ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of MedMen Enterprises Inc. ("**MedMen Enterprises**", "**MedMe**n" or the "**Company**") is for the three and six months ended December 26, 2020. The following discussion should be read in conjunction with, and is qualified in its entirety by, the unaudited condensed consolidated financial statements and the accompanying notes presented in Item 1 of this Form 10-Q and those discussed in Item 13 of the Company's Registration Statement on Form 10 (the "**Form 10**") originally filed with the SEC on August 24, 2020, and as subsequently amended. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties. Future results could differ materially from those discussed below for many reasons, including the risks described in "Disclosure Regarding Forward-Looking Statements," Item 1A— "Risk Factors" and elsewhere in this Form 10-Q.*

We are a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act. Accordingly, we have omitted certain information called for by this Item as permitted by applicable scaled disclosure rules.

Basis of Presentation

All references to "$" and "dollars" refer to U.S. dollars. References to C$ refer to Canadian dollars. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding.

Fiscal Period

The Company's fiscal year is a 52/53-week year ending on the last Saturday in June. In a 52-week fiscal year, each of the Company's quarterly periods will comprise 13 weeks. The additional week in a 53-week fiscal year is added to the fourth quarter, making such quarter consist of 14 weeks. The Company's first 53-week fiscal year will occur in fiscal year 2024. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company's fiscal years ended in June and the associated quarters, months and periods of those fiscal years. For the current interim period, the three months ended December 26, 2020 and December 28, 2019 refer to the 13 weeks ended therein, and the six months ended December 26, 2020 and December 28, 2019 refer to the 26 weeks ended therein.

Selected Financial Data

The following table sets forth the Company's selected consolidated financial data for the periods, and as of the dates, indicated. The Condensed Consolidated Statements of Operations data for the three and six months ended December 26, 2020 and December 28, 2019 have been derived from the unaudited interim Condensed Consolidated Financial Statements of the Company and its subsidiaries, which are included in Item 1 of this Quarterly Report on Form 10-Q ("**Form 10-Q**").

The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("**MD&A**") and the unaudited interim Condensed Consolidated Financial Statements and related notes presented in Item 1 of this Form 10-Q. The Company's unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("**GAAP**") and on a going concern basis that contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business.

($ in Millions)	Three Months Ended		Six Months Ended	
	December 26, 2020	December 28, 2019	December 26, 2020	December 28, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	$ 33.8	$ 44.1	$ 69.4	$ 83.7
Gross Profit	$ 17.9	$ 12.8	$ 34.8	$ 32.2
Loss from Operations	$ (26.4)	$ (68.7)	$ (34.5)	$ (120.2)
Total Other Expense	$ 19.7	$ 2.4	$ 31.4	$ 28.2
Net Loss from Continuing Operations	$ (70.1)	$ (56.4)	$ (100.2)	$ (116.1)
Net Loss from Discontinued Operations	$ 1.2	$ (36.8)	$ (1.5)	$ (39.9)
Net Loss	$ (68.9)	$ (93.2)	$ (101.7)	$ (156.0)
Net Loss Attributable to Non-Controlling Interest	$ (19.2)	$ (52.0)	$ 30.1	$ (90.6)
Net Loss Attributable to Shareholders of MedMen Enterprises Inc.	$ (49.7)	$ (41.3)	$ (71.6)	$ (65.5)
Adjusted Net Loss from Continuing Operations (Non-GAAP)	$ (63.1)	$ (36.8)	$ (105.0)	$ (69.8)
EBITDA from Continuing Operations (Non-GAAP)	$ (19.5)	$ (53.4)	$ (16.1)	$ (109.8)
Adjusted EBITDA from Continuing Operations (Non-GAAP)	$ (11.8)	$ (33.4)	$ (23.5)	$ (66.1)

Quarterly Highlights

Continued Strategic Partnership with Gotham Green Partners

On April 23, 2019, the Company secured a senior secured convertible credit facility (the "**GGP Facility**") to provide up to $250,000,000 in gross proceeds, arranged by Gotham Green Partners ("**GGP**"). The GGP Facility has been accessed to date through issuances to the lenders of convertible senior secured notes ("**GGP Notes**") co-issued by the Company and MM Can USA, Inc. ("**MM CAN**" or "**MedMen Corp.**"). Refer to "*Note 13 – Senior Secured Convertible Credit Facility*" of the unaudited interim condensed consolidated financial statements in Item 1 for further information As of December 26, 2020, the Company has drawn down on a total of $155,000,000 on the GGP Facility.

On September 28, 2020, the down round feature on the convertible notes and warrants in connection with Tranche 4, Incremental Advances, and certain amendment fees was triggered wherein the exercise price was adjusted to $0.15 per share. The value of the effect of the down round feature on convertible notes and warrants was determined to be $11,072,498 and $1,840,487, respectively. The effect related to convertible notes was recognized as additional debt discount and an increase in additional paid-in-capital. The effect related to warrants was recognized as a deemed distribution and an increase in additional paid-in capital.

Secured Term Loan Amendment

In October 2018, MedMen Corp. completed a $77,675,000 senior secured term loan (the "**2018 Term Loan**") with funds managed by Hankey Capital, LLC and with an affiliate of Stable Road Capital. Refer to "*Note 12 – Notes Payable*" of the unaudited interim condensed consolidated financial statements in Item 1 for additional information on the amendments to the 2018 Term Loan during the six months ended December 26, 2020. On September 16, 2020, the 2018 Term Loan was amended in which the funds available under the facility was increased by $12,000,000 available through incremental term loans (the "**2020 Term Loan**"). The additional funds accrue interest at 18.0% per annum wherein 12.0% will be paid in cash monthly in arrears and 6.0% per annum accrues monthly as payment-in-kind. The warrants issued in connection with the 2020 Term Loan are subject to a down round feature wherein the exercise price would be decreased in the event of the exercise of a down-round price reset of select warrants under the GGP Facility. The principal amount of the 2020 Term Loan has been and is anticipated to be used for ongoing operations, capital expenditures and other corporate purposes.

On September 28, 2020, the down round feature on the warrants issued in connection with the incremental term loan of $3,000,000 on September 16, 2020 was triggered wherein the exercise price was adjusted to $0.15 per share. The value of the effect of the down round feature was determined to be $145,744 and recognized as an increase in additional paid-in capital.

On October 30, 2020, the Company closed on an incremental term loan of $7,705,279 under the 2020 Term Loan. In connection with the incremental term loan, MM CAN issued 77,052,790 warrants with an exercise price of $0.20 per share until September 14, 2025. The newly issued warrants may be exercised at the election of their holders on a cashless basis. As of December 26, 2020, the Company has received total gross proceeds of $10,705,279 under the 2020 Term Loan.

Unsecured Convertible Facility

On September 16, 2020, the Company entered into an unsecured convertible debenture facility (the "**Unsecured Convertible Facility**") for total available proceeds of $10,000,000 wherein the convertible debentures will have a conversion price equal to the closing price on the trading day immediately prior to the closing date, a maturity date of 24 months from the date of issuance and will bear interest at a rate of 7.5% per annum payable semi-annually in cash. The unsecured facility is callable in additional tranches in the amount of $1,000,000 each, up to a maximum of $10,000,000 under all tranches. The timing of additional tranches can be accelerated based on certain conditions. The debentures provide for the automatic conversion into Subordinate Voting Shares in the event that the VWAP is 50% above the conversion price on the CSE for 45 consecutive trading days. The principal amounts funded under the Unsecured Convertible Facility has been and is anticipated to be used for ongoing operations, capital expenditures and other corporate purposes.

On September 28, 2020, the Company closed on a second tranche of $1,000,000 under the facility with a conversion price of $0.15 per Subordinate Voting Share. In connection with the second tranche, the Company issued 3,777,475 warrants for an equal number of Shares with an exercise price of $0.17 per share. On November 20, 2020, the Company closed on a third tranche of $1,000,000 under the facility with a conversion price of $0.15 per Subordinate Voting Share. In connection with the third tranche, the Company issued 3,592,425 warrants for an equal number of Shares with an exercise price of $0.17 per share. On December 17, 2020, the Company closed on a fourth tranche of $1,000,000 under the facility with a conversion price of $0.15 per Subordinate Voting Share. In connection with the fourth tranche, the Company issued 3,597,100 warrants for an equal number of Shares with an exercise price of $0.18 per share. As of December 26, 2020, the Company has received total gross proceeds of $4,000,000 under the Unsecured Convertible Facility.

Discontinued Operations

On November 15, 2019, the Company announced its plan to sell its operations in the state of Arizona. As a result, assets and liabilities allocable to the operations within the state of Arizona were classified as held for sale. In addition, revenue and expenses, gains or losses relating to the discontinuation of Arizona operations were classified as discontinued operations and were eliminated from profit or loss from the Company's continuing operations for all periods presented. Discontinued operations are presented separately from continuing operations in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Cash Flows.

On November 5, 2020, the Company sold and transferred 100% of the outstanding membership interests in Kannaboost Technology Inc. and CSI Solutions LLC (collectively referred to as "**Level Up**") for a total sales price of $25,150,000, of which the Company has not received any cash proceeds as of December 26, 2020. Refer to "*Note 24 – Discontinued Operations*" of the unaudited interim condensed consolidated financial statements for the three and six months ended December 26, 2020 and December 28, 2019 for further information. All assets and liabilities related to Level Up as of December 26, 2020 are excluded from the Company's Condensed Consolidated Balance Sheets and all profits or losses from Level Up have been excluded from net loss from discontinued operations.

Assets Held for Sale

During the six months ended December 26, 2020, the Company received net proceeds of approximately $620,000 for the sale of a cannabis retail license located in Seaside, California for a total sales price of $1,500,000, of which the remaining cash consideration is to be received from escrow and $750,000 is to be paid in equal installments over twelve months through a promissory note. The Company transferred all outstanding membership interests in PHSL, LLC ("**Seaside**") in October 2020. All assets and liabilities related to Seaside are excluded from the Company's Condensed Consolidated Balance Sheets as of December 26, 2020 and all profits or losses from the Seaside location subsequent to October 9, 2020 are excluded from the Company's Condensed Consolidated Statements of Operations.

On November 17, 2020, the Company received $8,000,000 cash ("**Closing Cash Payment**") of the total sales price of $20,000,000, in conjunction with the sale of a cannabis retail license located in Evanston, Illinois. On October 1, 2020, three months following the Closing Date, $2,000,000 in the form of a secured promissory note was payable. Transfer of the cannabis license is pending regulatory approval as of the filing of the Form 10-Q. On August 10, 2020, the Company transferred governance and control of MME Evanston Retail, LLC ("**Evanston**"). All assets and liabilities related to Evanston as of December 26, 2020 are excluded from the Company's Condensed Consolidated Balance Sheets and all profits or losses from the Evanston operations subsequent to August 10, 2020 are excluded from the Company's Condensed Consolidated Statements of Operations.

In December 2020, the Company entered into a purchase agreement to sell a non-operational cannabis license in California for a total consideration of $3,750,000 of which $3,500,000 will be received in cash and $250,000 will be received in equity consideration. Accordingly, the assets and liabilities related to this subsidiary were classified as held for sale in the Condensed Consolidated Balance Sheets as of December 26, 2020. As of December 26, 2020, the contemplated sale is pending customary closing conditions.

Management Changes and Shareholder Meeting Results

On November 11, 2020, the Company held an annual general meeting of shareholders at which the number of Board of Directors (the "**Board**") of the Company was set to seven, subject to permitted increases. Benjamin Rose, Niki Christoff, Mel Elias, Al Harrington, Tom Lynch, Errol Schweizer and Cameron Smith were elected as members of the Board of Directors of the Company until the next annual general meeting of shareholders.

On December 3, 2020, the Company named Tracy McCourt to the Company's new role of Chief Revenue Officer who will lead the omni-channel marketing strategy as well as the Company's buying, merchandising and business intelligence efforts.

On December 16, 2020, the Company announced that Benjamin Rose resigned as Chairman of the Board of Directors and as a Board member. Tom Lynch, the Company's interim Chief Executive Officer, was elected as Chairman of the Board of Directors.

On December 18, 2020, the Company announced that Zeeshan Hyder resigned as Chief Financial Officer and Reece Fulgham, managing director at SierraConstellation Partners, was appointed to the role of interim Chief Financial Officer.

Cancellation of Super Voting Shares

On December 24, 2020, the Company announced the cancellation of 815,295 Class A Super Voting Shares which had been held by Andrew Modlin and granted via proxy to Benjamin Rose since December 2019. Effective as of December 10, 2020, the Company has only one class of outstanding shares, the Class B Subordinate Voting Shares as a result of the share cancellation.

Factors Affecting Performance

Company management believes that the nascent cannabis industry represents an extraordinary opportunity in which the Company's performance and success depend on a number of factors:

- ***Market Expansion.*** The Company's success in achieving a desirable retail footprint is attributable to its market expansion strategy, which was a key driver of revenue growth. The Company exercises discretion in focusing on investing in retail locations that can deliver near term increased earnings to the Company.

- ***Retail Growth.*** MedMen stores are located in premium locations in markets such as New York, California, Nevada, Illinois and Florida. As it continues to increase sales, the Company expects to leverage its retail footprint to develop a robust distribution model.

- ***Direct-to-Consumer Channel Rollout.*** MedMen Delivery is available in California. The Company benefited from increased traction with in-store pickup as well as delivery service, curbside pickup and loyalty rewards program.

- ***COVID-19.*** On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. While the ultimate severity of the outbreak and its impact on the economic environment is uncertain, the Company is monitoring this closely. The Company's business depends on the uninterrupted operation of its stores and facilities. In the event that the Company were to experience widespread transmission of the virus at one or more of the Company's stores or other facilities, the Company could suffer reputational harm or other potential liability. To date, the Company has generally implemented certain safety measures to ensure the safety of its customers and associates, which may have the effect of discouraging shopping or limiting the occupancy of our stores. These measures, and any additional measures that have been and may continue to be taken in response to the COVID-19 pandemic, have substantially decreased and may continue to decrease, the number of customers that visit our stores which has had, and will likely continue to have a material adverse effect on our business, financial condition and results of operations. The ultimate magnitude of COVID-19, including the extent of its overall impact on our financial and operational results cannot be reasonably estimated at this time; however, the Company has experienced significant declines in sales. The overall impact will depend on the length of time that the pandemic continues, the extent to which it affects our ability to raise capital, and the effect of governmental regulations imposed in response to the pandemic as well as uncertainty regarding all of the foregoing. At this time, it is unclear how long these measures may remain in place, what additional measures maybe imposed, or when our operations will be restored to the levels that existed prior to the COVID-19 pandemic.

Trends

MedMen is subject to various trends that could have a material impact on the Company, its financial performance and condition, and its future outlook. A deviation from expectations for these trends could cause actual results to differ materially from those expressed or implied in forward-looking information included in this MD&A and the Company's financial statements. These trends include, but are not limited to, the liberalization of cannabis laws, popular support for cannabis legalization, and balanced supply and demand in states. Refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 2 of the Company's Form 10.

Components of Results of Operations

Revenue

For the three and six months ended December 26, 2020, the Company derives the majority of its revenue from direct sales to customers in its retail stores. During the three and six months ended December 26, 2020, approximately 60% of revenue was generated from operations in California, with the remaining 40% from operations in New York, Nevada, Illinois and Florida. Revenue through retail stores is recognized upon delivery of the goods to the customer and when collection is reasonably assured, net of an estimated allowance for sales returns.

Cost of Goods Sold and Gross Profit

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

Expenses

General and administrative expenses represent costs incurred in MedMen's corporate offices, primarily related to personnel costs, including salaries, incentive compensation, benefits, share-based compensation, rent and other professional service costs, including legal and accounting. Sales and marketing expenses consist of third-party listing fees, billboards, marketing collateral and other similar selling related expenses. It also includes an investment in marketing and brand activities and the corporate infrastructure required to support the ongoing business.

Income Taxes

MedMen is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the legal cannabis industry, the Company is subject to the limits of Internal Revenue Code ("**IRC**") Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries. However, the state of California does not conform to IRC Section 280E and, accordingly, the Company deducts all operating expenses on its California Franchise Tax Returns.

Three Months Ended December 26, 2020 Compared to Three Months Ended December 28, 2019

($ in Millions)	Three Months Ended December 26, 2020 (unaudited)	December 28, 2019 (unaudited)	$ Change	% Change
Revenue	$ 33.8	$ 44.1	$ (10.3)	(23%)
Cost of Goods Sold	15.8	31.2	(15.4)	(49%)
Gross Profit	18.0	12.9	5.1	40%
Expenses:				
General and Administrative	33.6	60.3	(26.7)	(44%)
Sales and Marketing	0.2	3.6	(3.4)	(94%)
Depreciation and Amortization	9.7	6.6	3.1	47%
Realized and Unrealized Loss on Changes in Fair Value of Contingent Consideration	0.1	5.2	(5.1)	(98%)
Other Operating Expense	0.8	5.7	(4.9)	(86%)
Total Expenses	44.4	81.4	(37.0)	(45%)
Loss from Operations	(26.4)	(68.5)	42.1	(61%)
Other Expense (Income):				
Interest Expense	10.2	8.1	2.1	26%
Interest Income	(0.5)	(0.3)	(0.2)	67%
Amortization of Debt Discount and Loan Origination Fees	6.9	1.8	5.1	283%
Change in Fair Value of Derivatives	0.2	(2.9)	3.1	(107%)
Realized and Unrealized Loss (Gain) on Investments and Assets Held for Sale	2.0	(5.0)	7.0	(140%)
Loss on Extinguishment of Debt	0.9	0.7	0.2	29%
Total Other Expense	19.7	2.4	17.3	721%
Loss from Continuing Operations Before Provision for Income Taxes	(46.1)	(70.9)	24.8	(35%)
Provision for Income Tax (Expense) Benefit	(24.0)	14.6	(38.6)	(264%)
Net Loss from Continuing Operations	(70.1)	(56.3)	(13.8)	25%
Net Loss from Discontinued Operations, Net of Taxes	1.2	(36.8)	38.0	(103%)
Net Loss	(68.9)	(93.1)	24.2	(26%)
Net Loss Attributable to Non-Controlling Interest	(19.2)	(52.0)	32.8	(63%)
Net Loss Attributable to Shareholders of MedMen Enterprises Inc.	**$ (49.7)**	**$ (41.1)**	**$ (8.6)**	**21%**
Adjusted Net Loss from Continuing Operations (Non-GAAP)	$ (63.1)	$ (36.8)	$ (26.3)	71%
EBITDA from Continuing Operations (Non-GAAP)	$ (19.5)	$ (53.4)	$ 33.9	(63%)
Adjusted EBITDA from Continuing Operations (Non-GAAP)	$ (11.8)	$ (33.4)	$ 21.6	(65%)

Revenue

Revenue for the three months ended December 26, 2020 was $33.8 million, a decrease of $10.3 million, or 23%, compared to revenue of $44.1 million for the three months ended December 28, 2019. The decrease in revenue was primarily due to the impact of COVID-19 in overall retail traffic and tourism as further discussed below. During the three months ended December 26, 2020, MedMen had 24 active retail locations in the states of California, New York, Nevada, Arizona, Illinois and Florida, of which one retail location located within the state of Arizona was classified as discontinued operations, compared to 32 active retail locations for the comparative prior period. During the fiscal second quarter of 2021, five retail locations in the state of Florida remained temporarily closed in order to redirect inventory from its Eustis facility to its highest performing stores and thus excluded from the number of active retail locations as of December 26, 2020. Also during the fiscal second quarter of 2021, the Company completed the sale of two retail stores in Arizona (Scottsdale and Tempe) as a result of the Company's plan to divest non-core assets. As of December 26, 2020, the Company had 23 active retail locations related to continuing operations, a decrease of 6 active retail locations, compared to 29 active retail locations related to continuing operations for the comparative prior period.

The decrease in revenue was primarily related to the impact of the COVID-19 pandemic as well as the number of active retail locations related to continuing operations. The Company experienced decreased sales in certain locations within California and Nevada due to reduced foot traffic as a result of shelter-at-home orders, declining tourism, and social distancing restrictions within a retail establishment. Retail revenue for the three months ended December 26, 2020 in California and Nevada decreased $12.6 million and $2.8 million, respectively, compared to the three months ended December 28, 2019. In Illinois, Florida and New York, revenues have not been significantly impacted by COVID-19 and in some cases, retail locations in those markets have increased sales during the three months ended December 26, 2020. During the three months ended December 26, 2020, the Company continues to enhance its retail experience through better product assortment, customer service and purchasing options with an emphasis on curbside pickup and delivery in response to the COVID-19 pandemic. During the fiscal second quarter of 2021, the Company has maintained modified store operations based on Centers for Disease Control and Prevention guidelines and local ordinances which limit in-store traffic for certain locations and consequently increased focus on direct-to-consumer delivery, including curbside pickup. MedMen expects to continue offering a variety of purchasing options for its customers to navigate through the COVID-19 pandemic, which is expected to increase revenues in the coming periods.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the three months ended December 26, 2020 was $15.8 million, a decrease of $15.4 million, or 49%, compared with $31.2 million of cost of goods sold for the three months ended December 28, 2019. Gross profit for the three months ended December 26, 2020 was $18.0 million, representing a gross margin of 53%, compared with gross profit of $12.9 million, representing a gross margin of 29%, for the three months ended December 28, 2019. The increase in gross margin is primarily due to the Company's retail optimization efforts in which improvements in the Company's product sourcing and favorable changes to pricing and payment terms in key vendor agreements resulted in improved margins for the fiscal second quarter of 2021. In addition, the Company's shrink-to-grow plan in Florida continues to drive results in which improving plant yield and quality has resulted in an increase in average revenue per box.

For the three months ended December 26, 2020, the Company had 24 active retail locations in the states of California, New York, Nevada, Arizona, Illinois and Florida, of which one located within the state of Arizona was classified as discontinued operations, compared to 32 active retail locations for the comparative prior period. For the three months ended December 26, 2020, MedMen operated five cultivation and production facilities compared to six cultivation facilities for the three months ended December 28, 2019. During the fiscal second quarter of 2021, the Company completed the sale of one facility in Arizona (Tempe) as a result of the Company's plan to divest non-core assets. As of the fiscal second quarter of 2021, the Company continues to evaluate strategic partnerships for its cultivation and production facilities in California and Nevada. During the fiscal fourth quarter of 2020, five retail locations in Florida were temporarily closed in order to shift supply levels from its Eustis facility to the Company's highest-performing stores in Florida which remain closed as of December 26, 2020. MedMen expects margins to improve in the coming periods as the Company restructures certain operations and divests licenses in non-core markets.

Total Expenses

Total expenses for the three months ended December 26, 2020 were $44.4 million, a decrease of $37.0 million, or 45%, compared to total expenses of $81.4 million for the three months ended December 28, 2019, which represents 131% of revenue for the three months ended December 26, 2020, compared to 185% of revenue for the three months ended December 28, 2019. The decrease in total expenses was attributable to the factors described below.

General and administrative expenses for the three months ended December 26, 2020 and December 28, 2019 were $33.6 million and $60.3 million, respectively, a decrease of $26.7 million, or 44%. General and administrative expenses have decreased primarily due to the Company's efforts to reduce company-wide selling, general and administrative expenses ("SG&A"). Key drivers of the decrease in general and administrative expenses include overall corporate cost savings, strategic headcount reductions across various departments, and elimination of non-core functions and overhead in several departments, resulting in a decrease in payroll and payroll related expenses of $14.0 million, a decrease in share-based compensation expense of $0.9 million, and a decrease in professional fees of $1.5 million. In addition, licenses, fees and taxes decreased $4.1 million from the comparative prior period due to the decrease in the number of active retail locations and facilities for the three months ended December 26, 2020.

Sales and marketing expenses for the three months ended December 26, 2020 and December 28, 2019 were $0.2 million and $3.6 million, respectively, a decrease of $3.4 million, or 94%. The decrease in sales and marketing expenses is primarily attributed to the reduction in marketing and sales related spending compared to the same period in the prior year as part of the Company's corporate cost reduction initiatives. During the three months ended December 26, 2020, the Company continued to redefine its marketing initiatives and focus on strategies that provide higher returns on customer connection. For the fiscal second quarter of 2021, sales and marketing initiatives focused on the Company's loyalty customers through the Buds Loyalty program which personalizes shopping recommendations and gives priority product access through local initiatives that relatively are low in cost and more based on human capital, compared to a traditional and digital paid media marketing campaign of $2.3 million during the three months ended December 28, 2019.

Depreciation and amortization for the three months ended December 26, 2020 and December 28, 2019 was $9.7 million and $6.6 million, respectively, an increase of $3.1 million, or 47%. The increase was primarily related to $6.0 million of intellectual property that the Company began amortizing in the fiscal third quarter of 2020 in which the Company also recognized additional amortization during the three months ended December 26, 2020.

Realized and unrealized changes in fair value of contingent consideration for the three months ended December 26, 2020 and December 28, 2019 was $0.1 million and $5.2 million, respectively, a decrease of $5.1 million, or 98%. The contingent consideration is related to an acquisition of a California dispensary license during the fiscal first quarter of 2020 wherein the liability is remeasured at each reporting period. The lock-up period expired during the fiscal second quarter of 2021 related to the contingent consideration of the acquired California dispensary.

Other operating expenses for the three months ended December 26, 2020 and December 28, 2019 was $0.8 million and $5.7 million, respectively, a decrease of $4.9 million, or 86%. Other expenses include loss on disposal of assets, restructuring fees, loss on settlement of accounts payable, and gain on lease terminations. The decrease was primarily attributable to the $5.3 million of restructuring fees recognized during the three months ended December 26, 2019 versus $0.6 million during the current period.

Total Other Expense

Total other expense for the three months ended December 26, 2020 was $19.7 million, an increase of $17.3 million compared to total other expense of $2.4 million, or 721%, for the three months ended December 28, 2019. The increase in total other expense was primarily attributable to the Company's higher debt balance as of December 26, 2020 which increased $25.0 million compared to December 28, 2019 as a result of the 2020 Term Loan and the Unsecured Convertible Facility as well as issuances from the GGP Facility. Accordingly, amortization of debt discount and loan origination fees of $6.9 million for the three months ended December 26, 2020 increased by $5.1 million compared to $1.8 million for the three months ended December 28, 2019 and interest expense of $10.2 million for the three months ended December 26, 2020 increased by $2.1 million compared to $8.1 million for the three months ended December 28, 2019. In addition, the Company recognized a gain on assets held for sale of $5.0 million in the prior period versus a loss of $2.0 million in the current period. During the three months ended December 28, 2019, $2.9 million of other income was recognized for change in fair value of derivatives compared to other expense of $0.2 million for the three months ended December 26, 2020.

Provision for Income Taxes

The provision for income tax expense for the three months ended December 26, 2020 was $24.0 million compared to the provision for income tax benefit of $14.6 million for the three months ended December 28, 2019, primarily due to the Company reporting increased expenses subject to IRC Section 280E relative to pre-tax book loss. The Company incurred a large amount of expenses that were not deductible due to IRC Section 280E limitations which resulted in income tax expense being incurred while there were pre-tax losses for the three months ended December 26, 2020.

Net Loss

Net loss from continuing operations for the three months ended December 26, 2020 was $70.1 million, an increase of $13.8 million, or 25%, compared to a net loss from continuing operations of $56.3 million for the three months ended December 28, 2019. The increase in net loss from continuing operations was mainly attributable to the change in the Company's income tax provision as discussed above, offset by the Company's continued focus on cost efficiency within the corporate structure which includes strategic headcount reductions, elimination of non-core functions and overhead in several departments, renegotiation of ancillary cost to the business, as well as modifying sales and marketing strategies for the changing customer base. Net loss attributable to non-controlling interest for the three months ended December 26, 2020 was $19.2 million, resulting in net loss of $49.7 million attributable to the shareholders of MedMen Enterprises Inc. compared to $41.1 million for the three months ended December 28, 2019.

Six Months Ended December 26, 2020 Compared to Six Months Ended December 28, 2019

($ in Millions)	Six Months Ended December 26, 2020	Six Months Ended December 28, 2019	$ Change	% Change
Revenue	$ 69.4	$ 83.7	$ (14.3)	(17%)
Cost of Goods Sold	34.6	51.5	(16.9)	(33%)
Gross Profit	34.8	32.2	2.6	8%
Expenses:				
General and Administrative	65.3	114.4	(49.1)	(43%)
Sales and Marketing	0.4	9.4	(9.0)	(96%)
Depreciation and Amortization	18.3	16.1	2.2	14%
Realized and Unrealized Loss on Changes in Fair Value of Contingent Consideration	0.4	7.5	(7.1)	(95%)
Impairment Expense	0.8	-	0.8	100%
Other Operating Expense (Income)	(15.9)	5.0	(20.9)	(418%)
Total Expenses	69.3	152.4	(83.1)	(55%)
Loss from Operations	(34.5)	(120.2)	85.7	(71%)
Other Expense (Income):				
Interest Expense	21.4	16.3	5.1	31%
Interest Income	(0.5)	(0.6)	0.1	(17%)
Amortization of Debt Discount and Loan Origination Fees	10.1	4.9	5.2	106%
Change in Fair Value of Derivatives	(0.1)	(8.0)	7.9	(99%)
Realized and Unrealized Gain on Investments and Assets Held for Sale	(10.5)	(16.5)	6.0	(36%)
Loss on Extinguishment of Debt	11.1	32.2	(21.1)	(66%)
Total Other Expense	31.5	28.3	3.2	11%
Loss from Continuing Operations Before Provision for Income Taxes	(66.0)	(148.5)	82.5	(56%)
Provision for Income Tax (Expense) Benefit	(34.3)	32.3	(66.6)	(206%)
Net Loss from Continuing Operations	(100.3)	(116.2)	15.9	(14%)
Net Loss from Discontinued Operations, Net of Taxes	(1.5)	(39.9)	38.4	(96%)
Net Loss	(101.8)	(156.1)	54.3	(35%)
Net Loss Attributable to Non-Controlling Interest	(30.1)	(90.6)	60.5	(67%)
Net Loss Attributable to Shareholders of MedMen Enterprises Inc.	**$ (71.7)**	**$ (65.5)**	**$ (6.2)**	**9%**
Adjusted Net Loss from Continuing Operations (Non-GAAP)	$ (105.0)	$ (69.8)	$ (35.2)	50%
EBITDA from Continuing Operations (Non-GAAP)	$ (16.1)	$ (109.8)	$ 93.7	(85%)
Adjusted EBITDA from Continuing Operations (Non-GAAP)	$ (23.5)	$ (66.1)	$ 42.6	(64%)

Revenue

Revenue for the six months ended December 26, 2020 was $69.4 million, a decrease of $14.3 million, or 17%, compared to revenue of $83.7 million for the six months ended December 28, 2019. The decrease in revenue was driven by the impact of COVID-19 during the six months ended December 26, 2020. Retail revenue for the six months ended December 26, 2020 in California and Nevada decreased $21.9 million and $4.7 million, respectively, compared to the six months ended December 28, 2019 offset by increased retail sales in Illinois, Florida and New York during the six months ended December 26, 2020. During the six months ended December 26, 2020, the Company modified its retail operations in select markets to include curbside pickup and delivery in response to the COVID-19 pandemic. MedMen expects to continue offering a variety of purchasing options for its customers to navigate through the COVID-19 pandemic, which is expected to increase revenues in the coming periods. Further, overall decreased sales was also related to temporary closures and the divestiture of certain retail locations as part of the Company's turnaround plan implemented in November 2019. For the six months ended December 26, 2020, MedMen had 24 active retail locations in the states of California, New York, Nevada, Arizona, Illinois and Florida, of which one retail location within the state of Arizona was classified as discontinued operations, compared to 32 active retail locations with three located within the state of Arizona classified as discontinued operations for the comparative prior period. Since December 28, 2019, the Company opened their Coral Shores location and temporarily closed five retail locations in the state of Florida to redirect inventory from its Eustis facility to its highest performing stores. The Company also divested four retail locations in California, Illinois, and Arizona since December 28, 2019 to raise non-dilutive financing through the sale of non-core assets. As of December 26, 2020, the Company had 23 active retail locations related to continuing operations.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the six months ended December 26, 2020 was $34.6 million, a decrease of $16.9 million, or 33%, compared with $51.5 million of cost of goods sold for the six months ended December 28, 2019. The decrease in cost of goods sold is primarily driven by the decrease in active retail locations and cultivation and manufacturing facilities. For the six months ended December 26, 2020, the Company had 24 active retail locations in the states of California, New York, Nevada, Arizona, Illinois and Florida, of which one located within the state of Arizona was classified as discontinued operations, compared to 32 active retail locations for the comparative prior period. Gross profit for the six months ended December 26, 2020 was $34.8 million, representing a gross margin of 50%, compared with gross profit of $32.2 million, representing a gross margin of 38%, for the six months ended December 28, 2019. The increase in gross margin is primarily due to the Company's focus on retail profitability and improvements in its supply chain and cultivation facilities. During the six months ended December 26, 2020, the Company strategically closed five retail locations in Florida to provide better and consistent supply for its patients. While these dispensaries remain temporarily closed as of December 26, 2020, the Company saw improved plant yields and quality driving improved margins. For the six months ended December 26, 2020, MedMen operated five cultivation and production facilities compared to six cultivation facilities in the comparative prior period. In November 2020, the Company completed the sale of one facility in Arizona (Tempe) as a result of the Company's plan to divest non-core assets. During the six months ended December 26, 2020, the Company also reduced the cash burn associated with cultivation and manufacturing operations in California and Nevada and continues to evaluate strategic partnerships for these facilities. MedMen expects margins to improve in the coming periods as the Company restructures certain operations and divests licenses in non-core markets.

Total Expenses

Total expenses for the six months ended December 26, 2020 were $69.3 million, a decrease of $83.1 million, or 55%, compared to total expenses of $152.4 million for the six months ended December 28, 2019, which represents 100% of revenue for the six months ended December 26, 2020, compared to 182% of revenue for the six months ended December 28, 2019. The decrease in total expenses was attributable to the factors described below.

General and administrative expenses for the six months ended December 26, 2020 and December 28, 2019 were $65.3 million and $114.4 million, respectively, a decrease of $49.1 million, or 43%. General and administrative expenses have decreased primarily due to the Company's focus on right-sizing its corporate infrastructure by reducing company-wide SG&A while improving efficiency. Key drivers of the decrease in general and administrative expenses include overall corporate cost savings, strategic headcount reductions across various departments, and elimination of non-core functions and overhead in several departments. The decrease of $49.1 million compared to the six months ended December 28, 2019 was related to a decrease in payroll and payroll related expenses of $24.9 million, a decrease in share-based compensation expense of $6.3 million, a decrease in professional fees of $3.2 million, a decrease in licenses, fees and taxes of $3.2 million.

Sales and marketing expenses for the six months ended December 26, 2020 and December 28, 2019 were $0.4 million and $9.4 million, respectively, a decrease of $9.0 million, or 96%. The decrease in sales and marketing expenses is primarily attributed to the reduction in marketing and sales related spending due to the implementation of the Company's cost-cutting strategy. In the fiscal second quarter of 2021, the Company continues to be extremely disciplined on budget allocation to marketing and has redefined its marketing initiatives to target its changing customer base. The Company shifted its approach from third-party listing services to integration efforts with its point-of-sale systems to increase awareness in local customers and improve the customer experience while providing higher returns. Traditional and digital paid media marketing campaign of $6.3 million in the comparative prior period was reduced to $0.1 million during the six months ended December 26, 2020.

Depreciation and amortization for the six months ended December 26, 2020 and December 28, 2019 was $18.3 million and $16.1 million, respectively, an increase of $2.2 million, or 14%. The increase was primarily related to $6.0 million of intellectual property that the Company began amortizing in the fiscal third quarter of 2020, resulting in amortization expense of $0.8 million during the six months ended December 26, 2020 versus nil in the comparative prior period.

Realized and unrealized changes in fair value of contingent consideration for the six months ended December 26, 2020 and December 28, 2019 was $0.4 million and $7.5 million, respectively, a decrease of $7.1 million, or 95%. The contingent consideration is related to an acquisition of a California dispensary license during the fiscal first quarter of 2020 wherein the expiration of the lock-up period occurred during the fiscal second quarter of 2021.

Impairment expense for the six months ended December 26, 2020 and December 28, 2019 was $0.8 million and nil, respectively, an increase of $0.8 million, or 100%. The increase relates to the impairment of a California dispensary license transferred to assets held for sale during the fiscal first quarter of 2021 in which the asset was measured at the lower of its carrying amount or FVLCTS upon classification.

Other operating expense (income) for the six months ended December 26, 2020 and December 28, 2019 was $(15.9) million and $5.0 million, respectively, a decrease of $20.9 million, or 418%. Other expenses include loss on disposal of assets, restructuring fees, loss on settlement of accounts payable, and gain on lease terminations. The change was primarily attributable to the $16.3 million gain related to the lease deferral with the REIT during the fiscal first quarter of 2021 as the decrease in present value of lease payments was greater than the remaining net asset balance of finance lease assets. The Company also recognized a $2.9 million gain on lease terminations in Florida and Illinois during the six months ended December 26, 2020. In addition, restructuring fees totaled $1.2 million for the six months ended December 26, 2020, a decrease of $4.5 million compared to $5.6 million in the comparative prior period.

Total Other Expense

Total other expense for the six months ended December 26, 2020 was $31.5 million, an increase of $3.2 million compared to total other expense of $28.3 million, or 11%, for the six months ended December 28, 2019. The increase in total other expense was primarily attributable to a loss on extinguishment of debt of $32.2 million related to the First Amendment of the GGP Facility during the six months ended December 28, 2019 compared to a loss on extinguishment of debt of $11.1 million during the current period primarily related to the July 2, 2020 amendment of the GGP Facility, resulting in a $21.1 million decrease in loss on extinguishment of debt. This was offset by a $7.9 million decrease in the changes in fair value of derivatives which are based on the closing price of the Company's warrants related to bought deals traded on the Canadian Securities Exchange under the ticker symbol "MMEN.WT" which have stabilized during the six months ended December 26, 2020, compared to the same period prior. In addition, interest expense of $21.4 million for the six months ended December 26, 2020 increased by $5.1 million compared to $16.3 million for the six months ended December 28, 2019 as a result of the Company's higher debt balance. Similarly, amortization of debt discount of $10.1 million for the six months ended December 26, 2020 increased by $5.2 million compared to $4.9 million for the comparative prior period. During the current period, proceeds from issuances of the GGP Facility were $5.5 million and proceeds from issuances of notes payable, including the 2020 Term Loan and the Unsecured Convertible Facility, totaled $14.8 million.

Provision for Income Taxes

The provision for income tax expense for the six months ended December 26, 2020 was $34.3 million compared to the provision for income tax benefit of $32.3 million for the six months ended December 28, 2019, primarily due to the Company reporting increased expenses subject to IRC Section 280E relative to pre-tax book loss. The Company incurred a large amount of expenses that were not deductible due to IRC Section 280E limitations which resulted in income tax expense being incurred while there were pre-tax losses for the six months ended December 26, 2020.

Net Loss

Net loss from continuing operations for the six months ended December 26, 2020 was $100.3 million, a decrease of $15.9 million, or 14%, compared to a net loss from continuing operations of $116.2 million for the six months ended December 28, 2019. The decrease in net loss from continuing operations was mainly attributable to the decrease in general and administrative expenses and sales and marketing expenses as a direct result of the Company's turnaround plan which includes efforts to optimize SG&A and right-size the Company's corporate infrastructure. In addition to the decrease loss on extinguishment of debt, the Company recognized a $16.3 million gain related to the REIT lease deferral during the fiscal first quarter of 2021. This was offset by the increase in provision for income taxes as discussed above. Net loss attributable to non-controlling interest for the six months ended December 26, 2020 was $30.1 million, resulting in net loss of $71.7 million attributable to the shareholders of MedMen Enterprises Inc. compared to $65.5 million for the six months ended December 28, 2019.

Non-GAAP Financial Measures

In addition to providing financial measurements based on GAAP, the Company provides additional financial metrics that are not prepared in accordance with GAAP. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision-making, for planning and forecasting purposes and to evaluate the Company’s financial performance. These non-GAAP financial measures (collectively, the “non-GAAP financial measures”) are defined in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Company’s Form 10.

Non-GAAP financial measures are financial measures that are not defined under GAAP. Management believes that these non-GAAP financial measures assess the Company’s ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparing financial results across accounting periods and to those of peer companies. The Company uses these non-GAAP financial measures and believes they enhance an investors’ understanding of the Company’s financial and operating performance from period to period. Management also believes that these non-GAAP financial measures enable investors to evaluate the Company’s operating results and future prospects in the same manner as management.

In particular, the Company continues to make investments in its cannabis properties and management resources to better position the organization to achieve its strategic growth objectives which have resulted in outflows of economic resources. Accordingly, the Company uses these metrics to measure its core financial and operating performance for business planning purposes. In addition, the Company believes investors use both GAAP and non-GAAP measures to assess management’s past and future decisions associated with its priorities and allocation of capital, as well as to analyze how the business operates in, or responds to, swings in economic cycles or to other events that impact the cannabis industry. However, these measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies in the Company’s industry. Accordingly, these non-GAAP financial 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 GAAP.

These non-GAAP financial measures exclude certain material non-cash items and certain other adjustments the Company believes are not reflective of its ongoing operations and performance. These financial measures are not intended to represent and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP as measures of operating performance or operating cash flows or as measures of liquidity. These non-GAAP financial measures have important limitations as analytical tools and should not be considered in isolation or as a substitute for any standardized measure under GAAP. For example, certain of these non-GAAP financial measures:

- exclude certain tax payments that may reduce cash available to the Company;

- do not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;

- do not reflect changes in, or cash requirements for, working capital needs; and

- do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on debt.

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Retail Performance

Within the cannabis industry, MedMen is uniquely focused on the retail component of the value chain. For the fiscal second quarter of 2021, the Company is providing detail with respect to earnings before interest, taxes, depreciation and amortization ("**EBITDA**") attributable to the Company's national retail operations to show how it is leveraging its retail footprint and strategically investing in the future. The table below highlights the Company's national Retail Adjusted EBITDA Margin (Non-GAAP), which excludes corporate marketing expenses, distribution expenses, inventory adjustments, and local cannabis and excise taxes. Entity-wide Adjusted EBITDA (Non-GAAP) is presented in Item 2 "*Reconciliations of Non-GAAP Financial Measures*".

	Fiscal Quarter Ended			
	December 26, 2020	September 26, 2020	$ Change	% Change
Gross Profit	$ 18.0	$ 16.8	$ 1.2	7%
Gross Margin Rate	*53%*	*47%*	*6%*	13%
Cultivation & Wholesale Revenue	-	(0.3)	0.3	100%
Cultivation & Wholesale Cost of Goods Sold	(1.2)	(2.5)	1.3	(52%)
Non-Retail Gross Margin	(1.2)	(2.2)	1.0	(45%)
Retail Gross Margin (Non-GAAP)	**$ 19.2**	**$ 19.0**	**$ 0.2**	1%
Retail Gross Margin Rate (Non-GAAP)	*57%*	*54%*	*3%*	6%

	Fiscal Quarter Ended			
	December 26, 2020	September 26, 2020	$ Change	% Change
Net Loss	$ (68.9)	$ (32.8)	$ (36.1)	110%
Net Loss from Discontinued Operations, Net of Taxes	(1.2)	2.7	(3.9)	(144%)
Provision for Income Tax Expense	24.0	10.3	13.7	133%
Other Expense	19.7	11.7	8.0	68%
Excluded Items *(1)*	0.9	(15.6)	16.5	(106%)
Loss from Operations Before Excluded Items	$ (25.5)	$ (23.7)	$ (1.8)	8%
Non-Retail Gross Margin	(1.2)	(2.2)	1.0	(45%)
Non-Retail Operating Expenses *(2)*	(30.1)	(28.3)	(1.8)	6%
Non-Retail EBITDA Margin	(31.3)	(30.5)	(0.8)	3%
Retail Adjusted EBITDA Margin (Non-GAAP)	**$ 5.8**	**$ 6.8**	**$ (1.0)**	(15%)
Retail Adjusted EBITDA Margin Rate (Non-GAAP)	*17%*	*19%*	*(7%)*	(36%)

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(1) Items adjusted from Net Loss for the fiscal quarters ended December 26, 2020 and September 26, 2020 include realized and unrealized loss on changes in fair value of contingent consideration of $0.1 million and $0.3 million, respectively, impairment expense of nil and $0.8 million, respectively, and loss (gain) on disposals of assets, restructuring fees and other expenses of $0.8 million and $(16.7) million, respectively.
(2) Non-retail operating expenses is comprised of the following items:

	Fiscal Quarter Ended			
	December 26, 2020	September 26, 2020	$ Change	% Change
Cultivation & Wholesale	$ 1.3	$ 0.4	$ 0.9	225%
Corporate SG&A	15.3	16.2	(0.9)	(6%)
Depreciation & Amortization	9.7	8.6	1.1	13%
Other *(3)*	3.8	3.1	0.7	23%
Non-Retail Operating Expenses	30.1	28.3	1.8	6%
Direct Store Operating Expenses *(4)*	13.4	12.2	1.2	10%
Excluded Items *(1)*	0.9	(15.6)	16.5	(106%)
Total Expenses	$ 44.4	$ 24.9	$ 19.5	78%

(3) Other non-retail operating expenses excluded from Retail Adjusted EBITDA Margin (Non-GAAP) for the fiscal quarters ended December 26, 2020 and September 26, 2020 primarily consist of transaction costs and restructuring costs of $2.7 million and $2.7 million, respectively, and share-based compensation of $1.6 million and $1.0 million, respectively, as commonly excluded from Adjusted EBITDA from Continuing Operations (Non-GAAP). Refer to Item 2 "*Reconciliations of Non-GAAP Financial Measures*" below.
(4) For the current period, direct store operating expenses now includes local taxes of nil and $0.4 million for the fiscal quarters ended December 26, 2020 and September 26, 2020. Local taxes include cannabis sales and excise taxes imposed by municipalities in which the Company has active retail operations and vary by jurisdiction. Local taxes are not a cost required to directly operate the Company's stores, but rather a byproduct of retail operations. In addition, distribution expenses of $1.4 million and $0.8 million and inventory adjustments of nil and $(1.8) million for the fiscal quarters ended December 26, 2020 and September 26, 2020, respectively, are also included in direct store operating expenses for the current reporting period. Distribution expenses relate to additional porter fees. Inventory adjustments consist of one-time write-offs related to unusual or infrequent events. Such expenses were presented as additional adjustments to arrive at Retail Adjusted EBITDA Margin (Non-GAAP) in prior periods and are now presented within retail operating expenses for a condensed presentation of Retail Adjusted EBITDA Margin (Non-GAAP).

The non-GAAP retail performance measures demonstrate the Company's four-wall margins which reflect the sales of the Company's retail operations relative to the direct costs required to operate such dispensaries. Retail revenue is related to net sales from the Company's stores, excluding non-retail revenue, such as cultivation and manufacturing revenue. Similarly, retail cost of goods sold and direct store operating expenses are directly related to the Company's retail operations. Non-Retail Revenue includes revenue from third-party wholesale sales. Non-Retail Cost of Goods Sold includes costs directly related to third-party wholesale sales produced by the Company's cultivation and production facilities, such as packaging, materials, payroll, rent, utilities, security, etc. While third-party sales were not significant for the fiscal quarter ended December 26, 2020, Non-Retail Cost of Goods Sold related to cultivation and wholesale operations was $1.2 million due to unallocated overages from increased production burn rate. Non-Retail Operating Expenses include ongoing costs related to the Company's cultivation and wholesale operations, corporate spending, and depreciation and amortization. Non-Retail EBITDA Margin reflects the gross margins of the Company's cultivation and wholesale operations excluding any related operating expenses. To determine the Company's four-wall margins, certain costs that do not directly support the Company's retail function are excluded from Retail Adjusted EBITDA Margin (Non-GAAP).

For the fiscal second quarter of 2021, system-wide retail revenue was $33.8 million across the Company's operations in California, Nevada, New York, Illinois and Florida. This represents a 4% decrease, or $1.5 million, over the fiscal first quarter of 2021 of $35.3 million. The decrease in system-wide revenue was driven primarily by decreased consumer spending during the fiscal second quarter of 2021 wherein certain states like California and Nevada were impacted by the rise of COVID-19 cases. In particular, California, which is the largest market in which the Company operates in, and Nevada enacted a second stay-at-home order during the fiscal second quarter of 2021. In addition, during the fiscal second quarter of 2021, the Company did not recognize any retail revenue from Evanston, Illinois which was deconsolidated during the prior quarter in which revenue was recognized through August 10, 2020. During the fiscal first quarter of 2021, the Company recorded $2.0 million revenue from Evanston. Adjusting for Evanston, the fiscal second quarter of 2021 retail revenue increased $0.5 million compared to the fiscal first quarter of 2021 due to increases in retail revenue from Florida and New York which were partially offset by decreases in retail revenue from California and Nevada.

Retail Gross Margin Rate (Non-GAAP), which is Retail Gross Margin (Non-GAAP) divided by Retail Revenue (Non-GAAP), for the fiscal second quarter of 2021 was 57%, compared to the fiscal first quarter of 2021 of 54% as a result of the Company's continued focus on optimizing its retail model, including improvements in product sourcing and positive changes to key vendor arrangements. Retail Gross Margin (Non-GAAP) is Retail Revenue (Non-GAAP) less the related Retail Cost of Goods Sold (Non-GAAP). The Company had an aggregate Retail Adjusted EBITDA Margin Rate (Non-GAAP), which is Retail Adjusted EBITDA Margin (Non-GAAP) divided by Retail Revenue (Non-GAAP), of 17% for the fiscal second quarter of 2021 which represents a decrease compared to the 19% realized in the fiscal first quarter of 2021 primarily due to direct store operating expenses which include, but are not limited to, rent, utilities, payroll and payroll related expenses, employee benefits, and security. Direct store operating expenses increased $1.2 million, or 10%, compared to the fiscal first quarter of 2021, primarily driven by a one-time bad debt reserve of $1.0 million related to discontinued retail shelf fee program.

Corporate SG&A

Corporate-level general and administrative expenses across various functions including Marketing, Legal, Retail Corporate, Technology, Accounting and Finance, Human Resources and Security (collectively referred to as "**Corporate SG&A**") are combined to account for a significant proportion of the Company's total general and administrative expenses. For the current reporting period, Corporate SG&A now includes pre-opening expenses of $6.1 million and $5.9 million for the fiscal quarter ended December 26, 2020 and September 26, 2020, respectively, which were presented as non-Corporate SG&A in prior periods. Pre-opening expenses is excluded from Retail Adjusted EBITDA Margin (Non-GAAP) and thus more appropriately classified as Corporate SG&A.

	Fiscal Quarter Ended			
($ in Millions)	December 26, 2020	September 26, 2020	$ Change	% Change
General and Administrative	$ 33.6	$ 31.7	$ 1.9	6%
Sales and Marketing	0.2	0.2	-	-
Consolidated SG&A	33.8	31.9	1.9	6%
Direct Store Operating Expenses (1)	13.4	12.2	1.2	10%
Cultivation & Wholesale	1.3	0.4	0.9	225%
Other (2)	3.8	3.1	0.7	23%
Less: Non-Corporate SG&A	18.5	15.7	2.8	18%
Corporate SG&A as a Component of Adjusted EBITDA from Continuing Operations (Non-GAAP)	**$ 15.3**	**$ 16.2**	**$ (0.9)**	(6%)

(1) For the periods presented, direct store operating expenses now include local taxes of nil and $0.4 million, distribution expenses of $1.4 million and $0.8 million and inventory adjustments of nil and $(1.8) million for the fiscal quarters ended December 26, 2020 and September 26, 2020, respectively. Refer to Item 2 "*Retail Performance*" and notes therein for further information.

(2) Other non-Corporate SG&A for the fiscal quarters ended December 26, 2020 and September 26, 2020 primarily consist of transaction costs and restructuring costs of $2.7 million and $2.7 million, respectively, and share-based compensation of $1.6 million and $1.0 million, respectively, as commonly excluded from Adjusted EBITDA (Non-GAAP). Refer to Item 2 "*Retail Performance*" and notes therein for further information.

For the fiscal second quarter of 2021, Corporate SG&A (Non-GAAP) contributed $15.3 million to Adjusted EBITDA from Continuing Operations (Non-GAAP), representing a decrease of $0.9 million, or 6%, from the $16.2 million that Corporate SG&A (Non-GAAP) contributed to Adjusted EBITDA Loss from Continuing Operations (Non-GAAP) in the fiscal first quarter of 2021. The largest driver of the improvement was the Company's continual effort to right-size its corporate infrastructure as a result of the successful implementation of the Company's cost-cutting plans.

Reconciliations of Non-GAAP Financial Measures

The table below reconciles Net Loss to Adjusted Net Loss from Continuing Operations (Non-GAAP) for the periods indicated.

	Three Months Ended		Six Months Ended	
($ in Millions)	December 26, 2020	December 28, 2019	December 26, 2020	December 28, 2019
Net Loss	**$ (68.9)**	**$ (93.1)**	**$ (101.8)**	**$ (156.1)**
Less: Net Loss from Discontinued Operations, Net of Taxes	(1.2)	36.8	1.5	39.9
Add (Deduct) Impact of:				
Transaction Costs & Restructuring Costs	2.7	17.8	5.4	18.9
Share-Based Compensation	1.6	2.6	2.6	9.0
Other Non-Cash Operating Costs (1)	3.4	(0.4)	(15.4)	15.8
Income Tax Effects (2)	(0.8)	(0.4)	2.7	2.6
Total Adjustments	6.9	19.6	(4.7)	46.3
Adjusted Net Loss from Continuing Operations (Non-GAAP)	**$ (63.1)**	**$ (36.8)**	**$ (105.0)**	**$ (69.8)**

The table below reconciles Adjusted Net Loss to EBITDA from Continuing Operations (Non-GAAP) and Adjusted EBITDA from Continuing Operations (Non-GAAP) for the periods indicated.

	Three Months Ended		Six Months Ended	
($ in Millions)	December 26, 2020	December 28, 2019	December 26, 2020	December 28, 2019
Net Loss	**$ (68.9)**	**$ (93.1)**	**$ (101.8)**	**$ (156.1)**
Less: Net Loss from Discontinued Operations, Net of Taxes	(1.2)	36.8	1.5	39.9
Add (Deduct) Impact of:				
Net Interest and Other Financing Costs	9.7	7.8	20.8	15.6
Provision for Income Taxes	24.0	(14.6)	34.3	(32.3)
Amortization and Depreciation	16.9	9.8	29.0	23.0
Total Adjustments	50.6	3.0	84.1	6.3
EBITDA from Continuing Operations (Non-GAAP)	**$ (19.5)**	**$ (53.4)**	**$ (16.1)**	**$ (109.8)**
Add (Deduct) Impact of:				
Transaction Costs & Restructuring Costs	2.7	17.8	5.4	18.9
Share-Based Compensation	1.6	2.6	2.6	9.0
Other Non-Cash Operating Costs *(1)*	3.4	(0.4)	(15.4)	15.8
Total Adjustments	7.7	20.0	(7.4)	43.7
Adjusted EBITDA from Continuing Operations (Non-GAAP)	**$ (11.8)**	**$ (33.4)**	**$ (23.5)**	**$ (66.1)**

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(1) Other non-cash operating costs for the periods presented were as follows:

	Three Months Ended		Six Months Ended	
	December 26, 2020	December 28, 2019	December 26, 2020	December 28, 2019
Change in Fair Value of Derivative Liabilities	$ 0.2	$ (2.9)	$ (0.1)	$ (8.0)
Change in Fair Value of Investments	2.0	(5.0)	(10.5)	(16.5)
Change in Fair Value of Contingent Consideration	0.1	5.2	0.4	7.5
Gain/Loss on Lease Modifications	(1.3)	-	(17.9)	(0.2)
Gain/Loss on Extinguishment of Debt	0.9	0.7	11.1	32.2
Gain/Loss from Disposal of Assets	0.5	1.1	0.4	0.2
Impairment Expense	-	-	0.8	-
Other Non-Cash Operating Costs	0.9	0.6	0.4	0.6
Total Other Non-Cash Operating Costs	**$ 3.4**	**$ (0.4)**	**$ (15.4)**	**$ 15.8**

(2) Income tax effects to arrive at Adjusted Net Loss from Continuing Operations (Non-GAAP) are related to temporary tax differences in which a future income tax benefit exists, such as changes in fair value of investments, changes in fair value of contingent consideration, gain/loss from disposal of assets, and impairment expense. The income tax effect is calculated using the federal statutory rate of 21.0% and statutory rate for the state in which the related asset is held or the transaction occurs, most of which is in California with a statutory rate of 8.84%.

Adjusted Net Loss from Continuing Operations (Non-GAAP) represents the profitability of the Company excluding unusual and infrequent expenditures and non-cash operating costs. The change in Adjusted Net Loss from Continuing Operations (Non-GAAP) was primarily due to reductions in SG&A as a direct result of successful implementation of the Company's cost reduction initiatives as well as a decrease in transaction costs and restructuring costs as the Company scales back its expansion strategy and executes its turnaround plan. This was offset by an increase in the Company's provision for income taxes driven by IRC Section 280E. Accordingly, Adjusted Net Loss from Continuing Operations (Non-GAAP) increased in the fiscal second quarter of 2021 compared to the prior period.

EBITDA from Continuing Operations (Non-GAAP) represents the Company's current operating profitability and ability to generate cash flow and includes significant non-cash operating costs. Net Loss is adjusted for interest and financing costs as a direct result of debt financings, income taxes, and amortization and depreciation expense to arrive at EBITDA from Continuing Operations (Non-GAAP). Considering these adjustments, the Company had EBITDA from Continuing Operations (Non-GAAP) of $(19.5) million and $(16.1) million for the three and six months ended December 26, 2020 improved compared to the comparative prior periods. The change in EBITDA from Continuing Operations (Non-GAAP) was primarily due to the Company's continued focus on its cost-reduction initiatives. In addition, the Company recognized a loss on extinguishment of debt of $32.2 million during the six months ended December 28, 2019 compared to $11.1 million in the current period, offset by a $16.3 million gain on lease modifications on the deferral of lease payments with the REIT in the fiscal first quarter of 2021.

For the three and six months ended December 26, 2020, the Company saw an improvement in Adjusted EBITDA from Continuing Operations (Non-GAAP) of $(11.8) million and $(23.5) million, respectively, compared to $(33.4) million and $(66.1) million for the three and six months ended December 28, 2019, respectively. The improvement was primarily related to a decrease in transaction costs and restructuring costs as the Company executes its strategic plan during fiscal year 2021. The financial performance of the Company is expected to further improve as the Company continues to focus on its turnaround plan and cost-optimization efforts and once all newly active retail locations have acclimatized to the geographic market and are fully operational.

Refer to Item 2 *"Liquidity and Capital Resources"* for further discussion of management's future outlook and executed strategic plan.

Refer to Item 2 *"Retail Performance"* above for reconciliations of Retail Adjusted EBITDA.

Cash Flows

($ in Millions)	Six Months Ended December 26, 2020	Six Months Ended December 28, 2019	$ Change	% Change
Net Cash Used in Operating Activities	$ (29.7)	$ (69.7)	$ 40.0	(57%)
Net Cash Provided by (Used in) Investing Activities	15.4	(26.5)	41.9	(158%)
Net Cash Provided by Financing Activities	11.8	88.9	(77.1)	(87%)
Net Decrease in Cash and Cash Equivalents	(2.5)	(7.3)	4.8	(66%)
Cash and Cash Equivalents, Beginning of Period	10.1	33.2	(23.1)	(70%)
Cash and Cash Equivalents, End of Period	**$ 7.5**	**$ 26.0**	**$ (18.5)**	(71%)

Cash Flow from Operating Activities

Net cash used in operating activities was $29.7 million for the six months ended December 26, 2020, a decrease of $40.0 million, or 57%, compared to $69.7 million for the six months ended December 28, 2019. The decrease in cash used was primarily due to results of the Company's cost rationalization strategy implemented since November 2019. Specifically, general and administrative expenses as well as sales and marketing include corporate-level expenses across various functions including Marketing, Legal, Retail Corporate, Technology, Accounting and Finance, Human Resources and Security which are combined to account for a significant proportion of the Company's total general and administrative and sales and marketing expenses, which decreased $49.1 million and $9.0 million, respectively, compared to the six months ended December 28, 2019. The decrease in cash used was coupled with gains recognized on certain modifications to lease agreements of $17.9 million, a deferred tax recovery in the amount of $13.5 million, a decrease in change of contingent consideration related to a previously acquired California license of $7.1 million as well as a decrease in loss on extinguishment of debt and settlement of accounts payable and accrued liabilities of $21.8 million during the six months ended December 26, 2020.

Cash Flow from Investing Activities

Net cash provided by investing activities was $15.4 million for the six months ended December 26, 2020, a decrease of $41.9 million, or 158%, compared to $26.5 million of cash used in the six months ended December 28, 2019. The decrease in net cash used in investing activities was primarily due the Company's strategic plan to limit cash outlays and divest non-core assets as compared to the six months ended December 28, 2019. Net cash was positively impacted by a decrease in purchases of property and equipment of $46.8 million. In addition, the Company received proceeds from the sale of assets held for sale of $18.8 million during the six months ended December 26, 2020, an increase of $13.8 million, compared to $5.0 million in the same period prior, offset by a decrease of $21.8 million in proceeds from the sale of investments and property.

Cash Flow from Financing Activities

Net cash provided by financing activities was $11.8 million for the six months ended December 26, 2020, a decrease of $77.1 million, or 87%, compared to $88.9 million for the six months ended December 28, 2019. The decrease in change of net cash provided by financing activities was primarily due to a decrease of $52.6 million in the issuance of equity instruments for cash, and a decrease of $29.5 million in proceeds from the credit facility with Gotham Green Partners. The decrease in debt and equity financings was coupled with a decrease of $12.3 million in principal repayments on notes payable offset by an increase of $8.0 million in principal repayments of the GGP Facility during the six months ended December 26, 2020 compared to the same period in the prior year.

Financial Condition

The following table summarizes certain aspects of the Company's financial condition as of December 26, 2020 and June 27, 2020:

($ in Millions)	December 26, 2020	June 27, 2020	$ Change	% Change
Cash and Cash Equivalents	$ 7.5	$ 10.1	$ (2.6)	(26%)
Total Current Assets	$ 68.3	$ 84.0	$ (15.7)	(19%)
Total Assets	$ 503.6	$ 574.3	$ (70.7)	(12%)
Total Current Liabilities	$ 220.4	$ 189.2	$ 31.2	16%
Notes Payable, Net of Current Portion	$ 337.3	$ 319.2	$ 18.1	6%
Total Liabilities	$ 750.5	$ 751.2	$ (0.7)	(0%)
Total Shareholders' Equity	$ (246.9)	$ (176.9)	$ (70.0)	40%
Working Capital Deficit	$ (152.1)	$ (105.2)	$ (47.0)	45%

As of December 26, 2020, the Company had $7.5 million of cash and cash equivalents and $152.1 million of working capital deficit, compared to $10.1 million of cash and cash equivalents and $105.2 million of working capital deficit as of June 27, 2020. The reduction in cash and cash equivalents was associated with principal repayments of the GGP Facility of $8.0 million during the six-month period versus none in the prior year, which was offset by cash savings from execution of the Company's financial restructuring and turnaround plan to defer approximately $32.0 million in cash commitments. On July 2, 2020, the Company amended the GGP Facility and 2018 Term Loan wherein all interest payable through June 2021 will be paid-in-kind. Further, on July 2, 2020, the Company also amended its lease terms with the REIT wherein a portion of the total current monthly base rent will be deferred for the 36-month period between July 1, 2020 and July 1, 2023.

The $47.0 million increase in working capital deficit was primarily related to a decrease of $13.0 million assets held for sale related to the Company's divestiture of non-core assets during the six months ended December 26, 2020 and a decrease of $3.4 million in other current assets related to the outstanding portion of the consideration for the sale of retail locations in Evanston, Illinois and Seaside, California and a settlement in excise tax receivable. The net decrease in current assets was coupled with an increase of $47.7 million in income taxes payable offset by a decrease of $6.8 million in other current liabilities primarily due to decreases in accrued interest which was capitalized to non-current notes payable as paid-in-kind, a decrease of $6.3 million in liabilities held for sale, and a decrease of $4.9 million in the current portion of lease liabilities.

The Company's working capital will be significantly impacted by continued growth in retail operations, operationalizing existing licenses, and the success of the Company's cost-cutting measures. The ability to fund working capital needs will also be dependent on the Company's ability to raise additional debt and equity financing.

Liquidity and Capital Resources

The primary need for liquidity is to fund working capital requirements of the business, including operationalizing existing licenses, capital expenditures, debt service and acquisitions. The primary source of liquidity has primarily been private and/or public financing and to a lesser extent by cash generated from sales. The ability to fund operations, to make planned capital expenditures, to execute on the growth/acquisition strategy, to make scheduled debt and rent payments and to repay or refinance indebtedness depends on the Company's future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond its control. Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

As of December 26, 2020, the Company had $7.5 million of cash and cash equivalents and $152.1 million of working capital deficit, compared to $10.1 million of cash and cash equivalents and $105.2 million of working capital deficit as of June 27, 2020. For the six months ended December 26, 2020, the Company's monthly burn rate, which was calculated as cash spent per month in operating activities, was approximately $5.0 million compared to a monthly burn rate of approximately $11.6 million for the six months ended December 28, 2019. During fiscal year 2020, in November 2019, the Company shifted its focus from an aggressive expansion strategy to a revised growth strategy focused on achieving profitability. During the six months ended December 26, 2020, management continued their efforts of executing the Company's strategic plan to limit significant cash outlays and reduce the overall cash burn. As of December 26, 2020, cash generated from ongoing operations may not be sufficient to fund operations and, in particular, to fund the Company's growth strategy in the short-term or long-term.

Subsequent to December 26, 2020, management continued to execute on its financial restructuring and turnaround plan to support the expansion of the Company's retail footprint. The strategic plan includes, but is not limited to, capital raised subsequent to year-end, modifying covenants for additional flexibility and restructuring plans that have already been put in place to reduce corporate-level expenses, reduction in capital expenditures through a slow-down in new store buildouts, plans to divest non-core assets to raise non-dilutive capital, enhancements to its digital offering, including direct-to-consumer delivery and curbside pick-up in light of COVID-19 and a change in retail strategy to pass certain local taxes and payment processing fees to customers. The Company has also revamped its procurement process to restructure new vendor contracts with better margins. The Company will continue to focus on the optimization of SG&A expenses, including reducing payroll spend at retail locations by implementing a dynamic staffing model, reducing banking and payment processing fees, and reducing security spend. Management is in the process of leveraging the Company's operating scale with a focus on high ROI initiatives through strategic opportunities that will allow the Company to maintain its leadership within the industry. Management continues to explore joint ventures on certain capital-intensive projects that will bring in qualified partners to enable the Company to maintain their strong retail presence without having to deploy upfront capital. Further, the Company will continue to streamline operations and invest in core markets, with a focus on markets in which MedMen already has a leadership position in. The Company's restructuring plan includes a market-based approach wherein strategic decisions vary by market considering regulatory and economic conditions, potential partnerships and synergies, and the Company's position in that market. The Company continues to execute on its plan to achieve its growth and profitability goals. As the economic environment improves and the pandemic is better managed and controlled, the Company expects its improved assortment, customer experience and marketing initiatives to drive continued revenue growth.

The Company continues to explore avenues of raising additional funds from debt and equity financing subsequent to December 26, 2020 to mitigate any potential liquidity risk. The Company intends to continue raising capital by utilizing debt and equity financings on an as needed basis. Management evaluated its financial condition as of December 26, 2020 in conjunction with recent financings and transactions which provide capital subsequent to the three months ended December 26, 2020 as discussed below.

Continued Support from Gotham Green Partners

On January 11, 2021, the Company entered into a Third Amended and Restated Securities Purchase Agreement (the "Third Restatement") to the GGP Facility wherein the minimum liquidity covenant was modified to extend the period during which it is waived from December 31, 2020 to June 30, 2021, to reset the minimum liquidity threshold to $7,500,000 effective on July 1, 2021 through December 31, 2021, and $15,000,000 thereafter, and to waive the minimum liquidity covenant if the Company is current on cash interest. Furthermore, covenants with regards to non-operating leases, capital expenditures and corporate SG&A will now be tied to a board of directors approved budget. In addition, the conversion price of certain notes and the exercise price of certain warrants was adjusted as part of the Third Restatement. Refer to "*Note 25 – Subsequent Events*" of the unaudited interim condensed consolidated financial statements in Item 1.

Subsequent to December 26, 2020, the Company received an additional advance of $10,000,000 in the form of senior secured convertible notes with a conversion price of $0.16 per Subordinate Voting Share. In connection with the incremental advance, the Company issued 62,174,567 warrants exercisable for five years at a purchase price of $0.16 per Subordinate Voting Share.

Unsecured Convertible Facility

On January 29, 2021, the Company closed on a fifth tranche of $1,000,000 under its existing unsecured convertible facility with a conversion price of $0.16 per Subordinate Voting Share. In connection with the fifth tranche, the Company issued 3,355,000 warrants with an exercise price of $0.19 per share.

Private Placement

On February 16, 2021, the Company executed documents for the sale of 7,800,000 units at a purchase price of $0.37 per unit through a private placement for gross proceeds of $2,896,315. The units consist of 7,800,000 Subordinate Voting Shares and 7,800,000 warrants with an exercise price of $0.46 per Subordinate Voting Share for a period of five years.

Sale of Assets

The Company will receive an additional $2,000,000 related to the divestiture of the Evanston retail license located in Illinois on or before the three-month anniversary of November 16, 2020 ("**Closing Date**") The $2,000,000 will be paid in the form of a secured promissory note in which interest will accrue at a rate of 2.0% interest rate per annum compounded annually and will mature as agreed upon between the Company and borrower. Management continues to seek buyers for divestiture of the Company's other non-core assets, which include licenses and investments, to provide additional capital. Given the Company's specialization in retail, management is revaluating its vertical integration strategy and identifying opportunities to realign the Company's focus on the retail market.

Off-Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Policies, Significant Judgments and Estimates and Recent Accounting Pronouncements

There have been no changes in critical accounting policies, estimates and assumptions from the information provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Form 10 for the fiscal year ended June 27, 2020 that have a significant effect on the amounts recognized in the interim consolidated financial statements as of and for the fiscal quarter ended December 26, 2020 except as described below. See “*Note 2 – Summary of Significant Accounting Policies*” in the unaudited interim condensed consolidated financial statements in Item 1 for recently adopted accounting standards. For more information on the Company’s critical accounting estimates, refer to the annual MD&A for the fiscal year ended June 27, 2020. A detailed description of our critical accounting policies and recent accounting pronouncements are detailed in Item 13 of the 2020 Form 10.

Down Round Features

In July 2017, the FASB issued ASU 2017-11, “*Earnings Per Share (Topic 260)*” wherein the amendments change the classification of certain equity-linked financial instruments (or embedded features) with down round features. For freestanding equity-classified financial instruments, the amendments require entities that present earnings per share (“**EPS**”) in accordance with ASC 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. For freestanding equity-classified financial instruments, the value of the effect of the down round feature is measured as the difference in fair value of the financial instrument without the down round feature with a strike price corresponding to the stated strike price versus the reduced strike price upon the down round feature being triggered. The fair value is measured in accordance with the measurement guidance in ASC 820, “*Fair Value Measurement”* in which the Company utilizes the Black-Scholes pricing model. Convertible instruments with embedded conversion options that have down round features are subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). During the six months ended December 26, 2020, a down round feature present in the GGP Facility and the 2020 Term Loan was triggered. Refer to Note 12 and Note 13 of the Consolidated Financial Statements for the three and six months ended December 26, 2020 in Item 1.

Financial Risk Management

Credit Risk

The operating results and financial position of the Company are reported in U.S. dollars. Some of the Company’s financial transactions are denominated in currencies other than the U.S. dollar. The results of the Company’s operations are subject to currency transaction and translation risks. The Company’s main risk is associated with fluctuations in Canadian dollars. The Company holds cash in U.S. dollars, investments denominated in U.S. dollars, debt denominated in U.S. dollars, and equity, which is denominated in U.S. and Canadian dollars. Such assets and liabilities denominated in currencies other than the U.S. dollar are translated based on the Company’s foreign currency translation policy.

As of December 26, 2020 and June 27, 2020, the Company had no hedging agreements in place for foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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 and cash equivalents bear interest at market rates. The Company’s financial liabilities have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

Equity Price Risks

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company’s investments are susceptible to price risk arising from uncertainties about their future outlook, future values and the impact of market conditions. The fair value of investments held in privately held entities is based on a market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Transactions with Related Parties

All related party balances due from or due to the Company as of December 26, 2020 and June 27, 2020 did not have any formal contractual agreements regarding payment terms or interest. For amounts due from and to related parties, refer to *“Note 22 – Related Party Transactions”* of the Consolidated Financial Statements for the three and six months ended December 26, 2020 and December 28, 2019 in Item 1.

Gotham Green Partners

As discussed in in Item 2 "*Liquidity and Capital Resources*" and Item 2 "*Quarterly Highlights*", the Company has engaged in a strategic partnership with Gotham Green Partners, a related party. The arrangement is to provide financing to the Company in the form of a credit facility up to $250.0 million accessed through issuances of convertible senior secured notes (the "**Notes**") co-issued by the Company and MM CAN USA, Inc. The Notes are convertible, at the option of the holder, into Subordinate Voting Shares at any time prior to the close of business on the last business day immediately preceding the maturity date of April 23, 2022. In addition, upon issuance of any Notes, the lenders are issued share purchase warrants (the "**Warrants**") of the Company, each of which are exercisable to purchase one Subordinate Voting Share for 36 months from the date of issue. The Notes and the Warrants, and any Subordinate Voting Shares issuable as a result of a conversion of the Notes or exercise of the Warrants, will be subject to a four-month hold period from the date of issuance of such Notes or such Warrants, as applicable, in accordance with applicable Canadian securities laws. While the Notes are outstanding, the lenders will be entitled to the collective rights to appoint a representative to attend all meetings of the Board of Directors in a non-voting observer capacity. GGP has the right to nominate a majority of the Company's Board of Directors while the aggregate principal amount outstanding under the Notes being more than $25.0 million. The convertible facility bears interest at a rate of LIBOR plus 6.0% per annum. All convertible notes will have a maturity date of 36 months from the maturity date, with a twelve-month extension feature available to the Company on certain conditions. As of February 9, 2021, the Company has drawn down on approximately $155,000,000 of the Facility. Refer to *"Note 13 – Senior Secured Convertible Credit Facility"* of the Consolidated Financial Statements for the three and six months ended December 26, 2020 and December 28, 2019 in Item 1.

SierraConstellation Partners

In March 2020, the Company entered into restructuring plan and retained interim management and advisory firm, SierraConstellation Partners ("**SCP**"), to support the Company in the development and execution of its turnaround and restructuring plan. As part of the engagement, Tom Lynch was appointed as Interim Chief Executive Officer and Chief Restructuring Officer, and Tim Bossidy was appointed as Interim Chief Operating Officer. Mr. Lynch is a Partner and Senior Managing Director at SCP. Mr. Bossidy is a Director at SCP. In December 2020, Mr. Lynch was elected as Chairman of the Board and Reece Fulgham, a Managing Director at SCP, was appointed as Interim Chief Financial Officer. As of February 9, 2021, the Company had paid $1,694,683 in fees to SCP for interim management and restructuring support during the current fiscal year.

Emerging Growth Company Status

The Company is an "emerging growth company" as defined in the Section 2(a) of the Exchange Act, as modified by the Jumpstart Our Business Start-ups Act of 2012, or the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards applicable to public companies. The Company has elected to take advantage of this extended transition period and as a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

During the year ended June 27, 2020, the Company's independent auditors identified a material weakness in its internal control over financial reporting relating to its impairment assessment and measurement standards. In connection with the preparation of interim financial statements, we determined that we had a material weakness in our internal control over financial reporting relating to the appropriate review of the presentation and disclosure of non-routine transactions including impairments of goodwill and long-lived assets, changes in the fair value of contingent consideration and restructuring expenses, and income taxes. To address these material weaknesses, we have instituted a number of accounting processes and procedures which includes i) formal, documented process to identify, assess and calculate impairment on goodwill and long-lived assets, and ii) the preparation of presentation and disclosure requirement checklists to be reviewed by management for all new transactions and accounting standards.

The actions we have taken are subject to continued review, supported by confirmation and testing by management. While we have completed a plan to remediate these weaknesses, we cannot assure you that we will be able to remediate these weaknesses, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows. Our failure to remediate the identification of additional material weaknesses in the future, could adversely affect our ability to report financial information, including our filing of quarterly or annual reports with the Commission on a timely and accurate basis, which may adversely affect the market price of shares of our common stock.