- Enforcement of U.S. federal criminal laws regarding cannabis or offences predicated on cannabis offences, such as certain proceeds of crime offences, against us or our borrowers;
- Compliance with laws by us and our investees;
- Changes in laws, regulations and guidelines;
- Business strategy;
- Risks inherent in strategic alliances;
- Risks associated with divestment;
- Competition;
- Dependence upon key management personnel;
- The risks inherent in foreign investments;
- Our limited operating history;
- Our need for liquidity and additional financing;
- Difficulty of forecasting market trends;
- The price of cannabis from time to time;
- Reputational risks;
- Equity price risk associated with our loan bonuses;
- Risks relating to anti-money laundering legislation;
- Unknown defects and impairments;
- Challenging global financial conditions;
- Credit and liquidity risk
- Litigation;
- Cybersecurity risks;
- Social media and other online risks;
- Our dividend policy;
- Our PFIC classification;

- Insurance coverage;
- Fraudulent activity risk;
- Force majeure risk;
- Various conflicts of interest risks;
- Reliance on licences;
- Reliance on investee facilities;
- Governmental regulations;
- Operating risks;
- Competitive conditions;
- Customer acquisitions;
- Constraints on marketing products;
- Risks inherent in an agricultural business;
- Wholesale price volatility;
- Product recalls;
- Product liability;
- Risks related to environmental and employee health and safety regulations;
- Reliance on key inputs;
- Dependence on suppliers and skilled labour;
- Risks relating to intellectual property;
- Vulnerability to rising energy costs;
- Transportation risks; and
- Financial reporting risks.

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.