Verano Holdings Corp.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

This management discussion and analysis ("**MD&A**") of the financial condition and results of operations of Verano Holdings Corporation ("**Verano**" or, the "**Company**") is for the three months ended March 31, 2021 and 2020. This MD&A is dated May 18, 2021. It is supplemental to, and should be read in conjunction with, the Company's audited combined financial statements and the accompanying notes for the three months ended March 31, 2021 and 2020. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**").

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

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

OVERVIEW OF THE COMPANY

The Company is a leading vertically-integrated multi-state cannabis operator in the United States. An operator of licensed cannabis cultivation, processing and retail facilities, the Company's goal is the ongoing development of communal wellness by providing responsible access to regulated cannabis products to the discerning high-end customer. Licensed to operate in 14 U.S. States, with 73 active dispensaries, nine cultivation licenses and approximately 710,000 square feet across its cultivation facilities and 10 processing/manufacturing licenses with a focus on tightly regulated, limited license markets. Pending the close of acquisitions, the Company will have 75 active dispensaries, ten cultivation licenses and 806,000 square feet across its cultivation and processing facilities. The Company produces a suite of premium, artisanal cannabis products sold under its portfolio of consumer brands: Encore™, Avexia™, MÜV™ and Verano™. The Company designs, builds and operates Zen Leaf™ and MÜV™ branded dispensary environments that deliver a cannabis shopping experience in both medical and adult-use markets.

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

The Company, through its subsidiaries and affiliates, holds, operates, manages, consults, licenses, and/or controls licenses/permits in the States of Illinois, Florida, Arizona, New Jersey, Pennsylvania, Ohio, Maryland, Massachusetts, Nevada, Michigan, Arkansas, California, Missouri and West Virginia. It has two distinct but accretive business units: (i) a wholesale cannabis consumer packaged goods business (cultivation and manufacturing); and (ii) a national retail dispensary chain operating under the Zen Leaf™ and MÜV brands.

This combination of wholesale and retail business segments supports Verano's strategy of cultivating, manufacturing, distributing, and dispensing premium brands and products at scale by enabling Verano to capture large market share, generate brand awareness, and earn customer loyalty in its operating markets. By guaranteeing shelf-space in its own retail stores, as well as its ability to foster mutually beneficial relationships with its third-party dispensary customers though supply agreements, Verano's wholesale and retail businesses have been complementary and accretive.

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

Verano has established its footprint in such a manner that enables it to adapt to changes in both industry and market conditions seamlessly and profitably. Verano believes that the following have positioned it for growth:

- Verano's business plan centers around four foundational pillars: cultivation, production, brand creation and retail. Verano believes this diversity in revenue streams positions us to respond positively to changes economics, regulations and healthcare, as well as navigating ever-evolving consumer habits.

- Verano emphasizes developing premium, handcrafted products in controlled quantities. The quality, positive reviews and finite availability elevate Verano's products' market desirability and value.

- Verano's current footprint includes approximately 710,000 square feet of cultivation and processing space in Nevada, Illinois, Arizona, Florida, Maryland, Massachusetts, Ohio and New Jersey. Pending the close of acquisitions, the Company will have 75 active dispensaries and ten cultivation centers. Verano grows pesticide-free, meeting testing and State regulatory requirements, and, while no facilities are GMP-certified, Verano believes it adheres to Current Good Manufacturing Practices (cGMP) with respect to such facilities. Verano adheres to Standard Operating Procedures in all cultivation/manufacturing facilities. The Company retains rare and highly-coveted cannabis genetics used to develop in-house brands and products, producing approximately over 10,000 kilograms of cannabis oil annually and maintaining over 7,000 square foot of commercial kitchen space that adheres to SQF standards in Illinois, Maryland, Florida, Nevada, Ohio and New Jersey.

- Verano's network includes nine cultivation centers and 10 production facilities servicing 73 active retail dispensaries in a market of nearly 150 million Americans in Illinois, Florida, Arizona, New Jersey, Pennsylvania, Ohio, Maryland, Massachusetts, Nevada, Michigan, Arkansas, California, Missouri, and West Virginia.

- Verano's deliberate and proven approach historically has focused on large markets where it aims to be the first in.

- Verano operates and manages the entire vertical cannabis operation and supply chain, from seed-to-sale.

- Verano will seek to continue to grow through the acquisition of new licenses and existing businesses as well as leveraging relationships within the research and development sectors.

- Verano espouses a customer- and patient-driven business philosophy to deliver value to its downstream customers and consumers.

The United States federal government regulates drugs through the *Controlled Substances Act* (21 U.S.C. § 811) (the "**CSA**"), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration has not approved cannabis as a safe and effective drug for any indication.

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

Please see "U.S. Cannabis Regulatory Environment" and "Risk Factors" for further details associated with the U.S. cannabis regulatory environment.

Operating Segments

Verano, which has one of the largest footprints for multi-state, vertically-integrated owners and operators in the U.S., derives its revenues from a balanced contribution through its wholesale cannabis business and national retail dispensaries, branded as Zen Leaf™ and MÜV. The Company has two distinct but accretive business units: (i) a wholesale cannabis consumer packaged goods business (cultivation and manufacturing); and (ii) a national retail dispensary chain.

As of March 31, 2021, the wholesale and retail channels are vertically-integrated across multiple highly-regulated, limited license, and therefore limited legal supply markets in Illinois, Maryland, Florida, Massachusetts, West Virginia, Pennsylvania (upon the closing of pending transactions), Arizona, New Jersey, Nevada and Ohio. In addition, Verano has dispensaries, licenses, or interests in several other key markets, including Arkansas, Michigan, California and Missouri. The primary markets, where supply and demand can be reasonably predicted and forecasted, create the foundation upon which Verano has sought to build sustainable profitable growth.

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

Operational Foundation and Current Markets

Illinois Operations

The *Compassionate Use of Medical Cannabis Pilot Program Act* (the "**IL Act**") was signed into law in August 2013 and took effect on January 1, 2014. The IL Act provides medical cannabis access to registered patients who suffer from a list of over 30 medical conditions including epilepsy, cancer, HIV/AIDS, Crohn's disease and post-traumatic stress disorder. As of September 1, 2020, approximately 113,000 patients have been registered under the IL Act and are qualified to purchase cannabis and cannabis products from registered dispensaries.

The *Cannabis Regulation and Tax Act*, 410 ILCS 705 *et seq.* (the "**CRTA**") was signed into law on or about May 31, 2019, and took effect on January 1, 2020. The CRTA legalizes the cultivation, manufacture, and sale of cannabis for adult-use purposes. Under the CRTA, existing cultivation centers licensed under the IL Act are permitted, upon approval from regulatory authorities, to cultivate and manufacture adult-use cannabis. Existing medical cannabis dispensaries are also permitted under the CRTA, upon approval from regulatory authorities, to dispense adult-use cannabis to purchasers 21 years of age or older from existing retail sites plus one satellite location. The CRTA also allows for licensure of up to 75 new adult-use dispensing organizations, up to 40 craft grower facilities, up to 40 infuser facilities, and an unlimited number of transport organizations, all of which are reserved for qualified social equity participants. The CRTA does not permit existing cultivation centers to own craft grower or infuser facilities, and entities may not own more than five medical dispensaries or more than ten adult-use dispensaries.

Oversight and implementation under the IL Act and the CRTA are divided among three State departments: (i) the Illinois Department of Public Health (the "**IDPH**"); (ii) the Illinois Department of Agriculture (the "**IDOA**"); and (iii) the IDFPR. The IDPH oversees the following IL Act and the CRTA mandates: (i) establish and maintain a confidential registry of caregivers and qualifying patients authorized to engage in the medical use of cannabis; (ii) distribute educational materials about the health risks associated with the abuse of cannabis and prescription medications; (iii) adopt rules to administer the patient and caregiver registration program; and iv) adopt rules establishing food handling requirements for cannabis-infused products that are prepared for human consumption. It is the responsibility of the IDOA to enforce the provisions of the IL Act and the CRTA relating to the registration and oversight of cultivation centers, craft growers, infusers, and transport organizations. The IDFPR enforces the provisions of the IL Act and the CRTA relating to the registration and oversight of dispensing organizations. The

IDPH, IDOA and IDFPR may enter into intergovernmental agreements, as necessary, to carry out the provisions of the IL Act and the CRTA.

Illinois has issued a limited amount of dispensary, producer/grower, and processing licenses. There are currently 55 licensed medical dispensaries, 62 licensed adult-use dispensaries and 22 licensed cultivators.

The Company's affiliate, Ataraxia, LLC, is licensed to operate a cultivation center in the State of Illinois. The cultivation center license permits Ataraxia, LLC to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell medical and adult-use cannabis and related supplies to medical and adult-use dispensing organizations.

Maryland Operations

In May 2013, the then Governor of Maryland signed House Bill 1101, Chapter 403 which established the Natalie M. LaPrade Maryland Medical Cannabis Commission ("**MMCC**"). The MMCC is an independent commission that functions within the Department of Health and Mental Hygiene. The MMCC was created for investigational use of medical cannabis. MMCC develops policies, procedures, and regulations to implement programs that ensure medical cannabis is available to qualifying patients in a safe and effective manner.

On December 1, 2017, after close to a five-year delay, the Maryland Medical Marijuana Program ("**MMMP**") became operational and sales commenced. The MMMP was written to allow access to medical cannabis for patients with any condition that is considered "severe" for which other medical treatments have proven ineffective, including chronic pain, nausea, seizures, glaucoma and post-traumatic stress disorder. All major product forms are allowed for sale and consumption with the exception, initially, of edibles, although edibles have now been permitted pending acceptance of final regulations.

The Company's affiliate, RedMed, LLC, has 100% ownership and control of Freestate Wellness, LLC, ("**Freestate**") which is licensed to operate a cultivation facility and a retail medical cannabis dispensary in Maryland. The retail dispensary license permits RedMed, LLC's wholly-owned subsidiary, Freestate, to purchase medical cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities and cannabis from other retail stores, and allows the sale of cannabis and cannabis products to registered patients. The medical grower license permits Freestate to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell cannabis and related supplies to medical marijuana dispensaries, facilities for the production of edible medical cannabis products and/or medical cannabis-infused products, or other medical cannabis grower facilities. In addition, through management agreements and other affiliate relationships, Verano's subsidiaries manage 4 additional dispensaries in Maryland.

Massachusetts Operations

The Massachusetts Medical Use of Marijuana Program (the "**MA Program**") was established pursuant to the Act for the Humanitarian Medical Use of Marijuana (the "**MA ACT**"). The MA Program allows registered persons to purchase medical cannabis and applies to any patient, personal caregiver, Registered Marijuana Dispensary (each, a "**RMD**"), and RMD agent that qualifies and registers under the MA Program. The MA Program was previously administrated by the Department of Public Health, Bureau of Health Care Safety and Quality. On December 23, 2018 administration of the MA Program was transferred to the Cannabis Control Commission (the "**MA CCC**").

In November 2016, Massachusetts voted affirmatively on a ballot petition to legalize and regulate cannabis for adult recreational use. The Massachusetts legislature amended the law on December 28, 2016, delaying the date recreational cannabis sales would begin by six months. The delay allowed the legislature to clarify how municipal land-use regulations would treat the cultivation of cannabis and authorized a study of related issues. After further debate, the State House of Representatives and State Senate approved H.3818 which became Chapter 55 of the Acts of 2017, An Act to Ensure Safe Access to Marijuana, and established the MA CCC. The MA CCC consists

of five commissioners and regulates the Massachusetts Recreational Marijuana Program. Adult-use of cannabis in Massachusetts was legalized in July 2018.

As of March 31, 2019, there were 49 RMDs approved for sales, 59,288 active patients, 7,005 active caregivers, and 293 registered healthcare providers. RMDs sold over 327,000 ounces of medical marijuana in the fiscal year through March 31, 2019.[1] As of September 25, 2020 the MA CCC has awarded 83 final licenses to marijuana retailers selling adult-use cannabis, 60 of which have RMD priority status as they serve patients under the MA Program. The MCA CCC has also awarded 48 final licenses to marijuana cultivators and 39 final licenses to marijuana product manufacturers.[2]

Under the MA Program, RMD's are heavily regulated under 935 CMR 501.000 *et seq.*, which contain detailed requirements related to operations, security, storage, transportation, inventorying, personnel, and more. RMDs are "vertically-integrated," which means they grow, process, and dispense their own marijuana. As such, each RMD is required to have a retail facility as well as cultivation and processing operations, although retail operations may be separate from cultivation and processing operations. RMDs that elect to do cultivation, processing and retail operations all in one location, are commonly referred to as a "co-located" operation. An RMD may also choose to have a retail dispensary in one location and grow marijuana at a remote cultivation location. An RMD may conduct the processing of the marijuana at either the retail dispensary location or the remote cultivation location. The remote cultivation location need not be in the same municipality or even the same county as the retail dispensary. Under certain conditions, RMDs are able to acquire up to 45% of their annual inventory of product from other RMDs.

The MA Program mandates a comprehensive application process for RMDs. Each RMD applicant must submit a Certificate of Good Standing, comprehensive financial statements, a character competency assessment, and employment and education histories of the senior partners and individuals responsible for the day-to-day security and operation of the RMD. Municipalities may individually determine what local permits or licenses are required if an RMD wishes to establish an operation within its boundaries.

There are several different classes of adult-use licenses in Massachusetts, including, but not limited to, cultivators, cooperatives, manufacturers, retailers and transporters (collectively, "**Marijuana Establishments**"). There is no requirement that Marijuana Establishments be vertically-integrated. As with RMDs, Marijuana Establishments are highly regulated. The adult-use regulations, 935 CMR 501.000 *et seq.*, contain detailed requirements related to operations, security, storage, transportation, inventorying and personnel.

Verano Four Daughters Holdings, LLC has 100% ownership and control of the entities listed in the table below which holds the licenses set out therein with the MA CCC for medical and adult-use licenses to operate retail dispensaries, cultivation facilities, and manufacturing facilities in the Massachusetts jurisdictions set forth below. Licensees have received approval for dispensary locations in both Sharon and Plymouth.

Nevada Operations

In 2013, the Nevada legislature passed SB374, providing for State licensing of medical marijuana establishments. On November 8, 2016, Nevada voters passed Question 2 (codified as Nevada Revised Statutes 435D) by ballot initiative allowing for the sale of marijuana for adult-use. Although adult-use marijuana establishment licenses were not required to be issued until January 2018, by emergency regulation the Nevada Department of Taxation (the "**DOT**") issued "early start" licenses in June 2017, allowing for adult-use sales to begin on July 1, 2017. As of August 2020, there are 150 cultivators, 108 producers, and 71 retail stores licensed for adult-use in the State of Nevada. Approximately 75% of the State licensed marijuana operations exist within Clark County/Las Vegas

1 Mass.gov, "Massachusetts Medical Use of Marijuana Program: External Dashboard March 2019", https://www.mass.gov/files/documents/2019/04/09/external-dashboard-March%202019.pdf (visited May 10, 2019).
2 Cannabis Control Commission, "Adult-Use Applications and Licenses", https://opendata.mass-cannabis-control.com/stories/s/Applications-and-Licenses/eteq-dp5h (visited May 10, 2019).

city limits, representing an approximate 8,000 square mile area. The remaining 25% of licenses exist throughout the rest of the State.

In the first eight months of Nevada adult-use sales, adult-use retail sales were reported at over US$260,000,000, averaging almost US$33,000,000 per month and trending materially higher than forecasts submitted by the DOT. The State of Nevada opened up applications for additional adult-use licenses and gave priority to businesses with current licenses. Lone Mountain Partners, LLC, an affiliate of Verano, was awarded 11 additional adult-use licenses.

The Nevada marijuana establishment's application process is merit-based, competitive, and is currently closed. If an application merits a sufficient score in the scored criterion, contains all required information, and after vetting by officers, the proposed establishment may be constructed as proposed, inspected by the Nevada Cannabis Control Board ("**CCB**"), and then the facility may be issued a marijuana establishment facility license.

All marijuana establishments must register with the CCB. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment registration certificate. In a local governmental jurisdiction that issues business licenses, the issuance by the CCB of a medical marijuana establishment registration certificate is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email from the CCB and include a renewal form. The renewal periods serve as an update for the CCB on the licensee's status toward active licensure.

The State of Nevada opened up applications for additional adult-use licenses and gave priority to businesses with current licenses. Lone Mountain Partners, LLC, an affiliate of Verano, was awarded multiple additional adult-use licenses.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with cannabis licensees to operate retail dispensaries, a cultivation facility, and a manufacturing facility in Nevada.

Ohio Operations

Effective September 8, 2016, House Bill 523 legalized the use of medical cannabis for 26 debilitating conditions as prescribed by a licensed physician. On implementation, the Ohio Medical Marijuana Control Program ("**OMMCP**") will allow people with certain medical conditions including Alzheimer's disease, HIV/AIDS, ALS, cancer, and traumatic brain injury to legally purchase medical cannabis. Though Ohio was required to implement a fully operational OMMCP by September 8, 2018 with a controlled system for cultivation, laboratory-testing, physician/patient registration and dispensing, the timeline was delayed until November 2018. Regulatory oversight is shared between three offices: (i) the Ohio Department of Commerce with respect to overseeing cultivators, processors and testing laboratories; (ii) the Ohio Board of Pharmacy with respect to overseeing retail dispensaries and the registration of patients and caregivers; and (iii) the State Medical Board of Ohio with respect to certifying physicians to recommend medical cannabis. The OMMCP will permit limited product types including oils, tinctures, plant materials and edibles. Adult-use and the smoking of cannabis flower are prohibited.

Prior to September 8, 2018, the Ohio Board of Pharmacy was permitted to issue up to 60 dispensary provisional licenses. After September 8, 2018, additional provisional licenses are permitted to be issued if the population, the number of patients seeking to use medical cannabis products and the availability of all forms of cannabis products support additional licenses. To be considered for approval of a provisional dispensary or a processing license, the applicant must complete all mandated requirements. To obtain a certificate of operation for a medical cannabis dispensary or processing facility, the prospective licensee must be capable of operating in accordance with Chapter 3796 of the Revised Code, the OMMCP. Certificates of operation carry two-year terms.

A certificate of operation will expire on the date identified on the certificate. A licensee will receive written or electronic notice 90 days before the expiration of its certificate of operation. The licensee must submit the renewal information at least 45 days prior to the date the existing certificate expires. The information required for the license renewal includes, but is not limited to, the following: (i) a roster that includes the dispensary's employees' names, (ii) the history of compliance with regulations, and (iii) the number and severity of any violations. If a licensee's renewal application is not filed prior to the expiration date of the certificate of operation, the certificate of operation will be suspended for a maximum of 30 days. After 30 days, if the dispensary has not successfully renewed the certificate of operation, including the payment of all applicable fees, the certificate of operations will be deemed expired. The original implementation deadline of September 8, 2018 was missed by Ohio, as noted above. Patients were able to begin purchasing medicinal marijuana in April 2019.

On November 30, 2017, the Ohio Department of Commerce awarded 12 Level I and 12 Level II cultivator provisional licenses. Level I cultivators are allowed to initially build 25,000 square feet of cultivation area and Level II cultivators are allowed to build 3,000 square feet of cultivation area. As of September 15, 2020, the Department has issued a total of 19 Level I provisional licenses, 12 of which have received certificates of operation.

Provisional medical marijuana cultivation licensees are authorized to begin the process of establishing a cultivation facility in accordance with the representations in their applications and the rules adopted by the Ohio Department of Commerce. Pursuant to the rules adopted by the Ohio Department of Commerce, all provisional medical marijuana cultivator license holders have a maximum of nine months to demonstrate compliance with the cultivator operational requirements as set forth in their respective applications to obtain a cultivator certificate of operation. The nine-month time period can be extended by filing requests for time variances with the Ohio Department of Commerce.

Compliance to obtain a cultivator certificate of operation will be demonstrated by passing an inspection by inspection agents of the Ohio Department of Commerce. Once a cultivator certificate of operation is obtained, the cultivator can start planting medical marijuana and, when ready, sell medical marijuana to licensed medical marijuana processors in the State of Ohio. If the cultivator is also licensed as a "plant only processor", it can sell medical marijuana plant material directly to licensed medical marijuana dispensaries in the State of Ohio.

By rule, the Ohio Department of Commerce has limited the number of cultivator Level I and Level II licenses that it could issue to 24. However, since the date the Ohio Department of Commerce published its initial rules, nine additional cultivator provisional licenses have been issued. Additionally, depending on market needs, the Ohio Department of Commerce can authorize future increases in the permissible cultivation areas for Level I cultivators (from 25,000 square feet to 50,000 square feet) and for Level II cultivators (from 3,000 square feet to 6,000 square feet).

On June 4, 2018, the Ohio Board of Pharmacy awarded 56 medical marijuana provisional dispensary licenses. The provisional medical marijuana dispensary licenses were awarded after an extensive review of 376 submitted dispensary applications. The Ohio Board of Pharmacy awarded a 57th provisional dispensary license on December 3, 2019. The provisional approval of this dispensary is the first time that the OMMCP has expanded the original number of dispensary licensees.

Provisional medical marijuana dispensary licensees are authorized to begin the process of establishing a dispensary in accordance with the representations in their applications and the rules adopted by the Ohio Board of Pharmacy. Pursuant to the rules adopted by the Ohio Board of Pharmacy, all provisional medical marijuana dispensary license holders have a maximum of six months to demonstrate compliance with the dispensary operational requirements as set forth in their respective applications to obtain a certificate of operation. The six-month time period can be extended by filing requests for time variances with the Ohio Board of Pharmacy.

By rule, the Ohio Board of Pharmacy is limited to issuing up to 60 dispensary licenses across the State of Ohio, but has the authority to increase the number of licenses after September 8, 2018. As of September 25, 2020, no additional licenses have been issued. Per the rules adopted by the Ohio Board of Pharmacy, the Ohio Board of Pharmacy will consider, on at least a biennial basis, whether enough medical marijuana dispensaries exist,

considering the population, the number of patients seeking to use medical marijuana, and the geographic distribution of dispensary sites.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with a Level II cultivation facility (which permits the cultivation of up to 3,000 square feet, processing license, and multiple dispensaries in Ohio).

New Jersey Operations

Medical marijuana has been legal in the State of New Jersey since 2012. The program is regulated under the New Jersey *Compassionate Use Medical Marijuana Act* ("**CUMMA**"), which was signed into law in January 2010. Under CUMMA, medical cannabis use is permitted for certain indications including chronic pain, cancer, glaucoma, HIV/AIDS and inflammatory bowel disease.

The Medical Marijuana Program ("**MMP**") is administered by the New Jersey Department of Health ("**NJDH**"). To date, approximately 33,000 medical marijuana patients have registered in the MMP, with one-third of such patients having qualified due to either chronic pain or anxiety. Since the MMP was expanded in early 2018, the New Jersey Department of Health approved an additional six medical cannabis dispensaries as a recent higher patient influx has resulted in long lines and limited product availability.

During 2018 and 2019, certain members of the New Jersey legislature worked to pass legislation legalizing cannabis in New Jersey for adult use purposes. When those efforts failed, legislative leaders announced their intention to place a legalization referendum on the 2020 ballot. A bill to add the referendum to the ballot passed both houses of the New Jersey legislature with a supermajority on December 16, 2019. As a result, the matter was placed on the 2020 ballot as New Jersey Public Question 1. On November 3, 2020, the citizens of New Jersey approved the measure, which amended the State constitution and legalized adult use of cannabis by those 21 years of age and older. The amendment also provides for the State to establish a regulated marked for the cultivation, distribution, and sale of cannabis.

On December 17, 2020, members of the New Jersey State Assembly and Senate advanced legislation (SB21/AB21) to Governor Murphy legalizing the possession, production, and retail sale of marijuana to adults. Lawmakers approved the measures weeks after voters decided in favor of Public Question 1, which instructed the legislature to regulate the adult-use cannabis market, on Election Day. The legislation establishes rules for licensing commercial cannabis producers and retailers. Under the measure, adults will be able to legally purchase up to one ounce of cannabis from State-licensed retailers. The number of State-licensed cultivators will be capped at 37, including existing State-licensed medical cannabis cultivation and processing centers, for the first 24 months after enactment of the legislation.

On July 16, 2018, the NJDH issued a request for applications ("**RFA**") for up to six new applicants to operate alternative treatment centers ("**ATCs**"). The NJDH has established an independent and unbiased process and publicly disclosed the selection criteria in its publication of the RFA. The application period ended on August 31, 2018 and completed applications were evaluated and scored by a selection committee.

The NJDH received 146 applications from 106 organizations to operate ATCs in the State of New Jersey. Applicants had to identify the region of the State where they would like to operate an ATC. There were 50 applicants for the northern region, 45 in the central region and 51 in the southern region. Six businesses were selected to apply for permits to open new medical marijuana ATCs. Two applicants were chosen for the north, central, and southern regions of New Jersey, ensuring patients have better access to pain-relieving medicine.

New Jersey is a vertically-integrated system so that each ATC license permits the holder to acquire, cultivate, process, distribute and/or dispense, deliver, manufacture, transfer, and supply medical marijuana in compliance with the CUMMA and the MMP rules and regulations.

On July 1, 2019, the NJDH released a RFA for up to 24 new ATCs, with up to five being cultivation permit endorsements, up to 15 being dispensary endorsements, and up to four being vertically-integrated permits

(cultivation, manufacturing, and dispensing). The RFA period was open from July 1, 2019 to August 22, 2019. The NJDH received 196 applications. Pursuant to a court-ordered stay, the RFA is currently on hold.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with a cannabis licensee in the State of New Jersey.

Michigan Operations

Medical cannabis has been legal in Michigan since 2008, when 63% of voters approved a measure that protected patients and caregivers but did not establish regulations for businesses. In September 2016, three bills were enacted that created a regulatory framework for medical marijuana businesses, while also providing new protections for patients. Under the new law, cultivators, processors, testing labs, transporters, and provisioning centres could become licensed and regulated at the State level.

Oversight of medical cannabis is the responsibility of the Bureau of Medical Marihuana Regulation ("**BMMR**"), which consists of the Medical Marihuana Facility Licensing Division ("**MMFL**") and the Michigan Medical Marihuana Program Division ("**Michigan MMP**"). The MMFL regulates the State's medical marihuana facilities and licensees, including growers, processors, transporters, provisioning centers and safety compliance facilities. The Michigan MMP oversees the State's patient registry program, issues registry identification cards, and administers the *Michigan Medical Marihuana Act*.

As of November 2020, there are 184 active adult-use retailer licenses, 323 active medical provisioning center licenses, 12 active adult-use "Class B" grower licenses, eight active medical "Class B" grower licenses, 135 active adult-use "Class C" grower licenses, 271 active medical "Class C" grower licenses, 36 active adult-use processor licenses, 60 active medical processor licenses, eight active adult-use safety compliance licenses, 15 active medical safety compliance facility licenses, 19 active adult-use secure transporter licenses, and 33 active medical secure transporter licenses.

It is expected that individual licenses will be valuable, as some municipalities have capped the number of medical cannabis facilities (including Detroit, which has limited licenses to 75). Additionally, Michigan recently named 11 new conditions that qualify for medical marijuana prescriptions, including chronic pain, which could further expand the patient base.

In December 2018, Michigan voters decided to legalize adult-use cannabis. Existing cannabis businesses in Michigan are likely to have a significant competitive advantage under proposed regulations as the current initiative calls for the State to accept adult-use applications only from those with an existing medical cannabis license during the first two years of implementation.

The Michigan *Regulation and Taxation of Marihuana Act* ("**MRTMA**") went into effect December 6, 2018. The MRTMA allows persons aged 21 and over to possess up to two and one-half ounces of marijuana in public, up to ten ounces at home, and cultivate up to 12 plants at home. The MRTMA also sets up a system for the State-licensed cultivation and distribution of marijuana, with sales subject to a 10% excise tax (in addition to the State of Michigan's 6% sales tax). The first retailers opened to the public on December 1, 2019.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with a cannabis licensee in the State of Michigan.

Arkansas Operations

The rules and regulations governing the oversight of medical cannabis cultivation facilities and dispensaries in Arkansas were adopted and promulgated by the Arkansas Alcoholic Beverage Control Board ("**ABC**") pursuant to Amendment No. 98 of the Constitution of the State of Arkansas of 1874, The Medical Marijuana Amendment of 2016.

The rules and regulations governing medical marijuana registration, testing, and labeling in Arkansas were adopted and promulgated by the Arkansas State Board of Health pursuant to the Department expressly conferred by the laws of the State of Arkansas, including, without limitation, Amendment No. 98 of the Constitution of the State of Arkansas of 1874, The Medical Marijuana Amendment of 2016.

These rules govern the following: (i) requirements for record keeping, security, and personnel at cultivation facilities and dispensaries; (ii) the requirements of the manufacturing, processing, packaging, dispensing, disposing, advertising, and marketing of medical marijuana by cultivation facilities and dispensaries; (iii) the procedures for inspecting and investigating cultivation facilities and dispensaries; and (iv) the procedures for sanctioning, suspending, and terminating cultivation facility and dispensary licenses for violations of the amendment or these rules.

Licenses issued in the State of Arkansas expire one year after the date of issuance. The Arkansas Medical Marijuana Commission ("**MMC**") is required under the legislation to issue a renewal dispensary or a renewal cultivation facility license within ten days to any entity that complies with the requirements contained in the Medical Marijuana Amendment of 2016, including the payment of a renewal fee. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable licenses, license holders receive renewed licenses in the ordinary course of business.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with a cannabis dispensary licensee in the State of Arkansas.

Pennsylvania Operations

The Pennsylvania *Medical Marijuana Act* ("**PMMA**") was signed into law on April 17, 2016 and provided access to Pennsylvania residents with one of 17 qualifying conditions, including epilepsy, chronic pain and post-traumatic stress disorder. The Commonwealth of Pennsylvania, which consists of over 12,000,000 people and qualifies as the fifth largest population in the United States, operates as a high-barrier market with very limited market participation. The PMMA authorizes only a maximum of 25 cultivation/processing permits and 50 dispensary permits. As part of "Phase 1" of the Commonwealth of Pennsylvania's permitting process in 2017, the Pennsylvania Department of Health ("**PDOH**"), which administers the Commonwealth's Medical Marijuana Program ("**MMP**"), originally awarded only 12 cultivation/processing permits and 29 dispensary permits. Subsequently, in 2018, the PDOH conducted "Phase 2" of the permitting process, during which it awarded the remaining 13 cultivation/processing permits and 23 dispensary permits authorized under the PMMA.

Each retail dispensary license permits the holder to purchase marijuana and marijuana products from cultivation/processing facilities and allows the sale of marijuana and marijuana products to registered patients. In the introductory months of the program, Pennsylvania's medical marijuana dispensaries experienced supply shortages and were unable to keep up with statewide demand. It was announced on April 17, 2018 that dry flower would be included in the regulations as an approved product form for sale and consumption (in addition to the already approved forms of concentrates, pills, and tinctures). Simultaneously, it was announced that the list of qualifying conditions would expand from 17 to 21, including additions of cancer remission therapy and opioid-addiction therapy.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with three cannabis dispensary permittees in the Commonwealth of Pennsylvania, as well as one grower/processor and one Clinical Registrant (some of which are pending regulatory approval).

Florida Operations

On June 16, 2014, the Florida State governor signed Senate Bill 1030, also known as the *Compassionate Medical Cannabis Act of 2014* ("**CMCA**"). The CMCA legalized low THC for medical patients suffering from cancer or

"a physical medical condition that chronically produces symptoms of seizures", such as epilepsy, "or severe and persistent muscle spasms". The CMCA required physician approval and determination that no other satisfactory alternative treatment options exist for that patient. The CMCA also authorized medical centers to conduct research on low THC cannabis.

On November 7, 2016, Amendment 2 was approved by 71.3% of voters and authorized Section 29 to be added to Florida's State constitution. Article X, Section 29 of the Florida Constitution shields certain qualifying patients, caregivers, physicians, and medical cannabis dispensaries and their staff from criminal prosecutions or civil sanctions under Florida law. Amendment 2 also expanded the definition of debilitating diseases to include 13, among others, HIV/AIDS, Crohn's disease and post-traumatic stress disorder and any medical condition that the physician believes will benefit from the use of medical marijuana. The Florida Department of Health ("**FDH**") and Senate Bill 8-A implemented Amendment 2, which became effective on January 3, 2017. Section 29 of the Florida Constitution, together with the CMCA, provides a regulatory framework that requires licensed producers, which are statutorily defined as Medical Marijuana Treatment Centers (each, a "**MMTC**"), to cultivate, process and dispense medical cannabis in a vertically-integrated marketplace.

On June 9, 2017, the Florida House of Representatives and Florida Senate each passed legislation to implement the expanded program by replacing large portions of the existing Compassionate Use Act, which officially became law on June 23, 2017. The FDH, Office of Medical Marijuana Use (the "**OMMU**"), is the organization responsible for the regulation of Florida's medical cannabis program. Specifically, the OMMU writes and implements the FDH's rules for medical marijuana, oversees the statewide medical marijuana patient database, and licenses Florida businesses to cultivate, process and dispense medical marijuana to qualified patients.

MMTC licenses are issued by the FDH. Applicants are required to provide comprehensive business plans with demonstrated knowledge and experience on execution, detailed facility plans, forecasted performance and robust financial resources. Technical ability on plant and medical cannabis cultivation, infrastructure, processing, dispensing and safety are also assessed.

License holders are permitted to maintain one license. Each licensee is required to cultivate, process and dispense medical cannabis. The license permits the sale of derivative products produced from extracted cannabis plant oil as medical cannabis to qualified patients. Florida allows the smoking of cannabis for medical use. As of January 31, 2021, there were 469,836 patients with an approved medical identification cards, 2,694 approved medical cannabis Qualified Certifying Physicians and 312 approved MMTCs in Florida. Licensed MMTCs are authorized to cultivate, process and dispense medical cannabis.

The Company holds a license under subsidiary Plants of Ruskin, LLC.

Arizona Operations

On November 2, 2010, Arizona voters enacted Proposition 203, an initiative creating the Arizona Medical Marijuana Act ("**AMMA**") with 50.13% of the vote. The AMMA went into effect in December 2010. The Arizona Department of Health Services ("**ADHS**") finalized dispensary and registry identification card regulations on March 28, 2011. On April 14, 2011, the ADHS began accepting applications for registry cards that provide patients and their caregivers with protection from arrest. The ADHS was preparing to accept dispensary applications starting in June and to register one dispensary for every ten pharmacies in the State, totaling 125. However, on May 27, 2011, former Governor Jan Brewer led a federal lawsuit seeking a declaratory judgment on whether Arizona's new medical cannabis program conflicted with federal law. Her lawsuit was rejected in 2012.

The Arizona legislature subsequently rolled back some of Proposition 203's protections, including allowing an employer to fire a medical cannabis patient based on a report alleging workplace impairment from a colleague who is "believed to be reliable". The legislature also passed H.B. 2585, which contradicted Proposition 203 by adding medical cannabis patient data to the prescription drug-monitoring program. In 2015, the legislature passed H.B. 2346, which specifies that nothing requires a provider of workers' compensation benefits to reimburse a person for costs associated with the medical use of cannabis. To qualify under Arizona's program, patients must

have one of the following debilitating medical conditions: cancer, HIV/AIDS, hepatitis C, glaucoma, multiple sclerosis, amyotrophic lateral sclerosis, Crohn's disease, agitation of Alzheimer's disease, post-traumatic stress disorder, or a medical condition that produces wasting syndrome, severe and chronic pain, severe nausea, seizures, or severe and persistent muscle spasms.

In August 2019, the Arizona Dispensaries Association and Arizona Cannabis Chamber of Commerce began organizing for another ballot initiative and filed a ballot initiative application on September 26, 2019. The "Smart and Safe Act," obtained the requisite number of signatures from registered Arizona voters to get on the November 3, 2020 ballot.

On November 3, 2020, the Smart and Safe Act was approved by the voters in Arizona which legalizes the adult recreational use of cannabis, specifically by allowing adults in Arizona to possess up to one ounce (28 grams) of cannabis (with no more than five grams being cannabis concentrate). It also directs the ADHS to set forth rules for retail cannabis sales by June 1, 2021, allowing cannabis to be subject to State and local sales taxes like other retail items, and imposing an additional 16% excise tax on cannabis products. The revenue will be used to implement and enforce regulations related to the act; the remaining revenue will be split between community colleges (33%), police and fire departments (31.4%), the State highway fund (25.4%), a justice reinvestment fund (10%), and the State attorney general for enforcement (0.2%).

For every ten pharmacies that have registered under Arizona law, have obtained a pharmacy permit from the Arizona Board of Pharmacy, and operate in Arizona, the ADHS may issue one non-profit medical cannabis dispensary registration certificate. Each dispensary registration certificate permits the license holder to: (i) open one dispensary[3], (which may also have a cultivation facility onsite); and (ii) one cultivation facility which can also include various forms of processing capabilities. Cultivation sites can be located anywhere zoning permits in Arizona and are not restricted based on where the license holder's dispensary is located. Currently, licensed dispensaries are limited to their district for their first three years of operation and may relocate thereafter. All dispensaries must have a not-for-profit character. Although initially Arizona dispensary registration certificates were valid for one year after the date of issuance, the renewal period has now been extended to two years. The holder of a dispensary registration certificate must also submit an application for approval to operate a dispensary to the ADHS. An approval to operate a dispensary has the same expiration date as the dispensary registration certificate associated therewith. A dispensary that has approval to operate as a dispensary issued by the ADHS is subject to biannual renewals of its dispensary registration certificate.

The Company's affiliates have licensing or other commercial arrangements (including unilateral authority to appoint the board members) with six cannabis licensees in the State of Arizona.

California Operations

In 1996, California became the first State to permit the use of medical marijuana by qualified patients through Proposition 215, the *Compassionate Use Act of 1996* ("**CUA**"). In 2003, Senate Bill 420 (the "**Medical Marijuana Program Act**") was enacted to clarify the scope and application of the CUA, which also created the "collective" commercial model for medical marijuana transactions. In September 2015, the California legislature took the next step and established the framework for a statewide medical marijuana program when it passed three bills collectively known as the *Medical Marijuana Regulation and Safety Act* ("**MMRSA**"),[4] which was further amended in 2016 and renamed the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). MCRSA established a comprehensive licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for cultivation, manufacturing, distribution, transportation, sales (including delivery only) and testing and included subcategories for the various activities, such as volatile and non-volatile license types for edible infused product manufacturers depending on the specific extraction methodology, and different licenses for cultivators depending on canopy size and cultivation medium. MRSCA

3 Unlike in Florida, which allows for unlimited dispensary locations per license, Arizona limits the number of dispensaries to one per license.

4 Assembly Bill No. 243, Assembly Bill No. 266 and Senate Bill No. 643.

set forth uniform operating standards and responsibilities for licensees. Under MCRSA, multiple agencies would oversee different aspects of the program alongside a newly established Bureau of Medical Cannabis Regulation within the California Department of Consumer Affairs that would control and govern how cannabis businesses would operate. All commercial cannabis businesses would require a State license and local approval to operate.

Subsequently, in November 2016, voters in California overwhelmingly passed Proposition 64, the *Adult Use of Marijuana Act* ("**AUMA**"), legalizing adult-use of cannabis by individuals 21 years of age or older. AUMA established a regulatory program for adult-use cannabis businesses and had some conflicting provisions with MCRSA. In June 2017, the California State Legislature passed Senate Bill No. 94, known as *Medicinal and Adult-Use Cannabis Regulation and Safety Act* ("**MAUCRSA**"), which amalgamated MCRSA and AUMA to provide a single system with uniform regulations to govern both medical and adult-use cannabis businesses in the State of California. The California State Legislature also enacted subsequent technical "fix it" bills, such as California Assembly Bills No. 133 and 266, further refining cannabis laws and the calculation of application cultivation and excise taxes. The three main agencies that regulate medical and adult-use marijuana businesses at the State level today are: (i) the Bureau of Cannabis Control ("**BCC**"), which oversees brick and mortar and delivery-only retailers, distributors, microbusinesses, testing laboratories and event organizers; (ii) the California Department of Food and Agriculture CalCannabis Cultivation Licensing ("**CDFA**"), which oversees cultivators and processors; and (iii) the California Department of Public Health's Manufactured Cannabis Safety Branch ("**CDPH**"), which oversees manufacturing. Additionally, the California Department of Tax and Fee Administration oversees the collection of taxes from cannabis businesses. Various other State agencies play minor roles in licensing and operational approval, such as the Department of Pesticide Regulation and the Department of Fish and Wildlife for certain cultivation activities. The BCC, CDFA, and CDPH promulgated regulations to give effect to the general framework for the regulation of commercial medicinal and adult-use cannabis in California created by MAUCRSA, with each set of final regulations adopted by each agency on January 16, 2019. In addition, the CUA remains valid law, but the medical marijuana "collective" model is now illegal as of January 9, 2019.

In order to legally operate a medical or adult-use cannabis business in California, the operator must have both local approval and State licensure for each type of commercial cannabis activity conducted at a specified business premises (and only one type of commercial cannabis activity may be conducted at a licensed premises, but there may be multiple premises on a given piece of real estate so long as they are sufficiently separated in accordance with MAUCRSA). Cities and counties in California have discretion to determine the number and types of licenses they will issue to marijuana operators, or can choose to limit or outright ban commercial cannabis activities within their jurisdiction. This limits cannabis businesses to cities and counties with marijuana licensing or approval programs.[5]

Temporary cannabis licenses under MAUCRSA began to be issued to operators on January 1, 2018, when MAUCRSA took full effect. Temporary cannabis licenses (so long as the business also has prior local approval) allow cannabis businesses to open their doors without an annual license. All cannabis businesses in California must eventually secure an annual license to operate for 12-month periods. As of January 1, 2019, the State of California will no longer issue or renew temporary commercial cannabis licenses, and the legislature created provisional licenses to ensure continued operations while businesses wait on annual licensure. To receive a provisional license, a cannabis business must have, or have held (at the same location for the same cannabis activity), a temporary license and have filed with the State of California a complete application for an annual license (at the same location for the same cannabis activity) before the expiration of its temporary license(s).

California State annual licenses must be renewed annually. Each year, licensees are required to submit a renewal

5 There is currently a dispute concerning cities' rights to prohibit incoming deliveries that originate from licensed cannabis companies in other California cities. The Bureau of Cannabis Control adopted a final regulation that allows deliveries into any jurisdiction in the State, even ones which apparently prohibit it. See 16 C.C.R. § 5416(d). MAUCRSA and Prop. 64, however, give localities discretion to prohibit or limit cannabis activities. See Cal. Bus. & Prof. Code §§ 26090(e); 26001(a)(1). On April 4, 2019, a group of California cities and counties sued the BCC and its Chief, Lori Ajax, seeking a declaration that the BCC's regulation is invalid and may not be enforced. See County of Santa Cruz et. al v. Bureau of Cannabis Control et. al, No. 19CECG01224, (Apr. 4, 2019). The case is in its infancy and no substantive motions have been filed as of May 10, 2019.

application per regulations published by the BCC. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, there are no material violations noted against the applicable license, and there are no changes in ownership of the business or major changes to the operations of the business, Verano would expect to receive the applicable renewed license in the ordinary course of business. While Verano's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that Verano's licenses will be renewed in the future in a timely manner, and this does not account for the individual renewal processes for necessary local entitlements to maintain the required local approval (see below). Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of Verano and have a material adverse effect on the Company's business, financial condition, results of operations or prospects. Additionally, the legislative and regulatory requirements are subject to change.

The renewal process for local entitlements is different in each jurisdiction and for each type of entitlement. For example, a conditional use permit or development agreement may last for a number of years, but a city may also require that an applicant obtain a local business license or tax certificate that must be renewed annually. This will require a detailed focus on each local jurisdiction's laws and regulations, as well as the terms of any local entitlement. Ultimately, Verano would expect to obtain renewed local entitlements along the same lines as State entitlements, and subject to the same caveats.

On February 13, 2019, Verano entered into a definitive agreement with D9 Manufacturing, Inc., the holder of cannabis manufacturing and distribution licenses in the State of California, and G2 Bio, Inc. for the purposes of creating DGV Group, LLC, a three-way joint venture to extract cannabis oil and manufacture and distribute cannabis products in the State of California. DGV Group, LLC and its affiliated entities control manufacturing and distribution licenses in California.

Missouri Operations

In November 2018, residents of the State of Missouri approved a ballot measure (Amendment 2) to legalize medical cannabis. In addition to permitting qualified patients to cultivate up to six plants at home, Amendment 2 created a licensing regime which granted the State of Missouri's Department of Health & Senior Services ("**MO DHSS**") the ability to issue cultivation, manufacturing, and dispensary licenses. Under Amendment 2 and subsequently-enacted regulations, patients may obtain medical cannabis from licensed dispensaries if they have one of a number of qualifying conditions, including any "chronic, debilitating or other medical condition" as determined by a physician, along with any terminal illness.

Beginning on or about June 28, 2019, the MO DHSS began accepting applications for grower, manufacturing, and dispensary applications, which were due on or before August 19, 2019. The MO DHSS began making award announcements on December 26, 2019, when it awarded cultivation licenses. Manufacturing licenses were awarded on January 10, 2020. Dispensary licenses were awarded on January 27, 2020. Under the MO DHSS's regulations, awardees are given one year in which to become operational or face license revocation.

Although the MO DHSS permitted applicants to apply for more than one of each license type (and, for cultivation and manufacturing licenses, up to three of each in a single location), on July 24, 2020, applicants who were awarded multiple manufacturing licenses to operate at the same location (such as Verano MO, LLC, which was awarded three manufacturing licenses) were notified that these licenses would be merged and the "excess" manufacturing licenses would be awarded to the next highest-scoring applicants.

Verano MO, LLC, an affiliate of Verano, was awarded three manufacturing licenses by the MO DHSS for the same location, which were merged into one. As such, Verano MO, LLC, holds one manufacturing and one dispensary license in the State of Missouri, neither of which are operational.

West Virginia Operations

On April 19, 2017, the Governor of West Virginia signed Senate Bill 386, also known as the West Virginia Medical Cannabis Act ("**WVMCA**"). The WVMCA, implemented by the Bureau of Health, provides medical cannabis access to registered patients who suffer from a list of 15 medical conditions including epilepsy, cancer, HIV/AIDS, Crohn's disease and post-traumatic stress disorder.

At first, the law prohibited patients from obtaining cannabis in its flower form. The only types of medical cannabis allowed initially were pills, oils, gels, creams, ointments, tinctures, liquid, and non-whole plant forms for administration through vaporization. In 2018, an advisory board recommended allowing whole-plant cannabis, and in 2020, the legislature added "dry leaf or plant form" to the law by passing SB 339.

In 2019, the legislature also passed SB 1037, a bill that allows entities to hold multiple license types, allowing for vertical integration of dispensaries, and increase the maximum number of dispensary permits to 100.

The WVMCA initially allowed the Bureau of Health to issue up to 10 grower permits where each permit allowed for up to 2 location permits, up to 10 processor permits, and up to 30 dispensary permits. Individuals were limited to receiving no more than 2 dispensary permits, 1 grower permit, or one processor permit per person. Growers and processors were not allowed to hold dispensary permits. In 2019, SB 1037 was passed, allowing for vertical integration of licenses, increasing the maximum number of dispensary permits to 100, and increasing the number of dispensary permits a person may hold to 10.

Permits last for one year and must be renewed annually. An application to renew a permit must be filed with the Bureau of Health no greater than six months and no less than four months prior to the permit's expiration. Medical cannabis organizations may also apply to relocate within the State or to add or delete activities or facilities.

Applications for dispensary, grower, processor, and laboratory permits were accepted by the Bureau of Health online beginning December 19, 2019 until February 18, 2020. Applicants were required to provide tax clearance certificates, site and facility plans, a description of duties for each position in the functional operation, an affidavit of capital adequacy, a timetable outlining the steps to become operational, sample medical cannabis product labels, verification of compliance with local zoning requirements, and a plan of operation which details security, employee training, transportation, storage, labeling, inventory management, nutrient practices (if grower), quality control and testing of medical cannabis for potential contamination (if grower or processor), record keeping, prevention of unlawful diversion of medical cannabis, policies, and procedures for cultivation/processing of medical cannabis (if grower or processor), and waste management plans.

The State issued 10 cultivation permits on October 2, 2020, 10 processor permits on November 13, 2020, and approximately 100 dispensary permits on January 29, 2021.

The Company's affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with 1 medical cultivation license, 1 medical processor license, and 7 medical dispensary licenses.

SELECTED FINANCIAL INFORMATION

The following table presents selected financial data derived from the audited annual consolidated financial statements of the Company for the three months ended March 31, 2021 and 2020. The selected consolidated financial information below may not be indicative of the Company's future performance.

	As of and for the three months ended March 31,			
	2021	**2020**	**$ Change**	**% Change**
Revenues, net of discounts	$ 120,894,993	$ 42,848,770	$ 78,046,223	182%
Cost of Goods Sold	46,268,224	8,464,647	37,803,577	447%
Gross Profit before Biological Asset Adjustment	74,626,769	34,384,123	40,242,646	117%
Net effect of changes in fair value of biological assets	70,851,318	12,906,400	57,944,918	449%
Gross Profit	145,478,087	47,290,523	98,187,564	208%
Total Expenses	29,073,711	9,026,195	20,047,516	222%
(Loss) Income from Investments in Associates	802,948	269,090	533,858	198%
Income From Operations	$ 117,207,324	$ 38,533,418	$ 78,673,906	204%
Total Assets	$1,779,331,628	$ 234,074,848	$1,545,256,780	660%
Total Long-Term Liabilities	$ 295,083,373	$ 17,553,016	$ 277,530,357	1,581%

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Revenue

Revenue for the three months ended March 31, 2021 was $120,894,993, an increase of $78,046,223, or 182%, compared to revenue of $42,848,770 from the three months ended March 31, 2020. The increase was primarily driven by the large retail expansion into Florida and Arizona through the acquisition of AltMed as well as increased production output and sales of flower.

Cost of Goods Sold and Biological Assets

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

Cost of goods sold, excluding any adjustments to the fair value of biological assets, for the three months ended March 31, 2021 was $46,268,224, an increase of $37,803,577, or 447%, from the three months ended March 31, 2020. This increase is primarily due to production costs of cannabis increasing in tandem with the increase in sales.

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

Biological asset transformation totaled a net gain of $70,851,318 for fiscal three months ended March 31, 2021, up $57,944,918, or 449%, from the prior fiscal three months ended March 31, 2020.

Gross Profit

Gross profit before biological asset adjustments for the fiscal three months ended March 31, 2021 was $74,626,769, representing a gross margin on the sale of cannabis, cannabis extractions and edibles and from related accessories of 62%. This is compared to gross profit before biological asset adjustments for the fiscal three months ended March 31, 2020 of $34,384,123, which represented an 80% gross margin.

Gross profit after net gains on biological asset transformation for fiscal three months ended March 31, 2021 was $145,478,087, representing a gross margin of 120%, compared with gross profit after net gains on biological asset transformation of $47,290,523, or 110% gross margin, for the fiscal three months ended March 31, 2020, which includes sales from both the wholesale and retail segments combined. The increase in gross profit margin is primarily due to top-line growth catalyzed by strong market growth in Illinois and Florida and entrances into four new markets.

Total Expenses

Total expenses for fiscal three months ended March 31, 2021 were $29,073,711, an increase of $20,047,516 or 222%, compared to total expenses of $9,026,195 for fiscal three months ended March 31, 2020. Total expenses as a percentage of revenue, net of discounts, was 24% and 21% for the three months ended March 31, 2021 and 2020, respectively. The increase was primarily due to a $10,516,590, or 248% increase in general and administrative costs, in addition to an $8,390,411, or 342% increase in salaries in benefits which was driven by an increase in headcount from the Company's primary operating markets, and start-up costs in new markets.

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

Total Other Income (Expense)

Total other expense for the year three months March 31, 2021 was $3,090,267, a decrease of $978,654, or 24%, as compared to $4,068,921 for the three months ended March 31, 2020. The decrease is due to lower amortization of debt issuance costs for warrants and lower amortization of convertible debt discounts.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For fiscal three months ended March 31, 2021, provision for income taxes totaled $45,326,862, compared to $13,871,879 for the prior fiscal three months ended March 31, 2020. The increased income tax expense was primarily driven by greater taxable income in the first quarter of 2021.

Net Income (Loss)

Net income attributable to the Company for fiscal three months ended March 31, 2021 was $68,084,645, an increase of $47,659,653, or 233%, compared to net income of $20,424,992, for fiscal three months ended March 31, 2020. The increase in net income was driven by the factors described above.

Drivers of Operational Performance

Revenue

The Company derives its revenue from both its wholesale and retail business in which it manufactures, sells and distributes cannabis products to third-party retail customers, and from direct sales to retail patients and consumers. For the fiscal three months ended March 31, 2021, approximately 68.9% of revenue was generated from the retail business and approximately 31.1% from the wholesale business. For the fiscal three months ended March 31, 2020, approximately 77.7% of revenue was generated from the wholesale business and approximately 22.3% from the retail business, respectively. This change in mix was largely driven by the opening and acquisition of additional retail stores throughout 2020 and the first quarter of 2021.

Gross Profit

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

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

Total Expenses

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

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

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

Provision for Income Taxes

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the sale of products.

This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2021, the Company had total current liabilities of $220,043,382 and cash and cash equivalents of $111,636,723 compared to March 31, 2020, which had current liabilities of $78,085,588 and cash and cash equivalents of $11,275,947 to meet its current obligations. As of March 31, 2021, the Company had working capital of $328,676,000 compared to $3,452,272 as of March 31, 2020. This significant change in working capital is due to the large-scale capital investments and acquisitions made, including in Illinois, Arizona, and Pennsylvania.

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

The Company is a high-growth organization in a rapidly expanding market. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for acquisitions, capital expenditures, and expansion in existing facilities.

Cash Flows

Cash Flow from Operating Activities

Net cash provided in operating activities was $36.5 million for the three months ended March 31, 2021, an increase of $17.1 million, or 88%, compared to cash provided of $19.4 million for the three months ended March 31, 2020. The increase in net cash provided in operating activities was primarily due to an increase in net income, an increase in biological assets, and an increase in deferred income tax expense.

Cash Flow from Investing Activities

Net cash used in investing activities was $(28.1) million for the three months ended March 31, 2021, an increase of $14.7 million, or 109%, compared to $(13.5) million for the three months ended March 31, 2020. The increase in net cash used in investing activities was primarily due to an increase in purchases of property and equipment.

Cash Flow from Financing Activities

Net cash provided by financing activities was $86.8 million for the three months ended March 31, 2021, an increase of $87.9 million, compared to $1.1 million of cash used for the months ended March 31, 2020. The increase in net cash provided by financing activities was primarily due to an increase in proceeds from RTO financing and cash received in warrant private placement.

Contractual Obligations

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

Contractual Obligations	Payments Due by Period				
	Total	**Less than 1 year**	**1-2 years**	**3-4 years**	**5 years and after**
Long Term Debt	$40,461,518	$2,159,056	$35,447,426	$276,543	$2,578,493
Capital Lease Obligations	Nil	Nil	Nil	Nil	Nil
Operating Leases	$39,361,031	$4,424,485	$11,026,087	$8,240,834	$15,669,626
Purchase Obligations[1]	Nil	Nil	Nil	Nil	Nil
Other Long Term Obligations [2]	Nil	Nil	Nil	Nil	Nil
Total Contractual Obligations	$79,822,549	$6,583,541	$46,473,513	$8,517,377	$18,248,119

Notes:

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

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

The financial performance and its cash flows for the three months ended on March 31, 2021 and 2020 were evaluated in accordance with International Financial Reporting Standards. All future financial information and documents will be reported under IFRS.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

On March 31, 2021 and 2020, amounts due to and from related parties consisted of:

Due from Related Parties

As of March 31, 2021, and March 31, 2020, amounts due from related parties were comprised of balances due from investors of $2,391,107 and $108,254, respectively. These amounts are due on demand and did not have formal contractual agreements governing payment terms or interest. Other related party transactions are described in our consolidated financial statements. Refer to Notes 7, 11, and 13 for additional details of related party transactions.

Due to Related Parties

As of March 31, 2021 and March 31, 2020, amounts due to related parties were comprised of advances to investors payable totaling $44,664 and $44,664, respectively. Advances did not have formal contractual agreements governing payment terms or interest. Refer to Notes 7, 11, and 13 for additional details of related party transactions.

Proposed Transactions

Merger Agreement

In November 2020, the Company entered into a merger agreement (the "**AltMed Merger Agreement**") with Alternative Medical Enterprises LLC, Plants of Ruskin GPS LLC, and RVC 360 LLC (collectively, "**AltMed**"). Per the AltMed Merger Agreement, the transaction was contingent upon, and was to close contemporaneously with, a reverse takeover transaction ("**RTO**") with a Canadian publicly-traded parent company.

The transaction closed on February 11, 2021. Members of AltMed received Class A subordinate voting shares ("**Class A Subordinate Voting Shares**") and Class B proportionate voting shares ("**Class B Proportionate Voting Shares**") of Verano Holdings Corp., the Company's parent ("**Verano Holdings**") in accordance with the AltMed Merger Agreement. In addition, certain members of AltMed were entitled to $35MM in cash compensation in the aggregate. The first $20MM was paid in cash at closing and the remaining $15MM obligation is represented by promissory notes of Verano Holdings convertible into Class A Subordinate Voting Shares and Class B Proportionate Voting Shares of Verano Holdings in accordance with their terms.

RTO, Financing, and Commencement of Trading

On February 11, 2021, the Company closed the RTO of Majesta Minerals Inc. ("**Majesta**"), a reporting issuer in Alberta, Canada, and received conditional approval of the Class A Subordinate Voting Shares resulting from the RTO for listing on the Canadian Securities Exchange ("**CSE**"). The RTO was structured as a plan of arrangement under the laws of British Columbia, with certain steps also occurring pursuant to the laws of Delaware. Former securityholders of Verano (and of certain Verano subsidiaries) and AltMed received, through a series of transactions, Class A Subordinate Voting Shares and Class B Proportionate Voting Shares of Verano Holdings, which, in the aggregate and on an as-converted basis, constitute approximately 73.84% and 22.48%, respectively, of the resulting issuer's outstanding shares. The remaining shares were issued to former shareholders of Majesta and participants in a financing completed in connection with the RTO and AltMed's financial advisor.

As part of the RTO, Verano Holdings implemented a dual class share structure such that the outstanding shares of the Company consist of (i) 125,663,380.6484 Class A Subordinate Voting Shares, and (ii) 1,643,366.1833 Class B Proportionate Voting Shares. Each Class A Subordinate Voting Share carries one vote per share and each Class B Proportionate Voting Share carries 100 votes per share.

In connection with the RTO, among other things, 10,000,000 subscription receipts (the "Subscription Receipts") were issued by 1276268 B.C. Ltd., a special purpose financing vehicle created for the purpose of the Subscription Receipt offering (the "Offering"). The Subscription Receipts were indirectly and automatically exchanged for Class A Subordinate Voting Shares upon completion of the RTO and the satisfaction of other escrow release conditions. The Offering raised $100 million. The net proceeds of the Offering were ultimately received by the Company in connection with the consummation of the RTO.

Verano Holdings received conditional approval from the CSE for the listing of the Class A Subordinate Voting Shares under the symbol "VRNO". The Class A Subordinate Voting Shares began trading on the CSE on February 17, 2021. The Class B Proportionate Voting Shares are not listed for trading on the CSE but may be converted into Class A Subordinate Voting Shares in certain circumstances.

Acquisitions

i. Glass City Alternatives, LLC

In January 2021, the Company entered into an ownership interest purchase and contribution agreement to acquire, upon the satisfaction of certain conditions precedent, 100% of one dispensary located in Ohio. The total purchase price was $2,600,000. Regulatory approval was received on or about January 7, 2021.

ii. The Herbal Care Center, Inc.

On February 26, 2021, the Company announced that it entered into an agreement, subject to customary conditions and regulatory approvals, to acquire The Herbal Care Center, Inc. ("**The Herbal Care Center**"), the operator of a medical and adult use dispensing organization license in the State of Illinois. Total consideration includes cash consideration of US$17,500,000, payable over 12 months subject to adjustment, and Subordinate Voting Shares and Proportionate Voting Shares of the Company equivalent to 904,642 Subordinate Voting Shares on an a-converted basis. Together therewith, the Company entered into a management services agreement with the Herbal Care Center which was subsequently approved by the State of Illinois on or about March 30, 2021.

iii. TerraVida Holistic Centers, LLC

On February 26, 2021, the Company entered into an agreement and plan of merger pursuant to which subsidiaries of the Company will merge with and into TerraVida Holistic Centers, LLC and GVB Holding Group, LLC which operate three of the Commonwealth of Pennsylvania's top performing medical dispensaries in Sellersville, Abington, and Malvern, Pennsylvania. The merger consideration includes cash consideration of US$62,500,000, subject to adjustment, with US$15,000,000 being payable on the closing date, US$10,000,000 payable within 90 days after the closing date, and the remainder payable within 180 days after the closing date. In addition, the merger consideration includes Subordinate Voting Shares or Proportionate Voting Shares equivalent to 3,013,500 Subordinate Voting Shares on an as-converted basis, including a minimum of 1,506,750 Subordinate Voting Shares. Closing of the transaction is awaiting regulatory approval.

iv. Pennsylvania Dispensary

On February 26, 2021, the Company also announced that it entered into agreements pursuant to which a subsidiary of the Company will acquire all of the issued and outstanding equity interests of a licensee that holds one medical cannabis dispensary permit in the Commonwealth of Pennsylvania, which would give the Company the ability to open three dispensaries in Pennsylvania. Pursuant to these agreements, the purchase consideration includes cash consideration of US$7,350,000 payable in cash and Subordinate Voting Shares and Proportionate Voting Shares equivalent to 1,333,173 Subordinate Voting Shares (on an as-converted basis). One of the sellers is also entitled to an earnout payable in shares in the capital of the Company (or up to 50% in cash at the election of the seller) in accordance with the terms of the applicable agreement. The transaction closed on March 9, 2021.

v. Perpetual Healthcare Inc.

On February 26, 2021, Verano Arizona, a subsidiary of the Company, entered into an agreement with Nabis AZ, LLC ("**AZ Sub**"), a subsidiary of Nabis Holdings Inc. (CSE: NAB) (OTC: NABIF) (FRA: A2PL) ("**Nabis**") whereby AZ Sub will transfer the management and governance of Perpetual Healthcare Inc. ("**PHI**"), which operates the Emerald Dispensary in Phoenix, Arizona, to Verano Arizona. Under the terms of the agreement, AZ Sub will assign the rights to manage PHI to Verano Arizona. In consideration of the foregoing, AZ Sub will receive cash consideration of US$11,250,000, Subordinate Voting Shares having an aggregate value of US$11,250,000, subject to the performance of the shares in the ten day period immediately following the signing of the agreement. The closing of the transactions described herein were subject to the approval of regulatory approvals, and other customary closing conditions. The transactions closed on March 10, 2021.

vi. Territory Dispensary

On February 24, 2021, the Company, Verano Arizona Holdings, LLC (a wholly-owned subsidiary of the Company, "**Verano Arizona**"), NZCO LLC, an Arizona limited liability company ("**NZCO**"), Murff & Company LLC, an Arizona limited liability company ("**M&C**"), JWC1 LLC, an Arizona limited liability company ("**JWC**"), Hu Commercial Properties LLC, an Arizona limited liability company ("**HCP**"), and COBISH LLC, an Arizona limited liability company ("**Cobish**" and together with NZCO, M&C, JWC and HCP,

collectively, the "**Target Companies**"), the board members of AZGM 3, Inc., an Arizona non-profit Company, the members of Vending Logistics LLC, an Arizona limited liability company, the managers of Vending Logistics LLC, Best-in-Show Holdings L.L.C., an Arizona limited liability company, and the sole member of The Medicine Room LLC, an Arizona limited liability company, and the managers of Medicine Room LLC entered into a reorganization and merger agreement pursuant to which the Target Companies will merge with and into Verano Arizona. The merger consideration includes US$7,250,000 payable in cash, subject to adjustment, and Subordinate Voting Shares and/or Proportionate Voting Shares equivalent to 3,989,875 Subordinate Voting Shares on an as-converted to Subordinate Voting Shares basis. The transaction closed on April 8, 2021.

vii. Local Joint

On March 22, 2021, the Company announced that it had entered into an agreement to acquire control of Patient Alternative Relief Center, Inc. d/b/a Local Joint, a high traffic dispensary in Phoenix, Arizona. Under the terms of the agreement, Verano Arizona II, LLC, a subsidiary of Verano, will acquire the rights to manage Local Joint from its current manager, Flower Launch LLC. The total consideration includes cash consideration of US$13,500,000, with US$10,000,000 payable on the closing date and a US$3,500,000 promissory note payable within 120 days after the closing date, and stock consideration of US$3,500,000 payable in Subordinate Voting Shares. The transaction closed on March 30, 2021.

viii. Agri-Kind, LLC, and Agronomed Holdings Inc.

On April 21, 2021, the Company announced it entered into definitive agreements for all of the issued and outstanding equity interests in Agri-Kind, LLC Agronomed Holdings Inc, which collectively will add the equity in a grower/processor permit in the Commonwealth of Pennsylvania. Subject to the terms of the agreement, the Company's subsidiary agreed to a transaction for all of the issued and outstanding equity interests in Agri-Kind, a 62,000 sq. ft. grower/processor located in Chester, and in Agronomed Holdings Inc. for US$66,000,000 in cash consideration, US$49,500,000 in stock on an as-converted basis, subject to adjustment, and an earnout of US$31,500,000 based upon certain performance metrics. Agri-Kind's management team is expected to remain with the company. Closing on the foregoing transactions is subject to customary conditions, contingencies, and approvals, including regulatory approval.

ix. Agronomed Biologics, LLC

On April 21, 2021, the Company announced it entered into definitive agreements for all of the issued and outstanding equity interests in Agronomed Biologics, LLC, which collectively will add the equity in a Clinical Registrant license (which includes cultivation and six dispensaries, to be developed) in the Commonwealth of Pennsylvania. Specifically, and subject to the terms of the agreement, the Company has agreed to a transaction for all of the issued and outstanding equity interests in Agronomed Biologics, a research joint venture between Agronomed Pharmaceuticals, LLC and The Healing Center for US$60,000,000 in a combination of cash and stock, in addition to earnouts and other adjustments. Through Pennsylvania's Chapter 20 Clinical Research Program, Agronomed is a Phase II Approved Clinical Registrant, and therefore is permitted to open a medical marijuana growing and processing facility, as well as six dispensaries, to conduct medical marijuana research in partnership with Drexel University College of Medicine.

Notes Payable

The two promissory notes which have convertible features, with an outstanding balance at December 31, 2020 of $3,412,500 are collateralized by the note holders' units in DGV Group, LLC. These notes were repaid in full in February 2021.

A convertible note with an outstanding balance at December 31, 2020 of $3,709,425 was repaid in full in February 2021.

Private Placement

On March 11, 2021, the Company's publicly-traded parent, Verano Holdings, closed an offering on a bought deal private placement basis of 3,510,000 special warrants of Verano Holdings (the "Special Warrants") at a price per Special Warrant of C$28.50 for aggregate gross proceeds of C$100,035,00 pursuant to an agreement with Beacon Securities Limited ("**Beacon**") and Canaccord Genuity Corp. (together with Beacon, the "**Co-Lead Underwriters**"), on behalf of a syndicate of underwriters (together with the Co-Lead Underwriters, the "**Underwriters**") pursuant to which the Underwriters purchased the Special Warrants.

Credit Agreement

On May 11, 2021, the Company entered into an Amended and Restated Credit Agreement (the "Restated Credit Agreement") for a senior secured term loan of US$130 million. The Restated Credit Agreement has a maturity date of May 20, 2023, and provides for additional, non-dilutive funding of US$100 million, with an annual interest rate of 9.75% for the incremental amount. Chicago Atlantic Advisers, LLC ("Chicago Atlantic") will act as the administrative and collateral agent. Closing on the foregoing transaction is subject to customary conditions, contingencies, and approvals.

Changes in or Adoption of Accounting Practices

The following IFRS standards have been recently issued by the IASB. The Company has assessed or is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

*IAS 1 – Presentation of Financial Statements ("**IAS 1**") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("**IAS 8**")*

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments were effective for annual reporting periods beginning on or after January 1, 2020. The Company early adopted IAS 1 and IAS 8 prior to January 1, 2020. The adoption of IAS 1 and IAS 8 did not have a material impact on the consolidated financial statements.

Amendment to IFRS 3: Definition of a Business

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)" (the "**IFRS 3 Amendment**"). The IFRS 3 Amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The IFRS 3 Amendment provides an assessment framework to determine when a series of integrated activities is not a business. The IFRS 3 Amendment is effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company early adopted IFRS 3 as of January 1, 2019. The adoption did not have a material impact on the consolidated financial statements.

The following is a brief summary of the new standards issued but not yet effective:

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current ("**Amendments to IAS 1**"). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS, AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Estimated Useful Lives and Depreciation of Property and Equipment

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

Biological Assets

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

Inventories

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price the Company expects to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

Discount Rate for Leases

IFRS 16 – Leases require lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the Company generally uses the incremental borrowing rate when initially recording leases. Generally, the Company uses its incremental borrowing rate as the discount rate.

Business Combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Intangible Asset and Goodwill Impairment

Indefinite-lived intangible assets and goodwill are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of such assets has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Consolidation

Judgment is applied in assessing whether the Company exercises control and has significant influence over entities in which the Company directly or indirectly owns an interest. The Company has control when it has the power over the subsidiary, has exposure or rights to variable returns, and has the ability to use its power to affect the returns. Significant influence is defined as the power to participate in the financial and operating decisions of the subsidiaries. Where the Company is determined to have control, these entities are consolidated. Additionally, judgment is applied in determining the effective date on which control was obtained.

Warrant Issuance Modification

The modification of warrant agreements presented as equity classified are first analyzed to ensure that such modifications do not change the classification of the instrument. If equity presentation remains proper, an adjustment to equity is recorded. If equity presentation is not preserved, the modification is evaluated under IFRS 2 Share-based Payments.

Expected Credit Loss

Management determines the expected credit loss by evaluating individual receivable balances and considering accounts and other receivable financial condition and current economic conditions. Accounts receivable and financial assets recorded in other receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All receivables are expected to be collected within one year of the condensed interim consolidated statement of financial position date.

Fair Value of Financial Instruments

The individual fair values attributed to the different components of a financing transaction, derivative financial instruments, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Income Tax

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Determination of Cash-Generating Units

The Company's assets are aggregated into cash-generating units (each a "**CGU**"). CGU's are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGU's was based on management's judgment regarding several factors such as shared infrastructure, geographical proximity, and exposure to market risk and materiality.

Property, Plant and Equipment Impairment

The Company evaluates the carrying value of long-lived assets at the end of each reporting period whenever there is any indication that a long-lived asset is impaired. Such indicators include evidence of physical damage, indicators that the economic performance of the asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount. The Company measures impairment based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. The fair value is determined primarily by using the projected future cash flows discounted at a rate commensurate with the risk involved as well as market valuations. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair values are reduced for an estimate of the cost to dispose or abandon.

Derivative Liabilities

In calculating the fair value of its derivative liabilities, the Company uses the Monte Carlo simulation model, for Level 3 recurring fair value measurements to estimate fair value at each reporting date. The key assumptions used

in the models are similar and include the expected future volatility in the price of the Company's shares, the fair market value of the price of the Company's shares and the expected life of the underling instrument.

COVID-19 Estimation Uncertainty

The novel coronavirus commonly referred to as "COVID-19" was identified in December 2019 in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency, and on March 11, 2020, the spread of COVID-19 was declared a pandemic by the World Health Organization. On March 13, 2020, the spread of COVID-19 was declared a national emergency by President Donald Trump. The outbreak has spread throughout Europe, the Middle East and North America, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions.

While these effects are expected to be temporary, the duration of the business disruptions and related financial impact cannot reasonably be estimated at this time. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. For the time being and until economies stabilize, the Company has shifted its strategic approach and the manner in which it operates its business to continue providing high-quality products to its patients and customers, and ensure that its workplace and stores have appropriate measures put in place to limit social interactions and enforce social distancing measures. The Company has put forth initiatives to allow the Company to continue offering high-quality products in a safe environment, with additional measures put in place to allow its customers to access its products while limiting social interactions, and enforcing social distancing measures throughout its retail stores. These initiatives have allowed the Company to operate mostly uninterrupted and to implement its business continuity plan. Some of the measures include: (i) increasing curbside pick-up and/or drive-thru options at all of its retail locations, where regulations permit such services; (ii) expanding home delivery services to customers, where regulations permit such services; and (iii) updating its safety and sanitation protocols in-store and in all facilities.

The Company is closely monitoring the evolution of COVID-19. As of the date hereof, the Company's operations and financial position have not been significantly impacted as the cannabis industry has been deemed an essential service in many states since March 2020. Going forward, the extent of the impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted.

Financial Instruments

The Company's financial instruments consist of biological assets, notes receivable, notes payable, and derivative liability. The carrying values of these financial instruments approximate their fair values at March 31, 2021 and 2020.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data

There have been no transfers between fair value levels during the years ended December 31, 2020 and 2019.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2020 and 2019 is the carrying amount of cash. The Company does not have significant credit risk with respect to its customers. All cash is placed with major U.S. financial institutions.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit rise but has limited risk as the majority of its sales are transacted with cash.

Liquidity Risk

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.

Market Risk – 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. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

Market Risk – Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 6 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit, funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company and leaves their cash holdings vulnerable.

Asset Forfeiture Risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Regulatory Risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance of regulatory requirements. Due to the nature of the industry, the company recognizes that regulatory requirements are more stringent and punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition.

The Company is cognizant of the advent of regulatory changes occurring in the cannabis industry on the city, state, and national levels. Although regulatory outlook on the cannabis industry has been moving in a positive trend, the Company is aware of the effect of unforeseen regulatory changes can have on the goals and operations of the business as a whole.

Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to section 280E which bars businesses from deducting all expenses except their cost of sales when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations.

U.S. CANNABIS REGULATORY ENVIRONMENT

In accordance with Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Actives,* below is a discussion of the current federal U.S. regulatory regime. See also "Company Overview" for a discussion of the state level U.S. regulatory regime in those jurisdictions where the Company was directly and indirectly involved, through its subsidiaries and investments, in the cannabis industry as at December 31, 2020.

The United States federal government has not legalized marijuana for medical or adult-use.

The federal government of the United States regulates drugs through the CSA which places controlled substances on one of five schedules. Currently, cannabis is classified as a Schedule I controlled substance. This means it has a high potential for abuse and currently has no accepted medical use in treatment in the United States. Schedule I substances are subject to production quotas imposed by the U.S. Drug Enforcement Agency. Thus, the federal government of the United States has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by state law.

Currently, 36 U.S. States, the District of Columbia and the U.S. territories of Guam and Puerto Rico, allow the use of medical cannabis. Additionally, the States of Alaska, Arizona, California, Colorado, Illinois Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New York, Oregon, Vermont, Virginia, Washington, and the District of Columbia have legalized cannabis for adult recreational use. However, since cannabis is a Schedule I controlled substance, the development of a legal cannabis industry under the laws of these States is in conflict with the CSA. In light of this conflict between State and federal law, the United States Department of Justice (the "**DOJ**") Deputy Attorney General of the Obama Administration, James Cole, issued a memorandum (the "**Cole Memorandum**"), dated August 29, 2013, providing updated guidance to federal prosecutors concerning cannabis enforcement under the CSA. The Cole Memorandum provided, in part, that when States have implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale, and possession of cannabis, conduct in compliance with those laws and regulations is less likely to threaten the federal priorities. Indeed, a robust system may affirmatively address those priorities by, for example, implementing effective measures to prevent diversion of cannabis outside of the regulated system and to other States, prohibiting access to cannabis by minors, and replacing an illicit cannabis trade that funds criminal

enterprises with a tightly regulated market in which revenues are tracked and accounted for. In those circumstances, consistent with the traditional allocation of federal-State efforts in this area, the Cole Memorandum provided that enforcement of State law by State and local law enforcement and regulatory bodies should remain the primary means of addressing cannabis-related activity. In contrast, if the State enforcement efforts are not sufficient to protect against the harms set forth above, the federal government may seek to challenge the regulatory structure itself in addition to continuing to bring individual enforcement actions, including criminal prosecutions, focused on those harms.

In 2014, the United States House of Representatives passed an amendment (commonly known as the Rohrabacher-Blumenauer Amendment, the Rohrabacher-Leahy Amendment or the "**Rohrabacher-Farr Amendment**") to the Commerce, Justice, Science, and Related Agencies Appropriations Bill, which funds the DOJ. The Rohrabacher-Farr Amendment prohibits the DOJ from using funds to prevent States with medical cannabis laws from implementing such laws. In August 2016, the U.S. Court of Appeals for the Ninth Circuit ruled in *United States v. McIntosh* that the Rohrabacher-Farr Amendment bars the DOJ from spending funds on the prosecution of conduct that is allowed by State medical cannabis laws, provided that such conduct is in strict compliance with applicable State law. In March 2015, bipartisan legislation titled the *Compassionate Access, Research Expansion, and Respect States Act* (the "**CARERS Act**") was introduced, proposing to allow States to regulate the medical use of cannabis by changing applicable federal law, including by reclassifying cannabis under the CSA to a Schedule II controlled substance and thereby changing the plant from a federally-criminalized substance to one that has recognized medical uses. More recently, the *Respect State Marijuana Laws Act of 2017* has been introduced in the U.S. House of Representatives, which proposes to exclude persons who produce, possess, distribute, dispense, administer or deliver cannabis in compliance with State laws from the regulatory controls and administrative, civil and criminal penalties of the CSA.

Although these developments have been met with a certain amount of optimism in the cannabis industry, neither the CARERS Act nor the *Respect State Marijuana Laws Act of 2017* have yet been adopted, and the Rohrabacher-Farr Amendment must be renewed annually and has currently been renewed until September 30, 2019. Furthermore, the ruling in *United States v. McIntosh* is only applicable in the Ninth Circuit, which includes the States of Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington. The Company plans to have, operations in States outside of the Ninth Circuit.

In early 2017, President Donald J. Trump nominated Alabama Republican Jeff Sessions as the United States Attorney General. In addition to the election of President Trump, the Republican party retained control of United States Congress. On January 4, 2018, then Attorney General Sessions issued a written memorandum (the "**Sessions Memorandum**") to all U.S. Attorneys stating that the Cole Memorandum was rescinded, effectively immediately. In particular, Attorney General Sessions stated that "prosecutors should follow the well-established principles that govern all federal prosecutions," which require "federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community." Attorney General Sessions went on to state in the Sessions Memorandum that given the Justice Department's well-established general principles, "previous nationwide guidance specific to cannabis is unnecessary and is rescinded, effective immediately." Attorney General Sessions reiterated that the cultivation, distribution and possession of cannabis continues to be a crime under the CSA.

On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, William Barr was confirmed as the new Attorney General. Mr. Barr stated during his confirmation hearings in a response to a question from Senator Cory Booker, "I'm not going to go after companies that have relied on Cole Memorandum." Mr. Barr also reconfirmed this response in writing as part of the formal confirmation proceedings.

On or about December 14, 2020, Mr. Barr announced a planned resignation from the Trump administration, effective the following week. On December 24, 2020, Deputy Attorney General Mr. Jeffrey Rosen became Acting Attorney General. On January 7, 2021, President Joe Biden announced Judge Merrick Garland as his nomination

for the next U.S. Attorney General. On January 20, 2021, Robert Wilkinson replaced Mr. Jeffrey Rosen as the Acting Attorney General while Judge Garland seeks confirmation from the U.S. Senate.

On December 27, 2020, President Donald Trump signed the *Consolidated Appropriations Act of 2021*, which included the Rohrabacher-Farr Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under State law. The *Consolidated Appropriations Act of 2021* makes appropriations for the fiscal year ending September 30, 2021. There can be no assurances that the Rohrabacher-Farr Amendment will be included in future appropriations bills or budget resolutions.

Following two special runoff elections conducted in the U.S. State of Georgia on January 5, 2021, for two U.S. Senate seats, Democrats Raphael Warnock and Jon Ossoff each received more votes than their incumbent opponents. As a result of the special elections, Democrats control 50 seats in the U.S. Senate and Republicans control 50 seats, and Vice President Kamala Harris carries the tie-breaking vote. Consequently, for the first time since January 3, 2009, Democrats now control the U.S. Senate. Consequently, and in conjunction with Democrat control of the U.S. House of Representatives and the White House, cannabis legislation, including the *Marijuana Opportunity Reinvestment and Expungement Act* and others, may now face a realistic chance of passage. This and other legislation have the potential to deschedule cannabis, improve access to banking and other financial resources for cannabis companies, and remove the effects of Internal Revenue Code § 280E on cannabis businesses. There is no guarantee that any such legislation will pass, however, and President Joseph Biden has indicated a reluctance to prioritize substantial changes in federal cannabis laws despite pressure from Democratic members of Congress.

On January 7, 2021, President Joseph Biden announced his nomination of Judge Merrick Garland as U.S. Attorney General. Mr. Garland's nomination was subject to confirmation by the United States Senate. During confirmation hearings, Judge Garland did not confirm whether he would reinstate the Cole Memorandum, but did explain that he expected under his tenure to see a reduction in resources towards enforcement of federal cannabis laws, explaining that enforcement "does not seem to me a useful use of limited resources." Judge Garland did, however, note that enforcement against criminal enterprises in the States would continue. On March 10, 2021, Judge Garland was confirmed by the U.S. Senate as the 86th Attorney General of the United States. It is unclear what impact the new U.S. Attorney General will have on U.S. federal government enforcement policy. Since his confirmation, Attorney General Garland has not formally reinstated the Cole Memorandum or issued a similar memorandum concerning the enforcement *vel non* of federal cannabis laws. Notwithstanding the foregoing, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to cannabis could have a material adverse effect on the business, financial condition or results of operations of the Company. The Company is expected to provide products and services to State-approved cannabis cultivators and dispensary facilities. As a result, it could be deemed to be aiding and abetting illegal activities, a violation of United States federal law.

Reliance on Third Party Suppliers, Manufacturers and Contractors

The Company and its subsidiaries rely on relationships with numerous business partners and third party service providers located in the U.S. Unless and until the federal legal landscape with respect to medical and/or adult-use cannabis changes (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that business partners and third party service providers may be required to suspend or withdraw services and business relationships to avoid prosecution by U.S. federal authorities under U.S. federal laws.

There is a Substantial Risk of Regulatory or Political Change

The success of the business strategy of the Company, depends on the legality of the cannabis industry in the United States. The political environment surrounding the cannabis industry in the United States in general can be volatile and the regulatory framework in the United States remains in flux. As of the date of this Prospectus, 36 States, Washington, D.C. and certain other U.S. territories have implemented laws and regulations to legalize and

regulate the cultivation, sale, possession and use of cannabis, and additional States have pending legislation regarding the same, however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Company's ability to successfully invest and/or participate in the selected business opportunities. Recent State legislation throughout the U.S. has prioritized minority and diversity participation in the cannabis industry, even going so far as to provide licensing preferences to minorities, individuals with certain criminal convictions, and individuals from economically depressed areas. As new medical and adult-use legislation is passed, multi-State operators such as the Company may be prevented or discouraged from obtaining new licenses or from participating in new markets. Such a result could adversely impact the Company's ability to maintain market share or obtain a positive return on investment in existing markets.

Further, there is no guarantee that at some future date, voters and/or the applicable legislative bodies will not repeal, overturn or limit any such legislation legalizing the sale, disbursement and consumption of medical or adult-use cannabis. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of cannabis in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis industry.

Cannabis remains illegal under federal law, and the federal government could bring criminal and civil charges against the Company or its subsidiaries or its investments at any time. Federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of cannabis-related legislation could have a material adverse effect on the business, financial condition or results of operations of the Company.

Ability to Access Capital

The Company will likely need additional capital to sustain its operations and will likely need to seek further financing, which the Company may not be able to obtain on acceptable terms or at all. If the Company fails to raise additional capital, as needed, its ability to implement its business model and strategy could be compromised. To date, the Company's operations and expansion of its business have been funded primarily from cash-flow from operations as substantially supplemented by the proceeds of debt and equity financings. The Company expects to require substantial additional capital in the near future to commence the expansion of its business into additional states in the United States, expand its product lines, develop its intellectual property base, and establish its targeted levels of commercial production. The Company may not be able to obtain additional financing on terms acceptable to it, or at all. In particular, because cannabis is illegal under U.S. federal law, the Company may have difficulty attracting investors.

Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses in the cannabis industry. The lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services.

No guarantee or assurances can be given by the Company that it will be able to secure and/or maintain stable banking services arrangements, nor can the Company guarantee or provide assurances that it will be able to secure an alternative to traditional banking services should the Company not be able to secure and maintain traditional banking services with a national or state chartered banking institution.

No assurance can be given that any additional financing will be available to the Company, or if available, will be on terms favorable to it. If the Company is unable to raise capital when needed, its business, financial condition, and results of operations would be materially adversely affected, and it could be forced to reduce or discontinue its operations.

Compliance and Monitoring

As of the date of this MD&A, the Company believes that each of its licensed operating entities: (a) holds all applicable licenses to cultivate, manufacture, possess, and/or distribute cannabis in its respective state; and (b) is in good standing and in compliance with its respective state's cannabis regulatory program. The Company is in compliance with its obligations under state law related to its cannabis cultivation, processing and dispensary licenses, other than minor violations that would not result in a material fine, suspension or revocation of any relevant license.

The Company uses reasonable commercial efforts to ensure that its business is in material compliance with laws and applicable licensing requirements and engages in the regulatory and legislative process nationally and in every state we operate through our compliance department, government relations department, outside government relations consultants, cannabis industry groups and legal counsel.

The Company's Vice President, Legal, Regulatory & Government Affairs is charged with knowing the local regulatory process and monitoring developments and ongoing developments with state governing bodies. This individual regularly reports regulatory developments to the Company's Chief Legal Officer and General Counsel, Chief Financial Officer, and Chief Executive Officer through written and oral communications and are charged with the creation and implementation of plans regarding all regulatory developments. The Company's Chief Legal Officer and General Counsel works with external legal advisors in the states in which the Company operates to ensure that the Company is in on-going compliance with applicable state laws.

Although the Company believes that its business activities are materially compliant with applicable and state and local laws of the United States, strict compliance with State and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may result in a material adverse effect on the Company. The Company derives 100% of its revenues from the cannabis industry in certain States, which industry is illegal under United States federal law. Even where the Company's cannabis-related activities are compliant with applicable State and local law, such activities remain illegal under United States federal law. The enforcement of relevant federal laws is a significant risk.

In addition to the above disclosure, please see "Risk Factors" for further risk factors associated with the operations of the Company.

RISK FACTORS

The Company is subject to risks, certain of which are described in the risk factors set forth below. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment of the Company and the financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. The Company will face numerous challenges in the development of its business. Due to the nature of the Company and its business and present stage of the business, readers should carefully consider all such risks, including those set out in the discussion below.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage, and disposal of medical cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment.

- The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

- The Company may be subject to growth-related risks including capacity constraints and pressure on its

internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

- The Company's limited operating history may make it difficult for investors to predict future performance based on current operations.

- A drop in the retail price of medical marijuana products may negatively impact the business of the Company.

- The Company's business could be adversely affected if it fails to protect its intellectual property.

- The Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the Company, could subject to significant liabilities and other costs.

- The Company's ability to recruit and retain management, skilled labor and suppliers is crucial to the Company's success.

- The Company has a limited operating history.

- There is potential that the Company will face intense competition from other companies, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than the Company.

- The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the medical cannabis market or any product, or consistent with earlier publicity.

- The Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury.

- Greater access to medical cannabis, through competitive expansion in the marketplace and illegal markets, may decrease the number of patients registering with the Company and may cause registered patients to leave the Company.

- Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, and operating results of the Company.

- If the Company is unable to continually innovate and increase efficiencies, its ability to attract new customers may be adversely affected.

- The Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption.

- The Company could fail to integrate acquired companies into the business of the Company.

- The Company has, and will have, certain business arrangements with third parties, the breakdown/loss of which could impact its operations.

- The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

- Although all growing is completed indoors under climate-controlled conditions, there can be no assurance that natural elements and weather will not have a material adverse effect on any such future production.

- The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are "forward-looking statements." Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, our commercialization plans and other future conditions. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance are not statements of historical fact and may be "forward-looking statements." In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "expect," "seek," "endeavor," "anticipate," "plan," "estimate," "believe," "intend," "predicts," "estimates" or the negative of these terms or comparable terminology. Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks, uncertainties and assumptions, which would cause actual results or events to differ materially from those presently anticipated.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: assumptions and expectations described in the Company's critical accounting policies and estimates; the Company's future financial and operating performance; the intention to expand the business, operations and facilities of the Company including through acquisitions and merit-based processes; the expected increase in certain costs associated with the business including transaction and compensation expenses; the expected production volumes of the Company; the expected split of revenues between the Company's operating segments; the expected increasing complexity of the cannabis industry; the expected expansion of the cannabis market; the applicable laws, regulations, licensing and any amendments thereof related to the cannabis industry; the anticipated future gross margins of the Company; future expenditures, strategic investments and capital activities and expectations regarding pricing of cannabis products.

A number of factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements including those factors as set out under "Risk Factors" in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this MD&A. These factors should be considered carefully and prospective investors should not place undue reliance on these forward looking statements.

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

Historical statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. In this regard, certain financial information

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