

Verano Holdings Corp.



MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of Verano Holdings Corp. ("Verano" or, the "Company") is for the three and nine months ended September 30, 2021 and 2020. This MD&A is dated November 16, 2021. It is supplemental to, and should be read in conjunction with, the Company's unaudited condensed interim consolidated financial statements as of September 30, 2021, and the audited consolidated financial statements for the year ended December 31, 2020 and accompanying notes for each respective period. The Company's financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators. It contains "forward-looking statements" and "forward-looking information" as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading "Cautionary Note Regarding Forward-Looking Information." As a result of many factors, the Company's actual results may differ materially from those anticipated in these forward-looking statements and information.

Financial information presented in this MD&A is presented in United States dollars, unless otherwise indicated. All references to "\$" and "US\$" are to United States dollars unless otherwise explicitly specified.

OVERVIEW OF THE COMPANY

The Company is a leading vertically-integrated multi-state cannabis operator in the United States. An operator of licensed cannabis cultivation, processing and retail facilities, the Company's goal is the ongoing development of communal wellness by providing responsible access to regulated cannabis products to the discerning high-end customer. The Company is licensed to operate in 15 U.S. States, with active operations in 11, including 76 active dispensaries and ten production facilities comprising approximately 842,000 square feet of cultivation, with a focus on tightly regulated, limited license markets. The Company produces a suite of premium, artisanal cannabis products sold under its portfolio of consumer brands, including Encore™, Avexia™, MÜV™ and Verano™. The Company designs, builds and operates branded dispensary environments including Zen Leaf™ and MÜV™ that deliver a cannabis shopping experience in both medical and adult-use markets.

All of the Company's business (and balance sheet and operating statement exposure) relates to U.S. cannabis-related activities.

The Company, through its subsidiaries and affiliates, holds, operates, manages, consults, licenses, and/or controls licenses and permits in the States of Arizona, Arkansas, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, Ohio, Pennsylvania and West Virginia. Each State has a unique approach to licenses and vertical integration for cultivation, manufacturing, distribution, and the sale of cannabis.

The Company's strategy is to vertically integrate as a single cohesive company through the consolidation of cultivating, manufacturing, distributing, and dispensing premium brands and products at scale. Verano's cultivation and wholesale distribution of cannabis consumer packaged goods support its national retail dispensary chain operating under the brand names including Zen Leaf™ and MÜV™. This model was developed to guarantee shelf-space in the Company's retail stores and foster long term relationships with its third-party dispensary customers through supply arrangements.

As a vertically-integrated company with a portfolio of brands and products including a proprietary portfolio of over 1,000 product SKUs, Verano manufactures and sells a comprehensive array of premium cannabis products. Verano's products were designed and developed with various consumer segments in mind and include premium flower, concentrates for dabbing and vaporizing, edibles, and topicals. Verano distributes its portfolio of brands to the majority of cannabis retail stores in its active markets, including its own retail outlets.

The Company's strategy is to establish its footprint in such a manner to enable it to adapt to changes in both industry and market conditions seamlessly and profitably. Verano believes that the following have positioned it for growth: Verano's business plan centers around four foundational pillars: cultivation, production, brand creation and retail.

- Diversity in revenue streams positions the Company to respond positively to changes in economics, regulations and healthcare, as well as navigating ever-evolving consumer habits.
- Verano operates and manages the entire vertical cannabis operation and supply chain, from seed to sale.
- Verano's historical approach deliberately focuses on large markets where it aims to be one of the first entrants.
- Based on the U.S. 2020 census, Verano's network encompasses a market of nearly 150 million adult Americans in the States of Arizona, Arkansas, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, Ohio, Pennsylvania, and West Virginia.
- Verano emphasizes developing premium, handcrafted products in controlled quantities. The quality, positive reviews and finite availability elevate Verano's products' market desirability and value.
- Verano grows pesticide-free, meeting testing and State regulatory requirements., Verano adheres to Standard Operating Procedures in all cultivation/manufacturing facilities.
- Verano espouses a customer- and patient-driven business philosophy to deliver value to its downstream customers and consumers.

The United States federal government regulates drugs through the *Controlled Substances Act* (21 U.S.C. § 811) (the "CSA"), which places controlled substances, including cannabis, in a schedule. Cannabis is classified 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. The United States Food and Drug Administration has not approved cannabis as a safe and effective drug for any indication.

In the United States, cannabis is largely regulated at the State level. ***State laws regulating cannabis are in direct conflict with the federal CSA, which makes cannabis use and possession federally illegal.*** Although some States authorize medical and/or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any cannabis-related drug paraphernalia is illegal and any such acts are criminal acts under federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in the case

of conflict between federal and State law, the federal law shall apply. The enforcement of relevant federal laws is a significant risk to the Company's business and its viability.

For further details and risks about the U.S. regulatory environment in which the Company operates please see "U.S. Cannabis Regulatory Environment" and "Risk Factors" in this MD&A, as well as the sections titled "Required Disclosure Pursuant to CSA Staff Notice 51-352" and "Risk Factors" in the Company's Annual Information Form for the Year Ended December 31, 2020, dated April 20, 2021, which was filed on SEDAR on April 22, 2021 and is available at www.sedar.com (the "Company 2020 AIF").

Products, Services and Operations

Verano has two primary operating subsidiaries, Verano Holdings, LLC and Alternative Medical Enterprises LLC ("AltMed"), and conducts its business and operations through various direct and indirect subsidiaries of its two primary operating subsidiaries.

The Company derives its revenues from a balanced contribution of sources through its wholesale cannabis business and national retail dispensaries under brands including Zen Leaf™ and MÜV™. The Company's objective is to support its national retail dispensary chain through its wholesale cannabis consumer packaged goods business (cultivation and manufacturing).

Currently the wholesale and retail channels are vertically-integrated across multiple highly-regulated, limited license (and therefore limited legal supply markets) in Arizona, Florida, Illinois, Maryland, Massachusetts, Nevada, New Jersey, Ohio, Pennsylvania and West Virginia. In addition, Verano has dispensaries, licenses, or interests in several other key markets, including Arkansas, California, Connecticut, Michigan and Missouri. The Company's primary markets, where the Company believes it can reasonably predict and forecast supply and demand, create the foundation upon which Verano has sought to build sustainable profitable growth.

Ownership of both wholesale and retail supports Verano's strategy of distributing brands at scale by enabling the Company to capture market share, generate brand awareness, and earn customer loyalty in its operating markets. The Company plans to continue expansion of its operations by winning merit-based processes or acquiring licenses in limited license markets and increasing its presence in current markets.

Operational Foundation and Current Geographic Markets

Verano currently operates wholesale and retail businesses in Arizona, Florida, Illinois, Maryland, Massachusetts, Nevada, New Jersey, Ohio, Pennsylvania, and West Virginia. Geographic markets where Verano currently has dispensaries, licenses or other commercial interests include Arkansas, California, Connecticut, Michigan, and Missouri. All these markets are subject to State regulations that vary State-by-State and many of these regulations have, from time to time, been modified and amended. In addition, municipalities may individually determine what local permits or licenses are required to operate within their boundaries. The Company actively monitors State and local developments in laws and regulations which may impact the Company's business interests and operations.

Arizona Operations

Subject to State regulations, Arizona currently allows access to cannabis for medical use, and in November 2020 passed legislation legalizing adult-use. The Company's affiliates have licensing or other commercial arrangements with six cannabis licensees in the State of Arizona.

Arkansas Operations

Subject to State regulations, Arkansas currently allows access to cannabis for medical use. The Company's affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with a cannabis dispensary licensee in the state of Arkansas.

California Operations

Subject to State regulations, California currently allows access to cannabis for both medical and adult-use. In February 2019, Verano Holdings LLC entered into an agreement with a holder of cannabis manufacturing and distribution licenses in the state of California, and another party creating a joint venture to extract cannabis oil and manufacture and distribute cannabis products in the state. The joint venture and its affiliated entities control manufacturing and distribution licenses in California.

Connecticut Operations

Subject to State regulations, Connecticut currently allows access to cannabis for medical use. In June 2021, the State passed legislation legalizing adult-use. The Company holds a medical marijuana dispensary facility license under a subsidiary, which operates on medical dispensary.

Florida Operations

Subject to State regulations, Florida currently allows access to cannabis for medical use. The Company holds a license under a subsidiary. This licensee operates a cultivation and manufacturing facility as well as 37 medical cannabis dispensaries across the State of Florida. AltMed also educates patients and potential patients on the Company's products and services through its certifying physicians, community outreach events and ongoing staff education, all of which are supported by a patient care call center with more than 30 staff for direct phone, email and online chat support.

Illinois Operations

Subject to State regulations, Illinois currently allows access to cannabis for both medical and adult-use. A subsidiary of the Company is licensed to operate a cultivation center in the state of Illinois. The cultivation center license permits the licensee to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell medical and adult use cannabis and related supplies to medical and adult-use dispensing organizations. Company affiliates also own and/or operate ten medical and adult-use dispensaries across the State of Illinois.

Maryland Operations

Subject to State regulations, Maryland currently allows access to cannabis for medical use. A subsidiary of the Company is licensed to operate a cultivation facility and a retail medical cannabis dispensary in Maryland. The retail dispensary license permits it to purchase medical cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities and cannabis from other retail stores and allows the sale of cannabis and cannabis products to registered patients. The cultivation license permits the licensee to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell cannabis and related supplies to medical marijuana dispensaries, and medical cannabis cultivation facilities. A subsidiary of the Company also is licensed to operate a processing facility. The processing license permits it to purchase medical cannabis from cultivation facilities, manufacture cannabis products, and sell those products to licensed medical cannabis dispensaries. In

addition, through direct ownership and Management Agreements, the Company's subsidiaries own or manage four dispensaries in Maryland and one processor licensee.

Massachusetts Operations

Subject to State regulations, Massachusetts currently allows access to cannabis for both medical and adult-use. A subsidiary of the Company holds licenses with the Massachusetts Cannabis Control Commission (which regulates Massachusetts' medical and recreational marijuana programs) for medical and adult-use licenses to operate retail dispensaries, cultivation facilities, and manufacturing facilities in Sharon and Plymouth, Massachusetts. This licensee has received approval for dispensary locations in both Sharon and Plymouth.

Michigan Operations

Subject to State regulations, Michigan currently allows access to cannabis for both medical and adult-use. The Company's affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with a cannabis dispensary licensee in the state of Michigan.

Missouri Operations

Subject to State regulations, Missouri currently allows access to cannabis for medical use. An affiliate of the Company holds one dispensary license in the State of Missouri.

Nevada Operations

Subject to State regulations, Nevada currently allows access to cannabis for both medical and adult-use. Company affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with cannabis licensees to operate retail dispensaries, a cultivation facility, and a manufacturing facility in Nevada. On July 26, 2021, the Company also announced that it had entered into an agreement to purchase two additional fully-operational dispensaries in Reno and Carson City as well as a cultivation and production facility in Reno. The closing of this transaction is subject to customary conditions, contingencies, and approvals, including regulatory approval.

New Jersey Operations

Subject to State regulations, New Jersey currently allows access to cannabis for medical use, and in December 2020 passed legislation legalizing adult-use. The Company's affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with an alternative treatment center in the state of New Jersey.

Ohio Operations

Subject to State regulations, Ohio currently allows access to cannabis for medical use. The Company owns and operates, through its wholly-owned subsidiaries, a cultivation facility, and five medical cannabis dispensaries in Cincinnati, Canton, Bowling Green, Dayton, and Newark.

Pennsylvania Operations

Subject to State regulations, Pennsylvania currently allows access to cannabis for medical use. Subsidiaries of the Company are owners and operators of four cannabis dispensary permittees in

Pennsylvania, as well as one grower and processor permit and one clinical registrant permit (which allows for cultivation, processing, and dispensing).

West Virginia Operations

Subject to State regulations, West Virginia currently allows access to cannabis for medical use. The Company's affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with one medical cultivation license, one medical processor license, and seven medical dispensary licenses.

For further details about the regulatory environment for the U.S. States in which the Company operates please see the sections titled "Required Disclosure Pursuant to CSA Staff Notice 51-352 – Regulation of the Cannabis Market at State and Local Levels" in the Company 2020 AIF which was filed on SEDAR on April 22, 2021 and is available at www.sedar.com.

SELECTED FINANCIAL INFORMATION

The following tables present selected financial data derived from the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2021 and 2020. The selected consolidated financial information below may not be indicative of the Company's future performance.

	As of and for the			
	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues, net of discounts	\$ 206,828,467	\$ 64,350,915	\$ 526,430,021	\$ 154,497,924
Cost of Goods Sold	73,459,665	22,635,128	218,305,464	58,639,163
Gross Profit before Biological Asset Adjustment	133,368,802	41,715,787	308,124,557	95,858,761
Net effect of changes in fair value of biological assets	88,803,737	73,286,248	134,734,118	103,032,524
Gross Profit	222,172,539	115,002,035	442,858,675	198,891,285
Total Expenses	36,505,859	11,821,979	123,161,449	26,070,829
Income from Investments in Associates	844,688	646,519	2,292,251	1,769,311
Income From Operations	186,511,368	103,826,575	321,989,477	174,589,767
Other Income (Expense)	(8,512,748)	927,585	(17,222,179)	(6,974,934)
Income Before Provision for Income Taxes and Non-Controlling Interest	177,998,620	104,754,160	304,767,298	167,614,833
Provision for Income Taxes	73,732,666	17,879,454	124,147,352	44,067,735
Net Income Before Non-Controlling Interest	104,265,954	86,874,706	180,619,946	123,547,098
Net Loss From Discontinued Operations	-	(4,884,323)	-	(4,884,323)
Net Income	104,265,954	81,990,383	180,619,946	118,662,775
Net Income Attributable to Non-Controller Interest	550,575	135,488	1,989,821	554,888
Net Income Attributable to Verano Holdings, LLC and Subsidiaries	\$ 103,715,379	\$ 81,854,895	\$ 178,630,125	\$ 118,107,887

	As of	
	September 30, 2021	December 30, 2020
Total Assets	\$ 2,686,956,321	\$ 459,720,360
Total Long-Term Liabilities	\$ 519,530,938	\$ 94,463,800

Three months ended September 30, 2021, compared to three months ended September 30, 2020*Revenue*

Revenue for the three months ended September 30, 2021, was \$206,828,467, an increase of \$142,477,552 or 221% compared to revenue of \$64,350,915 for the three months ended September 30, 2020. The increase was primarily driven by retail expansion in the Florida, Illinois and Pennsylvania markets. In addition, production output and sales of flower expanded in the Illinois, New Jersey, and Maryland markets.

Cost of Goods Sold and Biological Assets

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates.

Cost of goods sold, excluding any adjustments to the fair value of biological assets for the three months ended September 30, 2021, was \$73,459,665, an increase of \$50,824,537 or 225% compared to the three months ended September 30, 2020. This increase was driven by an increase in production costs of cannabis as well as the increase in sales. The cost of goods sold as a percentage of net revenues was 36% and 35% for the three months ended September 30, 2021 and 2020, respectively.

Inventory of plants under production is considered a biological asset. Under IFRS, biological assets are to be recorded at fair value at the time of harvest, less costs to sell, which are transferred to inventory and the transfer becomes the deemed cost on a go-forward basis. When the product is sold, the fair value is relieved from inventory and the transfer is booked to cost of sales. In addition, the cost of sales also includes products and costs related to other products acquired from other producers and sold by the Company.

Biological asset transformation totaled a net gain of \$88,803,737 for the three months ended September 30, 2021, an increase of \$15,517,489 or 21% compared to the three months ended September 30, 2020. The increase was primarily driven by the first quarter 2021 acquisitions of the AltMed cultivation facilities in Arizona and Florida, the third quarter 2021 acquisition of the Agri-Kind cultivation facility in Pennsylvania and continued expansion at existing facilities.

Gross Profit

Gross profit before biological asset adjustments for the three months ended September 30, 2021 was \$133,368,802, representing a gross margin on the sale of cannabis, cannabis extractions and edibles, and from related accessories of 64%. This compared to gross profit before biological asset adjustments for the three months ended September 30, 2020 of \$41,715,787, which represented a 65% gross margin.

Gross profit after net gains on biological asset transformation for the three months ended September 30, 2021 was \$222,172,539, representing a gross margin of 107% compared with gross profit after net gains on biological asset transformation of \$115,002,035 or 179% gross margin for the three months ended September 30, 2020. The increase in gross profit margin is primarily due to top-line growth catalyzed by strong market growth in Illinois and Florida and continued expansion into the Arizona and Pennsylvania markets.

Total Expenses

Total expenses for the three months ended September 30, 2021 was \$36,505,859, an increase of \$24,683,880 or 209%, compared to total expenses of \$11,821,979 for the three months ended September 30, 2020. Total expenses as a percentage of net revenue was 18% for both three months ended September 30, 2021, and 2020. The increase is driven by a \$22,115,128 or 700% increase in salaries and benefits.

The Company expects to continue to invest organically and in new markets to support expansion plans and adapt to the increasing complexity of the cannabis business. Furthermore, the Company expects to incur acquisition and transaction costs related to expansion.

Total Other Income (Expense)

Total other expense for the three months ended September 30, 2021 was \$8,512,748, an increase of \$9,440,333 or 1,018% compared to income of \$927,585 realized for the three months ended September 30, 2020. The increase in expense is primarily due to an increase in interest expense related to the \$100 million additional term under the Company's credit facility that occurred in May 2021. Furthermore, in the three months ended September 30, 2020, the Company recognized a \$6,778,510 gain on a derivative liability.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the three months ended September 30, 2021 provision for income taxes totaled \$73,732,666 compared to \$17,879,454 for the prior three months ended September 30, 2020. The increase in income tax expense was primarily driven by the decrease in taxable income in the third quarter of 2021 compared to September 30, 2020.

Nine months ended September 30, 2021, compared to nine months ended September 30, 2020*Revenue*

Revenue for the nine months ended September 30, 2021 was \$526,430,021, an increase of \$371,932,097 or 241% compared to revenue of \$154,497,924 from the nine months ended September 30, 2020. The increase was primarily driven by retail expansion in the Illinois markets, along with the acquisitions and expansion in the Florida, Arizona and Pennsylvania markets, comprised of Territory, TerraVida Holistic Centers, The Healing Center and Agri-Kind. In addition, production output and sales of flower expanded in the Illinois, New Jersey, and Maryland markets.

Cost of Goods Sold and Biological Assets

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates.

Cost of goods sold, excluding any adjustments to the fair value of biological assets, for the nine months ended September 30, 2021, was \$218,305,464, an increase of \$159,666,301 or 272% from the nine months ended September 30, 2020. This increase was driven by the increase in sales as cost of goods sold as percentage of net revenues decreased slightly from 62% to 59%. Additionally, the cost of goods

sold increased due to the requirement under IFRS 3, *Business Combinations* to report inventory acquired in business combinations at fair value. In accordance with guidance, the Company initially measured the inventory of its acquisitions at selling price, less cost to sell. The step-up to adjust inventory to fair value was expensed through cost of goods sold.

Inventory of plants under production is considered a biological asset. Under IFRS, biological assets are to be recorded at fair value at the time of harvest, less costs to sell, which are transferred to inventory and the transfer becomes the deemed cost on a go-forward basis. When the product is sold, the fair value is relieved from inventory and the transfer is recorded to cost of sales. In addition, the cost of sales also includes products and costs related to other products acquired from other producers and sold by the Company.

Biological asset transformation totaled a net gain of \$134,734,118 for the nine months ended September 30, 2021, an increase of \$31,701,594 or 31% from the prior the nine months ended September 30, 2020. The increase was primarily driven by the AME merger in February 2021 and continued expansion at existing cultivation facilities.

Gross Profit

Gross profit before biological asset adjustments for the nine months ended September 30, 2021, was \$308,124,557, representing a gross margin on the sale of cannabis, cannabis extractions and edibles and from related accessories of 59%. This is compared to gross profit before biological asset adjustments for the nine months ended September 30, 2020, of \$95,858,761, which represented a 62% gross margin.

Gross profit after net gains on biological asset transformation for the nine months ended September 30, 2021, was \$442,858,675, representing a gross margin of 84%, compared with gross profit after net gains on biological asset transformation of \$198,891,285, or 129% gross margin for the nine months ended September 30, 2020, which includes sales from both wholesale and retail. The increase in gross profit is primarily due to top-line growth catalyzed by strong market growth in Illinois, Florida and entrances into new markets. The 45% decrease in the gross profit margin is primarily due to the inventory step-ups related to the 2021 acquisitions that were expensed through the cost of goods sold and the net impact of biologicals, which was 26% and 67% as percentage of net revenues for the periods ended September 30, 2021, and 2020, respectively.

Total Expenses

Total expenses for the nine months ended September 30, 2021, were \$123,161,449, an increase of \$97,090,620 or 372%, compared to total expenses of \$26,070,829 for the nine months ended September 30, 2020. Total expenses as a percentage of revenue was 23% and 17% for the nine months ended September 30, 2021, and 2020, respectively. The increase was primarily due to a \$37,315,678 or 253% increase in general and administrative costs and a \$44,763,464 or 508% increase in salaries and benefits, which was driven by an increase in earnout-related expenses, acquisition expenses and other one-time transaction expenses, start-up costs in new markets, and expanded headcount in the Company's primary operating markets.

The Company expects to continue to invest organically and in new markets to support expansion plans and adapt to the increasing complexity of the cannabis business. Furthermore, the Company expects to incur acquisition and transaction costs related to expansion.

Total Other Expense

Total other expense for the year nine months September 30, 2021, was \$17,222,179, an increase of \$10,247,245 or 147% compared to \$6,974,934 for the nine months ended September 30, 2020. The increase was primarily due to an increase in interest expense driven by the \$100 million upsize that occurred in May 2021. Furthermore, in the nine months ended September 30, 2020, the Company recognized a \$6,778,510 gain on a derivative liability.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the nine months ended September 30, 2021, provision for income taxes totaled \$124,147,352, an increase of \$80,079,617 or 182% compared to \$44,067,735 for the prior the nine months ended September 30, 2020. The increase in income tax expense was driven by a \$137,152,465 increase in taxable income.

Drivers of Operational Performance*Revenue*

The Company derives its revenue from both wholesale and retail in which it manufactures, sells and distributes cannabis products to third-party retail customers, and from direct sales to retail patients and consumers. For the nine months ended September 30, 2021, approximately 77% of revenue was generated from the retail and approximately 23% from wholesale. For the nine months ended September 30, 2020, approximately 66% of revenue was generated from wholesale and approximately 34% from retail. This change in mix was largely driven by the Company's Florida operations, which are treated exclusively as retail income due to the vertical nature of the business. The change was also driven by additional retail store openings in addition to the retail locations obtained through acquisitions entered into during the second half of 2020 and the first nine months of 2021.

Gross Profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles, and concentrates, as well as packaging and other supplies, fees for services and processing, rent, utilities, and related costs. Cannabis costs are affected by various State regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes. Gross margin measures the Company's gross profit as a percentage of net revenue.

The Company's expansion strategy and revenue growth have taken priority and will continue to do so for the foreseeable future as it expands its footprint within current markets through acquisitions and scales production in new markets. In the core markets in which the Company is already operational, it does not expect price compression in the near-term. However, as the State markets mature, the Company anticipates that there will be pressure on margins in the wholesale and retail channels. Although, the Company's current production capacity has not been fully realized and it is expected that price compression at the wholesale level will be more than offset by increased production volume. As a result, the Company expects overall consolidated gross margins (before the adjustment for the unrealized gain or loss in the fair value of biological assets) to increase in the near-term future.

Total Expenses

Total expenses other than the cost of goods sold consist of selling costs to support customer relationships and to deliver product to the Company's retail stores. It also includes a significant investment in the corporate infrastructure required to support ongoing business.

Selling costs generally correlate to revenue. As a percentage of sales, selling costs are expected to increase slightly in currently operational markets (Illinois, Florida, Arizona, Maryland, Nevada, Ohio, Pennsylvania, and New Jersey) as facility and market expansion occurs. The increase is expected to be driven primarily by the growth of the Company's retail and wholesale channels and the ramp-up from pre-revenue to sustainable market share. This also includes new market start-up costs in Massachusetts and West Virginia.

General and administrative expenses represent costs incurred at the Company's corporate offices, primarily related to personnel costs, including salaries, benefits, earn-out compensation, and other professional service costs, including legal and accounting. Going forward, G&A expenses are expected to continue in line with the Company's expansion plans; the Company anticipates an increase in compensation expense related to recruiting and hiring talent, and an increase in accounting, legal and professional fees associated with being a publicly traded company.

Provision for Income Taxes

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the sale of products. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2021, the Company had total current liabilities of \$466,672,135 and cash and cash equivalents of \$56,937,196 compared to December 30, 2020, which had current liabilities of \$122,524,484 and cash and cash equivalents of \$16,494,365 to meet its current obligations. As of September 30, 2021, the Company had working capital of \$162,431,091 compared to \$80,499,032 as of December 31, 2020. The significant increase in working capital is due to the increases in cash, inventory and biological assets driven by market expansion and accretive acquisitions made in Illinois, Arizona, Florida and Pennsylvania, and the Company's \$100 million additional term debt under its credit facility that occurred in May 2021 partially offset by significant increases in income taxes and the acquisition price payable balance.

The Company intends to generate adequate cash to fund its business operations. However, the Company's business plan includes aggressive growth, both in the form of additional acquisitions and through facility expansion and improvements. Initiatives in U.S. markets outside of those already within the Company's platform are expected in the coming months. The Company will continue to use free cash flow to fund the expected growth, along with assessing the debt and capital markets as needed.

The Company is a high-growth organization in a rapidly expanding market. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional

revenues and earnings over both the immediate and long term. Capital reserves are being utilized for acquisitions, capital expenditures, and expansion in existing facilities.

Cash Flows

Cash Flow from Operating Activities

Net cash provided by operating activities was \$131,547,913 for the nine months ended September 30, 2021, an increase of \$79,255,286 or 152%, compared to cash provided of \$52,292,627 million for the nine months ended September 30, 2020. The increase in net cash provided in operating activities was primarily due to an increased operational footprint from the prior year.

Cash Flow from Investing Activities

Net cash used in investing activities was \$312,643,895 for the nine months ended September 30, 2021, an increase of \$277,479,834 compared to \$44,164,061 for the nine months ended September 30, 2020. The increase in net cash used in investing activities was primarily due to an increase in purchases of property, plant and equipment and the acquisition of businesses.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$230,538,813 for the nine months ended September 30, 2021, an increase of \$209,972,495 compared to \$20,566,318 for the nine months ended September 30, 2020. The increase in net cash provided in financing activities was due to the proceeds from the reverse take-over financing, cash received in warrant private placement, and the additional \$100 million term loan under the Company's credit facility that occurred in May 2021.

Contractual Obligations

The Company's contractual obligations primarily consist of lease liabilities related to real estate used for dispensaries as well as promissory and convertible notes to fund business activity such as acquisitions and capital expenditures.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and after
Long Term Debt	\$167,899,523	\$618,879	\$161,435,784	\$1,801,843	\$4,043,017
Capital Lease Obligations	Nil	Nil	Nil	Nil	Nil
Operating Leases	\$73,708,507	\$2,598,053	\$19,967,852	\$16,904,142	\$34,238,460
Purchase Obligations ¹	Nil	Nil	Nil	Nil	Nil
Other Long Term Obligations ²	Nil	Nil	Nil	Nil	Nil
Total Contractual Obligations	\$241,608,030	\$3,216,932	\$181,403,636	\$18,705,985	\$38,281,477

Notes:

¹ "Purchase Obligations" means an agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price considerations; and the approximate timing of the transaction.

² "Other Long-Term Obligations" means other long-term liabilities reflected on the Company's balance sheet, excluding deferred income taxes.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

On September 30, 2021 and 2020, amounts due to and from related parties consisted of the following:

Due from Related Parties

As of September 30, 2021 and December 31, 2020, amounts due from related parties were comprised of balances due from investors of \$0 and \$108,254, respectively. These amounts are due on demand and did not have formal contractual agreements governing payment terms or interest. Other related party transactions are described through these unaudited condensed interim consolidated financial statements.

Due to Related Parties

As of September 30, 2021 and December 31, 2020, amounts due to related parties were comprised of advances to investors payable totaling \$0 and \$44,664, respectively. Advances did not have formal contractual agreements governing payment terms or interest.

Transactions for the Nine Month Period Ending September 30, 2021

RTO, Financing, and Commencement of Trading

On December 14, 2020, Verano Holdings, LLC, Majesta Minerals, Inc., an Alberta corporation (the “Public Corporation”), 1276268 B.C. Ltd., a British Columbia corporation (“**Verano FinCo**”), 1277233 B.C. Ltd, a British Columbia corporation, and 1278655 B.C. Ltd., a British Columbia corporation (“**Majesta**”), entered into an arrangement agreement (as amended January 26, 2021, the “Definitive Agreement”), pursuant to which the Company would result from the reverse takeover transaction contemplated thereby (the “**RTO**”).

In accordance with the plan of arrangement forming part of the Definitive Agreement (the “**Plan of Arrangement**”), the Public Corporation changed its name to “Verano Holdings Corp.” and completed a consolidation of its common shares on the basis of 100,000 issued and outstanding common shares on a post-consolidation basis.

In accordance with the terms of the RTO Financing, 10,000,000 subscription receipts (the “**Subscription Receipts**”) were issued on January 21, 2021, at a price per Subscription Receipt of \$10, for aggregate gross proceeds of \$100,000,000. In connection with the Financing and the RTO, the Company issued 578,354 Subordinate Voting Shares and \$4,579,883 in transactions costs to the offering agents as a broker fee.

The Public Corporation reorganized capital by altering its notice of articles and articles to (i) attach special rights and restrictions to its common shares, (ii) change the identifying name of its common shares to “Subordinate Voting Shares” (the “**Subordinate Voting Shares**”) and (iii) create a new class of Proportionate Voting Shares (the “**Proportionate Voting Shares**”). Pursuant to the Plan of Arrangement, thereafter Verano Finco amalgamated with Majesta Subco. Majesta Subco was then liquidated, and the net proceeds of the Financing transferred to the Company, as the resulting corporation in the RTO.

The RTO holders of Verano Finco Shares received one Subordinate Voting Share for a total of 10,000,000 Subordinate Voting Shares in the aggregate. The members of Verano Holdings LLC, and owners of certain of its subsidiaries, through a series of transactions, exchanged their ownership interests in Verano Holdings LLC and such subsidiaries for 96,892,040 Subordinate Voting Shares and 1,172,382 Proportionate Voting Shares.

In accordance with IFRS 3, Business Combinations, the substance of the transaction is a reverse takeover of a nonoperating company. The transaction does not constitute a business combination as Majesta does not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with Verano Holdings, LLC being identified as the acquirer and the equity consideration being measured at fair value. The resulting consolidated statement of financial position is presented as a continuance of Verano Holdings, LLC and comparative figures presented in the consolidated financial statements prior to the reverse takeover are those of Verano Holdings, LLC.

IFRS 2, Share-based Payment, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Because Verano Holdings, LLC issued shares with a value in excess of the assets received, the difference is recognized in profit or loss as a transaction cost in Other Expense, Net. The amount assigned to the transaction cost of \$1,198,027 is the difference between the fair value of the consideration and the net identifiable assets of Majesta acquired by Verano Holdings, LLC.

AME Merger Agreement

On November 6, 2020, Verano Holdings LLC entered into an agreement and plan of merger (as amended on December 14, 2020 and February 5, 2021, the “**AME Merger Agreement**”) with Alternative Medical Enterprises LLC, Plants of Ruskin GPS, LLC and RVC 360, LLC (collectively, the “**AME Parties**”), pursuant to which the Company, as the assignee of all of Verano Holdings LLC’s rights and obligations thereunder, would acquire the AME Parties and their subsidiaries via a series of merger transactions. The merger transactions were contingent upon, and were to close contemporaneously with, the RTO, resulting in the creation of the Company as a Canadian publicly-traded parent company of Verano Holdings LLC, the AME Parties and their respective subsidiaries.

The merger transactions with the AME Parties each closed on February 11, 2021 simultaneously with the RTO. The members of the AME Parties, through a series of transactions, exchanged their membership interests in the AME Parties for an aggregate of 18,092,987 Subordinate Voting Shares and 470,984 Proportionate Voting Shares, plus cash consideration of \$35 million, of which \$20 million was paid at the closing of the mergers, \$10 million was paid on August 11, 2021, and the \$5 million balance is payable on February 11, 2022.

Acquisitions and Dispositions

The Company is an early-stage growth company and acquisitions of cannabis businesses and related licenses and assets is an important part of the Company’s growth strategy. In 2021, the Company and its subsidiaries entered into a number of strategic transactions, thereby expanding its footprint across the United States. In addition, dispositions of cannabis related businesses and related licenses may be opportunistic and align with the Company’s strategic goals, including in 2021.

Glass City Alternatives, LLC

In January 2021, the Company entered into agreement to acquire, upon the satisfaction of certain conditions precedent, all of the ownership interest of an owner of one dispensary located in Ohio. The total purchase price was \$2,700,000 plus a \$329,345 purchase price adjustment. The Company paid \$500,000 in shares upon execution of the RTO. As of September 30, 2021, the present value of unpaid deferred consideration of \$1,081,915 is included in the acquisition price payable balance in the consolidated statement of financial position and is due in January 2022.

Perpetual Healthcare Inc.

On February 24, 2021, the Company entered into an agreement pursuant to which Perpetual Healthcare Inc. (“**PHI**”) transferred the management and governance of PHI, which operates the Emerald Dispensary in Phoenix, Arizona. The transaction closed on March 10, 2021. Total consideration includes cash consideration of \$11,250,000 plus a \$326,426 purchase price adjustment, 541,994 Subordinate Voting Shares. The remaining \$6,175,342 obligation was settled through the issuance of 350,644 Subordinate Voting Shares. As of September 30, 2021, the total consideration had been paid in full.

The Herbal Care Center, Inc.

On February 24, 2021, the Company entered into an agreement to acquire The Herbal Care Center, Inc. (“**The Herbal Care Center**”). The transaction closed on March 17, 2021. Total consideration includes cash consideration of \$18,750,000, payable over 12 months, plus a \$2,107,499 purchase price adjustment, and 90,464 Subordinate Voting Shares and 9,625 Proportionate Voting Shares, equivalent

to 962,461 Subordinate Voting Shares on an-as converted basis. As of September 30, 2021, the present value of unpaid deferred consideration of \$10,743,251 is included in the acquisition price payable balance in the consolidated statement of financial position with 50% due in October 2021 and January 2022.

NSE Holdings, LLC

On February 24, 2021, a subsidiary of the Company entered into an agreement pursuant to which it acquired all the equity interests of a licensee that holds one dispensary permit in Pennsylvania, which gives the subsidiary of the Company the ability to open three dispensaries. The transaction closed on March 9, 2021. Pursuant to the agreement, the Company paid cash consideration of \$7,350,000 upon closing and issued 666,587 Subordinate Voting Shares and Proportionate Voting Shares equivalent to 666,586 Subordinate Voting Shares on an as-converted basis. The Company analyzed the transaction and recorded the transaction as an asset acquisition. The Company capitalized licenses in the amount of \$55,015,651. As of September 30, 2021, the present value of unpaid deferred consideration is \$25,550,049 and is included in the acquisition price payable balance in the consolidated statement of financial position. The unpaid consideration is related to earnouts due in July 2022, 2023, and 2024 and is expected to be settled in share issuances.

Local Joint

On March 22, 2021, an affiliate of the Company entered into an asset purchase agreement with Flower Launch LLC, the manager of Patient Alternative Relief Center, Inc., d/b/a Local Joint, an Arizona nonprofit corporation (“**PARC**”), which holds a dispensary license, an authorization to operate a second dispensary, and an authorization to operate an offsite cultivation facility, all in the State of Arizona. The transaction closed on March 30, 2021. Total consideration includes cash consideration of \$13,500,000, with \$10,000,000 paid on the closing date and \$3,500,000 payable within 120 days after the closing date, plus 179,767 Subordinate Voting Shares. As of September 30, 2021, the present value of unpaid deferred consideration of \$3,603,510 is included in the acquisition price payable balance in the consolidated statement of financial position and is due in July 2021.

Territory Dispensary

On February 24, 2021, the Company entered into an agreement to acquire three active dispensaries and one cultivation and production facility from NZCO LLC, Murff & Company LLC, JWC1 LLC, Hu Commercial Properties LLC and BISHCO LLC (collectively, “**Territory**”). The transaction closed April 8, 2021. Total consideration includes \$19,735,684 paid upon closing, subject to a purchase price adjustment, 997,453 Subordinate Voting Shares and 29,924 Proportionate Voting Shares, equivalent to 2,992,413 Subordinate Voting Shares on an-as converted basis. The remaining consideration is related to contingent consideration with 50% payable in cash on March 31, 2022, and the remaining payable in shares or in cash at the election of the recipient on March 31, 2023. As of September 30, 2021, the present value of unpaid deferred consideration of \$19,387,275 is included in the acquisition price payable balance in the consolidated statement of financial position.

TerraVida Holistic Centers, LLC

On February 24, 2021, subsidiaries of the Company entered into an to acquire three active Pennsylvania dispensaries. The transaction closed May 11, 2021. Total consideration includes cash consideration of \$62,500,000, subject to a purchase price adjustment, of which \$15,000,000 plus a purchase price adjustment of \$3,795,515 was paid on the closing date, with \$10,000,000 payable within 90 days after

closing, and the remaining \$37,500,000 payable within 180 days after the closing date. In addition, the consideration includes 1,506,750 Subordinate Voting Shares and 15,067 Proportionate Voting Shares, equivalent to 1,506,750 Subordinate Voting Shares on an as converted basis. As of September 30, 2021, the present value of unpaid deferred consideration of \$47,140,827 is included in the acquisition price payable balance in the consolidated statement of financial position.

The Healing Center, LLC

On March 29, 2021, the Company entered into an agreement to acquire three active dispensaries in Pittsburgh by purchasing all the issued and outstanding equity interests of The Healing Center, LLC (“**The Healing Center**”). The transaction closed on May 14, 2021. Total consideration includes cash consideration of \$56,892,320, plus a \$2,354,886 purchase price adjustment, of which \$31,463,479 was paid upon closing with \$25,428,841 payable within 60 days after the closing date. In addition, the merger consideration included 454,302 Subordinate Voting Shares and 25,744 Proportionate Voting Shares equivalent to 2,574,375 Subordinate Voting Shares on an as converted basis. As of September 30, 2021, the present value of unpaid deferred consideration of \$27,678,623 is included in the acquisition price payable balance in the consolidated statement of financial position.

Ohio Grow Therapies, LLC

On September 30, 2021, a subsidiary of the Company entered into a letter agreement to acknowledge final closing pursuant to an option purchase agreement entered into on January 14, 2019, which would allow the Company to operate one dispensary located in Newark, Ohio. The final closing had no impact on operations as the Company already exerted control over the dispensary through a consulting agreement entered into in 2019. The Company capitalized the license in the amount of \$760,000 to the intangible license value included on the consolidated statement of financial position.

Mad River Remedies, LLC

On April 1, 2021, the Company announced it had entered into an agreement to acquire Mad River Remedies, LLC, a dispensary of medical marijuana in Dayton, Ohio. The transaction closed on July 8, 2021. Total consideration includes cash consideration of \$12,000,000 (subject to adjustment) of which \$10,000,000 was paid at closing and \$2,000,000 was placed in escrow subject to release upon certain conditions. In addition, the merger consideration included 488,861 Subordinate Voting Shares.

Agri-Kind, LLC, and Agronomed Holdings Inc.

On April 21, 2021, the Company entered into an agreement to acquire all of the equity interests in both Agri-Kind, LLC (“**Agri-Kind**”), an operator of a 62,000 square foot cultivation and production facility of medical marijuana located in Chester, Pennsylvania, and Agronomed Holdings Inc., the owner of the cultivation and processing facility operated by Agri-Kind. These transactions closed on July 12, 2021. The total consideration includes cash consideration of \$66,000,000, the issuance of 3,208,035 Subordinate Voting Shares and an earnout of \$31,500,000, which may be increased based upon financial performance metrics of Agri-Kind for 2021. The earnout is payable in Subordinate Voting Shares, unless cash payment is elected by the recipient.

Agronomed Biologics, LLC

On April 21, 2021, the Company entered into an agreement to acquire all of the equity interests in Agronomed Biologics, LLC (“**Agronomed**”), which holds a clinical registrant license (including cultivation and production and six dispensaries, to be developed) in Pennsylvania. As a clinical registrant, Agronomed has partnered with the Drexel University College of Medicine to conduct medical marijuana research. This transaction closed on July 12, 2021. The total consideration includes cash consideration of \$10,000,000, 3,240,436 Subordinate Voting Shares and an earnout of \$15,000,000, which is payable in Subordinate Voting Shares unless cash payment is elected by the recipient.

Agronomed Biologics, LLC

On April 21, 2021, the Company entered into an agreement to acquire all of the issued and outstanding equity interests in Agronomed Holdings Inc. (“**AHI**”), the owner of a 62,000 sq. ft. cultivation and production facility of medical marijuana located in Chester, Pennsylvania operated by Agri-Kind, LLC (“**Agri-Kind**”). This transaction closed in conjunction with Agri-Kind on July 12, 2021. The Company recognized the transaction as an asset acquisition. The total consideration for AHI includes cash consideration of \$10,000,000, subject to a purchase price adjustment. As of September 30, 2021, the present value of unpaid deferred consideration of \$5,454,545 is included in the acquisition price payable balance in the consolidated statement of financial position and is payable in October 2021.

THC Real Estate

On May 14, 2021, Verano acquired The Healing Center (“**THC**”) that is comprised of three dispensaries in the greater Pittsburgh area. THC leased the dispensaries from three separate real estate entities. On September 3, 2021, Verano closed on the acquisition of the three real estate properties and funded the acquisition through term debt of \$12,650,000. Total consideration was paid directly to the sellers in the amount of \$12,224,996. The Company received \$19,637 in cash proceeds and incurred \$405,367 in issuance costs and debt discounts on the new debt facility, which was paid net of proceeds upon closing. The Company amortizes debt issuance costs through interest expense over the life of the credit agreement. As of September 30, 2021, the full principal balance remains unpaid and is included the notes payable balance in the consolidated statement of financial position.

WSCC, Inc.

On July 26, 2021, the Company announced it had entered into an agreement to acquire all of the equity interests in WSCC, Inc., a Nevada corporation doing business as Sierra Well. The total consideration is \$29,000,000, which is payable in a combination of cash and Subordinate Voting Shares. Closing of the acquisition is subject to customary conditions, contingencies, and approvals, including regulatory approval.

Notes Payable

The Company held a convertible note dated November 25, 2019, with an outstanding balance of \$3,709,425 at December 31, 2020, that was repaid in full in February 2021.

The two promissory notes which have convertible features, with an outstanding balance at December 31, 2020, of \$3,412,500 are collateralized by the note holders’ units in in a California joint venture of

which the Company has an interest. All obligations under the notes were repaid in full in February 2021.

The promissory note dated July 2, 2020, in the original amount of \$350,000; maturing in September 2021; with interest due at 5% per annum in the event of a default. All obligations under the note were repaid in May 2021.

Credit Agreement

On May 10, 2021, the Company and certain of its subsidiaries and affiliates (collectively, the “**Credit Parties**”) entered into an amended and restated credit agreement with the agents and the lenders named therein (as subsequently amended, the “**Credit Agreement**”), pursuant to which an additional \$100,000,000 was funded to the Company resulting in a total of \$130,000,000 in term loan commitments being funded and outstanding under the Credit Agreement. The senior secured term loans were subject to the following restrictive financial covenants, which are calculated on a consolidated basis:

- Minimum liquidity, at any time, of 20% of the aggregate outstanding principal loan amount of \$130,000,000 (or \$26,000,000)
- Minimum consolidated EBITDA for any fiscal quarter of \$20,000,000; and
- Fixed charge coverage ratio of 1.5 to 1.0 measured at the end of each fiscal quarter

During September 2021, the Company was in discussions with the agents and lenders to amend the Credit Agreement to receive additional funding. On September 28, 2021, the Company entered a waiver and extension letter to waive the minimum liquidity covenant beginning September 15, 2021, until the date on which the Credit Agreement was amended to increase the loan commitments thereunder.

Private Placement

On March 11, 2021, the Company closed an offering on a bought deal private placement basis of 3,510,000 special warrants of the Company (the “**Special Warrants**”) at a price per Special Warrant of C\$28.50 for aggregate gross proceeds of C\$100,035,00 pursuant to an agreement with Beacon Securities Limited and Canaccord Genuity Corp., on behalf of a syndicate of underwriters pursuant to which the underwriters purchased the Special Warrants. All Special Warrants were exercised in full on September 24, 2021 and are no longer outstanding.

Subsequent Transactions

Subsequent to the third quarter ending September 30, 2021, the Company entered into strategic transactions in advancement of its goals and business objectives.

Credit Agreement

On October 20, 2021, the Credit Parties entered into an amendment to the Credit Agreement with the agents and the lenders named therein (the Credit Agreement as amended, the “**Amended Credit Agreement**”), pursuant to which an additional \$120,000,000 was funded to the Company resulting in a total of \$250,000,000 in term loan commitments being fully funded and outstanding under the Amended Credit Agreement. In addition, the Amended Credit Agreement provides for an option for an additional \$100,000,000 in term loans to be funded in the future, subject to conditions.

The Amended Credit Agreement provides for, among other things, (i) the term loans thereunder being secured by liens on certain assets of the Credit Parties, including specified real estate, (ii) the original \$30,000,000 loan bearing interest at a rate of 15.25% per annum, the first incremental \$100,000,000 loan bearing interest at a rate of 9.75% per annum and the second incremental \$120,000,000 loan and the optional \$100,000,000 additional loan bearing interest at a rate of 8.50% per annum; (iii) no principal amortization with the tranches having 18 month maturity dates; (iv) prepayment fees generally of 1% of any principal amount being prepaid; (v) restrictive covenants which apply to the operations of the Company and its subsidiaries, including limitations on the ability to incur additional debt, limitations on the granting of liens and the terms of permitted acquisitions; and (vi) financial covenants requiring the Company to maintain on a consolidated basis specified levels of liquidity, a minimum quarterly amount of earnings before interest, taxes, depreciation and amortization and a minimum fixed charge coverage ratio as defined below:

- Minimum liquidity to average \$20,000,000 during any fiscal quarter or to be \$25,000,000 at the end of each fiscal quarter;
- Minimum consolidated EBITDA for any fiscal quarter of \$20,000,000; and
- Fixed charge coverage ratio of 1.5 to 1.0 measured at the end of each fiscal quarter

Acquisitions and Dispositions

Willow Brook Wellness, LLC

On September 13, 2021, the Company announced it had entered into a definitive agreement to acquire all of the issued and outstanding equity interests in Willow Brook Wellness, LLC, a Connecticut limited liability company, which operates a dispensary in Connecticut. The total consideration was \$22,000,000, which was payable in a combination of cash, including via a promissory note, and Subordinate Voting Shares. The transaction closed October 25, 2021.

Caring Nature, LLC

On November 10, 2021, the Company announced it had entered into an agreement to acquire all of the issued and outstanding equity interests in Caring Nature LLC, a Connecticut limited liability company, which operates a dispensary in Connecticut. The total consideration is \$24,000,000, which is payable in a combination of cash and Subordinate Voting Shares. Closing of the acquisition is subject to customary conditions, contingencies, and approvals, including regulatory approval.

Connecticut Pharmaceutical Solutions, Inc.

On November 10, 2021, the Company announced it had entered into an agreement to acquire all of the issued and outstanding equity interests in Connecticut Pharmaceutical Solutions, Inc., a Delaware corporation, which holds a medical marijuana producer license in Connecticut. The total consideration is \$131,750,000 plus potential earnouts, which is payable in Subordinate Voting Shares. Closing of the acquisition is subject to customary conditions, contingencies, and approvals, including regulatory approval.

ILDISP, LLC

On October 13, 2021, the Issuer and a subsidiary entered into an agreement pursuant to which such subsidiary agreed to sell its 50% ownership interest in ILDISP, LLC in exchange for a combination

of cash and stock. Closing of the sale is subject to customary conditions, contingencies and approvals, including regulatory approval.

Other than as described in this MD&A, currently there are no proposed acquisitions, dispositions or other transactions of a material nature that the Company's senior management or board of directors believes is probable. The Company will continue to evaluate and pursue opportunities to advance its strategic goals and business objectives.

Changes in or Adoption of Accounting Practices

Refer to the discussion of recently adopted/issued accounting pronouncements, Notes to Condensed Interim Consolidated Financial Statements (Unaudited), Note 2 — Basis of Presentation.

SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS, AND ASSUMPTIONS

There were no material changes to our critical accounting policies and estimates from the information provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Company 2020 AIF which was filed on SEDAR on April 22, 2021 and is available at www.sedar.com and the Company's March 31, 2021 unaudited condensed interim consolidated financial statements filed on SEDAR on May 18, 2021 available at www.sedar.com.

U.S. CANNABIS REGULATORY ENVIRONMENT

In accordance with Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*, below is a discussion of the current federal U.S. regulatory regime. For further details and risks about the State and local level U.S. regulatory environment in the jurisdictions where the Company was directly and indirectly involved in the cannabis industry, through its subsidiaries and investments, as of November 16, 2021 please see the "Company Overview" and "Risk Factors" sections in this MD&A, as well as the sections titled "Required Disclosure Pursuant to CSA Staff Notice 51-352" and "Risk Factors" in the Company 2020 AIF which was filed on SEDAR on April 22, 2021 and is available at www.sedar.com.

Cannabis, other than hemp, remains illegal under federal law, and therefore any change in federal enforcement could have material adverse impact on the business, financial condition or results of operations of the Company.

All but three U.S. states have legalized, to some extent, cannabis for medical purposes. Thirty-seven states, the District of Columbia, Puerto Rico and Guam have legalized some form of whole-plant cannabis cultivation, sales and use for specified medical purposes. Eighteen of those states and the District of Columbia and Northern Mariana have also legalized cannabis for adults for non-medical purposes (sometimes referred to as adult-use or recreational use). Ten additional states have legalized low-tetrahydrocannabinol ("THC")/high-cannabidiol ("CBD") extracts for select medical conditions.

Under U.S. federal law, however, those activities are illegal. Cannabis, other than hemp (defined by the U.S. government as *Cannabis sativa* L. with a THC concentration of not more than 0.3% on a dry weight basis), is a Schedule I controlled substance under the *Controlled Substances Act* ("CSA") which means it is viewed by the U.S. federal government as a drug that has a high potential for abuse and no therapeutic value. Therefore, even in states or territories that have legalized cannabis to some extent, the cultivation, possession and sale of cannabis violates the CSA and is punishable by imprisonment,

substantial fines and forfeiture. Moreover, individuals and entities may violate federal law if they aid and abet another in violating the CSA or conspire with another to violate the law. Violating the CSA is also a predicate for other crimes, including money laundering laws and the Racketeer Influenced and Corrupt Organizations Act. The U.S. Supreme Court has ruled that the federal government has the authority to regulate and criminalize the sale, possession and use of cannabis, even for individual medical purposes, regardless of whether it is legal under state law. For over six years, however, the U.S. government has not enforced those laws against companies (and their vendors) complying with state cannabis law.

The likelihood of any future adverse enforcement against companies complying with state cannabis laws remains uncertain. In 2018, then-U.S. Attorney General Jefferson Sessions issued a memorandum (known as the “**Sessions Memo**”) rescinding the U.S. Department of Justice’s (“**DOJ**”) previous guidance (known as the “**Cole Memo**”) that had given federal prosecutors discretion not to enforce federal law in states that legalized cannabis, as long as the state’s legal regime adequately addressed specified federal priorities. The Sessions Memo, which remains in effect, states that each U.S. Attorney’s Office should follow established principles that govern all federal prosecutions when deciding which cannabis activities to prosecute. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide to prosecute state-legal cannabis activities. Since the Sessions Memo was issued over three years ago, however, U.S. Attorneys have not targeted state law compliant entities. The policy of not prosecuting companies complying with state cannabis laws is likely to continue under current U.S. Attorney General Merrick Garland. At his confirmation hearing, Attorney General Garland stated that he did not see enforcement of Federal Cannabis Law as a high priority use of resources for the DOJ:

This is a question of the prioritization of our resources and prosecutorial discretion. It does not seem to me a useful use of limited resources that we have, to be pursuing prosecutions in states that have legalized and that are regulating the use of marijuana, either medically or otherwise. I don’t think that’s a useful use. I do think we need to be sure there are no end-runs around the state laws that criminal enterprises are doing. So that kind of enforcement should be continued. But I don’t think it’s a good use of our resources, where states have already authorized. That only confuses people, obviously, within the state.

Additionally, since 2014, versions of the U.S. omnibus spending bill have included a provision prohibiting the DOJ, which includes the U.S. Drug Enforcement Administration (“**DEA**”), from using appropriated funds to prevent states from implementing their medical-use cannabis laws. In *United States vs. McIntosh*, the U.S. Court of Appeals for the Ninth Circuit held that this provision prohibits the DOJ from spending funds to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. The court noted that, if the spending bill provision were not continued, prosecutors could enforce against conduct occurring during the statute of limitations even while the provision was previously in force. Other courts that have considered the issue have ruled similarly, although courts disagree about which party bears the burden of proof of showing compliance or noncompliance with state law.

While the omnibus spending bill affords some protection to medical cannabis businesses, the Company also operates adult-use cannabis businesses that are permissible under state and local laws. Consequently, some of the Company’s operations may be outside any protections extended to medical-use cannabis under the spending bill provision. This could subject the Company to greater and/or different federal legal and other risks as compared to businesses where cannabis is sold exclusively for medical use, which, in turn, could materially and adversely affect the Company’s business. Furthermore, any change in the federal government’s enforcement posture with respect to state-licensed cannabis sales, including the enforcement postures of individual federal prosecutors in judicial districts

where the Company operates, would lead to an inability to execute its business plan, likely resulting in significant losses with respect to the Company's customer base and adversely affecting its business, financial condition or results of operations.

In addition to criminal liability for producing, manufacturing, distributing and selling cannabis, other subsections of the CSA criminalize related activities with expanded sentences and increased penalties for corporations. For example, entities or persons who manage or control a property and knowingly make that property available for the purposes of manufacturing, distributing or using any controlled substances can be found liable under section 856(a) of the CSA ("maintaining a drug involved premise"). The Company owns properties on which prohibited activities occur. Therefore, a federal prosecutor could prosecute the Company as an owner of "drug-involved premises" and the Company could be found to violate federal law by virtue of these assets.

Additionally, the Company intends to invest in businesses that are directly or indirectly engaged in the medical and adult-use cannabis industry in the U.S. where state and local law permits such activities.

The Company's anticipated funding of the activities of businesses engaged in the medical and adult-use cannabis industry, whether through loans or through other forms of investment, is illegal under applicable U.S. federal laws. Any criminal charges brought against the Company could result in the inability to execute its business plan and could further result in significant fines, penalties and losses with respect to transactions with cannabis industry participants in the United States, which would adversely affect the Company's business, financial condition or results of operations.

THE CONSEQUENCES OF SUCH GOVERNMENTAL ENFORCEMENT WOULD LIKELY BE MATERIALLY DETRIMENTAL TO THE COMPANY, THE COMPANY'S BUSINESS AND THE HOLDERS OF THE COMPANY SHARES AND COULD RESULT IN THE FORFEITURE OR SEIZURE OF ALL OR SUBSTANTIALLY ALL OF THE COMPANY'S ASSETS.

The Company's business is subject to a variety of laws regarding financial transactions related to cannabis, which could subject it to legal claims or otherwise adversely affect its business, financial condition or results of operations.

The Company is subject to a variety of laws and regulations that prohibit money laundering, including the Money Laundering Control Act (U.S. Code Title 18 Sections 1956 and 1957), 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 U.S. or any other jurisdiction in which we have business operations. Financial institutions in the U.S. that the Company relies on are subject to the Bank Secrecy Act, as amended by Title III of the USA Patriot Act. The penalties for violation of these laws include imprisonment, substantial fines and forfeiture.

In 2014, the DOJ directed federal prosecutors to exercise restraint in prosecuting money laundering violations arising in the state legal cannabis programs and to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals based upon cannabis-related activity. In the same year, the Treasury Department issued guidance that clarified how financial institutions can provide services to cannabis-related businesses, consistent with financial institutions' obligations under the Bank Secrecy Act. Then Attorney General Sessions' rescission of the DOJ's guidance on the state cannabis programs in early 2018 increased uncertainty and heightened the risk that federal law enforcement authorities could seek to pursue money laundering charges against entities or individuals, engaged in supporting the cannabis industry. On January 31, 2018, the Treasury Department issued additional guidance that the 2014 guidance would remain in place until further notice, despite the rescission of the DOJ's earlier guidance memoranda.

If any of the Company's business activities, any dividends or distributions therefrom, or any profits or revenue accruing thereby are found to be in violation of money laundering statutes, it could be subject to criminal liability and significant penalties and fines. Any violations of these laws, or allegations of such violations could disrupt the Company's operations and involve significant management distraction and expenses. As a result, money laundering charges could materially affect the Company's business, financial condition or results of operations. Additionally, proceeds from the Company's business activities could be subject to seizure or forfeiture if they are found to be illegal proceeds of a crime transmitted in violation of anti-money laundering laws, which could have a material adverse effect on its business, financial condition or results of operations.

THE CONSEQUENCES OF SUCH GOVERNMENTAL ENFORCEMENT WOULD LIKELY BE MATERIALLY DETRIMENTAL TO THE COMPANY, THE COMPANY'S BUSINESS AND THE HOLDERS OF THE COMPANY SHARES AND COULD RESULT IN THE FORFEITURE OR SEIZURE OF ALL OR SUBSTANTIALLY ALL OF THE COMPANY'S ASSETS.

RISK FACTORS

The Company is subject to risks, and the occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations.

Below are some of the risks the Company faces that are related to the U.S. cannabis regulatory regime. For a detailed description of additional risk factors associated with the Company, please refer to the "Risk Factors" section of the Company 2020 AIF which is available on SEDAR at www.sedar.com.

There is a substantial risk of regulatory or political change to state laws permitting cannabis activities; such changes could have material adverse impact on the business, financial condition or results of operations of the Company.

Continued development of the cannabis industry depends upon continued legislative authorization of cannabis at the state level. The status quo of, or progress in, the regulated cannabis industry, while encouraging, is not assured and any number of factors could slow or halt further progress in this area. The political environment surrounding the cannabis industry in the United States in general can be volatile and the regulatory framework remains in flux. While there may be ample public support for legislative action permitting the production and use of cannabis, numerous factors impact and can delay the legislative and regulatory processes. If pro-cannabis regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Company, and thus, the effect on the return of investor capital, could be limited or reduced.

Additionally, recent state legislation throughout the U.S. has prioritized minority and diversity participation in the cannabis industry, even going so far as to provide licensing preferences to minority owners, individuals with specified criminal convictions, and individuals from economically depressed or disadvantaged areas. As new medical and adult-use legislation is passed, multi-state operators such as the Company may be prevented or discouraged from obtaining new licenses or from participating in new markets. Such a result could adversely impact the Company's ability to maintain market share or obtain a positive return on investment in existing markets.

Further, there is no guarantee that, at some future date, voters or the applicable legislative bodies will not repeal, overturn or limit any such legislation legalizing the cultivation, manufacture, sale, distribution and/or consumption of medical or adult-use cannabis. It is also important to note that local and city ordinances may strictly limit or restrict the distribution of cannabis in a manner that may make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis industry generally and the Company specifically. Any one of these factors could slow or halt additional legislative authorization of cannabis, which could harm the Company's business, financial condition or results of operations.

There is a risk of high bonding and insurance costs which could materially impact the Company's business, financial condition or results of operations.

There is risk that some or all state regulatory agencies will require entities and individuals engaged in aspects of the business or industry of legal cannabis to post a bond when applying for a cannabis-related license or renewal as a guarantee of payment of sales and franchise tax. It remains an unknown cost that could have a negative impact on the ultimate success of the Company or the Company's participation in the business opportunities ultimately selected.

Unknown additional regulatory fees and taxes may be assessed in the future, which could materially impact the Company's business, financial condition or results of operations.

Various localities have imposed (or may in the future impose) fees to fund, among other things, schools, road improvements and low-income and moderate-income housing. Additionally, multiple states in the United States are considering or may be considering special taxes or fees on businesses in the cannabis industry. The imposition of such additional taxes or fees could adversely affect the Company's operating results and expected returns on future investments or business opportunities.

Disparate state-by-state regulatory landscapes and the constraints related to holding cannabis licenses in various states results in operational and legal structures that could cause materially detrimental consequences to the Company.

The Company realizes, and will continue to realize, the benefits from cannabis licenses pursuant to a number of different structures, depending on the regulatory requirements from state to state, including realizing the economic benefit of cannabis licenses through Management Services Agreements, Consulting Agreements, and Licensing Agreements (any such arrangement, as used herein, a "**Management Agreement**"), often with unaffiliated third parties. Management Agreements are often required to comply with applicable laws and regulations or are in response to perceived risks that the Company determines warrant such arrangements.

The foregoing structures present various risks to the Company, including but not limited to the following risks, each of which could have a material adverse effect on the business, financial condition or results of operations of the Company:

- A governmental body or regulatory entity may determine that these Management Agreement structures are in violation of a legal or regulatory requirement or change the legal or regulatory requirements such that the contractual structure violates such requirements. The Company cannot provide assurance that a license application submitted by a third party will be accepted, especially if the management and operation of the license is dependent on a Management Agreement structure.

- There could be a material and adverse impact on the revenue stream the Company intends to receive from or on account of cannabis licenses (as the Company will not be the license holder, and therefore any economic benefit is received pursuant to a contractual arrangement). If a Management Agreement is terminated, the Company will no longer receive any economic benefit from the applicable dispensary or production license.
- These structures could potentially result in the funds invested by the Company being used for unintended purposes, such as to fund litigation.
- If a Management Agreement structure is in place, the Company will not be the license holder of the applicable state-issued cannabis license, and therefore, only has contractual rights with respect to any interest in any such license. If the license holder fails to adhere to its contractual agreement with the Company, or if the license holder makes, or fails to make, decisions in respect of the license that the Company disagrees with, the Company will only have contractual recourse and will not have recourse to any regulatory authority.
- The license holder may renege on its obligation to pay fees and other compensation pursuant to a Management Agreement or violate other provisions of these agreements.
- The license holder's acts or omissions may violate the requirements applicable to it pursuant to the applicable dispensary or production license, thus jeopardizing the status and economic value of the license holder (and, by extension, the Company).
- The license holder may attempt to terminate the Management Agreement in violation of its express terms.

In any or all of the above situations, it would be difficult and expensive for the Company to protect its rights through litigation, arbitration or similar proceedings.

The Company may be required to divest certain licenses, which would adversely impact its business, financial condition or results of operations.

Some states in which the Company operates, or expects to operate, limit or may in the future limit, the number of licenses that can be held by one entity within that state. The Company may hold more than the prescribed number of licenses in a state, and accordingly may be required to divest licenses in order to comply with applicable regulations. The divestiture of licenses may result in a material adverse effect on the business, financial condition or results of operations of the Company.

The Company is dependent on its banking relations, and it may have difficulty accessing or consistently maintaining banking or other financial services due to the nature of its business, which could adversely impact its business, financial condition, or results of operations.

The Company's connection to the cannabis industry may hamper its efforts to do business or establish collaborative relationships with others that may fear disruption or increased regulatory scrutiny of their own activities.

The Company is dependent on the banking industry. Its business operating functions, including payroll for employees, equipment and property leases, and the payment of other expenses, are reliant on traditional banking. The Company requires access to banking services to make and receive payments in a timely manner, and these could be jeopardized if the Company loses access to a bank account.

Most federal and federally-insured state banks currently do not serve cannabis businesses on the stated ground that growing and selling cannabis is illegal under federal law, even though the Treasury Department's Financial Crimes Enforcement Network ("FinCEN"), issued guidelines to banks in February 2014 that clarified how financial institutions can provide services to cannabis-related businesses, consistent with financial institutions' obligations under the Bank Secrecy Act. When cannabis businesses are able to find a bank that will provide services, they face extensive customer due diligence in light of complex state regulatory requirements and guidance from FinCEN, and these reviews may be time-consuming and costly, potentially creating additional barriers to financial services for, and imposing additional compliance requirements on, the Company. While the federal government has generally not initiated financial crime prosecutions against state-law compliant cannabis companies or their vendors, the government theoretically could initiate such prosecutions, at least against companies in the adult-use markets. The continued uncertainty surrounding financial transactions related to cannabis activities and the subsequent risks this uncertainty presents to financial institutions may result in their discontinuing services to the cannabis industry or limiting their ability to provide services to the cannabis industry or ancillary businesses providing services to the cannabis industry.

The Company, its officers, investors or other stakeholders may be required to disclose personal information to government or regulatory entities; failing to do so could put some licenses in jeopardy and negatively impact the Company's business, financial conditions or results of operations.

The Company owns, manages, or provides services to various U.S. state-licensed cannabis operations. Acquiring even a minimal or indirect interest in a U.S. state-licensed cannabis business can trigger requirements to disclose officers', investors' and other stakeholders' personal information. While these requirements vary by jurisdiction, some require interest holders to apply for regulatory approval and to provide tax returns, compensation agreements, fingerprints for background checks, criminal history records and other documents and information. Some states require disclosures of directors, officers and holders of more than a specified percentage of equity of the applicant. While some states include exceptions for investments in publicly traded entities, not all states do so, and some such exceptions are confined to companies traded on a U.S. securities exchange. If these regulations apply to the Company, investors, officers and other stakeholders are required to comply with such regulations or face the possibility that the relevant cannabis license could be revoked or cancelled by the state licensing authority.

Investors in the Company and the Company's directors, officers and employees may be subject to the risk of being barred from entry into the United States; if investors or personnel of the Company are barred from entering the United States, it could negatively impact its business, financial condition or results of operations.

Because cannabis remains illegal under U.S. federal law, those who are not U.S. citizens employed at or investing in legal and licensed U.S. cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of Customs Border Patrol ("CBP") officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for United States border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of U.S. federal laws regarding controlled substances and, because cannabis continues to be a controlled substance under U.S. federal law, working in or facilitating the proliferation of the legal cannabis industry in U.S. states

where it is deemed legal, or in Canada, may affect admissibility to the United States. As a result, CBP has affirmed that employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the United States for reasons unrelated to the cannabis industry will generally be admissible to the United States; however, if such person is found to be coming into the United States for reasons related to the cannabis industry, such person may be deemed inadmissible.

Applicable state laws may prevent the Company from maximizing its potential income, including by restricting its sales and marketing activities; if the Company's profits are constrained by such regulations, it could negatively impact its business, financial condition or results of operations.

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 the Company's ability 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 prices for its products, the Company's sales and operating results could be adversely affected.

Clinical research with respect to the Company's products is ongoing, and negative findings could lead to rollbacks of state legalizations laws, which would negatively affect the Company's business, financial condition or results of operations.

Research in the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Although the Company relies on the articles, reports and studies that support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Further, the cannabis industry is highly dependent upon consumer perception, which 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 or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity.

Future research studies and clinical trials may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could lead to rollbacks in state regulation or otherwise have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the business, financial condition or results of operations of the Company. There is no assurance that such adverse research studies or clinical trials will not arise.

Cannabis and industrial hemp may become subject to increased regulation by the FDA; if the Company is unable to comply with such regulations, it could have a material adverse effect on the business, financial condition or results of operations of the Company.

Cannabis remains a Schedule I controlled substance under U.S. federal law. If the federal government de-schedules cannabis or reclassifies cannabis to a Schedule II controlled substance, it is possible that the FDA would regulate it under the *Food, Drug and Cosmetics Act of 1938* (“FDCA”). The FDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements and cosmetics, among other products, through its enforcement authority pursuant to the FDCA. The FDA’s responsibilities include regulating the ingredients as well as the marketing and labeling of food, drugs and cosmetics sold in interstate commerce. Because cannabis is federally illegal to produce and sell, and because it has no federally recognized medical uses, the FDA has historically deferred enforcement related to cannabis to the DEA; however, the FDA has enforced the FDCA with regard to industrial hemp-derived products, especially CBD derived from industrial hemp sold outside of state-regulated cannabis businesses. The FDA has recently affirmed its authority to regulate CBD derived from both cannabis and industrial hemp, and its intention to develop a framework for regulating the production and sale of CBD derived from industrial hemp.

Additionally, the FDA may issue rules and regulations, including good manufacturing practices, related to the growth, cultivation, harvesting and processing of cannabis or industrial hemp. Clinical trials may be needed to verify the efficacy and safety of both cannabis products and industrial hemp products. It is also possible that the FDA would require facilities that grow medical-use cannabis to register with the FDA and comply with federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA, it may have a material adverse effect on the business, financial condition or results of operations of the Company.

Inconsistent public opinion and perception of the medical and adult-use use cannabis industry may hinder market growth and state adoption.

Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general). Inconsistent public opinion and perception of medical and adult-use cannabis may hinder growth and state adoption, which could have a material adverse effect on the business, financial condition or results of operations of the Company.

The Company’s dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of adult-use cannabis in general, or the Company’s products specifically, or associating the consumption of adult-use cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers’ failure to consume such products appropriately or as directed.

The Company may be unable to enforce its contracts, which could negatively impact its business, financial condition or results of operations.

Because cannabis is illegal at a federal level, judges in multiple U.S. states have on several 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. Therefore, there is

uncertainty that the Company will be able to legally enforce its agreements, including agreements that are material to the Company.

The Company may not be able to enforce any liens it may be granted on the inventory or licenses of third parties that secure its right to payment or other contractual rights.

In general, the laws of the various states that have legalized the sale and cultivation of cannabis do not expressly or impliedly allow for the pledge of inventory containing cannabis as collateral for the benefit of third parties, such as the Company, that do not possess the requisite licenses and entitlements to cultivate, sell or possess cannabis pursuant to the applicable state law. Likewise, the laws of those states generally do not allow for transfer of the licenses and entitlements to sell or produce cannabis to third parties that have not been granted such licenses and entitlements by the applicable state agency. The inability of the Company to enforce liens on the inventory and licenses of third parties that secure its payment and other contractual rights increases the risk of loss resulting from breaches of the applicable agreements by the contracting parties, which, in turn, could have a material adverse effect on the business, financial condition or results of operations of the Company.

The Company lacks access to U.S. bankruptcy protections, which could negatively impact its business, financial condition or results of operations.

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available, which would have a material adverse effect on any restructuring transaction.

Additionally, there is no guarantee that the Company will be able to effectively enforce any interests it may have in the Company's subsidiaries and investments. A bankruptcy or other similar event related to an entity in which the Company holds an interest that precludes such entity from performing its obligations under an agreement may have a material adverse effect on the business, financial condition or results of operations of the Company. Further, should an entity in which the Company holds an interest have insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities or equity owed to the Company. In addition, bankruptcy or other similar proceedings are often a complex and lengthy process, the outcome of which may be uncertain and could result in a material adverse effect on the business, financial condition or results of operations of the Company.

Lastly, some state cannabis laws preclude entities which become insolvent from holding medical or adult-use cannabis licenses. Any insolvency proceedings by the Company could therefore put the operations of its subsidiaries or affiliates at risk, which would have a negative impact on the business, financial condition or results of operations of the Company.

The Company may be subject to heightened scrutiny by Canadian authorities, which could negatively affect its business, financial condition or results of operations.

The business, operations and investments of the Company in the U.S., and any future businesses, operations and 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 Canadian public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of restrictions on the Company's ability to invest or hold interests in other entities in the U.S. or any other jurisdiction.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 describing the Canadian Securities Administrators' disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. 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 Canadian Depository for Securities Ltd. (“CDS”) is Canada’s central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. On February 8, 2018, following discussions with the Canadian Securities Administrators and the TMX Group, which is the owner and operator of CDS, CDS announced the signing of a Memorandum of Understanding (the “TSX MOU”) with Aequis NEO Exchange Inc., the CSE and the Toronto Stock Exchange confirming that it relies on such exchanges to review the conduct of listed issuers. The TSX MOU notes that securities regulation requires that the rules of each of the exchanges must not be contrary to the public interest and that the rules of each of the exchanges have been approved by the securities regulators. Pursuant to the TSX MOU, CDS will not ban accepting deposits of or transactions for clearing and settlement of securities of issuers with cannabis-related activities in the U.S.

Even though the TSX MOU indicated that there are no plans of banning the settlement of securities of cannabis issuers through the CDS, there can be no guarantee that the settlement of such securities will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, the Subordinate Voting Shares would become highly illiquid until an alternative was implemented, and shareholders would have no ability to affect a trade of the Subordinate Voting Shares through the facilities of a stock exchange.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains “forward-looking information” and “forward-looking statements” within the meaning of Canadian securities laws and United States securities laws (together, “forward-looking statements”). In addition, the Company or its affiliates may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company or its affiliates that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company or its affiliates that address activities, events or developments that the Company or its affiliates expect or anticipate will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including, but not limited to, with respect to expectations and assumptions concerning:

- the ability of the Company and its affiliates to obtain regulatory approval in all States of operation for the commercial arrangements described herein; • the ability of the Company to obtain necessary financing to pursue its business plans;
- operational results and other further conditions of the Company;

- the achievement of goals, the obtaining of all necessary permits and governmental approvals;
- availability of equipment, skilled labor and services needed for cannabis operations;
- intellectual property rights, development, operating or regulatory risks, trends, demand and developments in the cannabis industry;
- business strategy and outlook, expansion and growth of business and operations;
- the timing and completion of acquisitions and other transactions discussed in this MD&A;
- the impacts of COVID-19 and future steps to be taken in response to COVID-19;
- the timing and amount of capital expenditures;
- the granting, renewal and/or timing of a State or local cannabis license;
- the impact of increasing competition;
- conditions in general economic and financial markets;
- access to capital;
- future operating costs;
- government regulations, including future legislative and regulatory developments involving medical and adult-use cannabis and the timing thereof; • the effects of regulation by governmental agencies;
- the anticipated changes to federal, State and local laws regarding the medical and/or adult-use of cannabis;
- the demand for cannabis products and corresponding forecasted increase in revenues; and
- the size of the medical cannabis market and the adult-use cannabis market.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the United States regulatory landscape and enforcement related to medical and/or adult-use cannabis, including political risks and civil asset forfeiture;
- the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest;
- the lack of access to federal bankruptcy protections in the United States;
- heightened scrutiny by regulators in Canada;
- the Company's "Foreign Private Issuer" (as such term is defined in Rule 405 under the U.S. Securities Exchange Act of 1934 and Rule 3b-4 under the U.S. Securities Exchange Act of 1934) status and potential loss thereof;
- the enforceability of contracts;
- anti-money laundering laws and regulations;
- the protection of proprietary intellectual property and the potential infringement by third parties;
- high bonding and insurance costs;
- the limited research and reliable data available relating to the cannabis industry;
- public opinion and perception of the cannabis industry;
- future acquisitions and dispositions;
- the receipt of required licenses;
- litigation;

- the management of future growth;
- the reliance on the expertise and judgment of senior management of the Corporation;
- increasing competition in the cannabis industry;
- the reliance on key inputs, suppliers and skilled labor;
- the ability and constraints on marketing cannabis products;
- an agricultural business;
- internal controls and the potential for fraudulent activity by employees, contractors and consultants;
- the potential disclosure of personal information and cybersecurity risks;
- the limitation of certain remedies and the difficulty of enforcement of judgments and to effect service outside of Canada;
- currency fluctuations;
- environmental regulations;
- cannabis products manufactured for human consumption, including potential product liability and recalls;
- contracts with third-party service providers;
- the limited market for securities of the Corporation;
- the increased costs associated with the Corporation being a publicly traded company and maintaining such status;
- tax; and
- other risks described in this MD&A, as more particularly described under the heading “Risk Factors” in this MD&A, and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

Although the forward-looking statements contained in this MD&A are based upon what the Company currently believes to be reasonable assumptions, it cannot assure that actual results, performance or achievements will be consistent with these forward-looking statements. New risks and uncertainties may emerge from time to time. Except as required by law, the Company does not have any obligation to advise any person if it becomes aware of any inaccuracy in or omission of any forward-looking statement, nor does it intend, or assume any obligation, to update or revise these forward-looking statements to reflect new events or circumstances.

Historical statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. In this regard, certain financial information contained herein has been extracted from, or based upon, information available in the public domain and/or provided by the Company. In particular, historical results of the Company should not be taken as a forecast or guarantee that such trends will be replicated in the future. No statement in this document is intended to be nor may be construed as a profit forecast.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company 2020 AIF, is available on SEDAR at www.sedar.com.