



**KIARO HOLDINGS CORP.**  
(FORMERLY DC ACQUISITION CORP.)

Management's Discussion and Analysis

For the three and nine months ended October 31, 2021 and 2020

The following management's discussion and analysis ("**MD&A**") of financial condition and results of operations of Kiaro Holdings Corp. ("**Kiaro**" or the "**Company**") should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended October 31, 2021 and 2020, and the accompanying notes thereto (the "**Financial Statements**"), which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). This MD&A has been prepared as of December 16, 2021, pursuant to the disclosure requirements under National Instrument 51-102 - *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

This MD&A contains forward-looking information within the meaning of Canadian securities laws, and the use of non-GAAP measures. Refer to "Cautionary Statement Regarding Forward-Looking Statements" included within this MD&A. This MD&A and the Company's unaudited condensed consolidated interim financial statements have been filed in Canada on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information regarding the Company can also be found on the Company's website at [www.kiaro.com](http://www.kiaro.com).

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A contains certain statements which may constitute "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities law requirements (collectively, "**forward-looking statements**" or "**FLS**"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these FLS, except as required under applicable securities legislation. FLS relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. In certain cases, FLS can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature FLS involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the FLS. The Company provides no assurance that FLS will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on FLS.

The Company's anticipated future operations are forward-looking in nature and, as a result, are subject to certain risks and uncertainties. Although the Company believes that the expectations reflected in these FLS are reasonable, undue reliance should not be placed on them as actual results may differ materially from the forward-looking statements. Such FLS are estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements.

## CAUTIONARY STATEMENT REGARDING CERTAIN NON-GAAP PERFORMANCE MEASURES

This MD&A contains certain financial performance measures that are not recognized or defined under IFRS (termed “**Non-GAAP Measures**”). As a result, this data may not be comparable to data presented by other cannabis retail or wholesale companies. For an explanation of these measures to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the discussion below. The Company believes that these Non-GAAP Measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. These Non-GAAP measures include, but are not limited, to the following:

- Adjusted EBITDA is calculated as net loss excluding finance income (expense), income taxes, depreciation, amortization, share-based compensation, loss on modification and extinguishment of debt, foreign exchange, changes in fair value of financial instruments, inventory write-down, lease termination loss and loss on sublease and non-cash impairment of equity investments, loss on sale of financial instruments, impairment of long-lived assets, goodwill, and other assets, and the transaction cost of certain transactions. Adjusted EBITDA is intended to provide a proxy for the Company’s operating cash flow and is widely used by industry analysts to compare Kiaro to its competitors and derive expectations of future financial performance for Kiaro. Adjusted EBITDA increases comparability between comparative companies by eliminating variability resulting from differences in capital structures, management decisions related to resource allocation, and the impact of fair value adjustments on financial instruments, which may be volatile and fluctuate significantly from period to period.

Non-GAAP measures should be considered together with other data prepared in accordance with IFRS to enable investors to evaluate the Company’s operating results, underlying performance and prospects in a manner similar to Kiaro’s management. Accordingly, these non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

## BUSINESS OVERVIEW

### Business Description

Based in Vancouver, British Columbia, Kiario is an independent, omni-channel cannabis retailer and distributor. Kiario's three business segments all focus on its mission to introduce new and experienced consumers to a lifelong exploration of cannabis. The Company (formerly DC Acquisition Corp. ("**DCA**") is a multi-provincial operator in Canada, with eCommerce businesses in the US and Australia. With more than 50 years of collective retail-focused experience, Kiario's leadership team has a proven track record of growing retail brands across North America. Kiario continues to focus on the fundamentals of great business operations, evaluating all potential transactions through the lens of accretive value for shareholders, coupled with the basic valuation of assets that have the potential to outperform our peers.

The Company owns sixteen licensed retail cannabis locations throughout British Columbia, Saskatchewan, and Ontario, with two additional retail locations under development and license application; Vaped.com eCommerce platforms offering consumption accessories in Canada, the USA, and Australia; and a wholly owned subsidiary, National Cannabis Distribution Inc. ("**NCD**"), which wholesales cannabis products to other licensed retailers in Saskatchewan.

During fiscal year 2022 ("**FY 2022**"), the Company added one additional location in British Columbia and completed two acquisitions in Ontario, 8651159 Canada Inc., and 2734524 Ontario Inc. (dba Hemisphere Cannabis Co ("**Hemisphere**")) from Aegis Brands Inc. ("**Aegis**"). The first acquisition closed in July 2021 and included Kiario's first Ontario retail location along with eCommerce accessories businesses in Canada, the USA, and Australia. The second acquisition closed in September 2021, adding seven licensed retail cannabis locations in Ontario, and additional two under development.

On June 9, 2020, Kiario Brands Inc. ("**KBI**") entered into an amalgamation agreement ("**Amalgamation Agreement**") with DCA, a TSX Venture Exchange ("**TSX-V**") listed capital pool company to complete a reverse takeover transaction (the "**Qualifying Transaction**"). On October 13, 2020, pursuant to the Amalgamation Agreement, DCA completed a three-cornered amalgamation with KBI, with the resulting corporation changing its name to Kiario Holdings Corp.

Kiario is a publicly traded company with the head office located at 300 - 110 East Cordova Street, Vancouver, British Columbia, Canada V6A 1K9. The Company is traded on the TSX-V under the symbol "KO".

### OPERATIONAL HIGHLIGHTS IN THE THIRD QUARTER OF FISCAL YEAR 2021

- Revenues surpassing full prior year revenue as of Q3 this fiscal year:
  - Increase in retail revenue year-to-date ("YTD") by 51%,
  - Increase in wholesale revenue YTD by 50% and now services over 75% of all licensed retailers in Saskatchewan,
  - Increase in retail same store sales YTD by 24%,
  - Retained retail margins during Q3 and YTD at 38%, and
  - Integrated eCommerce assets this quarter delivering positive EBITDA contributions since acquisition on July 12, 2021;
- Executed diversification of revenue streams across wholesale, ecommerce, and retail has proven to be an effective strategy to delivering sustainable results;
- Positioned to take advantage of international exposure in the US and Australia;
- Acquisition of Hemisphere Cannabis closed September 24, 2021 added 7 operational retail stores:
  - Onboarded over 60 employees;
  - Completion of systems integration; and
- Financing of \$3.7M closed October 28, 2021, by convertible debenture improves cash position.

### Retail Operations

In addition to the expansion of physical retail locations, Kiario continues to evolve its key retail programs such as MyKiario and Ask Kiario Anything, ensuring a best-in-class experience for both consumers and employees. In

working to establish a great experience, Kiaro invested in a strong data-driven foundation in its infancy and continues to leverage its relationship with ERP supplier Microsoft Dynamics with Power BI. Forecasted consumer trends, data driven by analytics and qualitative feedback from consumers, our retail team, LPs, and industry associations are what drives the Company's buying decisions. This targeted approach to category growth has allowed the Company to capture continuous revenue growth and support sustainable margin performance.

### *Brick and Mortar Operations*

The Kiaro retail portfolio increased from seven cannabis retail stores as at October 31, 2020, to 14 open and operating cannabis retail stores as of October 31, 2021. As of the date of this report, Kiaro has opened one additional retail store in Orleans, a suburb of Ottawa, ON, and two additional municipally licensed locations are set to open Q4 of this fiscal year which would bring the total count of operating stores to 17 stores across three provinces. In Q3 FY 2022 compared to Q3 FY 2021, Kiaro increased total retail revenue 44%. Gross profit contributed \$2,194,666 (29.3% gross margin) this quarter compared with \$1,563,791 (30.1% gross margin) in the prior year for the same period.

On March 16, 2021, Kiaro announced the completion of the Grasshopper Cannabis acquisition. The purchased asset included one brick and mortar municipally licensed location in Kelowna B.C., Kiaro's first retail location in a key consumer market in the interior of British Columbia. This location is one of two locations slated to open in Q4 this fiscal year.

On July 12, 2021, Kiaro announced the completion of the acquisition of 8651159 Canada Inc., which included one brick and mortar location in Toronto, Ontario. The location connected with the acquisition is currently operational and located in the heart of the Trinity Bellwoods neighborhood and represents Kiaro's initial entry into the province of Ontario, which is a key geographic location in the cannabis retail market.

On September 24, 2021, Kiaro completed the acquisition of 2734524 Ontario Inc. On October 31, 2021, six retail locations were operational and the seventh store opened on November 10, 2021 under the Hemisphere brand. From this acquisition, an eighth location is in development and is slated to open in Q4 FY 2022 under the Kiaro brand.

### *COVID-19*

As COVID-19 has changed the retail shopping experience, Kiaro modified its business practices to ensure a safe environment for customers and employees. Kiaro modified its in-store experience and introduced a reserve online and pick up in store and delivery for consumers. Kiaro is following and monitoring provincial Health Authority and WorkSafe guidelines. Kiaro expects to continue to monitor direction given by applicable health authorities and adjust its retail experience accordingly. Although there have not been any significant impacts to the Company's operations to date, the Company cannot provide assurance that there will not be disruptions to its operations in the future. Refer to the "Risk Factors" section below for further discussion on the potential impacts of COVID-19.

### **Wholesale Operations**

NCD services over 75% of licensed retailers in the province of Saskatchewan, which represents a 25% increase from the prior quarter of this fiscal year. The Saskatchewan Retail Cannabis market has doubled in size as a direct result of the Saskatchewan Liquor and Gaming Authority ("**SLGA**") removing the cap on the number of cannabis retail stores permitted to operate effective September 2020. With consistent accretive growth in market size not slowing down, the Company continues to build its foundation to support both existing and new customers and promote the representation of licensed producers to improve retailer access to the best products for their customers.

NCD has invested in its sales and management team to support the growing market and has seen an increase in wholesale revenues of 50% in the nine months ending October 31, 2021 compared to the prior year.

In addition to our focus on hiring top talent to support business growth, NCD customers have benefitted from overall product selection that continues to improve with the increase in Saskatchewan excise stamped brands that are ready for distribution. Seventeen new brands were added in Q3 through new Agreements with: Ayurcann,

CannTrust, Nextleaf, Wabi Sabi, Tidal, True North, and Hytn. The wholesale channel has focused on expanding categories in vapes, edibles, extracts and beverages to diversify the product offering.

## eCommerce

On July 12, 2021, Kiaro announced that it completed the acquisition of 8651159 Canada Inc., which currently operates three eCommerce business platforms. The transaction provides access to Canadian, American, and Australian consumers through its digital assets, and adds to Kiaro's EBITDA contribution. As a result, Kiaro is well-positioned to take advantage of any future U.S. and Australia advances towards federal legalization. In Q3 FY2022, eCommerce assets contributed \$589,246 in revenue and 25% gross profit.

The addition of the Vaped.ca, Vaped.com, and Vaporizersdirect.com.au ("**Vaped**") eCommerce assets demonstrates Kiaro's commitment to building a thoughtful digital ecosystem. As Kiaro has aimed to be a leader in omni-channel retail, the addition of the competencies from the purchase of 8651159 Canada Inc. would allow Kiaro to support enhancements across all digital assets. This would allow the Company to ensure consumers in the digital ecosystem can access cannabis and non-cannabis brands in ways that are convenient, safe, and accessible.

Kiaro aims to expand last mile delivery in British Columbia and Ontario, enhance delivery in Saskatchewan, and continue the expansion of eCommerce revenues through both the Kiaro.com and Vaped platforms. These initiatives will ensure that customers can access the brands they want, when and where they want them.

## SELECTED FINANCIAL RESULTS

The following selected financial data was prepared in accordance with IFRS and should be read in conjunction with the Company's Financial Statements for the three months and nine months ended October 31, 2021 and 2020, and the accompanying notes thereto. All dollar amounts are in Canadian dollars.

	Three months ended		Nine months ended	
	October 31, 2021	October 31, 2020	October 31, 2021	October 31, 2020
	\$	\$	\$	\$
Revenue	7,484,158	5,190,930	18,841,401	11,857,743
Gross profit	2,194,666	1,563,791	5,428,241	3,515,322
Gross profit %	29%	30%	29%	30%
Operating expenses	(3,259,279)	(2,320,858)	(8,181,984)	(6,311,610)
Other expenses	(277,235)	(2,136,725)	(631,624)	(5,352,140)
<b>Net loss and comprehensive loss</b>	<b>(1,079,666)</b>	<b>(2,893,792)</b>	<b>(3,123,185)</b>	<b>(8,148,428)</b>
<b>Loss per share, basic and diluted</b>	<b>(0.01)</b>	<b>(0.03)</b>	<b>(0.02)</b>	<b>(0.07)</b>

### Revenue

During Q3 FY 2022 (three months ended October 31, 2021), the Company generated revenue of \$7,484,158 compared to \$5,190,930 in Q3 FY 2021, representing an increase of 44% for the three month period and 59% for the nine month period. Revenue growth was driven by:

- Increase in retail segment sales by 51% for the nine months ended;
- Increase in same-store sales by 24% for the nine months ended;
- Addition of one retail location on July 12, 2021 and six retail locations on September 24, 2021;
- Increase in wholesale revenue of 38% for the three months and 50% for the nine months ended; and
- Addition of eCommerce channels on July 12, 2021.

### Gross profits

Gross profit percentages are presented as a blend of retail, wholesale, and eCommerce business unit contributions. Retail margins were unchanged at 38%. The blended decrease in gross margins from 30% to 29% was primarily due to a change in revenue contributions from the eCommerce segment where margins are lower than the retail segment. As additional retail locations operationalize and ramp up, gross margins are expected to increase.

## Operating expenses

The following table outlines the operating expenses for the three and nine months ended October 31, 2021 and 2020 and the percentage of expenses to revenue for comparison:

	Three Months ended				Nine Months ended			
	October 31, 2021		October 31, 2020		October 31, 2021		October 31, 2020	
	\$		\$		\$		\$	
Revenue	7,484,158		5,190,930		18,841,401		11,857,743	
Consulting and professional fees	278,811	4%	206,918	4%	669,703	4%	745,789	6%
Depreciation and amortization	667,019	9%	487,505	9%	1,618,374	9%	1,256,043	11%
General and administration expenses	441,518	6%	213,418	4%	1,046,473	6%	591,530	5%
Marketing, meals and entertainment	118,810	2%	83,300	2%	336,867	2%	183,589	2%
Salaries and employee benefits	1,588,335	21%	1,030,594	20%	3,886,552	21%	2,595,232	22%
Share-based compensation	164,786	2%	299,123	6%	624,015	3%	939,427	8%
<b>Total operating expenses</b>	<b>3,259,279</b>	<b>44%</b>	<b>2,320,858</b>	<b>45%</b>	<b>8,181,984</b>	<b>43%</b>	<b>6,311,610</b>	<b>53%</b>

For the three months ended October 31, 2021, the total operating expenses as a percentage of revenue decreased from 45% to 44% in the same quarter year over year. General and administration expenses and salaries and employee benefits increased due to the integration and optimization of the acquired assets during this quarter.

For the nine months ended October 31, 2021, the total operating expenses as a percentage of revenue decreased from 53% to 43% compared to the prior year as efficiencies were gained by utilizing existing overheads and fixed costs to support the growth in sales.

## Other expenses and income

The following table outlines the other expenses and income for the three and nine months ended October 31, 2021 and 2020:

	Three Months ended		Nine Months ended	
	October 31, 2021	October 31, 2020	October 31, 2021	October 31, 2020
	\$		\$	
Change in fair value of derivative liabilities	955	(826)	713	(26,709)
Finance expense	(249,930)	(431,369)	(541,906)	(1,431,890)
Gain/(loss) on modification and extinguishment of debt	35,750	-	44,496	(93,344)
Inventory write-down	-	-	-	(19,188)
(Gain)/Loss on modification and termination on leases	20,475	(10,209)	20,475	(65,419)
Other income	32,054	27,451	146,411	73,317
Realized foreign exchange gain/(loss)	(210)	-	(292)	38,413
Realized loss on sale of marketable securities	-	-	-	(2,105,548)
Transaction cost of qualifying transaction	-	(1,721,772)	-	(1,721,772)
Transaction cost of business combinations	(116,329)	-	(301,521)	-
<b>Total other expenses</b>	<b>(277,235)</b>	<b>(2,136,725)</b>	<b>(631,624)</b>	<b>(5,352,140)</b>

During Q3 FY 2022, the Company incurred other expenses of \$277,235 compared to \$2,136,725 in Q3 FY 2021, a significant reduction of 87%.

In October 2020, Company completed the qualifying transaction, and recorded transaction related costs in the comparable prior year, for both the three months and nine months ending October 31, 2020 in the amount of \$1,721,772.

During the nine months ending October 31st, the Company incurred total other expenses of \$631,624 compared to the prior year \$5,352,140. In addition to the qualifying transaction costs, the Company disposed of its investment in marketable securities in March 2020, resulting in a realized loss in the prior year of \$2,105,548.

Finance expenses and other income decreased a net amount of \$816,890. This is primarily from interest accrued on convertible debentures and promissory notes, of which most was converted into the Company's common

shares in October 2020 when the Company went public. The substantial decrease in total debt is reflected in the finance expenses total in the current quarter.

## ADJUSTED EBITDA

The following is the Company's adjusted EBITDA for the most recent five quarters in fiscal year 2022 and 2021:

	Quarterly				
	October 31, 2021	July 31, 2021	April 30, 2021	January 31, 2021	October 31, 2020
	\$	\$	\$	\$	\$
Net loss and comprehensive loss	(1,079,666)	(1,063,598)	(979,921)	(1,188,609)	(2,893,792)
Deferred income tax recovery	(262,182)	-	-	-	-
Depreciation and amortization	667,019	417,065	534,290	610,743	487,505
Other income	(32,054)	(53,210)	(61,147)	(108,715)	(27,451)
Finance expense	249,930	151,388	140,588	166,152	431,369
EBITDA	(456,953)	(548,355)	(366,190)	(520,429)	(2,002,369)
Change in fair value of derivative liabilities	(955)	1	241	385	826
Foreign exchange (gain)/loss	210	82	-	-	-
(Gain)/Loss on modification and termination on leases	(20,475)	-	-	140,331	10,209
(Gain)/Loss on modification and extinguishment of debt	(35,750)	(8,746)	-	6,097	-
Realized loss on sale of marketable securities	-	-	-	-	-
Share-based compensation	164,786	273,244	185,985	196,534	299,123
Transaction cost of qualifying transaction	-	-	-	70,301	1,721,772
Transaction cost of acquisition	116,329	185,192	-	-	-
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>(232,808)</b>	<b>(98,582)</b>	<b>(179,964)</b>	<b>(106,781)</b>	<b>29,561</b>

<sup>(1)</sup> This term is defined in the "Cautionary Statement Regarding Certain NON\_GAAP Performance Measures" section of this MD&A. Refer to the "Adjusted EBITDA" section for reconciliation of the IFRS equivalent.

EBITDA and Adjusted EBITDA are non-GAAP performance measures, however, are intended to help the reader view the operational results excluding one-time and accounting transactions.

Adjusted EBITDA over the past five quarters has fluctuated. Q3 FY2022 included approximately \$85,000 in direct integration costs related to the Hemisphere and eCommerce assets. In addition, salaries and wages included incentive payments approved at the AGSM in September 2021. The Company reached positive adjusted EBITDA in the quarter ending October 31, 2020, however increased operational costs incurred as a result of becoming a publicly traded reporting issuer on October 20, 2020.

## STATEMENT OF FINANCIAL POSITION INFORMATION

The following table outlines the Company's assets, liabilities, and equity position as at October 31 and January 31, 2021:

	October 31, 2021	January 31, 2021
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	5,283,069	1,304,829
Trade and other receivables	380,891	142,083
Prepays and deposits	578,952	280,759
Inventory	2,928,390	1,744,244
Net investment in finance lease	251,716	369,362
Property and equipment, including ROU assets	14,485,487	5,215,452
Intangible assets and goodwill	6,347,414	608,588
	<b>30,255,919</b>	<b>9,665,317</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	3,970,012	1,473,238
Lease liabilities	8,824,310	2,310,950
Purchase liability	-	103,230
Long-term liabilities	3,432,195	740,519
Embedded derivative liabilities	198,929	208,386
	<b>16,425,446</b>	<b>4,836,323</b>
<b>Equity</b>	<b>13,830,473</b>	<b>4,828,994</b>

As at October 31, 2021, the Company had total assets of \$30,255,919, an increase of \$20,590,602 from total assets of \$9,665,317 as at January 31, 2021. The change in cash and cash equivalents due to net proceeds of the private placements in March 2021 and October 2021, the purchase of a licensed retail location in the City of Kelowna, acquisition of 8651159 Canada Inc., acquisition of Hemisphere, and cash invested in operations.

As at October 31, 2021, the Company had total liabilities of \$16,425,446, an increase of \$11,589,123 from total liabilities of \$4,836,323 as at January 31, 2021. Accounts payable and accrued liabilities increased from \$1,473,238 to \$3,970,012 due primarily to support the revenue growth in NCD, development and construction of new retail locations, acquisition transaction related costs, and timing of payments shortly after quarter end. Lease liabilities increased due to the addition of ten leases from the acquisitions of 8651159 Canada Inc. and Hemisphere. The final purchase liability instalment payment towards the acquisition of NCD was made in March 2021. On October 28, 2021, the Company completed a \$3,759,000 private placement of convertible debentures, maturing in 2024.

Equity increased by \$9,001,479 or 186% over the last 9 month period. The value increase is a combination of the issuance of shares in connection with the bought deal private placement, acquisition of 8651159 Canada Inc., acquisition of Hemisphere, and Company performance.

## SUMMARY OF QUARTERLY RESULTS

The following tables set out certain selected financial information for most recent eight fiscal quarters (Three months ended):

	October 31, 2021	July 31, 2021	April 30, 2021	January 31, 2021
	\$	\$	\$	\$
Revenue	7,484,158	6,190,179	5,167,064	5,214,123
Net loss and comprehensive loss	(1,079,666)	(1,063,598)	(979,921)	(1,188,609)
Net loss and comprehensive loss per share - Basic & Diluted	(0.01)	(0.01)	(0.01)	(0.01)
	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020
	\$	\$	\$	\$
Revenue	5,190,930	4,000,102	2,666,711	2,019,164
Net loss and comprehensive loss	(2,893,792)	(1,443,805)	(3,810,831)	(3,593,621)
Net loss and comprehensive loss per share - Basic & Diluted	(0.03)	(0.01)	(0.04)	(0.07)

Revenue increased from the three months ended January 31, 2020, through to the three months ended October 31, 2021. The retail same store sales and wholesale performance results coupled with retail expansion through the eight quarters was a large contributor, and the addition of the third revenue channel through the acquisition in July 2021 has created further opportunities for accretive results.

A public health emergency was declared in the province of British Columbia on March 17, 2020, and despite added restrictions and challenges, the Company added to its then four retail brick and mortar stores, by opening a further three locations in March 2020, July 2020, and September 2020. With seven locations and a public listing at the quarter end October 31, 2020, the Company turned its focus on operational efficiency, fundraising, and acquisitions. In July 2021, the Company added its eighth retail store, first in Ontario, and a new revenue channel through the acquisition of Vaped.com and the Cozy Cannabis brand. The last quarter, ending October 31, 2021 includes the first full quarter of the eCommerce assets, and 5 weeks of the acquisition of Hemisphere Cannabis which at closing included six operational Ontario locations. FY2022 Q4 ending January 31, 2022 will be the first quarter with all acquired assets in operation. At no time did any locations close as a result of public health orders.

On October 13, 2020, the Company completed a reverse takeover of DC Acquisitions Corp. by way of a three-cornered amalgamation, resulting in the subsequent go-public event on the TSX Venture exchange. In tandem with the go public event, the Company converted \$6.5M in convertible debt and accrued interest. Costs associated with the transaction were reflected in the three months ended October 31, 2020, net loss and comprehensive loss, in addition to the decrease in earnings per share during that one quarter only.

The loss per share over the last four quarters remains consistent as the Company targets profitability through the operationalization of acquired assets and continued growth.

## SEGMENT INFORMATION

Throughout the nine months ended October 31, 2021 the Company operated in three segments compared to two segments for the nine months ended October 31, 2020. The segments are as follows:

- **Retail Cannabis Stores** – The Company operates retail locations to sell and distribute cannabis and cannabis related products to individual consumers.
- **Wholesale Cannabis Business** – The Company owns and operates wholesale cannabis business through its wholly owned subsidiary NCD in the province of Saskatchewan. NCD purchases finished goods from licensed producers and sells to licensed retail cannabis operators in the province.
- **eCommerce** – The Company owns and operates three eCommerce businesses that sell consumption accessories through its wholly owned subsidiaries Kiaro Digital Ltd. and Kiaro Australia Pty Ltd.

Corporate is not an operating segment and contains the Company's corporate, strategic, and administrative activities. Most of the Company's revenue is earned in Canada, and most assets are located in Canada.

Nine months ended October 31, 2021	Retail cannabis stores	Wholesale cannabis business	Ecommerce	Corporate	Eliminations and adjustments	Total
	\$	\$	\$	\$	\$	\$
Revenue	12,162,584	5,948,560	730,257	-	-	18,841,401
Intercompany revenue	-	1,475,365	-	-	(1,475,365)	-
Total revenue	12,162,584	7,423,925	730,257	-	(1,475,365)	18,841,401
Cost of sales	7,586,875	6,759,753	545,133	-	(1,478,601)	13,413,160
Gross profit	4,575,709	664,172	185,124	-	3,236	5,428,241
Net earnings/(loss)	559,244	272,451	71,223	(4,029,339)	3,236	(3,123,185)
Total assets	15,796,720	2,180,264	222,195	12,056,740	-	30,255,919
Total liabilities	9,876,080	1,960,532	151,390	4,437,444	-	16,425,446

<b>Nine months ended October 31, 2020</b>	<b>Retail cannabis stores</b>	<b>Wholesale cannabis business</b>	<b>Ecommerce</b>	<b>Corporate</b>	<b>Eliminations and adjustments</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Revenue	8,034,988	3,822,755	-	-	-	11,857,743
Intercompany revenue	-	1,129,520	-	-	(1,129,520)	-
Total revenue	8,034,988	4,952,275	-	-	(1,129,520)	11,857,743
Cost of sales	4,984,427	4,475,152	-	-	(1,117,158)	8,342,421
Gross profit (loss)	3,050,561	477,123	-	-	(12,362)	3,515,322
Net profit (loss)	357,853	237,968	-	(8,731,887)	(12,362)	(8,148,428)
Total assets	7,893,359	1,266,860	-	1,675,211	-	10,835,430
Total liabilities	641,951	729,350	-	3,713,362	-	5,084,663

<b>Three months ended October 31, 2021</b>	<b>Retail cannabis stores</b>	<b>Wholesale cannabis business</b>	<b>Ecommerce</b>	<b>Corporate</b>	<b>Eliminations and adjustments</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Revenue	4,614,740	2,280,172	589,246	-	-	7,484,158
Intercompany revenue	-	470,216	-	-	(470,216)	-
Total revenue	4,614,740	2,750,388	589,246	-	(470,216)	7,484,158
Cost of sales	2,883,544	2,433,502	443,588	-	(471,142)	5,289,492
Gross profit (loss)	1,731,196	316,886	145,658	-	926	2,194,666
Net profit (loss)	170,633	183,238	48,403	(1,482,866)	926	(1,079,666)
Total assets	15,796,720	2,180,264	222,195	12,056,740	-	30,255,919
Total liabilities	9,876,080	1,960,532	151,390	4,437,444	-	16,425,446

<b>Three months ended October 31, 2020</b>	<b>Retail cannabis stores</b>	<b>Wholesale cannabis business</b>	<b>Ecommerce</b>	<b>Corporate</b>	<b>Eliminations and adjustments</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Revenue	3,684,625	1,506,305	-	-	-	5,190,930
Intercompany revenue	-	486,949	-	-	(486,949)	-
Total revenue	3,684,625	1,993,254	-	-	(486,949)	5,190,930
Cost of sales	2,277,752	1,832,562	-	-	(483,175)	3,627,139
Gross profit (loss)	1,406,873	160,692	-	-	(3,774)	1,563,791
Net profit (loss)	337,900	99,789	-	(3,327,707)	(3,774)	(2,893,792)
Total assets	7,893,359	1,266,860	-	1,675,211	-	10,835,430
Total liabilities	641,951	729,350	-	3,713,362	-	5,084,663

The retail cannabis segment revenues for the nine months ending October 31, 2021 increased 51% as compared to the prior year. The revenue increases were attributed to both a 24% same store sales increase for the same period, and the addition of new retail store locations in Ontario through recent acquisitions. The Ontario expansion has added eight additional retail stores during this fiscal year. All were added through two acquisitions - Trinity Bellwoods location on July 12, 2021, six Hemisphere Cannabis locations in the GTA and Ottawa areas on September 24, 2021, and a seventh Hemisphere Cannabis location which opened on November 10, 2021. Kiara's first branded store is slated to open in Ontario in January 2022, and its sixth BC location also slated to open in Q4, which will result in 17 operational stores by the fiscal year end.

Margins in retail held steady at 37.5% for Q3 and 37.6% for the nine months ending October 31, 2021. The successful management of retail margins is a reflection of building a strong core competency in buying strategies that encompass category management, promotional cadence and market pricing research.

Additional marketing initiatives including Reserve Online, Pick Up In Store (“**ROPIS**”), MyKiaro membership program, gift card launch, an overhaul to the Company’s website and social media platforms, and community initiatives have all contributed to the increase in same-store sales year over year.

The wholesale cannabis segment in Saskatchewan is seeing positive impacts from the SLGA provincial legislation changes announced in September 2020 with market share increases, revenue increases, and improved supply of premium products.

A new eCommerce segment was added in late Q2 FY 2022 which further contributed to the growing revenue.

The significant reduction of corporate net losses by more than half in the corporate segment was due to the realized loss on the sale of marketable securities in the prior year, Q1 FY 2021, and expense efficiency. Increase in liabilities in the current year is due to a new convertible debt entered at the end of Q3 FY 2022, whereas in the prior year, \$6.5M of debt was converted to equity in October 2020.

## LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2021, the Company had a positive working capital of \$4,622,338 (January 31, 2021 - \$1,611,405) and had a current ratio of 1.50 as compared to 1.46 on January 31, 2021 as calculated per National Instrument NI31-103F1.

The Company expects cash resources to be sufficient to meet its short-term needs, including maintaining inventory to meet customers’ needs, the opening of current developmental locations, the closing and integration of the acquisition of 8651159 Canada Inc., and the closing and integration of the Hemisphere transaction. Management estimates that the current cash position should be sufficient for the Company to carry out the costs to maintain current operations through FY 2022 and any excess working capital will be applied to the Company’s growth strategy.

### Cash Flow Information

	Nine months ended	
	October 31, 2021	October 31, 2020
	\$	\$
Cash provided by (used in) operating activities	609,737	(1,254,518)
Cash provided by (used in) investing activities	(1,929,695)	(66,356)
Cash provided by (used in) financing activities	5,298,198	1,928,119
Net change in cash and cash equivalents	3,978,240	607,245
<b>Cash and cash equivalents, beginning</b>	<b>1,304,829</b>	<b>1,418,764</b>
<b>Cash and cash equivalents, ending</b>	<b>5,283,069</b>	<b>2,026,009</b>

Cash used in operating activities fluctuated quarter over quarter due to the net loss recognized and working capital requirements to support the relatable increase in revenue.

During the nine months ended of FY 2022, cash used in investing activities were primarily related to the acquisition and build out of the Kelowna location (Grasshopper Cannabis in March 2021), the acquisition and integration capex costs of 8651159 Canada Inc. (Vaped.com and Cozy Cannabis), the build out of the development locations from the Hemisphere acquisition, and final payments made to NCD in connection with the business combination that occurred in FY 2020.

Cash provided by financing activities in the nine months ended October 31, 2021, was due to issuance of common shares related to the bought deal private placement in March 2021 and October 2021 less payments on lease obligations. In the prior year, the Company received cash proceeds from the issuance of convertible debentures and promissory notes and was offset by repayment of promissory notes outstanding.

### Commitment and contractual obligations

In January, July, and October 2021, the Company entered into insurance contracts with an original term of 12 months. Payments are made monthly to satisfy these obligations.

As at October 31, 2021, the Company's financial liabilities have contractual maturities as summarized below:

	Due within Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities (excluding sale taxes payable)	3,863,181	-	-	-	-	3,863,181
Due to related parties	3,241	-	-	-	-	3,241
Lease liabilities	2,371,106	2,209,616	1,632,146	1,443,460	6,286,220	13,942,548
Long-term liabilities	1,120,450	303,720	4,161,289	3,000	61,500	5,649,960
<b>Total</b>	<b>7,357,978</b>	<b>2,513,336</b>	<b>5,793,435</b>	<b>1,446,460</b>	<b>6,347,720</b>	<b>23,458,930</b>

As at October 31, 2021, the Company leased its corporate office, eighteen retail locations, and wholesale distribution warehouse. The lease liability represented the Company's commitment to these leases until their expiration date. All retail leases that the Company holds are operational, except three locations in Kelowna, Nananee, and Belleville.

The Company's long-term liabilities included the CEBA loan of \$60,000, promissory notes of \$104,629, and convertible debentures issued in the total principal amount of \$3,759,000.

## OFF-BALANCE SHEET TRANSACTIONS

The Company has not entered into any significant off-balance sheet arrangements or commitments.

## RELATED PARTY TRANSACTIONS

During the three and nine months ended October 31, 2021, the Company had the following transactions with related parties as defined in *IAS 24 – Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment and/or directorship arrangements and transactions with the Company's shareholders in the form of various financing. Related parties include the Company's key management personnel, independent directors, and shareholders. Transactions with related parties were conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties.

As at October 31, 2021, the company has a convertible debenture with a balance of \$700,000 maturing May 31, 2022, owing to a company controlled by the CEO, with interest owing on the convertible debenture of \$79,333 (January 31, 2021 – \$51,163).

As at October 31, 2021, the Company has payables to related parties of \$3,241 (January 31, 2021 – \$147,817).

## CRITICAL ACCOUNTING ESTIMATES

The preparation of Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period or during the period of the revision and further periods if the review affects both current and future periods.

The areas involving a higher degree of judgment of complexity or where assumptions and estimates are significant to the Financial Statements are as follows:

### *Business combinations*

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. For a business combination, judgement is also made on identifying assets acquired. In determining the allocation of purchase price, the most significant estimates generally relate to the present value of future consideration and fair value of intangible assets. Management exercises judgment in estimating the discount rate to be used to

determine the present value of future consideration. Identified intangible assets are fair valued using appropriate valuation techniques. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

#### *Useful lives of property and equipment and impairment*

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

#### *Goodwill and intangible assets*

Goodwill and indefinite life intangible assets are tested annually for impairment by comparing the carrying value of each cash-generating unit (“**CGU**”) containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGUs for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment. An impairment loss is recognized for the amount by which the CGU’s carrying amount exceeds its recoverable amount. The recoverable amounts of the CGUs’ assets have been determined based on a fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. The key assumptions used in the calculation of the recoverable amount relate to future cash flows and growth projections, future weighted average cost of capital and the terminal growth rate. These key assumptions are based on historical data from internal sources as well as industry and market trends.

#### *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques.

The carrying value of loans and borrowings for disclosure purposes is derived using the amortized cost method, by calculating the accretion expense at market-related interest rate less the actual interest expense. Where the carrying value does not approximate the fair value of financial assets and liabilities, valuation techniques such as the discounted cash flow model are used.

The fair value of conversion feature is dependent upon estimated probability and timing of conversion. In addition, estimated benefit the holder will get from conversion were also considered in determining the fair value of the conversion feature.

The inputs to the appropriate models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments also include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

#### *Share-based compensation and warrants*

The estimation of share-based compensation and warrants requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.

#### *Income taxes*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by

taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### *Inventory*

Inventory is carried at the lower of cost and net realizable value. In estimating net realizable value, the Company considers the impact of obsolescence, price fluctuations, and fluctuations in inventory levels.

## **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies in the Note 3 of the Company's audited consolidated financial statements for the year ended January 31, 2021, and interim financial statements for the quarter ended October 31, 2021, have been consistently applied to all periods presented in the Financial Statements.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### ***Financial Risk Management Objectives and Policies***

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risk, credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility. Financial risks are primarily managed and monitored through operating and financing activities. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

A summary of the Company's risk exposures as they relate to financial instruments is reflected below:

### **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

#### a) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of the acquisition of 8651159 Canada Inc., the Company began to operate outside of Canada with foreign currency bank accounts and to transact in foreign currencies. The Company's exposure to currency risk as at October 31, 2021, represented approximately 4% of sales. The Company was not exposed to currency risk as at January 31, 2021.

#### b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at market rates. The Company's long-term liabilities with fixed rates of interest do not expose the Company to interest rate risk.

#### c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is currently not subject to price risk. In the prior year and until date of sale, the Company's investments in the marketable securities were susceptible to price risk arising from uncertainties about their future values. The fair value of these investments is based on quoted market prices which the shares of the investments can be exchanged for.

## Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

As at October 31, 2021, the Company had \$5,283,069 in cash and cash equivalents (January 31, 2021 – \$1,304,829). The Company is obligated to pay financial liabilities with total carrying amounts of \$6,097,295 (January 31, 2021 – \$2,420,655) in the next 12 months.

## Credit Risk

Credit risk arises from cash and cash equivalents held with banks, trade and other receivable (excluding GST receivable), and loan receivable. The Company does not have a significant concentration of credit risk with any customer and its maximum risk exposure is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent loss on financial assets. The Company minimizes credit risk as cash and cash equivalents are held by reputable financial institutions. The Company is not aware of any material collection issues. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. Trade receivables are written off when there is no reasonable expectation of recovery.

## Fair Value Measurement

The Company classifies its financial instruments using a fair value hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – Unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Fair value through profit or loss	October 31, 2021			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Embedded derivative liability	-	-	198,929	198,929
	-	-	198,929	198,929

The Company estimates the fair value of embedded derivative liability at each reporting date using discounted cash flow model. The significant unobservable input used in the model was the interest rate of 1.00% (January 31, 2021 – 0.14%).

For cash and cash equivalents, trade and other receivables (excluding GST receivable), loan receivable, accounts payable and accrued liabilities (excluding GST and PST payable), and due to related parties, fair value approximates their carrying value at the period end due to their short-term maturities. For net investment in finance lease, purchase liability and long-term liabilities, fair value approximates their carrying value at the fiscal year end as the interest rates used to discount the host contracts approximate market rates.

## SUMMARY OF OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of common shares without a par value and an unlimited number of preferred shares without par value.

As at October 31, 2021, and the date of this MD&A, the Company had the following securities outstanding:

<b>Securities</b>	<b>October 31, 2021</b>	<b>Date of report</b>
Issued and outstanding common shares	261,460,546	268,160,546
Stock options	11,115,932	11,157,598
Warrants	37,928,323	37,749,990
Convertible debentures <sup>(1)</sup>	31,796,496	32,113,885

<sup>(1)</sup> Includes accrued and unpaid interest up to December 16, 2021, which would be convertible to common shares.

## **RISK FACTORS**

In addition to the other information included in this report, readers should consider carefully the following factors, which describe the risks, uncertainties and other factors that may materially and adversely affect our business, products, financial condition and operating results. There are many factors that affect our business and our results of operations, some of which are beyond our control. The following is a description of some of, but not all of, the important factors that may cause our actual results of operations in future periods to differ materially from those currently expected or discussed in the FLS set forth in this report relating to our financial results, operations and business prospects. Except as required by law, we undertake no obligation to update any such FLS to reflect events or circumstances after the date of this MD&A.

For the purposes of this section, “**Material Adverse Change**” means any change of circumstances or any event which has, or would reasonably be expected to have, a material adverse effect in respect of the Company, any one or more changes, events or occurrences, and “**material adverse effect**” means, in respect of the Company, any change (or any condition, event or development involving a prospective change) in the business, operations, affairs (including the employment status of key employees), assets, liabilities (including any contingent liabilities that may arise through outstanding, pending or threatened litigation or otherwise) capitalization, financial condition, licenses, permits, rights or privileges of Kiaro or any of its subsidiaries which in the judgment of the Company, acting reasonably in the circumstances, could reasonably be expected to materially and adversely affect the Company and its subsidiaries taken as a whole or the value of the securities of the Company.

These risks include, but are not limited to the following:

### **The Company may issue additional equity securities**

The Company may issue equity securities to finance its activities. If the Company were to issue additional equity securities, the ownership interest of existing shareholders may be diluted and some or all of the Company’s financial measures on a per share basis could be reduced. Moreover, as the Company’s intention to issue additional equity securities becomes publicly known, the Company’s common share price may be materially adversely affected.

### **Being a Public Company May Increase Price Volatility**

The Company’s status as a reporting issuer may increase price volatility due to various factors, including the ability to buy or sell Company’s common shares, different market conditions in different capital markets and different trading volumes. In addition, low trading volume may increase the price volatility of the Company’s common shares. The increased price volatility could adversely affect the results of operations or financial condition.

### **Company’s officers and directors controls a large percentage of the Company’s issued and outstanding common shares and such officers and directors may have the ability to control matters affecting the Company and its business**

The Company’s shareholders nominate and elect the board of directors, which generally have the ability to control the acquisition or disposition of the Company’s assets, and the future issuance of the Company’s common shares or other securities. Accordingly, for any matters with respect to which a majority vote of the Company’s common shares may be required by law, Mr. Daniel Petrov may have the ability to control such matters. Because Mr. Petrov controls a substantial portion of the Company’s shares, investors may find it difficult or impossible to replace the Company’s directors if they disagree with the way the Company’s business is being operated.

Furthermore, the interests of Mr. Petrov and other shareholders are not necessarily aligned in all respects and there can be no assurance that Mr. Petrov will exercise his rights as the Company's largest shareholder in a manner consistent with the best interests of the Company's other shareholders.

From time to time the directors and executive officers of the Company may sell their common shares on the open market. These sales will be publicly disclosed in filings made with securities regulators. In the future, the directors and executive officers of the Company may sell a significant number of their common shares for a variety of reasons unrelated to the performance of the Company's business. The shareholders of the Company may perceive these sales as a reflection on management's view of the business and result in some shareholders selling their common shares. These sales could cause the market price of the Company common shares to drop.

### **Dependence on Key Management Personnel**

The success of the Company is dependent upon the ability, expertise, judgment, discretion, and good faith of its senior management as well as certain consultants (the "**Key Personnel**"). The Company's future success depends on its continuing ability to attract, develop, motivate, and retain the Key Personnel. Qualified individuals for Key Personnel positions are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a Material Adverse Effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment and consulting agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such individuals and consultants.

### **Conflicts of Interest**

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers, directors and consultants may be engaged in a range of business activities. The Company's executive officers, directors and consultants may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers, directors and consultants may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers, directors and consultants.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors, officers and consultants who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

### **Factors which may prevent the Company from the realization of growth targets**

The Company will be in the expansion from the early development stage. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these "Risk Factors" and the following:

- Inability to acquire assets permitting the operation of additional retail locations on acceptable commercial terms;
- delays in obtaining, or conditions imposed by, regulatory approvals;
- non-performance by third party contractors;
- increases in materials or labour costs;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- operational inefficiencies;

- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply chain; and
- major incidents and/or catastrophic events such as fires, explosions, storms, pandemic, or physical attacks.

### **Licenses and Permits**

The operations of the Company will require licenses and permits from various governmental authorities. The Company currently has all permits and licenses that it believes are necessary to carry on its current business operation with the intention of obtaining additional licenses and permits for additional operations. The Company may require additional licenses or permits in the future to achieve its intended operations and there can be no assurance that the Company will be able to obtain all such additional licenses and permits. In addition, there can be no assurance that any existing license or permit will be renewed if and when required or that such existing licenses and permits will not be revoked.

The Company may be required to obtain or renew further government permits and licenses for its operations. Obtaining, amending, or renewing the necessary governmental permits and licenses can be a time-consuming process, potentially involving numerous regulatory agencies, and involving public hearings and costly undertakings on the Company's part. The duration and success of the Company's efforts to obtain, amend, and renew permits and licenses are contingent upon many variables not within its control, including the interpretation of and amendments to applicable requirements implemented by the relevant permitting or licensing authority. The Company may not be able to obtain, amend or renew permits or licenses that are necessary to its operations. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Company. To the extent necessary permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a Material Adverse Effect on the Company's business, financial condition, results of operations or prospects.

The Company will be dependent on suppliers and distributors being able to provide certain products. The type of supplier or distributor will vary amongst the provinces. In some provinces, independent suppliers are allowed to operate provided that they have the appropriate licenses, while in other provinces the governing body administers the entirety of the wholesale and distribution operations in the province. In those provinces that allow independent licensed suppliers to operate, the Company will rely on the suppliers' licenses, or ability to obtain additional licenses, which are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of these licenses or any failure to obtain or maintain such licenses could have a material adverse impact on the business, financial condition and operating results of the Company. There can be no guarantee that the provincial regulator will issue, extend or renew these licenses or, if issued, extended or renewed, that they will be issued, extended or renewed on terms that are favourable to the Company's suppliers and the Company. Should the provincial cannabis regulators not issue, extend or renew the licenses or should they issue or renew the licenses on terms that are less favourable to such supplier and the Company than anticipated, the business, financial condition and results of the operations of the Company could be materially adversely affected.

### **Changes in Laws, Regulations, and Guidelines**

The *Cannabis Act* came into force on October 17, 2018 and was subsequently amended on October 17, 2019. However, uncertainty remains with respect to the implementation of the *Cannabis Act* and federal regulations thereunder, as well as the various provincial and territorial regimes governing the distribution and sale of cannabis for adult-use purposes. The implementation of the legislative framework pertaining to the Canadian cannabis market remains ever changing and uncertain. The impact of new laws, regulations, and guidelines on the business of the Company, including increased costs of compliance and other potential risks, cannot be predicted, and accordingly, the Company may experience adverse effects.

### **Compliance with Laws**

The Company's and many of its suppliers' operations will be subject to various laws, regulations, and guidelines. The Company will endeavour to comply with all applicable laws, regulations, and guidelines. However, there is a

risk that the Company's interpretation of laws, regulations, and guidelines, including, but not limited to the *Cannabis Act*, the regulations thereunder, applicable provincial licensing rules and regulations, and applicable stock exchange rules and regulations, may differ from those of others, and the Company's or its suppliers' operations may not be in compliance with such laws, regulations and guidelines. In addition, achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and, where necessary, obtaining regulatory approvals. The impact of regulatory compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals required by the Company may significantly delay or impact the development of the Company's business and operations and could have a Material Adverse Effect on the business, results of operations and financial condition of the Company. Any potential non-compliance could cause the business, financial condition and results of the operations of the Company to be adversely affected. Further, any amendment to or replacement of the *Cannabis Act* or other applicable rules and regulations governing the activities of the Company and its suppliers may cause adverse effects to the Company's operations. The risks to the business of the Company or its suppliers associated with the decision to amend or replace the *Cannabis Act* and subsequent regulatory changes, could reduce the potential customers of the Company and could materially and adversely affect the business, financial condition and results of operations of the Company.

It is unclear how certain regulatory bodies will interpret commercial agreements with respect to licensed retail cannabis operations. The Company intends to enter into commercial agreements in compliance with all applicable law, however provincial regulators are continuing to provide guidance on how cannabis retailers should interpret certain provincial rules and regulations. In the event provincial regulators indicate that they shall interpret certain rules and regulations in a manner inconsistent with that of cannabis retailers, including, but not limited to the Company, this could result in the Company being unable to enter into certain commercial agreements or provide certain services which could have a Material Adverse Effect on the business, results of operations, and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws and regulations may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures or remedial actions. Parties may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws or regulations, may have a material adverse impact on the Company or its suppliers, resulting in increased capital expenditures or production costs, reduced levels of cannabis production or abandonment or delays in the development of facilities which could have a Material Adverse Effect on the business, results of operations and financial condition of the Company.

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of, existing tax laws, regulations or rules could result in an increase in the Company's taxes, or other governmental charges, duties or impositions. No assurance can be given that new tax laws, regulations or rules will not be enacted or that existing tax laws, regulations or rules will not be changed, interpreted or applied in a manner which could result in the Company's profits being subject to additional taxation or which could otherwise have a Material Adverse Effect on the Company.

Due to the nature of the Company's operations, various legal and tax matters may be outstanding from time to time. If the Company is unable to resolve any of these matters favourably, there may be a Material Adverse Effect on the Company. There are also risks to the business of the Company represented by court rulings or legislative changes.

### **Requirements of Being a Public Company May Strain the Company's Resources**

As a reporting issuer, the Company, and its business activities, will be subject to the reporting requirements of applicable securities legislation of the jurisdiction in which it is a reporting issuer, the listing requirements of the exchange on which it would be listed and other applicable securities rules and regulations. Compliance with those rules and regulations will increase the Company's legal and financial costs as compared to the Company's current activities making some activities more difficult, time consuming or costly and increase demand on its systems and resources.

## **Risks Relating to its Suppliers**

In addition, the risk factors that may impact the business, operations and financial condition of the Company and its suppliers noted above, the risk factors contemplated herein may directly impact the business, operations, and financial condition of the Company's suppliers and, accordingly, may have an indirect Material Adverse Effect on the Company.

## **Reliance on Supplier Facilities**

The facilities of the Company's suppliers could be subject to adverse changes or developments, including but not limited to a breach of security, which could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by governmental authorities, could also have an impact on the Company's suppliers' ability to continue operating under their licenses or the prospect of renewing their licenses, which may have an adverse effect on the Company.

## **Risks Inherent in Strategic Alliances**

The Company may enter into strategic alliances with third parties that it believes will complement or augment its existing business. The Company's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance the Company's business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted from operations to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all.

## **Competition**

The private retail cannabis industry is very competitive, with the most significant competition from other entities with multiple licenses in multiple jurisdictions, which may have greater resources or longer operating histories. The Company believes that its competition can be broadly grouped into four categories: (a) large vertically integrated competitors; (b) competitors with existing retail operations; (c) government retailers; and (d) the unregulated market.

## **Leases**

The Company may enter into lease agreements for locations in respect of which at the time of entering such agreement, it does not have the appropriate zoning, permit or licence to sell cannabis products. In the event the Company is unable to obtain the appropriate zoning, permit and/or licence to sell cannabis products at such locations in compliance with applicable law, such leases may become a liability of the Company without a corresponding revenue stream (subject to stores where the Company may sell cannabis accessories only, in compliance with applicable law). In the event that the Company is unable to obtain the appropriate zoning, permits and/or licences at numerous locations for which it has or will have a lease obligation, this could have a material adverse effect on the Company's business, financial conditions and operating results.

## **Limited Operating History**

The Company has a limited history of operations and will be in the early stage of development as it attempts to create an infrastructure to capitalize on the opportunity for value creation in the cannabis industry. The Company will therefore be subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of sufficient revenues. The limited operating history may also make it difficult for investors to evaluate the Company's prospects for success. There is no assurance that the Company will be successful, and the likelihood of success must be considered in light of its early stage of operations.

The Company may not be able to achieve or maintain profitability and may incur losses in the future. In addition, the Company is expected to increase its capital investments as it implements initiatives to grow its business. If

the Company's revenues do not increase to offset these expected increases, the Company may not generate positive cash flow. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding.

### **Fraudulent or Illegal Activity by Employees, Contractors and Consultants**

The Company may be exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (a) government regulations; (b) federal and provincial healthcare fraud and abuse laws and regulations; or (c) laws that require the true, complete, and accurate reporting of financial information or data. It may not always be possible for the Company to identify and deter such misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, such actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of Company's operations, any of which could have a Material Adverse Effect on the Company's business, financial condition, results of operations or prospects.

### **Internal Controls**

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards in order to help ensure the reliability of its financial reports, including those imposed on the Company under applicable law, in each case the Company cannot be certain that such measures will ensure that the Company maintains adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's Financial Statements and could result in a Material Adverse Effect.

### **General Economic Risks**

The Company's operations could be affected by the economic context should interest rates, inflation or the unemployment level reach levels that influence consumer trends and spending and, consequently, impact the Company's sales and profitability.

Any investors should further consider, among other factors, the Company's prospects for success in light of the risks and uncertainties encountered by companies that, like the Company, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur, which may result in material delays in the operation of the Company's business. The Company may not successfully address these risks and uncertainties or successfully implement its operating strategies. If the Company fails to do so, it could materially harm the Company's business to the point of having to cease operations and could impair the value of the Company's securities.

### **Uncertainty of Use of Proceeds**

Although the Company has set out its intended use of proceeds, these intended uses are estimates only and subject to change. While management does not contemplate any material variation, management does retain broad discretion in the application of such proceeds. The failure by the Company to apply these funds effectively could have a material adverse effect on the Company's business, including the Company's ability to achieve its stated business objectives.

**Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company's business strategy, may result in the Company's inability to realize any benefit from such acquisition**

The Company expects to grow by acquiring assets and businesses. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

When the Company acquires cannabis businesses, it may obtain the rights to applications for licenses as well as licenses; however, the procurement of such applications for licenses and licenses generally will be subject to governmental and regulatory approval. There are no guarantees that the Company will successfully consummate such acquisitions, and even if the Company consummates such acquisitions, the procurement of applications for licenses may never result in the grant of a license by any state or local governmental or regulatory agency and the transfer of any rights to licenses may never be approved by the applicable state and/or local governmental or regulatory agency.

### **Credit and Liquidity Risk**

The Company will be exposed to counterparty risks and liquidity risks including, but not limited to:

- through suppliers of the Company which may experience financial, operational or other difficulties, including insolvency, which could limit or suspend those suppliers' ability to perform their obligations under agreements with the Company;
- through financial institutions that may hold the Company's cash and cash equivalents;
- through companies that will have payables to the Company;
- through the Company's insurance providers; and
- through the Company's lenders, if any.

The Company will also be exposed to liquidity risks in meeting its operating expenditure requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability of the Company to obtain loans and other credit facilities in the future and, if obtained, on terms favourable to the Company. If these risks materialize, the Company's operations could be adversely impacted, and the price of the Company's common shares could be adversely affected.

### **Liquidity and Additional Financing**

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

### **Difficulty to Forecast**

The Company will need to rely largely on its own market research to forecast industry statistics as detailed forecasts are not generally obtainable, if obtainable at all, from other sources at this early stage of the adult-use cannabis industry. Failure in the demand for the adult-use cannabis products as a result of competition,

technological change, change in the regulatory or legal landscape or other factors could have a Material Adverse Effect on the business, results of operations and financial condition of the Company.

### **Cannabis Prices**

The price of the Company's common shares and the Company's financial results may be significantly and adversely affected by a decline in the price of cannabis. There is currently no established market price for cannabis, and the price of cannabis is affected by numerous factors beyond the Company's control. Any price decline may have a Material Adverse Effect on the Company.

The profitability of the Company's may be directly related to the price of cannabis. The Company's operating income may be sensitive to changes in the price of cannabis and the overall condition of the cannabis industry, as its operating income will be derived in part from royalty payments or cannabis streams.

### **Reputational Risk**

The Company believes that the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis stocked at retail locations of the Company. Consumer perception can be significantly influenced by scientific research or findings, regulatory proceedings, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a Material Adverse Effect on the demand within the cannabis industry, which could affect the business, results of operations, financial condition and cash flows of the Company. The Company's dependence on 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, the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of 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 legally, appropriately or as directed.

In addition, the parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. For example, the Company could receive a notification from a banker advising it that they would no longer maintain banking relationships with those in the cannabis industry. The Company may in the future have difficulty establishing or maintaining bank accounts or other business relationships. Failure to establish or maintain business relationships could have a Material Adverse Effect on the Company.

### **Management of Growth**

The Company may be subject to growth-related risks. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a Material Adverse Effect on the Company's business, financial condition, results of operations and growth prospects.

### **No assurance that the Company will turn a profit**

There is no assurance as to whether the Company will be profitable or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business. The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements.

There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

### **If the Company is unable to stock in-demand products or brands, it may not be able to keep pace with market developments**

The cannabis industry is in its early stages and it is likely that the Company and its competitors will seek to introduce in-demand products and brands in the future to their stock. In attempting to keep pace with any new market developments, the Company will need to expend significant amounts of capital in order to successfully procure and generate revenues from, in-demand products and brands. The Company may also be required to obtain additional regulatory approvals from applicable authorities which may take significant time. The Company may not be successful in procuring in-demand products and brands, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which together with capital expenditures made in the court of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

### **Equity Price Risk**

The Company may be exposed to equity price risk as a result of holding long-term investments in other companies. Just as investing in the Company is inherent with risks such as those set out in this MD&A, by investing in these other companies, the Company may be exposed to the risks associated with owning equity securities and those risks inherent in the investee companies.

### **Anti-Money Laundering Laws and Regulation Risks**

The Company is subject to a variety of laws and regulations domestically and internationally that concern money laundering, financial recordkeeping and proceeds of crime, including the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities internationally.

In the event that any of the Company's proceeds, any dividends or distributions therefrom, or any profits or revenues accruing from operations were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

### **Unknown Defects and Impairments**

A defect in any business arrangement may arise to defeat or impair the claim of the Company to such transaction, which may have a Material Adverse Effect on the Company. It is possible that material changes could occur that may adversely affect management's estimate of the recoverable amount for any agreement the Company may enter. Impairment estimates, based on applicable key assumptions and sensitivity analysis, will be based on management's best knowledge of the amounts, events or actions at such time, and the actual future outcomes may differ from any estimates that are provided by the Company. Any impairment charges on the Company's carrying value of business arrangements could have a Material Adverse Effect on the Company.

### **Litigation**

The Company may from time to time be involved in various claims, legal proceedings and disputes arising in the ordinary course of business. If the Company is unable to resolve these disputes favourably, it may have a Material Adverse Effect on the Company. Even if the Company is involved in litigation and is successful, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company. Securities litigation could result in substantial costs and damages and divert the Company's management's attention and resources. Any decision resulting from any such litigation that is adverse to the Company could have a negative impact on the Company's financial position.

### **Hedging Risk**

The Company may hedge or enter into forward sales of its forecasted right to purchase cannabis. Hedging involves certain inherent risks including:

- Credit risk – the risk that the creditworthiness of a counterparty may adversely affect its ability to perform its payment and other obligations under its agreement with the Company or adversely affect the financial and other terms the counterparty is able to offer the Company;
- Market liquidity risk – the risk that the Company has entered into a hedging position that cannot be closed out quickly, by either liquidating such hedging instrument or by establishing an offsetting position; and
- Unrealized fair value adjustment risk – the risk that, in respect of certain hedging products, an adverse change in market prices for cannabis will result in the Company incurring losses in respect of such hedging products as a result of the hedging products being out-of-the-money on their settlement dates.

There can be no assurance that a hedging program designed to reduce the risks associated with price fluctuations will be successful. Although hedging may protect the Company from adverse changes in price fluctuations, it may also prevent the Company from fully benefiting from positive changes.

### **Cybersecurity Risks**

The information systems of the Company and any third-party service providers and vendors are vulnerable to an increasing threat of continually evolving cybersecurity risks. These risks may take the form of malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks, and may occur from inside or outside of the respective organizations. Cybersecurity risk is increasingly difficult to identify and quantify and cannot be fully mitigated because of the rapid evolving nature of the threats, targets and consequences. Additionally, unauthorized parties may attempt to gain access to these systems through fraud or other means of deceiving third-party service providers, employees or vendors. The operations of the Company depend, in part, on how well networks, equipment, IT systems and software are protected against damage from a number of threats. These operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. However, if the Company is unable or delayed in maintaining, upgrading or replacing IT systems and software, the risk of a cybersecurity incident could materially increase. Any of these and other events could result in information system failures, delays and/or increases in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the reputation and results of operations of the Company.

### **Dividend Policy**

The declaration, timing, amount and payment of dividends are at the discretion of the Company's board of directors and will depend upon the Company's future earnings, cash flows, acquisition capital requirements and financial condition, and other relevant factors. There can be no assurance that the Company will declare a dividend on a quarterly, annual or other basis.

### **Operating Risks**

Cannabis operations generally involve a high degree of risk. The Company's suppliers will be subject to all of the hazards and risks normally encountered in the cannabis industry. Should any of these risks or hazards affect its suppliers generally, it could result in the delay of product supplied or increase the price of the product generally. The occurrence of either of the above mentioned risks or hazards could have a Material Adverse Effect on the ability of the Company to carry out its business and the price of the Company's securities.

### **Customer Acquisitions**

The Company's success depends, in part, on the Company's ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to the successful implementation of marketing plans and the continued growth in the aggregate number of customers. The failure to acquire and retain customers would have a Material Adverse Effect on the Company's business, operating results and financial condition.

### **Constraints on Marketing Products**

The development of the Company's businesses and operating results may be hindered by applicable restrictions on marketing. The Canadian federal regulatory regime requires plain packaging of products, and has further

prohibitions with respect to marketing, including prohibitions on testimonials, lifestyle branding and packaging that is appealing to youth.

The regulatory environment in Canada and abroad 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 selling prices for its products, the Company's sales and operating results could be adversely affected, which could have a materially adverse effect on the Company's business, financial condition and operating results.

### **Risks Inherent in an Agricultural Business**

The business of certain of the Company's suppliers involves the growing of cannabis. Cannabis is an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. In the case of outdoor cultivation, weather conditions, which can vary substantially from year to year, have a significant impact on the size and quality of the harvest of the crops processed and sold by the Company's suppliers. Significant fluctuations in the total harvest will impact the Company's ability to operate. High degrees of quality variance can also affect the ability of the Company to obtain and retain customers. There can be no assurance that natural elements will not have a Material Adverse Effect on the production of products by the Company's supplier, which may have a Material Adverse Effect on the Company.

### **Wholesale Price Volatility**

The cannabis industry is a margin-based business in which gross profits depend on the excess of sales prices over costs. Consequently, profitability is sensitive to fluctuations in wholesale and retail prices caused by changes in supply (which itself depends on other factors such as weather, fuel, equipment and labour costs, shipping costs, economic situation and demand), taxes, government programs and policies for the cannabis industry (including price controls and wholesale price restrictions that may be imposed by provincial agencies responsible for the sale of cannabis), and other market conditions, all of which are factors beyond the control of the Company.

### **Product Recalls**

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by the Company's suppliers are recalled due to an alleged product defect or for any other reason, the Company may be required to incur unexpected expenses relating to the recall, such as finding a suitable alternative to the recalled product, and potentially any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant management attention. There can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company's suppliers were subject to recall, the image of that product, the supplier and the Company's reputation as a carrier of that product could be harmed. A recall for any of the foregoing reasons could lead to decreased demand and could have a Material Adverse Effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses, which may also have an adverse effect on the Company.

### **Product Liability**

As a seller of products designed to be ingested by humans, the Company will face an inherent risk of exposure to product liability claims, regulatory action and litigation if the products it sells are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including that the

products they sell caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs to the Company, could adversely affect the Company's reputation with its clients and consumers generally, and could have a Material Adverse Effect on our results of operations and financial condition of the Company. There can be no assurances that the Company or the Company's suppliers will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

### **Environmental and Employee Health and Safety Regulations**

The Company's operations may be subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Accordingly, the Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in costs for corrective measures, penalties or in restrictions on certain of the Company's operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a Material Adverse Effect on the business, results of operations and financial condition of the Company.

### **Reliance on Key Inputs**

Certain of the Company's businesses are dependent on a number of key inputs and their related costs including supplies and stock related to their retail operations. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the financial condition and operating results of these suppliers. Any inability to secure required supplies, stock, and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of these suppliers, in which circumstance there could be a materially adverse effect on the financial results of the Company.

### **Intellectual Property**

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights brought in from the acquisition of Kiaro are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products and technology. Policing the unauthorized use of the Company's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. In addition, in any infringement proceeding, some or all of the trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of the trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect the business, financial condition and results of operations of the Company.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. As well, the Company may need to obtain licences from third parties who allege that the Company has infringed on their lawful rights. However, such licences may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licences or other rights with respect to intellectual property that it does not own.

### **Transportation Risks**

The Company's suppliers will depend on fast and efficient courier services. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company and/or the suppliers. Due to the nature of the business of the Company, security of product during transport is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the business, financial condition and prospects of the Company. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada or other regulatory agencies, could also have an impact on the Company's and/or its suppliers' ability to continue operating.

### **Forward-Looking Information May Prove Inaccurate**

Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Readers should carefully consider the risk factors set out in this MD&A and consider all other information contained herein before making a decision with respect to the Amalgamation Agreement. If any of the risks described above materialize, the business, financial condition or results of operations of the Parties could be materially and adversely affected. Additional risks and uncertainties not currently known to or currently seen as immaterial by management of Company may also materially and adversely affect the business, financial condition or results of operations of the Parties.

### **Challenging Global Financial Conditions**

Global financial conditions, particularly in light of the recent COVID-19 pandemic, have been characterized by increased volatility, with numerous financial institutions having either gone into bankruptcy or having to be rescued by government authorities. Global financial conditions could suddenly and rapidly destabilize in response to future events, as government authorities may have limited resources to respond to future crises. Global capital markets have continued to display increased volatility in response to global events. Future crises may be precipitated by any number of causes, including natural disasters, geopolitical instability, changes to energy prices or sovereign defaults. Any sudden or rapid destabilization of global economic conditions could negatively impact the ability of the Company, or the ability of the operators of the companies in which the Company will hold interests, to obtain equity or debt financing or make other suitable arrangements to finance their projects. If increased levels of volatility continue or in the event of a rapid destabilization of global economic conditions, it may result in a Material Adverse Effect on the Company and the price of the Company's securities could be adversely affected.

### **Global Pandemic**

As a result of the global outbreak of COVID-19 and its declaration by the World Health Organization to be a "pandemic", certain actions are being taken by governments and businesses around the world to control the outbreak, including restrictions on public activities, travel and commercial operations. As such, the Company's ability to operate its business and its sales revenue, results of operations, cash flow and liquidity may be adversely impacted.

The COVID-19 pandemic, the measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, shutdowns and restrictions on trade, and the resulting changes in customer and consumer behaviours have disrupted and will continue to disrupt the Company's normal operations and impact employees, suppliers, partners, and customers. The degree to which COVID-19 will affect the Company's results and operations will depend on future developments that are highly uncertain and cannot currently be predicted, including, but not limited to, the duration, extent and severity of the COVID-19 pandemic, actions taken to contain the COVID-19 pandemic, the impact of the COVID-19 pandemic and related restrictions on economic activity and domestic and international trade, and the extent of the impact of these and other factors on the Company's employees, partners, suppliers, and customers.

The COVID-19 pandemic and related restrictions could limit customers' ability to continue to operate, lead to disruption in the Company's supply chain, disrupt or delay the ability of employees to work because they become

sick or are required to care for those who become sick, cause delays or disruptions in services provided by key suppliers, increase vulnerability of the Company and its partners and service providers to security breaches, denial of service attacks or other hacking or phishing attacks, or cause other unpredictable events. COVID-19 has also caused heightened uncertainty in the global economy. If economic growth slows further or if a recession develops or continues to develop, consumers may not have the financial means to make purchases from the Company and may delay or reduce discretionary purchases, negatively impacting the Company's operations.

Since the impact of COVID-19 is ongoing, the effect of the COVID-19 pandemic and the related impact on the global economy may not be fully reflected in the Company's results of operations until future periods. Further, volatility in the capital markets has been heightened during recent months and such volatility may continue, which may cause declines in the price of the Company's common shares, increasing the risk that securities class action litigation could be instituted against the Company.

## **OTHER INFORMATION**

Additional information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).