



VERANO HOLDINGS CORP.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE QUARTERS ENDED
March 31, 2022 & 2021**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 – Continuous Disclosure Obligations, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company discloses that an auditor has not performed a review of these unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022 and 2021.

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VERANO HOLDINGS CORP.**Unaudited Interim Condensed Consolidated Balance Sheets****As of March 31, 2022 & December 31, 2021***(\$ in Thousands except share and per share amounts)*

	March 31, 2022	December 31, 2021 <i>(Audited)</i>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 139,637	\$ 99,118
Accounts Receivable, net	17,676	17,410
Notes Receivable	-	285
Inventory	159,883	137,634
Prepaid Expenses and Other Current Assets	22,583	19,528
Total Current Assets	339,779	273,975
Property, Plant and Equipment, net	479,747	452,232
Right Of Use Assets, net	66,522	61,346
Intangible Assets, net	1,368,358	1,379,913
Goodwill	375,725	368,130
Investment in Associates	7,396	7,628
Deposits and Other Assets	2,514	2,499
TOTAL ASSETS	\$ 2,640,041	\$ 2,545,723
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 61,050	\$ 45,172
Accrued Liabilities	25,332	42,150
Income Tax Payable	203,939	153,850
Current Portion of Lease Liabilities	7,427	6,563
Current Portion of Notes Payable	10,386	13,771
Acquisition Consideration Payable	142,543	208,349
Total Current Liabilities	450,677	469,855
Long-Term Liabilities:		
Deferred Revenue	1,068	1,183
Notes Payable, net of Current Portion	373,858	276,154
Lease Liabilities, net of Current Portion	61,458	56,812
Deferred Income Taxes	256,312	262,984
Total Long-Term Liabilities	692,696	597,133
TOTAL LIABILITIES	\$ 1,143,373	\$ 1,066,988
SHAREHOLDERS' EQUITY	1,496,668	1,475,784
NON-CONTROLLING INTEREST	-	2,951
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,640,041	\$ 2,545,723

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

VERANO HOLDINGS CORP.**Unaudited Interim Condensed Consolidated Statements of Operations****For the Three Months Ended March 31, 2022 & March 31, 2021***(\$ in Thousands except share and per share amounts)*

	March 31, 2022	March 31, 2021
Revenues, net of discounts	\$ 202,235	\$ 120,895
Cost of Goods Sold, net	102,566	66,605
Gross Profit	99,669	54,290
Operating Expenses	79,988	36,973
Income from Investments in Associates	367	803
Income From Operations	20,048	18,120
Other Income (Expense):		
Loss on Disposal of Property, Plant and Equipment	(990)	-
Gain on Deconsolidation	9,558	-
Gain on Previously Held Equity Interest	17,275	-
Other Income (Expense), net	904	(867)
Interest Expense, net	(10,672)	(1,767)
Total Other Income (Expense)	16,075	(2,634)
Net Income Before Provision for Income Taxes and Non-Controlling Interest	36,123	15,486
Provision For Income Taxes	(42,833)	(16,414)
Net Loss Before Non-Controlling Interest	(6,710)	(928)
Net Income Attributable to Non-Controlling Interest	291	1,266
Net Loss Attributable to Verano Holdings Corp.	\$ (7,001)	\$ (2,194)
Net Loss per share – basic	(0.02)	(0.02)
Net Loss per share – diluted		
Basic – weighted average shares outstanding	326,285,814	140,952,177
Diluted – weighted average shares outstanding	326,285,814	140,952,177

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

VERANO HOLDINGS CORP.**Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2022 & March 31, 2021***(in Thousands)*

	LLC Membership Units	Pubco Shares (as converted)	Share Capital	Accumulated Earnings (Deficit)	Non-Controlling Interest	Total
Balance as of January 1, 2021	279,900	-	\$ 137,914	\$ 9,247	\$ 6,237	\$ 153,398
RTO-related issuances, net	-	-	652,217	-	-	652,217
Issuance of Pubco shares in redemption of membership units	(279,900)	279,900	-	-	-	-
Reverse takeover ("RTO Financing"), net	-	-	95,420	-	-	95,420
Share-based compensation	-	-	61	-	-	61
Issuance of shares in conjunction with acquisitions	-	-	62,898	-	-	62,898
Warrants issued and exercised	-	-	75,100	-	-	75,100
Net Income (Loss)	-	-	-	(2,194)	1,266	(928)
Balance as of March 31, 2021	-	279,000	\$ 1,023,610	\$ 7,053	\$ 7,503	\$ 1,038,166

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

VERANO HOLDINGS CORP.**Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Continued)****For the Three Months Ended March 31, 2022 & March 31, 2021***(in Thousands)*

	LLC Membership Units	Pubco Shares (as converted)	Share Capital	Accumulated Earnings (Deficit)	Non-Controlling Interest	Total
Balance as of January 1, 2022	-	279,900	\$ 1,488,188	\$ (12,404)	\$ 2,951	\$ 1,478,735
Share-based compensation	-	-	289	-	-	289
Issuance of shares in conjunction with acquisition	-	-	13,220	-	-	13,220
Noncontrolling interest adjustment for change in ownership	-	-	-	-	(3,242)	(3,242)
Contingent consideration & other adjustments to purchase accounting	-	-	14,376	-	-	14,376
Net Income (Loss)	-	-	-	(7,001)	291	(6,710)
Balance as of March 31, 2022	-	279,900	\$ 1,516,073	\$ (19,405)	\$ -	\$ 1,496,668

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

VERANO HOLDINGS CORP.**Unaudited Interim Condensed Consolidated Cash Flow Statements****For the Three Months Ended March 31, 2022 and March 31, 2021**

(\$ in Thousands)

	March 31, 2022	March 31, 2021
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss attributable to Verano Holdings Corp. and Subsidiaries	\$ (7,001)	\$ (2,194)
Net income attributable to non-controlling interest	291	1,266
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,434	11,783
Non-cash interest expense	674	357
Non-cash interest income	-	(237)
Non-cash inventory step-up expense on acquisitions	4,612	17,844
Loss on disposal of property, plant and equipment	990	-
Gain on previously held equity interest	(3,251)	-
Bad debt expense	-	68
Amortization of debt issuance costs	1,514	136
Unrealized gain on marketable securities	(66)	-
Write-off of note receivable	(3)	-
Loss (Income) from underlying investees	232	(6,802)
Loss (Income) on share issuance	462	(125)
Decrease in fair value of contingent consideration	2,293	-
Stock based compensation	289	61
Changes in operating assets and liabilities:		
Accounts receivable	(269)	(6,131)
Inventories	(26,129)	(19,239)
Prepaid expenses and other current assets	(2,721)	(5,522)
Deposits and other assets	695	1,071
Accounts payable	19,831	10,942
Accrued liabilities	(12,606)	1,827
Lease Liabilities	(2,979)	(1,217)
Income tax payable	48,801	21,940
Deferred taxes	(6,672)	-
Deferred revenue	(116)	(997)
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,305	24,831
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(47,327)	(36,402)
Proceeds from disposal of assets	1,818	733
Advances to related parties	-	20
Purchases of intangible assets	-	(7,460)
Acquisition of business, net of cash acquired	(60,082)	(38,573)
Purchase of interest in investment in associates	-	(3,350)
Dividend received from investments in associates	-	10,275
Issuance of note receivable	-	(147)
Proceeds from note receivable	-	2,931
Interest received on note receivable	-	4
NET CASH USED IN INVESTING ACTIVITIES	(105,591)	(71,969)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

VERANO HOLDINGS CORP.**Unaudited Interim Condensed Consolidated Cash Flow Statements****For the Three Months Ended March 31, 2022 and March 31, 2021***(\$ in Thousands)*

	March 31, 2022	March 31, 2021
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	102,660	-
Principal repayments of notes payable	(6,870)	(7,516)
Debt issuance costs paid	(2,985)	-
Proceeds received from RTO Financing	-	75,420
Cash received in warrant private placement	-	75,100
NET CASH PROVIDED BY FINANCING ACTIVITIES	92,805	143,004
NET INCREASE IN CASH	40,519	95,886
CASH, BEGINNING OF PERIOD	99,118	16,402
CASH, END OF PERIOD	\$ 139,637	\$ 112,268
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 9,999	\$ 1,648
NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	\$ (541)	\$ (1,200)
Issuance of shares under business combinations	\$ 27,135	\$ 690,109
Acquisitions		
Tangible and Intangible assets acquired, net of cash	\$ 17,532	\$ 787,405
Liabilities assumed	(3,981)	(215,083)
Acquisition consideration payable	38,936	(731,059)
Goodwill	7,595	197,310
	\$ 60,082	\$ 38,573

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

VERANO HOLDINGS CORP.

Unaudited Interim Notes to the Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2022 and 2021

(\$ in Thousands except shares and per share amounts)

1. OVERVIEW AND BASIS OF PRESENTATION

(a) Description of Business

References herein to “the Company,” or “Verano,” are intended to mean Verano Holdings Corp. and its subsidiaries, licensees, and managed entities.

Verano is a vertically integrated cannabis operator that focuses on limited-licensed markets in the United States. As a vertically integrated provider, the Company owns, operates, manages, controls, and/or has licensing, consulting or other commercial agreements with cultivation, processing, and retail licensees across fifteen state markets (Arizona, Arkansas, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, Ohio, Pennsylvania, and West Virginia).

In addition to the states listed above, the Company also conducts pre-licensing activities in several other markets. In these markets, the Company has either applied for licenses, or plans on applying for licenses, but does not currently own any cultivation, processing, or retail licenses.

On February 11, 2021, the Company completed a reverse takeover transaction (“RTO”) as further described in Note 3. Thereafter, the Company’s Class A Subordinate Voting Shares (the “Subordinate Voting Shares”) were listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “VRNO” and subsequently began to be quoted in the United States on the OTCQX marketplace operated by the OTC Market Group, under the ticker symbol “VRNOF”.

The Company’s corporate headquarters is located at 415 North Dearborn St., Suite 400, Chicago, Illinois 60654.

(b) Basis of Preparation

The consolidated financial statements for the three months ended March 31, 2022 and March 31, 2021, have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). Unless otherwise indicated, all references to “\$” or “US\$” in this document refer to United States dollars, and all references to “C\$” refer to Canadian dollars. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2021, included in the Company’s registration statement on Form 10 filed on April 26, 2022. The accompanying condensed consolidated financial statements include the accounts of Verano Holdings, Corp. and its wholly owned subsidiaries.

(c) Basis of Consolidation

The consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its subsidiaries, as well as the accounts of any entities over which the Company has a controlling financial interest in accordance with Accounting Standards Codification (“ASC”) 810 *Consolidation*. All transactions and balances between these entities have been eliminated upon consolidation.

(d) Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies as described in Note 2 of the Company’s registration statement on Form 10 filed on April 26, 2022.

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021***(\$ in Thousands except shares and per share amounts)*

1. OVERVIEW AND BASIS OF PRESENTATION *(Continued)*

(e) Earnings (Loss) per Share

Basic earnings (loss) per share is calculated using the treasury stock method, by dividing the net earnings (losses) attributable to members by the weighted average number of shares (on an as converted to Subordinate Voting Shares basis) outstanding during each of the years presented. Contingently issuable shares (including shares held in escrow) are not considered outstanding shares and consequently are not included in the earnings (loss) per share calculations. Diluted income per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

To determine diluted income per share, it is assumed that any proceeds from the exercise of dilutive share options would be used to repurchase shares at the average market price during the period. The diluted income per share calculation excludes any potential conversion of share options and convertible debt that would increase earnings per share or decrease loss per share. No potentially dilutive share equivalents were included in the computation of diluted loss per share for the three months ended March 31, 2022 and 2021 because their impact would have been anti-dilutive.

(f) Recently Issued Accounting Standards

The Company reviews recently issued accounting standards on a quarterly basis and has determined there are no standards yet to be adopted which are relevant to the Company's business for disclosure.

(g) Coronavirus Pandemic

In March 2020, the World Health Organization categorized coronavirus disease 2019 (together with its variants, "COVID-19") as a pandemic. COVID-19 continues to spread throughout the U.S. and other countries across the world, and the duration and severity of its effects are currently unknown. The Company continues to implement and evaluate actions to strengthen its financial position and support the continuity of its business and operations.

The Company's unaudited interim condensed consolidated financial statements presented herein reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and reported amounts of revenue and expenses during the periods presented. Such estimates and assumptions affect, among other things, the Company's goodwill; long-lived assets and intangible assets; operating lease right of use assets and operating lease liabilities; valuation of deferred income taxes; the allowance for doubtful accounts; assessment of the Company's lease and non-lease contract expenses; and measurement of compensation cost for bonus and other compensation plans. While the Company's revenue, gross profit and operating income were not impacted during the three months ended March 31, 2022, the uncertain nature of the spread of COVID-19 and the uncertainty of the impact of nationwide vaccine programs may impact the Company's business operations for reasons including the potential quarantine of the Company's employees or of its supply chain partners' employees.

VERANO HOLDINGS CORP.

Unaudited Interim Notes to the Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2022 and 2021

(\$ in Thousands except shares and per share amounts)

2. REVERSE TAKEOVER TRANSACTION (“RTO”)

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

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

In accordance with the terms of the Plan of Arrangement, 10,000,000 subscription receipts (the “Subscription Receipts”) were issued on January 21, 2021, at a price per Subscription Receipt of \$10², for aggregate gross proceeds of \$100,000 (the “RTO Financing”). In the RTO Financing, the Company issued a total of 10,000,000 Subordinate Voting Shares to the purchasers of the Subscription Receipts and 578,354 Subordinate Voting Shares and \$4,580 in transactions costs to the offering agents as a broker fee.

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

The members of Verano Holdings, LLC, and owners of certain of its subsidiaries, through a series of transactions, exchanged their ownership interests in Verano Holdings LLC and such subsidiaries for 96,892,040 Subordinate Voting Shares and 1,172,382 Proportionate Voting Shares. In connection with the Company’s acquisitions (Note 9) of Alternative Medical Enterprises, LLC, Plants of Ruskin GPS, LLC, and RVC 360, LLC (collectively, the “AME Parties”), that occurred concurrently with the RTO, the members of the AME Parties, through a series of transactions, exchanged their membership interests in the AME Parties for 18,092,987 Subordinate Voting Shares and 470,984. Proportionate Voting Shares, plus cash consideration, as further described in Note 9(a). The members of the AME Parties received \$20,000 in proceeds from the RTO Financing.

In accordance with ASC 805, *Business Combinations*, the substance of the transaction is a reverse takeover of a nonoperating company. The transaction does not constitute a business combination as Majesta SubCo does not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with Verano Holdings, LLC being identified as the acquirer and the equity consideration being measured at fair value. The resulting consolidated statement of financial position is presented as a continuance of Verano Holdings, LLC and comparative figures presented in the consolidated financial statements prior to the reverse takeover are those of Verano Holdings, LLC.

ASC 505-50, *Equity-Based Payments to Non-Employees*, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Because the Company issued shares with a value in excess of the assets received, the difference is recognized in RTO-related issuance cost through equity. The amount assigned to the transaction cost of \$198 is the difference between the fair value of the consideration and the net identifiable assets of Majesta SubCo acquired by the Company.

² Such amount not in thousands

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021***(\$ in Thousands except shares and per share amounts)***3. INVENTORIES**

The Company's inventories consist of the following at March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Raw Materials	\$ 8,187	\$ 5,767
Work in Process	110,573	93,298
Finished Goods	41,123	38,569
Total Inventories	\$ 159,883	\$ 137,634

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consists of the following as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Land	\$ 28,413	\$ 29,399
Buildings and Improvements	154,765	126,020
Furniture and Fixtures	13,886	13,259
Computer Equipment and Software	15,715	14,078
Leasehold Improvements	176,845	182,514
Tools and Equipment	71,189	65,774
Vehicles	4,091	3,229
Assets Under Construction ⁽¹⁾	70,231	64,107
Total Property, Plant and Equipment, Gross	535,135	498,380
Less: Accumulated Depreciation	(55,388)	(46,148)
Property, Plant and Equipment, Net	\$ 479,747	\$ 452,232

⁽¹⁾Assets under construction represent construction in progress related to facilities not yet completed or otherwise not placed in service.

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021**

(\$ in Thousands except shares and per share amounts)

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

A reconciliation of the beginning and ending balances of property, plant and equipment is as follows:

	Property, Plant and Equipment, Gross	Accumulated Depreciation	Property, Plant and Equipment, Net
Balance as of December 31, 2021	\$ 498,380	\$ (46,148)	\$ 452,232
Additions	39,394	-	39,394
Property, plant and equipment from business combination	1,673	-	1,673
Disposals	(3,058)	77	(2,981)
Deconsolidation from disposition of business combination	(1,254)	281	(973)
Depreciation	-	(9,598)	(9,598)
Balance as March 31, 2022	<u>\$ 535,135</u>	<u>\$ (55,388)</u>	<u>\$ 479,747</u>

For the three months ended March 31, 2022 and March 31, 2021, depreciation expense included in costs of goods sold totaled \$7,057 and \$2,882, respectively.

5. INTANGIBLE ASSETS AND GOODWILL

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

As of March 31, 2022, intangible assets consisted of the following:

	Licenses	Tradenames	Technology	Total
<u>Cost</u>				
Balance as of January 1, 2022	\$ 1,386,131	\$ 54,166	\$ 11,603	\$ 1,451,900
Purchases	-	-	-	-
Additions from business combination	13,281	-	-	13,281
Adjustments to purchase price allocation	-	-	-	-
Disposals	-	-	-	-
Balance as of March 31, 2022	<u>\$ 1,399,412</u>	<u>\$ 54,166</u>	<u>\$ 11,603</u>	<u>\$ 1,465,181</u>
<u>Accumulated Amortization</u>				
Balance as of January 1, 2022	66,703	4,158	1,126	71,987
Amortization	23,173	1,355	308	24,836
Balance as of March 31, 2022	<u>\$ 89,876</u>	<u>\$ 5,513</u>	<u>\$ 1,434</u>	<u>\$ 96,823</u>
<u>Net Book Value</u>				
Balance as of January 1, 2022	1,319,428	50,008	10,477	1,379,913
Balance as of March 31, 2022	<u>\$ 1,309,536</u>	<u>\$ 48,653</u>	<u>\$ 10,169</u>	<u>\$ 1,368,358</u>

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021**

(\$ in Thousands except shares and per share amounts)

5. INTANGIBLE ASSETS AND GOODWILL (Continued)

Amortization periods of assets with finite lives are based on management's estimates at the date of acquisition.

The following table outlines the estimated annual amortization expense related to intangible assets as of March 31, 2022:

Year Ending December 31:	Estimated Amortization
2022 (Remaining)	\$ 74,961
2023	99,948
2024	99,948
2025	99,948
2026	99,221
Thereafter	894,332
	<u>\$ 1,368,358</u>

The changes in the carrying amount of goodwill, by reportable segment, for the quarter ended March 31, 2022 were as follows:

	January 1, 2022	Impairment	Adjustments to purchase price allocation	Acquisitions	March 31, 2022
Cultivation	\$ 91,116	\$ -	\$ 1,050	\$ -	\$ 92,166
Retail	277,014	-	-	6,545	283,559
Total	<u>\$ 368,130</u>	<u>\$ -</u>	<u>\$ 1,050</u>	<u>\$ 6,545</u>	<u>\$ 375,725</u>

During the quarter ended March 31, 2022, the Company recorded measurement period adjustments in connection to the December 2021 acquisition of Connecticut Pharmaceutical Solutions, Inc. The net impact led to an increase of \$1,050 to goodwill.

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021***(\$ in Thousands except shares and per share amounts)***6. EARNINGS PER SHARE**

The Company presents basic earnings per share. Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of shares (on an as converted to Subordinate Voting Shares basis) outstanding during the periods presented.

The computations of net loss per share on a basic basis, including reconciliations of the numerators and denominators, were as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Numerator		
Net Loss attributable to Verano Holdings Corp.	\$ (7,001)	\$ (2,194)
Denominator		
<u>Basic</u>		
Pre-RTO weighted-average shares outstanding		158,203,932
Post-RTO weighted-average shares outstanding		126,517,036
Weighted-average shares outstanding – basic	326,285,814	140,952,177
<u>Diluted</u>		
Pre-RTO weighted-average shares outstanding		158,203,932
Post-RTO weighted-average shares outstanding		126,517,036
Weighted-average shares outstanding – basic	326,285,814	140,952,177
Basic earnings per share	\$ (0.02)	\$ (0.02)
Diluted earnings per share	\$ (0.02)	\$ (0.02)

7. NOTES RECEIVABLE

As of December 31, 2021, notes receivable consisted of two secured promissory notes:

The first note is a secured promissory note dated August 13, 2020 with a third party for \$180. The note bears interest of 8% per annum and was originally due and payable on or before the earlier of February 13, 2021 or such other date the principal amount becomes due and payable by acceleration after an event of default. The promissory note can be extended at the discretion of the Company. As of December 31, 2021, the Company has received principal payments of \$56 and has outstanding principal of \$124 plus accrued interest of \$7. As of March 31, 2022, the Company settled the outstanding note receivable balance as part of the Greengate transaction. *Refer to FN 8 – Transactions.*

The second note is a secured promissory note, dated March 24, 2021, with a third party for \$147. The note bears interest of 8% per annum and was originally due and payable on September 24, 2021. The maturity date of the secured promissory note was extended to March 24, 2022. As of March 31, 2022, the Company settled the outstanding note receivable balance as part of the Greengate transaction. *Refer to FN 8 – Transactions.*

As of March 31, 2022, the Company had no outstanding notes receivable.

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021**

(\$ in Thousands except shares and per share amounts)

8. TRANSACTIONS**(a) Merger Agreement**

On November 6, 2020, Verano Holdings LLC entered into an agreement and plan of merger with the AME Parties, pursuant to which the Company, as the assignee of all of Verano Holdings LLC's rights and obligations thereunder, would acquire the AME Parties and their subsidiaries and ownership and control interests (the "AME Group") via a series of merger transactions (the "AME Mergers"). The AME Mergers were contingent upon, and closed contemporaneously with the RTO, resulting in the creation of the Company as a Canadian publicly-traded parent company of Verano Holdings LLC, the AME Parties and their respective subsidiaries.

The RTO and AME Mergers closed on February 11, 2021 and resulted in the AME Group becoming wholly-owned subsidiaries of the Company. The members of the AME Parties, through the RTO and AME Mergers, exchanged their membership interests in the AME Parties for 18,092,988 Subordinate Voting Shares and 470,984 Proportionate Voting Shares valued at approximately \$651,914, plus cash consideration of \$35,000. The share considerations and cash consideration of \$20,000 was paid at the closing of the AME Mergers, \$10,000 of cash consideration was paid on August 11, 2021, and the remaining \$5,000 balance was paid in February and March 2022. As of March 31, 2022, the total consideration had been paid in full.

The Company accounted for the transaction as a business combination in accordance with ASC 805, *Business Combinations*. The following table summarizes the provisional accounting estimates of the merger transaction:

	AltMed Florida	AltMed Arizona	Total
Cash	\$ 5,446	\$ 507	\$ 5,953
Accounts receivable, net	60	498	558
Inventory	83,205	5,827	89,032
Prepays and other current assets	833	1,989	2,822
Property, plant and equipment, net	73,386	9,751	83,137
Right-of-use asset, net	9,651	-	9,651
Other assets	1,001	-	1,001
Accounts payable and accrued liabilities	(8,935)	(2,576)	(11,511)
Notes payable	(3,579)	(3,343)	(6,922)
Deferred taxes	(123,720)	(37,290)	(161,010)
Lease liabilities	(9,651)	-	(9,651)
Total identifiable net assets (liabilities)	27,697	(24,637)	3,060
Intangible assets	498,938	184,588	683,526
Net assets	\$ 526,635	\$ 159,951	\$ 686,586

Selected line items from the Company's unaudited condensed interim consolidated statements of operations for the twelve months ended December 31, 2021, adjusted as if the acquisition of the AME Group, deemed to be the only acquisition with material operations in the period, had occurred on January 1, 2021, are presented below:

	Consolidated Results	AltMed Pre- acquisition	Pro-forma Results
Revenues, net of discounts	737,850	22,402	760,252
Net income (Loss)	(12,258)	10,932	(1,326)

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8. TRANSACTIONS (Continued)

(b) Business Combinations

The Company has determined that the below acquisitions are business combinations under ASC 805, *Business Combinations*. Those acquisitions that are determined to be the acquisition of a business are accounted for by applying the acquisition method, whereby the assets acquired, and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results have been included in these unaudited interim condensed consolidated financial statements from the date of the acquisition. Any goodwill recognized is attributed based on reporting units.

The purchase price allocation for the acquisitions reflects various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair value of certain tangible assets, the value of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determined to be material will be applied prospectively in the Company's consolidated financial statements, and depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. The measurement period ends one year subsequent to the acquisition date.

2022 Business Combinations*420 Capital Management, LLC*

On April 5, 2021, Verano entered into an agreement to purchase 100% of the equity interests of 420 Capital Management, LLC ("Greengate"). Greengate is the license holder and operator of the Lombard and Roger's Park dispensaries located in Illinois. The transaction received state regulatory approval in February 2022 and subsequently closed on March 11, 2022. Total consideration includes cash of \$7,448, forgiveness of other receivables of \$2,894, and stock consideration of 1,403,067 Subordinate Voting Shares valued at \$13,221, all of which was paid at close. As of March 31, 2022, total consideration had been paid in full.

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the three months ended March 31, 2022:

	<u>Greengate</u>
Cash and cash equivalents	\$ 2,315
Inventory	1,021
Prepaid & other current Assets	324
Deposits and Other non-current assets	45
Property, plant and equipment, net	1,673
Right-of-use asset, Net	1,836
Accounts payable and accrued liabilities	(1,569)
Other liabilities	(72)
Lease liabilities	<u>(1,836)</u>
Total identifiable net assets (liabilities)	3,737
Total Intangible assets	<u>19,826</u>
Net Assets	<u>\$ 23,563</u>

VERANO HOLDINGS CORP.

Unaudited Interim Notes to the Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2022 and 2021

(\$ in Thousands except shares and per share amounts)

8. TRANSACTIONS (Continued)

(b) Business Combinations (Continued)

2021 Business Combinations

Glass City Alternatives, LLC

On September 20, 2020, the Company entered into an agreement to acquire, upon the satisfaction of certain conditions precedent, all of the ownership interest of Glass City Alternatives, LLC which operates a dispensary located in Ohio. The transaction closed on January 7, 2021. The total cash consideration was \$2,700 plus a \$329 purchase price adjustment. The Company issued \$500 in Subordinate Voting Shares upon execution of the RTO. As of March 31, 2022, the total consideration had been paid in full.

Perpetual Healthcare Inc.

On February 25, 2021, Verano entered into an agreement to purchase control of Perpetual Healthcare Inc. ("Emerald"). Emerald is a marijuana dispensary and is a non-profit entity in Arizona. The Company, through a management service agreement ("MSA") and control of the board of directors, obtained control of Emerald's dispensary operations and license. The transaction became effective on March 10, 2021, and the Company consolidated Emerald through the Voting Interest Model ("VOE") in accordance with ASC 810, *Consolidations*. Total consideration included cash consideration of \$11,250 plus a \$326 purchase price adjustment and, 541,994 Subordinate Voting Shares valued at approximately \$10,002. The remaining obligation was settled through the issuance of 350,644 Subordinate Voting Shares valued at approximately \$6,992 in May 2021. As of March 31, 2022, the total consideration had been paid in full.

The Herbal Care Center Inc.

On February 24, 2021, Verano entered into an equity purchase agreement to acquire all equity interests in EINJO, L.P. and SPSLE, Corp. the owners of The Herbal Care Center, Inc. ("The Herbal Care Center"), which holds licenses for two dispensaries in Illinois. The Company, through an MSA, obtained control of The Herbal Care Center's operations and marijuana license. The transaction became effective on March 17, 2021, and the Company consolidated The Herbal Care Center through the Variable Interest Model ("VIE") in accordance with ASC 810, *Consolidations*. Total consideration included cash consideration of \$18,750, plus a \$2,107 purchase price adjustment, of which \$10,000 was paid upon entering into the MSA.

The total consideration also included 90,464 Subordinate Voting Shares and 9,625 Proportionate Voting Shares valued at approximately \$22,778 paid at closing. As of March 31, 2022, the present value of unpaid deferred consideration of \$10,852 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Patient Alternative Relief Center, Inc.

On March 22, 2021, the Company entered into an agreement with Flower Launch LLC, to acquire the rights to manage Patient Alternative Relief Center, Inc. ("Local Joint"). Local Joint is a retail dispensary that operates as a non-profit entity in Arizona. The Company, through a MSA and control of the board of directors, obtained control of Local Joint's operations and its license. The transaction became effective on March 30, 2021, and the Company consolidated Local Joint through the VOE in accordance with ASC 810, *Consolidations*. Total consideration included cash consideration of \$13,500, with \$10,000 paid on the closing date and \$3,500 paid in July 2021, plus 179,767 Subordinate Voting Shares valued at approximately \$3,031. As of March 31, 2022, the total consideration had been paid in full.

VERANO HOLDINGS CORP.

Unaudited Interim Notes to the Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2022 and 2021

(\$ in Thousands except shares and per share amounts)

8. TRANSACTIONS (Continued)

(b) Business Combinations (Continued)

BISHCO LLC

On February 23, 2021, the Company entered into a merger agreement to acquire BISHCO LLC, which holds the rights to manage three non-profit entities in Arizona through MSAs. The non-profit entities, AZGM3, Inc., Vending Logistics, LLC, and The Medicine Room, LLC, each hold an Arizona marijuana license. The agreement triggered the resignation of all non-profit board members and concurrently appointed the Company executives to the board of directors that govern each non-profit entity. Through the acquisition of BISHCO LLC and its MSAs, as well as the Company's appointment to the board of directors, the Company obtained control of the non-profit entities' operations and their respective licenses.

The transaction became effective on April 8, 2021, and the Company consolidated the non-profit entities through the VOE in accordance with ASC 810, *Consolidations*. Total consideration included \$18,699 of cash paid upon closing, plus a \$1,036 purchase price adjustment, 997,453 Subordinate Voting Shares and 29,924 Proportionate Voting Shares valued at approximately \$78,916. The remaining consideration is related to contingent consideration with \$12,750 payable in cash on April 1, 2022, and the remaining \$12,750 payable in shares or cash at the election of the recipient on March 31, 2023. As of March 31, 2022, the present value of unpaid deferred consideration of \$23,129 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

TerraVida Holistic Center, LLC

On February 24, 2021, the Company entered into an agreement to acquire TerraVida Holistic Centers, LLC, which holds the rights to three active dispensaries in Pennsylvania. The transaction closed on May 11, 2021. Total consideration included cash consideration of \$64,316, plus a \$1,993 purchase price adjustment, of which \$18,809 was paid at closing and the remaining \$47,500 was paid over the first six months after closing. The transaction also included consideration of 1,506,750 Subordinate Voting Shares and 15,067 Proportionate Voting Shares valued at approximately \$59,732. As of March 31, 2022, the total consideration had been paid in full.

The Healing Center, LLC

On March 29, 2021, the Company entered into an agreement to acquire three active dispensaries in Pennsylvania by purchasing all the issued and outstanding equity interests of The Healing Center, LLC ("The Healing Center"). The transaction closed on May 14, 2021. At the time the transaction closed, The Healing Center leased the real estate where the dispensaries are located from three separate real estate entities (collectively referred to as "THC Real Estate").

On September 3, 2021, the Company acquired the equity interests of THC Real Estate in cash transactions. The acquisitions were accounted for as a single business combination in accordance with ASC 805, *Business Combinations*.

Total consideration for The Healing Center included cash consideration of \$56,892, plus a \$2,355 purchase price adjustment, of which \$31,463 was paid upon closing and an additional \$27,784 was paid 60 days after the closing. In addition, the total consideration included 454,302 Subordinate Voting Shares and 25,744 Proportionate Voting Shares valued at approximately \$61,108, and \$18,925 of contingent consideration evenly allocated between shares and cash. As of March 31, 2022, The Healing Center's present value of unpaid deferred consideration of \$7,206 payable in cash and shares is included in the acquisition price payable balance on the Company's consolidated balance sheets.

The Company funded the acquisition of the THC Real Estate through a credit facility with Chicago Atlantic Credit Company (together with its affiliated entities, "Chicago Atlantic") for \$12,650. Total consideration was paid directly to the sellers in the amount of \$12,225. The Company received \$20 in cash proceeds and

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8. TRANSACTIONS (Continued)

(b) Business Combinations (Continued)

incurred \$405 in issuance costs and debt discounts on the Chicago Atlantic credit facility, which was paid net of proceeds upon closing. The Company amortizes debt issuance costs through interest expense over the life of the credit agreement. Refer to Note 10 for more information. As of December 31, 2021, the total consideration for THC Real Estate had been paid in full.

Mad River Remedies, LLC

On April 1, 2021, the Company entered into an agreement to acquire Mad River Remedies, LLC, which operates a dispensary in Ohio. The transaction closed on July 8, 2021. The consideration included cash consideration of \$12,984, subject to a purchase price adjustment of \$29, and 488,861 Subordinate Voting Shares value at approximately \$7,814, delivered at closing. As of March 31, 2022, the total consideration had been paid in full.

Agri-Kind, LLC & Agronomed Holdings Inc

On April 21, 2021, the Company entered into an agreement to acquire all of the issued and outstanding equity interests in Agri-Kind, LLC ("Agri-Kind"), an operator of a cultivation and production facility of medical marijuana located in Pennsylvania, and Agronomed Holdings Inc., the owner of the cultivation and processing facility operated by Agri-Kind. The transaction closed on July 12, 2021. The total consideration included cash consideration of \$78,848, plus a \$678 purchase price adjustment, of which \$43,713 was paid at closing and the remaining \$35,813 was paid within three months of closing. In addition, the total consideration included the issuance of 3,208,035 Subordinate Voting Shares valued at approximately \$50,994, and contingent consideration of \$33,971, which may fluctuate based upon financial performance metrics of Agri-Kind for 2021 and is payable in Subordinate Voting Shares, unless cash payment is elected by the recipient. As of March 31, 2022, the present value of unpaid deferred consideration of \$2,323 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Agronomed Biologics, LLC

On April 21, 2021, the Company entered into an agreement to acquire all the issued and outstanding equity interests in Agronomed Biologics, LLC ("Agronomed"), which holds a clinical registrant license that allows for cultivation, production, and operation of six dispensaries in Pennsylvania. As a clinical registrant, Agronomed has partnered with the Drexel University College of Medicine to conduct medical marijuana research. The transaction closed on July 12, 2021. Total consideration included cash consideration of \$10,473 paid upon closing and an additional \$42,493 of contingent consideration to be paid in cash or shares at the election of the seller. In addition, the consideration included 3,240,436 Subordinate Voting Shares valued at approximately \$51,509 issued upon closing. As of March 31, 2022, the present value of unpaid deferred consideration of \$27,346 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Willow Brook Wellness, LLC

On September 13, 2021, the Company entered into a definitive agreement to acquire all the issued and outstanding equity interests in Willow Brook Wellness, LLC, which operates a dispensary in Connecticut. The transaction closed on October 25, 2021. Total consideration included cash of \$14,913, subject to a purchase price adjustment of \$14, and 727,934 Subordinate Voting Shares valued at approximately \$8,163. As of March 31, 2022, the present value of unpaid deferred consideration of \$7,175 is included in the acquisition price payable balance on the Company's consolidated balance sheets and will be settled through a cash payment due October 25, 2022.

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8. TRANSACTIONS (Continued)**(b) Business Combinations (Continued)***Caring Nature, LLC*

On November 10, 2021, the Company entered into an agreement to acquire all the issued and outstanding equity interests in Caring Nature LLC, which operates a dispensary in Connecticut. The transaction closed on December 20, 2021. The total consideration included cash of \$12,331, subject to a purchase price adjustment and, \$12,000 payable in Subordinate Voting Shares payable over twelve months. Additionally, the purchase agreement included \$2,000 of contingent consideration to be paid in Subordinate Voting Shares. As of March 31, 2022, the present value of unpaid deferred consideration of \$13,976 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Connecticut Pharmaceutical Solutions, Inc.

On November 10, 2021, the Company entered into an agreement to acquire all the issued and outstanding equity interests in Connecticut Pharmaceutical Solutions, Inc., which holds a medical marijuana producer license in Connecticut. The transaction closed on December 28, 2021. Total consideration includes cash of \$6,402 and 8,145,142 Subordinate Voting Shares valued at approximately \$98,538 issued at closing.

Additionally, there are 73,130 deferred Subordinate Voting Shares subject to purchase price adjustments and 1,128,441 deferred Subordinate Voting Shares to be issued in December 2022, collectively valued at approximately \$14,483. The merger agreement also includes consideration of \$19,622 to be paid in 1,625,546 deferred Subordinate Voting Shares payable upon the first sale of adult-use cannabis in the state of Connecticut. Both payments meet equity classification in accordance with ASC 815.

The remaining consideration is related to contingent consideration of \$24,706, which may fluctuate based on 2021 financial performance metrics. The contingent consideration will be paid in Subordinate Voting Shares and is expected to be settled in the second quarter of 2022. As of March 31, 2022, the present value of unpaid deferred consideration, in the form of contingent consideration, is \$24,706 and is included in the acquisition price payable balance on the Company's consolidated balance sheets.

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the three months ended March 31, 2022:

	Glass City Alternatives	Perpetual Healthcare	The Herbal Care Center	Local Joint	Total
Cash and cash equivalents	\$ 178	\$ 478	\$ 2,168	\$ 540	\$ 3,364
Accounts receivable, net	-	-	2,000	-	2,000
Notes receivable	-	-	-	398	398
Inventory	58	422	1,435	219	2,134
Prepaid and other current assets	50	43	109	-	202
Property, plant and equipment, net	502	135	1,642	451	2,730
Right-of-use asset, net	63	215	936	2,480	3,694
Accounts payable and accrued liabilities	(17)	(200)	(3,307)	(216)	(3,740)
Deferred income tax	-	(6,548)	(11,914)	-	(18,462)
Lease liabilities	(63)	(215)	(936)	(2,480)	(3,694)
Total identifiable net assets (liabilities)	771	(5,670)	(7,867)	1,392	(11,374)
Intangible assets	2,721	33,387	51,304	16,095	103,507
Net Assets	\$ 3,492	\$ 27,717	\$ 43,437	\$17,487	\$ 92,133

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8. TRANSACTIONS (Continued)

(c) Asset Acquisitions

2021 Asset Acquisitions

NSE Holdings, LLC

On February 24, 2021, a subsidiary of the Company entered into an agreement pursuant to which it acquired all the equity interests of NSE Holdings, LLC (“NSE”), which holds one dispensary permit in Pennsylvania that gives NSE the ability to open three dispensaries. The transaction closed on March 9, 2021. The Company paid cash consideration of \$7,350 upon closing and issued 666,587 Subordinate Voting Shares and 6,665 Proportionate Voting Shares valued at approximately \$25,160. Consideration also includes contingent consideration of \$22,514, which may fluctuate based upon financial performance metrics of NSE Holdings. The Company analyzed the transaction and accounted for the transaction as an asset acquisition in accordance with ASC 805, *Business Combinations*. The Company capitalized licenses in the amount of \$55,016. As of March 31, 2022, the present value of unpaid deferred consideration is \$14,313 and is included in the acquisition price payable balance on the Company’s consolidated balance sheets. The unpaid consideration relates to earnouts that are expected to be settled in share issuances of Subordinate Voting Shares.

Ohio Grown Therapies, LLC

On June 30, 2021, the Company exercised and closed on its option to acquire an Ohio dispensary license from Ohio Grown Therapies, LLC, which was granted pursuant to an option purchase agreement entered into on January 14, 2019. The exercise and closing had no impact on operations as the Company already exerted control over the dispensary through a consulting agreement entered into in 2019. The Company capitalized the license in the amount of \$760 to the intangible license value included on the Company’s consolidated balance sheets. As of March 31, 2022, the total consideration had been paid in full.

Real Estate

During the three months ended March 31, 2022, Verano entered into a real estate acquisition in Pennsylvania. The purchase price was allocated to building and land in the amounts of 3,411 and 853, respectively. The acquisition was accounted for as an asset acquisition in accordance with ASC 805, *Business Combinations*. Total consideration was paid in full at closing.

During the fourth quarter of the year ended December 31, 2021, Verano entered into real estate acquisitions in Maryland, Pennsylvania, Nevada and New Jersey for a total of \$22,795. Verano funded two of the acquisition through two promissory notes for \$10,225 (refer to Note 10 for further details). The acquisitions were accounted for as asset acquisitions in accordance with ASC 805, *Business Combinations*. As of December 31, 2021, the total consideration for these acquisitions had been paid in full.

(d) Dispositions

Canna Cuzzos, LLC

In 2015, the Company entered into an investment with multiple parties to purchase Canna Cuzzos, LLC (“Canna Cuzzos”). Canna Cuzzos owns a marijuana license and operates a retail dispensary located in Waldorf, Maryland. The Company, through an MSA, obtained control of Canna Cuzzos’s operations and marijuana license and consolidated the entity through the Variable Interest Model (“VIE”) in accordance with ASC 810, *Consolidations*. On January 31, 2022, the Company sold its interest in Canna Cuzzos to Story of Maryland, LLC for approximately \$2,101 cash consideration after certain adjustments. The sale resulted in a gain of \$1,701 for the three months ended March 31, 2022 and is classified as a component of Other Income (Expense) in the Consolidated Statement of Operations.

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8. TRANSACTIONS (Continued)**(d) Dispositions (Continued)***ILDISP, LLC*

On March 30, 2016, Verano entered into a joint venture agreement with GTI-Clinic Illinois Holdings, LLC (“GTI”) to acquire 50% of ILDISP, LLC (“ILDISP”). NH Medicinal Dispensaries, LLC, a wholly owned subsidiary of ILDISP, is the holder of two marijuana licenses which allows it to operate two retail dispensaries in Illinois: The Clinic Effingham dispensary (“TCE”) and the Charleston dispensary. The Company had an agreement in place with its joint venture partner to allocate the operational management of the Charleston dispensary to Verano and the TCE dispensary to the joint venture partner. As such, the Company had a controlling interest in Charleston and consolidated the entity through the Variable Interest Model (“VIE”) in accordance with ASC 810, *Consolidations*. TCE was treated as an equity method investment in accordance with ASC 323, *Investments*.

On March 1, 2022, the Company sold its 50% ownership interest in ILDISP to the joint venture partner for \$22,393 subject to certain adjustments. The sale resulted in gains of \$7,857 attributable to Charleston and \$17,275 attributable to TCE for the three months ended March 31, 2022 which are classified as components of Other Income (Expense) in the Consolidated Statement of Operations.

9. DEBT

As of March 31, 2022, and December 31, 2021 notes payable consisted of the following:

	As of	
	March 31, 2022	December 31, 2021
Credit Facility	\$ 350,000	\$ 250,000
Secured Promissory Notes	1,687	6,663
Mortgage Loans	39,084	38,856
Vehicle and Equipment Loans	2,489	1,951
Unamortized debt issuance costs	(9,016)	(7,545)
Total notes payable	\$ 384,244	\$ 289,925
Less: current portion of notes payable	10,386	13,771
Total long-term debt, net	\$ 373,858	\$ 276,154

Credit Facility

On March 1, 2022, the Company entered into a Fourth Amendment to the Amended and Restated Credit Agreement for a senior secured term loan with Chicago Atlantic Advisers, LLC (“Green Ivy”). The fourth amendment includes and amends the Company’s existing \$250,000 credit facility with Green Ivy by providing an additional \$100,000 of credit with a maturity date of August 28, 2023 and an annual interest rate of 8.50% to increase the Company’s credit with Green Ivy to \$350,000 in the aggregate. As of March 31, 2022, the existing credit facilities with Chicago Atlantic contain financial covenants requiring the Company to maintain on a consolidated basis specified levels of liquidity, a minimum quarterly amount of earnings before interest, taxes, depreciation and amortization (“EBITDA”) and a minimum fixed charge coverage ratio as defined as; (i) maintain a minimum average liquidity to average less than \$20,000 during

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9. DEBT (Continued)

the quarter and at least \$25,000 as of the last day of the quarter; (2) minimum consolidated EBITDA for any fiscal quarter of \$20,000; and; (3) fixed charge coverage ratio of 1.5 to 1.0 measured at the end of each fiscal quarter.

Other

As of December 31, 2021 the Company issued promissory notes to accredited investors in the original principal amount of \$3,670 with simple annual interest of 10% per annum. The notes matured in March 2022 and are an accumulation of seven notes to finance construction of cultivation facilities in Florida and Arizona. There is one related party that accounts for \$150 of the outstanding principal amount as of December 31, 2021. As of March 31, 2022, these promissory note were repaid in full.

10. SHARE CAPITAL

Subordinate Voting Shares and Proportionate Voting Shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with ASC 740, *Income Taxes*.

(a) Issued and Outstanding

As of March 31, 2022, the Company had 305,034,095 Subordinate Voting Shares and 228,343 Proportionate Voting Shares for a total of 327,868,399 Subordinate Voting Shares on an as converted basis, issued and outstanding. The Company has the following classes of share capital, with each class having no par value:

(i) Subordinate Voting Shares

The holders of the Subordinate Voting Shares are entitled to receive dividends issued by the Company and one vote per share at shareholder meetings of the Company. All Subordinate Voting Shares are ranked equally regarding the Company's residual assets. The Company is authorized to issue an unlimited number of Subordinate Voting Shares.

(ii) Proportionate Voting Shares

Each Proportionate Voting Share is entitled to one hundred votes per share at shareholder meetings of the Company and is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Proportionate Voting Shares.

During the three months ended March 31, 2022, the shareholders of the Company converted both Proportionate Voting Shares and Subordinate Voting Shares for a net impact of conversion of 82,692 Proportionate Voting Shares into 8,269,192 Subordinate Voting Shares.

(b) Stock-Based Compensation

The Company operates equity settled stock-based remuneration plans for its eligible directors, officers, and employees. All goods and services received in exchange for the grant of any stock-based payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company measures their value indirectly by reference to the fair value of the equity instruments granted. The Company measures the fair value of the services by reference to the fair value of the equity instruments granted. Equity settled stock-based payments under stock-based payment plans are ultimately recognized as an expense in profit or loss with a corresponding credit to equity.

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10. SHARE CAPITAL (Continued)

In February 2021, the Company established the 2021 Equity Incentive Plan of Verano Holdings Corp. (the “Plan”). The maximum number of RSUs and options that may be issued under the Plan shall not exceed 10% of the Company's then issued and outstanding shares on an as-converted to Subordinate Voting Shares basis.

The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award. Estimates are subsequently revised if there is any indication that the number of shares expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period with no adjustment to prior periods for expense previously recognized.

Option and RSU grants generally vest over three years, and options typically have a life of ten years.

Options

Stock option activity is summarized as follows:

	Number of Shares	Weighted Avg. Exercise Price C\$	Weighted Average Remaining Contractual Life
Balance as of December 31, 2021	56,078	29.97	9.16
Vested	18,798	29.97	
Exercisable at March 31, 2022	24,167	29.97	8.92

As of March 31, 2022 and December 31, 2021, there were no in-the-money options.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted. No options were granted, expired, or forfeited during the three months ended March 31, 2022.

Restricted Stock Units (“RSUs”)

The following table summarizes the number of unvested RSU awards as of March 31, 2022 and December 31, 2021 and the changes during the three months ended March 31, 2022:

	Number of Shares	Weighted Avg. Grant Date Fair Value C\$
Unvested Shares at December 31, 2021	2,393,835	30.82
Granted	253,177	16.30
Forfeited	975	23.30
Vested	1,169,806	31.15
Unvested Shares at March 31, 2022	1,476,231	28.07

The following table summarizes the weighted average grant date fair value of RSUs granted and total fair value of RSUs vested for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Weighted average grant date fair value (per share) of RSUs granted (C\$)	16.30	31.39
Intrinsic value of RSUs vested, using market price at vest date (C\$) (in thousands)	15.41	-

VERANO HOLDINGS CORP.**Unaudited Interim Notes to the Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2022 and 2021***(\$ in Thousands except shares and per share amounts)***10. SHARE CAPITAL (Continued)**

The stock-based compensation expense for the three months ended March 31, 2022 and 2021 was as follows:

<i>in thousands</i>	Three Months Ended March 31,	
	2022	2021
Stock Options Expense	\$ 155	\$ 33
Restricted Stock Units	134	28
Total Stock Based Compensation Expense	\$ 289	\$ 61

11. INCOME TAXES

The following table summarizes the Company's income tax expense and effective tax rates for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Income before Income Taxes	\$ 36,123	\$ 15,486
Income Tax Expense	42,833	16,414
Effective Tax Rate	117.2%	109.3%

The effective tax rates for the three months ended March 31, 2022 and 2021 were based on the Company's forecasted annualized effective tax rates and were adjusted for discrete items that occurred within the periods presented.

Due to its cannabis operations, the Company is subject to the limitations of the U.S. Internal Revenue Code of 1986, as amended ("IRC") Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income and provides for effective tax rates that are well in excess of statutory tax rates.

No taxes were paid during the three months ended March 31, 2022 and 2021.

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12. LEASES

The Company has operating leases for its retail dispensaries and processing and cultivation facilities located throughout the U.S, as well as for corporate office space located in Illinois. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date.

Leases with an initial term of twelve months or less are not recorded on the balance sheet. Certain leases require payments for taxes, insurance, and maintenance, are considered non-lease components. The Company accounts for non-lease components separately.

The Company determines if an arrangement is a lease at inception. The Company must consider whether the contract conveys the right to control the use of an identified asset.

The Company leases certain business facilities from third parties under non-cancellable operating lease agreements that contain minimum rental provision that expire through 2037. Certain leases also contain renewal provision and provide for rent abatement and escalating payments.

During the three months ended March 31, 2022 and 2021, the Company recorded approximately \$3,314 and \$1,029 in operating lease expense, of which \$147 and \$216 was included in cost of goods sold for the three months ended March 31, 2022 and 2021, respectively.

Other information related to operating leases as of March 31, 2022 and December 31, 2021 were as follows:

	March 31, 2022	December 31, 2021
Weighted average remaining lease term (years)	8.18	8.52
Weighted average discount rate	8.03%	8.11%

Maturities of lease liabilities for operating leases as of March 31, 2022 were as follows:

Year Ending December 31,	
Remainder 2022	9,295
2023	11,873
2024	11,274
2025	10,318
2026	9,416
2027 and Thereafter	41,733
Total Lease Payments	93,909
Less: Interest	(25,024)
Present Value of Lease Liability	68,885

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13. CONTINGENCIES

(a) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2022 there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations, except as disclosed in these consolidated financial statements. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

(b) Illegality of Cannabis at the U.S. Federal Level

Verano operates within states where cannabis use, medical or adult-use or both, has been approved by state and local regulatory bodies. Notwithstanding the permissive regulatory environment of medical, and in some cases also recreational marijuana at the state level, under U.S. federal law cannabis (other than hemp) is a Schedule I controlled substance under the Controlled Substances Act (21 U.S.C. § 811) (the "Controlled Substances Act") which means it is viewed by the U.S. federal government as a drug that has a high potential for abuse and no therapeutic value. Therefore, even in states or territories that have legalized cannabis to some extent, the cultivation, processing, distribution, possession and sale of cannabis violates the Controlled Substances Act. Moreover, individuals and entities may violate U.S. federal law if they aid and abet another in violating the Controlled Substances Act or conspire with another to violate the law. Violating the Controlled Substances Act is also a predicate for other crimes, including money laundering laws and the Racketeer Influenced and Corrupt Organizations Act. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities, civil forfeiture or divestiture.

Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company or any of its subsidiaries. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its cannabis licenses in the U.S., the listing and trading of its securities on stock exchanges and platforms, its financial position, operating results, profitability, liquidity and the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time and resources could be substantial.

There can be no assurance that the comprehensive U.S. federal legislation that would de-schedule and decriminalize cannabis will be passed in the near future or at all. If such legislation is passed, there is no guarantee that it will include provisions that preserve the current state-based cannabis programs under which the Company's subsidiaries operate or that such legislation will otherwise be favorable to the Company and its business.

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The Company conducts and manages its business through two reportable segments, representing the major lines of its cannabis business: Cultivation (Wholesale) and Retail. The Cultivation (Wholesale) segment consists of the cultivation, production and sale of cannabis products to retail stores. The Retail segment consists of the retailing of cannabis to patients and consumers. Summarized financial information for these segments is as follows:

	Three Months Ended March 31,	
	2022	2021
<i>Revenue, net of discounts</i>		
Cultivation (Wholesale)	\$ 53,008	\$ 49,161
Retail	164,334	79,195
Intersegment Eliminations	(15,106)	(7,461)
Total Revenue, net of discounts	<u>202,235</u>	<u>120,895</u>
<i>Depreciation and Amortization</i>		
Cultivation (Wholesale)	14,006	8,367
Retail	14,709	3,463
Total Depreciation and Amortization	<u>28,716</u>	<u>11,830</u>
<i>Income taxes</i>		
Cultivation (Wholesale)	22,696	3,696
Retail	20,136	12,718
Total Income Taxes	<u>42,833</u>	<u>16,414</u>

Goodwill assigned to the Cultivation (Wholesale) segment as of March 31, 2022 and December 31, 2021 was \$92,166 and \$91,116, respectively. Goodwill assigned to the Retail segment as of March 31, 2022 and December 31, 2021 was \$283,559 and \$277,014, respectively.

The Company's assets are aggregated into two reportable segments (Retail and Cultivation). For the purposes of testing goodwill, the Company has identified 12 reporting units. The Company determined its reporting units by first reviewing the operating segments based on the geographic areas in which the Company conducts business (or each market). The markets were then further divided into reporting units based on the market operations (retail and cultivation) which were primarily determined based on the licenses each market holds. All revenues are derived from customers domiciled in the United States and all assets are located in the United States.

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15. LOYALTY OBLIGATIONS

The Company has customer loyalty programs where retail customers accumulate points for each dollar of spending, net of tax. These points are recorded as a contract liability until customers redeem their points for discounts on cannabis and vape products as part of an in-store sales transaction. In addition, the Company records a performance obligation as a reduction of revenue based on the estimated probability of point obligation incurred, which is calculated based on a standalone selling price that ranges between \$0.05 and \$0.08 per loyalty point.

Upon redemption, the loyalty program obligation is relieved, and the offset is recorded as revenue. The Company estimates that 25% of points will not be redeemed (breakage) and expects the remaining outstanding loyalty points will be redeemed within one year.

As of December 31, 2021, there were 111,475,459⁽¹⁾ points outstanding, with an approximate value of \$2,620 which is included in accrued liabilities. The Company restricted the loyal program in 2022. In states where the known points expired, the actual redemption value was applied.

As of March 31, 2022, there were 43,288,321⁽¹⁾ points outstanding with an approximate value of \$2,110 which is included in accrued liabilities.

⁽¹⁾ Such amounts not in thousands.

16. VARIABLE INTEREST ENTITIES

The following table presents the summarized financial information about the Company's consolidated variable interest entities ("VIEs") and, voting interest entities ("VOEs"), which are included in the consolidated balance sheets as of March 31, 2022, and December 31, 2021. These entities were determined to be VIEs and VOEs, respectively as the Company possesses the ability to direct control over the operations through MSAs.

	Consolidated VIE (1)	Consolidated VOE (2)	Consolidated VIE (1)	Consolidated VOE (2)	Non- Controlling Interest (3)
	March 31, 2022		December 31, 2021		
Current Assets	\$ 47,572	\$ 18,244	\$ 40,015	\$ 20,464	\$ 3,030
Due To/(From)	(33,082)	(6,084)	(25,275)	14,228	(448)
Non-Current Assets	205,503	245,293	204,421	226,108	5,162
Current Liabilities	34,576	12,358	31,599	22,659	1,335
Non-Current Liabilities	42,552	45,438	45,120	45,603	753
Non-controlling Interest	-	-	-	-	2,951
Equity attributable to Verano Holdings, Corp.	142,865	199,657	142,442	192,538	2,705

(1) The Company possesses the ability to direct activities through management services agreements ("MSAs") to consolidate the VIEs.

(2) The Company consolidates VOEs through ASC 810 - *Consolidation*. Pursuant to the Arizona Medical Marijuana Act passed in 2012, cannabis companies in Arizona were initially required to operate under a non-profit structure. The Company has the ability to direct activities through MSAs and has control of the non-profits governing body.

(3) Other Non-Controlling Interest are consolidated VIEs in accordance with ASC 810 through MSAs.

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16. VARIABLE INTEREST ENTITIES *(Continued)*

Non-controlling Interest

During the first quarter of 2022, Verano sold its share of non-controlling interest in Canna Cuzzos, LLC and ILDISP, LLC in two separate transactions. *Refer to FN 8 – Transactions, section (e)* for more information.

On July 1, 2021, VHGRX Holdings, LLC, a Delaware limited liability company (“VHGRX”) and an indirect subsidiary of the Company, acquired 100% of the membership interests of Green RX, LLC, (“GreenRx”), which holds a dispensary license in Ohio. The aggregate purchase price for such acquisition totaled approximately \$12,770 that was comprised of a prepaid deposit of \$1,644,310 Proportionate Voting Shares valued at approximately \$506, and \$10,620 of cash payable in three installments. As of March 31, 2022 the present value of unpaid deferred consideration of \$1,409 is included in the acquisition consideration payable balance on the Company’s consolidated balance sheets and is payable in January and July 2022.

On March 8, 2021, the Company acquired individually insignificant non-controlling interests in Maryland Natural Treatment Solutions, LLC for an approximate aggregate purchase price of \$10.