

Nova Net Lease REIT
Management's Discussion and Analysis
For the Three and Nine Months ended September 30, 2022
(Amounts in U.S. Dollars) (Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of performance, financial condition and prospects of Nova Net Lease REIT (the "**REIT**") should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2022 (the "**Unaudited Interim Financial Statements**"), as well as the REIT's audited consolidated financial statements and accompanying notes for the period from July 27, 2021 (date of formation) to December 31, 2021 (the "**2021 Audited Financial Statements**"), and the accompanying MD&A and annual information form (the "**Annual Information Form**"). Our filed documents can be accessed under the REIT's profile at www.sedar.com or on the REIT's website at www.novanetleasereit.com.

This Management's Discussion and Analysis ("**MD&A**") is prepared as of November 22, 2022, and outlines the REIT's formation, operating activities, risk considerations and analysis of its financial results as presented in the Unaudited Interim Financial Statements. The Unaudited Interim Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") and with interpretation of the International Financial Reporting Interpretations Committee ("**IFRIC**"). The REIT's financial information is expressed in United States dollars. In addition to reviewing this MD&A, readers are encouraged to read our public information that has been filed on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com including the final prospectus for the REIT for its initial public offering of trust units (the "**Prospectus**") on the Canadian Securities Exchange (the "**CSE**").

The trust units of the REIT (the "**Units**") are listed on the CSE in U.S. dollars under the symbol "NNL.U" and the U.S.-based OTCQB under the symbol "NNLRF".

Cautionary Statement Regarding Forward-Looking Statements

This document may contain "forward-looking statements" (as defined under applicable securities laws). These forward-looking statements relate to future events or future performance including with respect to our objectives and priorities for fiscal year 2022 and beyond.

Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target", "intend", "could" or the negative of these terms or other comparable terminology. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and many factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating forward-looking statements, readers should specifically consider various factors that may cause actual results to differ materially from any forward-looking statement. These factors include, but are not limited to, market and general economic conditions and the risks and uncertainties discussed in the section entitled "Risk Factors" in the Prospectus and our Annual Information Form.

The forward-looking statements contained in this MD&A are presented to assist investors in understanding business and strategic priorities and objectives of the REIT as at the periods indicated and may not be appropriate for other purposes. Forward-looking statements contained in this MD&A are not guarantees of future performance and, while forward-looking statements are based on certain assumptions that we consider reasonable, actual events and results could differ materially from those expressed or implied by forward-looking statements made by us. Readers are cautioned to consider these and other factors carefully when making decisions with respect to the REIT and not place

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undue reliance on forward-looking statements. Circumstances affecting us may change rapidly. Except as may be expressly required by applicable law, the REIT does not undertake any obligation to update publicly or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

Non-IFRS Financial Measures

It is common in the real estate industry for entities to report certain financial measures that are not defined under IFRS. These metrics are used to measure, compare and explain the operating results, financial performance and cash flows of a REIT. However, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other publicly traded entities. These measures should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with IFRS.

Funds from Operations and Adjusted Funds from Operations

In January 2022, the Real Property Association of Canada (“**REALPAC**”) issued a publication titled “REALPAC Funds from Operations (FFO) & Adjusted Funds from Operations (AFFO) for IFRS”. The purpose of the publication is to provide reporting issuers and investors with guidance on the definition of funds from operations (“**FFO**”) and adjusted funds from operations (“**AFFO**”) and to help promote more consistent disclosure from reporting issuers. FFO is defined as IFRS consolidated net income (loss) adjusted for items such as distributions on redeemable or exchangeable units recorded as finance cost under IFRS (including distributions on the redeemable Class B Units (the “**Class B Units**”) of Nova Net Lease Operating LLC (the “**Operating Partnership**”)), unrealized fair value adjustments to investment properties, unrealized fair value adjustments to puttable instruments classified as financial liabilities (Class B Units), gain on disposition of investment properties, and depreciation. FFO should not be construed as an alternative to net income (loss) or cash flows provided by or (used in) operating activities determined in accordance with IFRS. The REIT's method of calculating FFO is substantially in accordance with REALPAC's recommendations but may differ from other issuers' methods and, accordingly, may not be comparable to FFO reported by other issuers. The REIT regards FFO as a key measure of operating performance.

AFFO is defined as FFO adjusted for items such as maintenance capital expenditures, and certain non-cash items such as straight-line rent. AFFO should not be construed as an alternative to net income (loss) or cash flows provided by or (used in) operating activities determined in accordance with IFRS. The REIT's method of calculating AFFO is substantially in accordance with REALPAC's recommendations, but may differ from other issuers' methods and, accordingly, may not be comparable to AFFO reported by other issuers. The REIT regards AFFO as an important performance measure to determine the sustainability of future distributions paid to unitholders after a provision for maintenance capital expenditures and certain other non-cash items.

The REIT believes these non-IFRS financial measures and ratios can provide useful supplemental information to both management and investors in measuring the operating performance, financial performance and financial condition of the REIT. The REIT may also use FFO and AFFO in assessing its distribution paying capacity.

Business Overview

The REIT was formed on July 27, 2021, as a newly created, open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario, where one unit of the REIT was issued for \$10 in cash. The declaration of trust of the REIT was filed on SEDAR at www.sedar.com in conjunction with the filing of the Prospectus for the REIT's initial public offering of trust units (the “**Offering**”) on the CSE. The REIT's registered office is located at 200 Bay Street, North Tower, Suite 1200, Toronto, Ontario, Canada, M5J 2J2.

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Prior to September 1, 2021, the REIT had no operations. On September 1, 2021, all of the outstanding shares of Verdant Growth Properties Corp. (“**Verdant**”) were exchanged for shares in the REIT on a 10 for 1 basis, making Verdant a wholly-owned subsidiary of the REIT (the “**Share Exchange**”). Verdant, a Delaware corporation, was formed on October 27, 2020, for the purpose of owning and leasing, on a triple-net basis, cannabis-related real estate assets in the United States (the “**U.S.**”). From inception until the Share Exchange, Verdant had been preparing for an initial public offering on the CSE. The REIT was formed to affect the cross-border structure whereby the REIT is classified as a U.S. corporation for U.S. federal income tax purposes pursuant to section 7874 of the United States Internal Revenue Code of 1986, as amended (the “**Code**”). As a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding it is organized as a Canadian entity.

The Share Exchange and resulting merger transaction did not constitute a business combination within the scope of IFRS 3 *Business Combinations*, and accordingly was accounted for as a pooling of interest in the 2021 Audited Financial Statements. According to this method, the REIT prepared its 2021 Audited Financial Statements in order to reflect as if the merger was in effect as of the date the two entities were under common control. The share capital and equity balances were adjusted on September 1, 2021 to reflect the Share Exchange transaction.

The REIT is considered an umbrella partnership real estate investment trust for U.S. federal income tax purposes. Operations of the REIT are conducted primarily through the Operating Partnership, a subsidiary of Verdant, which was formed under the laws of the State of Delaware. At formation, the Operating Partnership was a single member LLC with Verdant owning 100% of the Class A Units.

The MD&A included herein is that of the REIT and its wholly-owned and wholly-controlled subsidiaries, including:

Entity	Date of Formation	Owning Entity	Ownership %
Verdant Growth Properties Corp	October 27, 2020	Nova Net Lease REIT	100% of Common Stock
Nova Net Lease Operating LLC	July 21, 2021	Verdant Growth Properties Corp 521 East Mosel LLC	100% of Class A Units 100% of Class B Units
Nova Kalamazoo LLC	July 27, 2021	Nova Net Lease Operating LLC	100% Sole Member
NNL Kalamazoo LP	November 5, 2021	Nova Kalamazoo LLC Nova Net Lease Operating LLC	0.01% General Partner 99.9% Limited Partner

Subsequent to the Share Exchange, the activities carried out by the REIT were to engage legal counsel and accounting firms to begin the process of planning for an initial public offering, and start building a pipeline of potential acquisition targets for purpose of identifying the REIT's initial investment asset. Prior to the acquisition of its first property, the REIT did not own investment assets and had not commenced real estate operations. Liquidity was provided by the initial investment in equity by the founders, trustees and management.

On November 24, 2021, the REIT acquired an industrial cannabis facility in Kalamazoo, Michigan, (the “**Kalamazoo Property**”) under terms of a contribution agreement (the “**Contribution Agreement**”) with 521 East Mosel LLC (“**Cloud**”) whereby Cloud agreed to contribute the real estate to the Operating Partnership in exchange for Class B Units valued at \$10,000,000. Simultaneous with the closing of the acquisition, the operator of the cultivation facility entered into a triple-net lease with a wholly-owned subsidiary of the Operating Partnership with an initial term of 15 years and two 10-year extension options.

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On January 4, 2022, the REIT closed on the Offering, raising gross proceeds of \$3,959,348. On January 31, 2022, the REIT raised an additional \$300,402 through the exercise of the overallotment by the underwriters. The REIT is listed on the CSE under the ticker symbol, "NNL.U" and the OTCQB under the ticker symbol, "NNLRF".

Following the Offering, the Board of Trustees of the REIT (the "**Board of Trustees**") established the REIT's distribution policy and set the distribution amount to \$0.00225 per Unit on a monthly basis, or \$0.027 per Unit on an annualized basis, commencing with the month of January 2022. Distributions are generally paid on or about the 15th day following the end of the month to holders of Units of record as of the close of business on the last business day of the month.

Investment Property Portfolio

A property is determined to be an investment property when it is held either to earn rental income, capital appreciation or for both. Investment properties include land, buildings, land improvements, and building improvements. The REIT was formed for the purpose of owning and leasing to operators, on a triple-net basis, cannabis-related real estate assets in the U.S. At September 30, 2022, the REIT owned one investment property, the Kalamazoo Property, which is a 70,000 square foot specialized industrial cannabis cultivation facility in Kalamazoo, Michigan, that also includes 3,000 square feet of retail space. Currently 35,000 square feet of the facility are dedicated to a cultivation operation, and 32,000 square feet are available for future use. The tenant entered into a triple-net lease concurrent with the REIT's acquisition of the property, with a 15-year term and two 10-year renewal options. The annual rent is \$1,300,000, and began accruing at the date of acquisition, which coincided with the commencement of the lease term. Rental escalators will begin in year three of the lease term.

The estimated fair value of the Kalamazoo Property was determined using the external appraisal report received in conjunction with the acquisition of the property in November 2021 and updated as at September 30, 2022. The appraiser evaluated the property using several valuation methods, and the income capitalization approach was given the greatest weight in the conclusion of value in the appraiser's report, as the value indication from the income capitalization approach is supported by market data regarding income, expenses and required rates of return, and a typical investor would place greatest reliance on the income capitalization approach. The resulting fair value was determined to be \$10,400,000 at the time of the original appraisal, and increased to \$10,610,000 as at September 30, 2022.

A reconciliation of the carrying amount for investment properties is set out below:

	As at September 30, 2022	As at December 31, 2021
Investment Properties, Opening Balance	\$ 10,400,000	\$ —
Acquisitions - November 24, 2021	—	10,000,000
Straight-line Rent Receivable	217,136	—
Class B Units to be Issued	720,000	—
FV Adjustment	(727,136)	52,155
Transaction Costs	—	347,845
Investment Properties, Ending Balance	\$ 10,610,000	\$ 10,400,000

The fair value of investment properties is most sensitive to changes in capitalization rates as applied to rental revenue or net operating income. Changes in capitalization rates would result in a change to the fair value of the REIT's

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investment properties. Set out below is the impact of a 25 basis-point increase or decrease in the weighted average capitalization rate on the carrying value of investment properties in dollar and percentage terms:

Capitalization Rate	\$ Increase (Decrease)	% Increase (Decrease)
25-basis point increase	\$ (212,156)	(2.00)%
25-basis point decrease	\$ 220,994	2.08 %

Selected Financial Information

The following tables summarize relevant balance sheet data as at September 30, 2022 and December 31, 2022, and relevant income statement data for the three and nine months ended, September 30, 2022, and for the period from July 27, 2021 to September 30, 2021, and should be read with the Unaudited Interim Financial Statements.

Balance Sheet	As at September 30, 2022	As at December 31, 2021
Total Assets	\$ 13,024,450	\$ 11,769,854
Total Liabilities	8,756,608	11,559,427
Unitholders' Equity	4,267,842	210,427

Income Statement	Three Months ended September 30, 2022	For the Three and Nine Month Period from July 27, 2021 to September 30, 2021	Nine Months ended September 30, 2022
Total Revenues	\$ 388,655	\$ —	\$ 1,165,966
General and Administrative Expenses	640,892	67,688	2,397,203
Finance Cost	53,977	—	158,893
Fair Value Change – Class B Units	(862,186)	—	(2,800,000)
Fair Value Change – Investment Properties	(24,344)	—	727,136
Net Income (Loss) and Comprehensive Income (Loss)	\$ 580,316	\$ (67,688)	\$ 682,734
Net Income (Loss) and Comprehensive Income (Loss) per Unit – Basic	\$ 0.08	\$ (0.03)	\$ 0.10
Weighted average units outstanding – Basic	6,832,884	2,488,311	6,745,151
Net Loss and Comprehensive Loss per Unit – Diluted	\$ (0.02)	\$ (0.03)	\$ (0.13)
Weighted average units outstanding – Diluted	14,832,884	2,488,311	14,745,151

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Balance Sheet Highlights

Assets

At September 30, 2022, the REIT held cash of \$1,833,592 and restricted cash of \$325,000. On January 4, 2022, the REIT completed the Offering of 3,167,478 Units, raising gross proceeds of \$3,959,348. On January 31, 2022, the overallotment was exercised for 240,322 Units for gross proceeds of \$300,402. After payment of closing costs and legal fees, cash proceeds to the REIT were \$2,729,340.

Restricted cash represents a tenant security deposit related to the Kalamazoo Property that is being held in escrow on behalf of the REIT by the tenant's attorney. Investment properties include the REIT's initial acquisition of the Kalamazoo Property, a 70,000 square foot cultivation and dispensary property in Kalamazoo, Michigan. The purchase price of the property was \$10,000,000, excluding transaction related costs, on November 24, 2021, and the investment was reflected at a fair value of \$10,610,000 at September 30, 2022, as determined by an independent appraiser.

Liabilities

The Class B Units represent the Operating Partnership units that were issued for the purchase of the Kalamazoo Property. While these are equity units in the Operating Partnership, under IFRS, they do not qualify for equity treatment, and are therefore recorded as financial liabilities and stated at fair value. The Class B Units are considered puttable instruments and can be redeemed for cash or REIT units as determined by the Board of Trustees. Because of the thinly-traded nature of the REIT units, the REIT used the weighted average trading price of the Units during the nine months ended September 30, 2022 for determining the fair value of the Class B Units at September 30, 2022 of \$7,200,000.

In conjunction with the issuance of the Class B Units to Cloud and pursuant to terms of the Contribution Agreement, the REIT agreed that if, prior to the date that is one-hundred eighty (180) days after the closing of the Offering, the REIT is unable to complete one or more financings totaling \$20,000,000, including the gross proceeds of the Offering, the REIT shall issue Cloud an additional 800,000 Class B Units (the "**Liquidity Discount**"). The Offering closed and funded in January 2022, raising gross proceeds of \$4,259,750. The date by which the remaining financings of \$15,740,250 were to be raised was July 3, 2022. The REIT was unable to complete the stipulated financings and therefore owe Cloud the Liquidity Discount. The REIT has reflected the Liquidity Discount as Class B Units to be issued in the Unaudited Interim Financial Statements at a value of \$720,000 using the REIT's weighted average unit price of \$0.90 for the nine months ended September 30, 2022 (see also "Investment Property Portfolio" in this MD&A). Issuance of the additional Class B Units has been deferred to a later date based on mutual verbal agreement.

Unitholders' Equity

The change in unitholders' equity from December 31, 2021 to September 30, 2022 was related to the completion of the Offering, including the issuance of Units, the implementation of distributions, and the issuance of unit-based awards to employees and advisors.

Results of Operations

For the period from July 27, 2021 to September 30, 2021, the REIT's only activities were to execute the Share Exchange, begin the planning related to a future initial public offering and listing on the CSE, and start building a pipeline of potential acquisition targets for purposes of identifying the REIT's initial investment asset. Because the REIT had no investment properties and no operating activities, a comparison to the three- and nine-month periods ended September 30, 2022 has not been presented. Rather, a discussion of each period's revenues and expenses has been separately presented.

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For the Period from July 27, 2021 to September 30, 2021

The REIT did not own investment properties for the period from July 27, 2021 through September 30, 2021, and therefore had no revenues for the period.

Professional fees, comprised of legal and accounting expenses, were \$52,122 for the period from July 27, 2021 through September 30, 2021, and were related to REIT formation and setup matters, and activities for the Offering.

Consulting fees of \$15,000 were expensed for the period from July 27, 2021 through September 30, 2021, and related to consulting agreements with an officer of the REIT for \$10,000 per month and an analyst for \$5,000 per month to provide services related to the Offering. The REIT entered into employment agreements with the consultants concurrent with the effective date of the Offering.

For the Three and Nine Months ended September 30, 2022

Revenues

Revenues of \$388,656 and \$1,165,966 for the three and nine months ended September 30, 2022, respectively, were comprised of contractual lease payments plus straight-line rent related to rental rate escalators per the lease agreement for the Kalamazoo Property.

Expenses

General and administrative expenses for the three and nine months ended September 30, 2022, were comprised of the following:

	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2022
Salaries and Benefits	\$ 202,978	\$ 633,874
Severance	—	278,000
Accounting, Tax and Audit	47,263	315,515
Legal	85,718	354,467
Board of Trustee Fees	142,306	319,806
Consulting	52,782	152,082
Insurance	48,053	143,701
Other	61,792	199,758
Total	\$ 640,892	\$ 2,397,203

On May 15, 2022, the REIT's Chief Executive Officer resigned from his position and entered into a separation agreement (the "**Separation Agreement**") with the REIT. The terms of the Separation Agreement included total cash compensation of \$278,000, which was accrued as severance in general and administrative expenses at the time of departure, payable ratably over 12 months. At September 30, 2022, the remaining balance in accrued liabilities was \$171,583.

Finance costs for the three and nine months ended September 30, 2022, included \$54,000 and \$162,000, respectively, of distributions to the Class B unitholders, partially offset by amortization related to the fair value presentation of the

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refundable security deposit. Because the Class B Units are reflected as financial liabilities in the financial statements, the distributions to Class B unitholders are recorded as finance cost in the statement of income and comprehensive income.

The Class B Units are classified as financial liabilities and are measured at fair value through profit or loss ("FVTPL"). At September 30, 2022, the Class B Units were determined to have a fair value of \$7,200,000 based on the 8,000,000 units outstanding valued at \$0.90 per unit, using the weighted average trading price of the Units for the nine months ended September 30, 2022, resulting in a fair value gain of \$862,186 for the three months ended September 30, 2022, and \$2,800,000 for the nine months then ended.

Investment properties are measured at fair value each reporting period, and the resulting change is reflected in the statement of income and comprehensive income. For the three months ended September 30, 2022, the REIT recorded a fair value gain of \$24,344, representing the increase in straight-line rent for the quarter, offset by a reduction in the Class B Units to be issued liability. For the nine months ended September 30, 2022, the REIT recorded a fair value loss of \$727,136, representing a 25-basis point compression of the capitalization rate, offset by the straight-line rent receivable for the period and the reduction in the liability for Class B Units to be issued as at September 30, 2022.

FFO and AFFO

The REIT believes the non-IFRS financial measures of FFO and AFFO provide useful supplemental information to both management and investors in measuring the operating performance, financial performance and financial condition of the REIT. The REIT also believes that AFFO is generally beneficial in assessing its distribution paying capacity. For the three and nine months ended September 30, 2022, however, management has concluded that the presentation of the non-IFRS financial measures of FFO and AFFO are not meaningful and are, therefore, not presented.

Unit-Based Compensation

Omnibus Equity Incentive Plan

On December 22, 2021, the REIT adopted the Omnibus Equity Incentive Plan (the "**Plan**") for the purposes of (i) advancing the interests of the REIT by enhancing the ability of the REIT and its subsidiaries to attract, motivate and retain employees, trustees, directors and consultants, (ii) rewarding such persons for their sustained contributions and (iii) encouraging such person to take into account the long-term corporate performance of the REIT. Under the Plan, the Board of Trustees may award options, restricted units, performance units, deferred units or other unit-based awards. Each award is governed by an award agreement that provides the terms and conditions on which an award has been granted. At any given time, the maximum number of units issuable under the Plan shall be determined by the Board of Trustees, but shall not exceed, in the aggregate, 15% of the number of Units then outstanding, assuming the redemption of all Class B Units, on a grant date.

Equity-settled share-based payments to trustees, officers and employees are measured at the fair value of the equity instruments at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to equity reserve. Equity-settled share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments granted, if it is determined that the fair value of the goods or services received cannot be reliably measured. The fair value of equity-settled share-based payments to non-employees is recorded as an expense at the date the goods or services are received with a corresponding credit to options reserve or warrants reserve.

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Restricted Units

On January 4, 2022, the REIT granted 140,000 restricted units to its Board of Trustees as compensation for their annual retainer. The restricted units are recognized in income to reflect the services rendered over the year or until re-election. The unit price on the date of grant was \$1.25 per unit, for a total award value of \$175,000.

On September 20, 2022, the REIT granted 160,000 units to its Board of Trustees as compensation to serve until the next annual general meeting of unitholders. The unit price on the date of grant was \$0.20 per unit, for a total award value of \$32,000.

Board of Trustee non-cash fee expense included in general and administrative expenses in the Unaudited Interim Financial Statements was \$91,055 and \$178,555, respectively, for the three and nine months ended September 30, 2022.

Option Units

On January 4, 2022, the REIT granted a total of 320,000 time-vested options to its employees. The options vest over time, 1/3 on each anniversary date, and have a 5-year life. The grant date stock price was \$1.25 per unit, and the grant date fair value was \$0.57 per unit.

On January 4, 2022, the REIT granted a total of 225,000 performance-vested options to certain of its employees. The options have a performance criterion related to investment property acquisitions and are earned upon the earlier of (i) the date upon reaching the performance condition and (ii) December 31, 2022. Once earned, the options vest over time, 1/3 on each anniversary date of reaching the performance criteria and have a 5-year life. The grant date stock price was \$1.25 per unit, and the grant date fair value was \$0.57 per unit. Each quarter the likelihood of reaching the performance criteria is assessed and the related non-cash expense is adjusted, if necessary.

On May 15, 2022, under terms of the Separation Agreement with the former Chief Executive Officer, 100,000 time-vested options with an exercise price of \$1.25 per unit became immediately vested, and the remaining life was shortened to one year. In addition, 100,000 performance-vested options were unearned and therefore, cancelled.

On May 16, 2022, the REIT granted a total of 150,000 performance-vested options to the incoming Chief Executive Officer. The options have a performance criterion related to investment property acquisitions and are earned upon the earlier of (i) the date upon reaching the performance condition and (ii) December 31, 2022. Once earned, the options vest over time, 1/3 on each anniversary date of reaching the performance criteria and have a 5-year life. The grant date stock price was \$1.25 per unit and the grant date fair value was \$0.12 per unit.

Compensation expense related to employee time- and performance-vested options of \$2,758 and \$89,856 was included in general and administrative expenses for the three- and nine-month periods ended September 30, 2022, respectively, with a corresponding amount reflected in equity reserve in the Unaudited Interim Financial Statements.

Warrants

In January 2022, in connection with the Offering, the REIT issued warrants to its underwriters to purchase up to 171,348 Units. The warrants contain an exercise price of \$1.25 per unit, were fully vested at issuance and have a two-year life. The REIT ascribed a value of \$68,201 to the warrants using an option pricing model with the following assumptions: volatility of 59% and a risk-free rate of 0.77% at January 4, 2022 and 1.18% at January, 31, 2022. The value of the warrants was reflected in unitholders' equity in the Unaudited Interim Financial Statements.

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Liquidity and Capital Resources

REIT Units

From inception through November 24, 2021, the REIT did not own investment assets nor have any real estate operations. All activities were related to preparing for the Offering and for acquiring the initial investment asset. Liquidity for expenditures related to the formation of the REIT and its subsidiaries, along with costs associated with the Offering, was provided from the issuance of equity to founders and certain members of management.

From inception through December 31, 2021, the REIT issued 3,236,818 trust units for proceeds of \$800,007, net of issuance costs. Such proceeds were used to fund costs incurred in preparing for the Offering and transaction costs related to the purchase of the investment property.

At December 31, 2021, the REIT had cash of \$354,863 which was available to fund the REIT's working capital requirements, including continued costs related to the Offering.

On January 4, 2022, the REIT closed on the Offering, issuing 3,167,478 units at \$1.25 per unit for total proceeds of \$3,959,348. On January 31, 2022, the underwriters exercised the overallotment option for 240,322 units totaling gross proceeds of \$300,402. As disclosed in the Prospectus for the Offering, proceeds raised in the Offering are for working capital purposes. To the extent that we may require funds for the acquisition of future investment properties, the REIT would be required to raise capital through the issuance of additional Units, Class B Units, debt, or a combination thereof, to qualified investors in a private placement or public offering.

At November 22, 2022, the total number of Units outstanding was 6,975,493.

Class B Units

On November 24, 2021, the REIT, through its subsidiary, the Operating Partnership, acquired its first investment asset. The purchase consideration was in the form of Class B Units valued at \$10,000,000. The Class B Units are convertible on a one-for-one basis into Units, subject to certain hold restrictions and REIT ownership rules. At September 30, 2022, the fair value of the Class B Units was determined to be \$7,200,000, resulting in a fair value adjustment of \$2,800,000 for the nine months then ended.

The holders of Class B Units are entitled to receive distributions from the Operating Partnership in the same per-unit amount as the distributions made by the REIT to holders of trust units. The Class B Units are redeemable by the holder thereof for cash or Units (on a one-for-one basis subject to customary REIT ownership restrictions), as determined by the Operating Partnership and as directed by the REIT in its sole discretion, subject to certain limitations and restrictions, and therefore are considered a puttable instrument. As a result, the Class B Units have been classified as financial liabilities and are measured at FVTPL. The fair value of the Class B Units will be measured each financial statement period, with changes in measurement recorded in the consolidated statement of net income and comprehensive income. Distributions on Class B Units are recorded as finance cost in the consolidated financial statements in the period in which they become payable. Monthly distributions to the holders of Class B Units were \$0.00225 per unit, resulting in total distributions on the Class B Units of \$162,000 for the nine months ended September 30, 2022.

At November 22, 2022, the total number of Class B Units outstanding was 8,000,000. In addition, the Operating Partnership has an obligation to issue an additional 800,000 units at a later date.

Distributions

The REIT's policy is to declare and pay distributions on a monthly basis, beginning in January 2022. Currently, the REIT's distributions are funded from cash flows from operating activities. The REIT believes that distributions can continue to be funded from a combination of cash flows from operating activities, cash received from future financing

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activities and cash on hand. However, from time to time, distributions paid may be in excess of cash available to the REIT from AFFO due to the timing of certain items affecting AFFO. There can be no assurance that the REIT shall have sufficient cash or the ability to raise new financing to meet its cash obligations, and as such the REIT may reduce distributions in order to accommodate such cash shortfalls.

For the three and nine months ended September 30, 2022, the REIT declared monthly distributions of \$0.00225 per Unit, totaling \$46,365 and \$138,374, respectively. Similarly, the Operating Partnership declared distributions of \$0.00225 per Class B Unit, totaling \$54,000 and \$162,000, respectively, for the three and nine months ended September 30, 2022.

Working Capital

At September 30, 2022, working capital was \$857,842, an increase from the working capital deficit at December 31, 2021 of \$212,720. The Offering proceeds, net of issuance costs and distributions, provided cash from financing activities of \$3,077,825 for the nine months ended September 30, 2022. The REIT used a portion of that cash to make significant payments toward its accounts payable and accrued liabilities, resulting in cash used in operations of \$1,599,096 during the nine months ended September 30, 2022. The REIT's cash balance at September 30, 2022 was \$1,833,592.

The REIT's Unaudited Interim Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the REIT be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

As at September 30, 2022, the REIT did not have any commitments for capital expenditures.

Off-Balance Sheet Arrangements, Commitments and Contingencies

The REIT had no off-balance sheet arrangements or contingencies at September 30, 2022.

The REIT has a commitment to issue an additional 800,000 Class B Units under terms of the Liquidity Discount, which is reflected as a liability at September 30, 2022. Upon issuance of the 800,000 Class B Units, they will be reflected as contingently redeemable Class B Units.

Transactions between Related Parties

In October 2020, Verdant entered into an agreement to engage a financial and strategic advisor whose services will continue for a period of 24 months following the closing of the Offering, to provide guidance with respect to capital raising strategy, and to provide corporate office space and administrative support following the closing of the Offering. Certain trustees of the REIT and directors of its subsidiaries are associated with the advisor, and will participate financially from fees earned by the advisor as a result of successful private financings and capital markets transactions, including the first asset acquisition and the Offering. Upon the closing of the first acquisition on November 24, 2021, fees payable 50% in cash and 50% in Units, were earned and became payable, and were reflected as finance costs related to the Class B Units issued in connection with the acquisition. Upon the closing of the Offering in January 2022, fees, payable approximately 50% in cash and 50% in Units, were earned and became payable, and were reflected as issuance costs related to the Offering. The advisor continues to provide administrative support and guidance for which it receives a monthly work fee. Effective August 1, 2022, the arrangement for the advisor to provide office space to the REIT was terminated.

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On May 15, 2022, the REIT's Chief Executive Officer resigned his position and entered into the Separation Agreement with the REIT. The terms of the Separation Agreement included total cash compensation of \$278,000, which was accrued as severance in general and administrative expenses at the time of departure, payable ratably over 12 months. At September 30, 2022, the remaining balance in accrued liabilities was \$171,583. In addition, 100,000 time-vested options with an exercise price of \$1.25 became fully vested, with a remaining life of one year. Performance-vested options were unearned and therefore, cancelled.

Effective May 16, 2022, the REIT entered into an employment agreement with the incoming Chief Executive Officer and granted him 150,000 performance-vested options under the Plan. The exercise price of each option unit is \$1.25. Upon satisfaction of the performance condition, which is related to investment property acquisitions, the units vest 1/3 on each anniversary date.

Proposed Transactions

The REIT had no proposed transactions as of November 22, 2022.

Significant Accounting Policies and Critical Accounting Estimates

For further information about the accounting policies used by the REIT, please refer to the 2021 Audited Financial Statements, which have been prepared in accordance with IFRS and with interpretation of the IFRIC.

The preparation of financial statements and disclosures requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Unaudited Interim Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For the nine months ended September 30, 2022, the REIT exercised judgement in the following areas:

- Legal fee presentation, including determining the allocation of legal fees to expense, unitholders' equity, deferred share issuance costs and property acquisition costs.
- Assessment of the Liquidity Discount related to the issuance of Class B Units for the Kalamazoo acquisition and the calculation and presentation of the related liability.
- Fair value presentation of the investment property.
- Fair value presentation of the Class B Units.

Financial Assets and Liabilities

Financial assets and liabilities are classified as amortized cost, fair value through profit or loss or fair value through other comprehensive income. The REIT has assessed the classification and measurement of its financial assets and liabilities as follows:

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Financial Assets and Liabilities	
Financial Assets	Classification under IFRS 9
Cash	Amortized cost
Restricted Cash	Amortized cost
Promissory Note Receivable	Amortized cost
Financial Liabilities	
Accounts Payable and Accrued Liabilities	Amortized cost
Class B Units to be Issued	FVTPL
Contingently Redeemable Class B Units	FVTPL
Refundable Security Deposits	Amortized cost

At September 30, 2022, the REIT held cash of \$1,833,592 and accounts payable and accrued liabilities of \$511,608, and the carrying amounts of these balances approximates the fair value due to the short-term nature of the instruments.

Future Accounting Changes

There are no future accounting changes that are expected to impact the financial statements of the REIT. For a summary of standards issued but not yet effective, see "Note 2 – Summary of Significant Accounting Policies" in the Unaudited Interim Financial Statements.

Outstanding Units

As of the date of this MD&A, the REIT had 6,975,493 trust units issued and outstanding and 8,000,000 Class B Units issued and outstanding that are convertible on a one-for-one basis into Units. In addition, the Operating Partnership has an obligation to issue an additional 800,000 Class B Units at a later date to be determined.

Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

Managing Risk

A detail set of risks applicable to the REIT are included in the Prospectus as filed on December 22, 2021, and the Annual Information Form dated May 3, 2022. Except as otherwise disclosed in this MD&A and in the Unaudited Interim Financial Statements, there have been no significant changes to the nature and scope of the risks faced by the REIT. The Prospectus, Annual Information Form, 2021 Audited Financial Statements and additional information relating to the REIT are available on SEDAR at www.sedar.com.