



VERANO HOLDINGS CORP.

**AMENDED AND RESTATED
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED
June 30, 2021**

(Expressed in United States Dollars)

NOTICE TO READER

These unaudited condensed interim consolidated financial statements of Verano Holdings Corp. (the “Company”) have been amended and restated in full and replace the Company’s prior unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2021, which were filed on SEDAR on August 10, 2021.

On April 26, 2022, the financial statements were amended and restated to correct misstatements related to acquisition accounting, in accordance with IFRS 3, *Business Combinations*, which were identified during the audit of the Company’s full year 2021 consolidated financial statements. These amended and restated financial statements now report total assets of \$2.2 billion, a \$56 million increase to previously reported total assets, and net income of \$157 million, \$81 million increase to the previously reported net income of for the six-month period.

On August 19, 2022 these financial statements have been amended and restated to correct the following:

- i. The Company’s stock-based compensation expense in connection with the Company’s restricted stock units was understated, primarily as a result of calculating such expense as if each restricted stock unit vested into one Subordinate Voting Share instead of 100 Subordinate Voting Shares and (ii) to a lesser extent, as a result of, among other things, using the Black-Scholes option pricing model to value such restricted stock units instead of the date of grant trading price of the Subordinate Voting Shares underlying such restricted stock units, as listed on the Canadian Securities Exchange. As a result of such understated stock-based compensation expense, the Company’s tax expense was overstated, and accordingly, the Company’s tax obligation will be reduced.
 - a. As a result of the error related to stock-based compensation, the Company increased Cost of Goods Sold by \$5 million, and Salaries and Benefits expense by \$30.2 million, for the period ended June 30, 2021.
 - b. As a result of such understated stock-based compensation expense, the Company’s tax expense was overstated by \$969,000 with a corresponding adjustment to Deferred Income Payable as of and for the period ended June 30, 2021.
- ii. The Company’s accounting for distributions from a consolidated entity was corrected in the Restated Financials to reduce Investment in Associates and Non-controlling Interest Equity by \$100,000 for the period ended June 30, 2021.

These amended and restated financial statements have no material impact on total assets or liabilities, and a decrease to net income of \$34.2 million compared to the previously reported net income for the six-month period, resulting in net income of \$122.6 million.

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 amended and restated unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the CPA Canada for a review of interim financial statements by an entity’s auditor.

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VERANO HOLDINGS CORP.*AMENDED AND RESTATED***Condensed Interim Consolidated Statements of Financial Position (Unaudited)****As of June 30, 2021 and December 31, 2020***(\$ in Thousands except share and per share amounts)*

	Financial Footnote	June 30, 2021	December 31, 2020 <i>(Audited)</i>
ASSETS			
Current Assets:			
Cash		\$ 149,666	\$ 16,402
Accounts Receivable, Net		13,723	7,270
Notes Receivable	6	273	3,011
Interest Receivable		966	935
Due from Related Parties	18	62	108
Inventories	4	265,909	59,290
Biological Assets	5	143,997	109,377
Prepaid Expenses and Other Current Assets		17,262	6,169
Total Current Assets		<u>\$ 591,858</u>	<u>\$ 202,562</u>
Property, Plant and Equipment, Net	7	294,842	143,138
Right Of Use Assets, Net	17(a)	41,275	11,337
Intangible Assets	9	1,027,718	73,897
Goodwill	9	278,840	16,029
Investment in Associates		12,112	11,547
Deposits and Other Assets		2,030	797
TOTAL ASSETS		<u><u>\$ 2,248,675</u></u>	<u><u>\$ 459,307</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current Liabilities:			
Accounts Payable		\$ 30,273	\$ 18,293
Accrued Liabilities		25,143	13,836
Income Tax Payable	16	57,830	46,872
Current Portion of Lease Liabilities	17(a)	5,678	1,911
Current Portion of Notes Payable	10	2,969	7,814
License Payable	8(c)	-	50
Acquisition Price Payable	8(a,b)	180,715	33,290
Due to Related Parties	18	45	45
Total Current Liabilities		302,653	122,111
Long-Term Liabilities:			
Deferred Revenue		816	2,035
Notes Payable, Net of Current Portion	10	131,042	32,480
Lease Liabilities, Net of Current Portion	17(a)	38,244	10,865
Deferred Income Taxes	16	277,822	49,084
Total Long-Term Liabilities		447,924	94,464
TOTAL LIABILITIES		<u><u>\$ 750,577</u></u>	<u><u>\$ 216,575</u></u>
SHAREHOLDERS' EQUITY		1,496,414	242,387
NON-CONTROLLING INTEREST		1,684	345
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>\$ 2,248,675</u></u>	<u><u>\$ 459,307</u></u>

See accompanying notes to unaudited condensed interim consolidated financial statements.

VERANO HOLDINGS CORP.
AMENDED AND RESTATED
Condensed Interim Consolidated Statements of Operations (Unaudited)
Three and Six months Ended June 30, 2021 and 2020
(\$ in Thousands except share and per share amounts)

		Three Months Ended June 30,		Six months Ended June 30,	
		2021	2020	2021	2020
Revenues, net of discounts		\$ 199,066	\$ 47,298	\$ 319,961	\$ 90,147
Cost of Goods Sold		97,325	23,514	146,058	31,978
Gross Profit before Biological Asset Adjustment		101,741	23,784	173,903	58,169
Realized fair value amounts included in inventory sold	Note 5	(185,973)	(48,047)	(215,717)	(54,530)
Unrealized fair value gain on growth of biological assets	Note 5	161,052	64,886	341,738	84,276
Gross Profit		76,820	40,623	299,924	87,915
Expenses:					
General and Administrative		26,917	3,778	50,826	8,027
Sales and Marketing		2,509	235	3,517	385
Salaries and Benefits		39,302	3,197	58,956	5,649
Depreciation and Amortization		3,303	2,689	5,203	4,865
Total Expenses		72,031	9,899	118,502	18,926
Income from Investments in Associates		645	854	1,448	1,123
Income From Continuing Operations		5,434	31,578	182,870	70,112
Other Income (Expense):					
Gain/(Loss) on Disposal of Property, Plant and Equipment		(468)	-	(468)	-
Loss on Deconsolidation	Note 20	-	-	-	-
Gain on Previously Held Equity Interest		-	-	-	-
Gain on Derivative Liability	Note 11	-	-	-	-
Amortization of Debt Issuance Costs for Warrant	Note 10	-	(1,524)	-	(3,048)
Amortization of Convertible Debt Discount	Note 10	-	(2,072)	-	(4,144)
Other Expense, Net		379	(73)	(1,686)	(255)
Interest Expense		(5,386)	(236)	(7,146)	(527)
Total Other Expense		(5,475)	(3,905)	(9,300)	(7,974)
Net Income (Loss) Before Provision for Income Taxes and Non-Controlling Interest		(41)	27,673	173,570	62,138
Provision For Income Taxes	Note 16	(4,454)	(15,132)	(49,446)	(29,004)
Net Income (Loss) Before Non-Controlling Interest		(4,495)	12,541	124,124	33,134
Net Income (Loss) From Discontinued Operations	Note 19	-	-	-	-
Net Income (Loss)		(4,495)	12,541	124,124	33,134
Net Income Attributable to Non-Controlling Interest		733	127	1,439	294
Net Income (Loss) Attributable to Verano Holdings Corp.		\$ (5,228)	\$ 12,414	\$ 122,685	\$ 32,840
Net Income per share – basic		\$ (0.02)		\$ 0.46	
Net Income per share – diluted		\$ (0.02)		\$ 0.44	
Basic – weighted average shares outstanding		300,715,671		265,842,657	
Diluted – weighted average shares outstanding		300,715,671		280,422,576	

See accompanying notes to unaudited condensed interim consolidated financial statements.

VERANO HOLDINGS CORP.
AMENDED AND RESTATED
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Six months Ended June 30, 2021 and 2020
(\$ in Thousands except share and per share amounts)

	LLC	Share Capital			Share- Based Reserves	Accumulated Earnings	Non- Controlling Interest	Total Shareholders' Equity
	Membership Units	# of Shares		Amount				
		SVS	PVS					
Balance as of January 1, 2020	261,545,678			111,753	-	-	5,091	116,844
							-	
Net income						32,840	294	33,134
Balance as of June 30, 2020	<u>261,545,678</u>	<u>-</u>	<u>-</u>	<u>\$ 111,753</u>	<u>\$ -</u>	<u>\$ 32,840</u>	<u>\$ 5,385</u>	<u>\$ 149,978</u>
Balance as of January 1, 2021	279,900,000			242,387			345	242,732
Issuance of PubCo	(279,900,000)	115,663,381	1,643,366	653,414				653,414
Reverse takeover ("Financing"), net		10,000,000		95,420				95,420
Issuance of shares in conjunction with acquisitions		4,806,232	88,032	270,097				270,097
Issuance of warrants		3,510,000		75,100				75,100
Contingent consideration & purchase accounting adjustments			1,038	1,822				1,822
Conversion of shares		(13,621,002)	136,210					-
Distribution to minority members							(100)	(100)
Share based compensation					35,489			35,489
Net income						122,685	1,439	124,124
June 30, 2021	<u>-</u>	<u>120,358,611</u>	<u>1,868,646</u>	<u>\$ 1,338,240</u>	<u>\$ 35,489</u>	<u>\$ 122,685</u>	<u>\$ 1,684</u>	<u>\$ 1,498,098</u>

See accompanying notes to unaudited condensed interim consolidated financial statements.

VERANO HOLDINGS CORP.*AMENDED AND RESTATED***Condensed Interim Consolidated Statements of Cash Flows (Unaudited)****Six months Ended June 30, 2021 and 2020***(\$ in Thousands except share and per share amounts)*

	Six months ended June 30,	
	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 124,124	\$ 33,134
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Depreciation and amortization	14,812	5,039
Non-cash interest expense	4,203	402
Non-cash interest income	107	-
Non-cash inventory step-up expense on acquisitions	10,312	-
Loss on disposal of property, plant and equipment	489	-
Gain on previously held equity interest	-	-
Bad debt expense	76	117
Amortization of loan issuance costs – warrants	-	3,048
Amortization of debt issuance costs and debt discount	517	-
Amortization of convertible debt discount	-	4,144
Write-off of note receivable	14	-
Gain on derivative liability	-	-
Loss on deconsolidation of subsidiary	-	-
Net loss on discontinued operations	-	-
(Income) loss from underlying investees	(1,565)	349
Purchase of interest in Majesta Minerals	1,000	-
Stock based compensation	35,489	-
Contingent consideration compensation	3,057	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,497)	(4,752)
Inventories	(111,357)	(5,422)
Biological assets	(34,621)	(28,187)
Prepaid expenses and other current assets	(5,923)	(2,236)
Deposits and other assets	(149)	3,235
Accounts payable and accrued liabilities	(4,656)	971
Income tax payable	9,855	19,568
Due to related parties	-	(38)
Members' distribution payable	-	83
Deferred taxes	25,747	9,443
Deferred revenue	(1,305)	3,816
NET CASH PROVIDED BY OPERATING ACTIVITIES	66,729	42,714
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid in membership interest acquisition	-	-
Purchases of property, plant and equipment	(60,814)	(32,522)
Proceeds from disposal of assets	(690)	-
Advances to related parties	46	147
Distribution to minority members	(100)	-
Purchases of intangible assets	(8,280)	-
Payment of acquisitions, net of cash received	17,937	(132)
Dividend received from investments in associates	1,000	-
Issuance of note receivable	(545)	-
Proceeds from payment of note receivable	3,561	150
Interest received on note receivable	142	-
NET CASH USED IN INVESTING ACTIVITIES	(47,743)	(32,357)

See accompanying notes to unaudited condensed interim consolidated financial statements.

VERANO HOLDINGS CORP.*AMENDED AND RESTATED***Condensed Interim Consolidated Statements of Cash Flows (Unaudited)****Six months Ended June 30, 2021 and 2020***(\$ in Thousands except share and per share amounts)***CASH FLOW FROM FINANCING ACTIVITIES**

Distributions to members	-	-
Proceeds from issuance of notes payable	100,000	2,474
Principal repayments of notes payable	(8,564)	63
Debt issuance costs paid	(5,132)	-
Payment of lease liabilities	(2,471)	(1,858)
Payment of acquisition price payable	(120,075)	(200)
Proceeds received from RTO financing	75,420	-
Cash received in private placement warrant	75,100	-

**NET CASH PROVIDED BY (USED IN)
FINANCING ACTIVITIES**

114,278	479
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NET INCREASE (DECREASE) IN CASH

133,264	10,836
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CASH, BEGINNING OF PERIOD

16,402	6,418
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CASH, END OF PERIOD

\$ 149,666	\$ 17,254
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ 3,743	\$ 748
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OTHER NON-CASH INVESTING AND FINANCING ACTIVITIES

Accrued capital expenditures	\$ 3,627	\$ -
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Cash received in business combination:

Tangible and intangible assets acquired, net of cash	\$ 1,127,009	\$ -
Liabilities assumed	(249,094)	-
Acquisition price payable	(1,038,668)	-
Issuance of note payable	-	-
Goodwill	262,891	(132)
Previously held equity interest	-	-

Cash paid (received) in business combination

\$ 102,138	\$ (132)
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See accompanying notes to unaudited condensed interim consolidated financial statements.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

1. NATURE OF OPERATIONS

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

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, consults, and/or has licensing or other commercial agreements with cultivation, processing, and retail licensees across eleven state markets (Arkansas, Arizona, Florida, Illinois, Maryland, Massachusetts, Michigan, Nevada, New Jersey, Ohio, and Pennsylvania).

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, production, 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 Subordinate Voting Shares were listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “VRNO” and subsequently began trading on the OTCQX, part of the OTC Markets Group, under the ticker “VRNOF”.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* and Interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for all periods presented.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. Management estimates that the Company will be able to meet its obligations and sustain operations for at least the next twelve months. Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These unaudited condensed interim consolidated financial statements do not include any adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going concern.

These amended and restated unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 25, 2022.

(b) Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments and biological assets that are measured at fair values.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Significant Accounting Policies

There have been no changes to the Company's significant accounting policies as described in Note 2 of the Company's 2020 annual report and the Company's March 31, 2021 unaudited condensed interim consolidated financial statements.

(i) Share-Based Compensation

The Company measures equity settled share-based payment based on its value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

(ii) Earnings Per Share

The Company presents basic and diluted earnings per share. Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which are comprised of convertible shares, warrants, options and restricted stock units ("RSUs") issued. Items with an anti-dilutive impact are excluded from the calculation.

(iii) Intangible Assets

The Company accounts for intangible assets at cost, less impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Certain intangible assets, including cannabis licenses and tradenames, have indefinite useful lives and are not subject to amortization. Such assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

In accordance with IAS 38, Intangible Assets, an intangible asset has an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The Company assessed intangible assets, including cannabis licenses, based on certain factors including the following:

- Number of licenses granted in the respective state;
- Perpetual life of the license; and
- The ongoing nature of the business requires licenses.

In accordance with IAS 38, Intangible Assets, intangible assets are amortized, unless they have an indefinite useful life. Amortization is carried out on a systematic basis over the useful life of the intangible asset.

The Company identified certain intangible assets that do not meet the definition of an indefinite lived intangible asset. These assets include technology and website licenses. Intangible assets with finite useful lives are amortized on a systematic basis and are analyzed for impairment when there is an indication that the asset has been impaired.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Adoption of New and Revised Standards and Interpretations

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.

- (i) *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.

- (ii) *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.

(e) New and Revised Standards and Interpretations to be Adopted

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

- (iii) *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 or after January 1, 2023 (extended from January 1, 2022), with earlier application permitted. The Company is currently evaluating the effect of adopting the amendments to IAS 1 on the Company’s financial statements.

- (iv) *Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract*

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (“Amendments to IAS 37”) 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. The Company is currently evaluating the effect of adopting amendments to IAS 37 on the Company’s financial statements.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

3. REVERSE TAKEOVER TRANSACTION

On December 14, 2020, Verano Holdings, LLC, 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”), 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 RTO Financing, 10,000,000 subscription receipts (the “Subscription Receipts”) were issued on January 21, 2021, at a price per Subscription Receipt of US\$10, for aggregate gross proceeds of US\$100,000. In connection with the Financing and the RTO, the Company issued 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 “Subordinate Voting Shares” (the “Subordinate Voting Shares”) and (iii) create a new class of 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 Financing transferred to the Company, as the resulting corporation in the RTO.

The RTO holders of Verano Finco Shares received one Subordinate Voting Share for a total of 10,000,000 Subordinate Voting Shares in the aggregate. 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 8) 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 8(a). The AME Parties received \$20 million in proceeds from Subscription Receipts.

In accordance with IFRS 3, 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 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.

IFRS 2, Share-based Payment, 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 Verano Holdings, LLC issued shares with a value in excess of the assets received, the difference is recognized in profit or loss as a transaction cost in Other Expense, Net. The amount assigned to the transaction cost of \$1,198 is the difference between the fair value of the consideration and the net identifiable assets of Majesta acquired by Verano Holdings, LLC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

4. INVENTORIES

The Company's inventories consist of the following:

	June 30, 2021	December 31, 2020
Raw Materials	\$ 1,029	\$ -
Work in Process	196,573	46,586
Finished Goods	68,307	12,704
Total Inventories	\$ 265,909	\$ 59,290

5. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. At June 30, 2021 and December 31, 2020, the changes in the carrying value of biological assets are shown below:

Balance as of January 1, 2020	\$ 16,613
Cost incurred prior to harvest to facilitate biological transformation	55,536
Unrealized gain on fair value of biological assets	254,155
Transferred inventory upon harvest	(216,927)
Balance as of December 31, 2020	\$ 109,377
Balance as of January 1, 2021	\$ 109,377
Cost incurred prior to harvest to facilitate biological transformation	64,369
Unrealized gain on fair value of biological assets	341,738
Transferred inventory upon harvest	(419,962)
Additions from business acquisition	48,475
Balance as of June 30, 2021	\$ 143,997

The Company values its biological assets at the end of each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. This model also considers the progress in the plant life cycle.

Management has made the following estimates in this valuation model:

- The average number of weeks in the growing cycle is 14.2 weeks from propagation to harvest (as compared to 19 weeks for the fiscal year ended December 31, 2020);
- The average harvest yield of whole flower is 186.73 grams per plant (as compared to 320.20 grams per plant during the fiscal year ended December 31, 2020);
- The average selling price of whole flower is \$7.58 per gram (as compared to \$6.98 per gram during the fiscal year ended December 31, 2020);
- The average selling price of dried flower used in extract products is \$16.72;
- Processing costs include drying and curing, testing and packaging, post-harvest overhead allocation, and oil extraction costs estimated to be \$0.74 per gram (as compared to \$0.57 per gram during the fiscal year ended December 31, 2020); and

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

5. BIOLOGICAL ASSETS *(Continued)*

- Selling costs include shipping, order fulfillment, and labelling, estimated to be \$0.29 per gram (as compared to \$0.12 per gram during the fiscal year ended December 31, 2020) for flower and \$1.48 for dried flower used in extract products.

The estimates of growing cycle, harvest yield, and costs per gram are based on the Company's historical results. The estimate of the selling price per gram is based on the Company's historical sales in addition to the Company's expected sales price going forward.

Management has quantified the sensitivity of the inputs and determined the following:

- Selling price per gram – an increase or decrease in the selling price per gram by 5% would result in an increase or decrease to the fair value of biological assets by \$8,005 (as compared to \$6,322 for the fiscal year ended December 31, 2020).
- Harvest yield per plant – an increase or decrease in the harvest yield per plant of 5% would result in an increase or decrease to the fair value of biological assets by \$7,200 (as compared to \$5,469 for the fiscal year ended December 31, 2020).
- Cost of production per gram – an increase or decrease in the cost of production per gram by 5% would result in an increase or decrease to the fair value of biological assets by \$503 (as compared to \$824 for the fiscal year ended December 31, 2020).

These inputs are level 3 on the fair value hierarchy, and are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

As of June 30, 2021, and December 31, 2020, the biological assets were on average, 43.3% and 34.1%, respectively, complete and the estimated fair value less costs to sell of dry cannabis was \$5.30 (\$12.72 for extract products) and \$4.69 per gram, respectively.

As of June 30, 2021, and December 31, 2020, it is expected that the Company's biological assets will ultimately yield approximately 33,3492 and 43,488 kilograms of cannabis, respectively.

6. NOTES RECEIVABLE

As of June 30, 2021, notes receivable consists 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% 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. Negotiation between parties is on-going to extend the maturity date of the secured promissory note. As of June 30, 2021, the Company has received principal payments of \$56. The outstanding principal is \$124 plus accrued interest of \$4.

The second note is a secured promissory note issued March 24, 2021 with a third party for \$147. Interest of 8% per annum and principal were originally due on September 24, 2021. The promissory note can be extended at the discretion of the Company. Negotiation between parties is on-going to extend the maturity date of the secured promissory note. As of June 30, 2021, the secured promissory note is outstanding, plus accrued interest of \$3.

VERANO HOLDINGS CORP.*AMENDED AND RESTATED***Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(\$ in Thousands except share and per share amounts)***7. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment and related accumulated depreciation consists of the following at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Land	\$ 19,061	\$ 12,138
Buildings and Improvements	56,667	15,223
Furniture and Fixtures	10,001	5,258
Computer Equipment and Software	8,649	3,331
Leasehold Improvements	147,567	88,331
Tools and Equipment	52,587	27,237
Vehicles	2,478	850
Assets Under Construction	27,247	8,514
Total Property, Plant and Equipment, Gross	324,257	160,882
Less: Accumulated Depreciation	(29,415)	(17,744)
Property, Plant and Equipment, Net	\$ 294,842	\$ 143,138

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

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 January 1, 2020	\$ 103,199	\$ (8,820)	\$ 94,379
Additions	58,162	-	58,162
Property, plant and equipment from business combination	1,351	-	1,351
Disposals	(11)	-	(11)
Discontinued operations and deconsolidation	(1,819)	-	(1,819)
Depreciation	-	(8,924)	(8,924)
Balance as of December 31, 2020	\$ 160,882	\$ (17,744)	\$ 143,138
Additions	57,478	-	57,478
Property, plant and equipment from business combination	107,763	-	107,763
Disposals	(1,866)	182	(1,684)
Depreciation	-	(11,853)	(11,853)
Balance as of June 30, 2021	\$ 324,257	\$ (29,415)	\$ 294,842

For the six months ended June 30, 2021, and year ended December 31, 2020, depreciation expense included in costs of goods sold totaled \$8,805 and \$8,147 respectively.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

8. ACQUISITIONS

(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 via a series of merger transactions (the "AME Mergers"). The AME Mergers were contingent upon, and were to close 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 Parties 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 shares and cash consideration of \$20,000 was paid at the closing of the mergers, \$10,000 was paid on August 11, 2021, and the \$5,000 balance is payable February 11, 2022. The remaining cash consideration is represented by a convertible promissory note and upon a payment default, the holder thereof may elect to convert the payment obligation into Subordinate Voting Shares. As of June 30, 2021, the present value of unpaid deferred consideration is \$14,877 and is included in the acquisition price payable balance on the Company's consolidated balance sheets.

The Company accounted for the transaction as a business combination in accordance with IFRS 3, *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
Biological assets	47,130	728	47,858
Inventory	36,075	5,099	41,174
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 six months ended June 30, 2021, adjusted as if the acquisition of AltMed, 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	319,961	22,402	342,363
Net income	156,888	57,488	214,376

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

8. ACQUISITIONS (Continued)

(b) Business Combinations*Glass City Alternatives, LLC*

On June 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 purchase price was \$2,700 plus a \$329 purchase price adjustment. The Company issued \$500 in Subordinate Voting Shares upon execution of the RTO. As of June 30, 2021, the present value of unpaid deferred consideration of \$1,082 is included in the acquisition price payable balance on the Company's consolidated balance sheets and was paid in January 2022.

Perpetual Healthcare Inc.

On February 24, 2021, the Company entered into an agreement pursuant to which Perpetual Healthcare Inc. ("PHI") transferred the management and governance of PHI, which operates the Emerald Dispensary in Arizona. The transaction closed on March 10, 2021. Total consideration includes cash consideration of \$11,250 plus a \$326 purchase price adjustment, 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 June 30, 2021, 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 interest in EINJO, L.P. and SPSLE, Corp. to become the sole owner of The Herbal Care Center, Inc. ("The Herbal Care Center"), which holds licenses for two dispensaries in Illinois. The Company, through a management service agreement ("MSA"), obtained control of The Herbal Care Center's operations and marijuana license. The transaction became effective on March 17, 2021. Total consideration includes cash consideration of \$18,750, plus a \$2,107 purchase price adjustment, of which \$10,000 was paid upon entering the MSA. The total consideration also includes 90,464 Subordinate Voting Shares and 9,625 Proportionate Voting Shares valued at approximately \$22,778 paid at closing. As of June 30, 2021, the present value of unpaid deferred consideration of \$10,743 is included in the acquisition price payable balance in the consolidated statement of financial position.

Local Joint

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"), also referred to as Local Joint. Local Joint is a retail dispensary that operates as a non-profit entity in Arizona. The Company, through a management service agreement ("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. 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 June 30, 2021, the present value of unpaid deferred consideration of \$3,604 is included in the acquisition price payable balance in the consolidated statement of financial position.

Territory

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 a MSA. 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 board members and concurrently appointed the Company executives to the board of directors that govern each non-profit entity. Through the acquisition of BISHCO

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

8. ACQUISITIONS *(Continued)*

(b) Business Combinations *(Continued)*

LLC and its MSA, 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. Total consideration included \$18,699 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 March 31, 2022, and the remaining \$12,750 payable in shares or cash at the election of the recipient on March 31, 2023. As of June 30, 2021, the present value of unpaid deferred consideration of \$19,387 is included in the acquisition price payable balance in the consolidated statement of financial position.

TerraVida Holistic Center, LLC

On February 24, 2021, the Company entered into an agreement to acquire TerraVida Holistic Centers, LLC ("TerraVida"), which held the rights to three active dispensaries in Pennsylvania. The transaction closed 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 merger agreement also included consideration of 1,506,750 Subordinate Voting Shares and 15,067 Proportionate Voting Shares valued at approximately \$59,732. As of June 30, 2021, the present value of unpaid deferred consideration of \$47,154 is included in the acquisition price payable balance in the consolidated statement of financial position.

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. The Healing Center leased the real estate where the dispensaries are located from three separate real estate entities. On June 3, 2021, the Company acquired the three real estate properties that The Healing Center leased (collectively referred to as "THC Real Estate"). The acquisitions were accounted for as a single business combination. 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 June 30, 2021, the present value of unpaid deferred consideration of \$45,584 is included in the acquisition price payable balance in the consolidated statement of financial position.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

8. ACQUISITIONS (Continued)

(b) Business Combinations (Continued)

The Company has determined that these acquisitions are business combinations under IFRS 3, *Business Combinations*. They 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 cash generating units.

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the first quarter for the year ended June 30, 2021:

	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

VERANO HOLDINGS CORP.*AMENDED AND RESTATED***Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(\$ in Thousands except share and per share amounts)***8. ACQUISITIONS** *(Continued)***(b) Business Combinations** *(Continued)*

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the second quarter for the year ended June 30, 2021:

	The Healing Center	TerraVida Holistic Centers	Territory	Total
Cash and cash equivalents	\$ 3,496	\$ 3,222	\$ 1,809	\$ 8,527
Accounts receivable, net	-	-	231	231
Biological assets	-	-	618	618
Inventory	3,088	4,091	6,545	13,724
Prepaid & other current assets	810	692	1,127	2,629
Deposits & other non-current assets	-	75	8	83
Property, plant and equipment, net	11,412	2,612	7,872	21,896
Right-of-use asset, net	-	2,122	129	2,251
Accounts payable and accrued liabilities	(2,569)	(1,635)	(2,770)	(6,974)
Other liabilities	-	-	(1,188)	(1,188)
Deferred income tax	-	-	(23,598)	(23,598)
Lease liabilities	-	(2,122)	(129)	(2,251)
Total identifiable net assets (liabilities)	16,237	9,057	(9,346)	15,948
Intangible assets	133,804	116,053	126,120	375,977
Net Assets	<u>\$ 150,041</u>	<u>\$ 125,110</u>	<u>\$ 116,774</u>	<u>\$ 391,925</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

8. ACQUISITIONS (Continued)

(b) Business Combinations (Continued)

ChiVegas

In July 2020, Verano Holdings LLC acquired the remaining 50% ownership interest in a Las Vegas real estate entity, which provided Verano Holdings LLC with a controlling interest. The initial 50% interest was purchased in 2017. The transaction was accounted for as a business acquisition in accordance with IFRS 3, *Business Combinations*. The purchase price was allocated to building and land in the amount of \$1,160. Upon the July closing, consideration included cash of \$230 and a note payable of \$350 (Note 10). A gain on the previously held equity interest was recognized for \$458. The note was repaid in full in May 2021.

MME Evanston Retail, LLC

On July 1, 2020, the Company entered into a membership interest purchase agreement (and amended and restated such membership interest purchase agreement on October 30, 2020) to acquire all of the issued and outstanding equity interests in MME IL Holdings, LLC, which operates two dispensaries in Illinois. The total purchase price was \$20,000 plus a \$31 working capital adjustment. The Company paid \$10,000 in July 2020 and an additional \$8,000 was paid in November 2020. The remaining purchase price will be paid pursuant to a \$2,000 promissory note, of which \$1,000 has been repaid. The Company also entered into a management and administrative services agreement with MME IL Holdings, LLC's subsidiaries. Based on the funding and providing of services, the Company determined that control was transferred at the closing and accounted for the transaction as a business acquisition in accordance with IFRS 3, *Business Combination* and consolidated the seller as of July 2020. As of June 30, 2021, the present value of unpaid deferred consideration of \$1,000 is included in the acquisition price payable balance in the consolidated statement of financial position.

Elevele, LLC

On December 8, 2020, the Company entered into a membership interest purchase agreement to acquire all of the issued and outstanding equity interests in Elevele, LLC, which operates two dispensaries in Illinois. The total purchase price was \$22,847 plus a \$315 working capital adjustment. The Company paid \$5,347 in December 2020. The remaining \$10,000 of purchase price will be paid by June 8, 2022. Based on the funding and providing of services, the Company determined that control was transferred at the closing and accounted for the transaction as a business acquisition in accordance with IFRS 3, *Business Combination* and consolidated the seller as of December 2020. As of June 30, 2021, the present value of unpaid deferred consideration of \$9,841 is included in the acquisition price payable balance in the consolidated statement of financial position.

FGM Processing, LLC

In December 2020, a Company affiliate entered into a membership purchase agreement with a licensee in Maryland which would allow Verano LLC to process medical marijuana in Maryland. The Company analyzed the transactions and recorded the transaction as a business acquisition in accordance with IFRS 3, *Business Combination* and consolidated the seller as of December 2020. The total purchase price was \$6,900 plus a \$186 purchase price adjustment. \$1,050 was paid in December 2020 and an aggregate of \$3,950 was paid in January and February 2021 with an additional \$2,086 paid in the third quarter. As of June 30, 2021, the present value of unpaid deferred consideration of \$2,086 is included in the acquisition price payable balance in the consolidated statement of financial position.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

8. ACQUISITIONS (Continued)

(b) Business Combinations (Continued)

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the year ended December 31, 2020:

	Evanston	Elevele	FGM	Total
Cash	\$ 451	\$ 993	\$ 42	\$ 1,486
Accounts Receivable, Net	-	-	121	121
Inventories	553	431	67	1,051
Prepaid and other current assets	3	447	28	478
Property, plant and equipment	941	38	729	1,708
Deposits and other non-current assets	-	11	31	42
Right of use assets	112	44	-	156
Accounts payable and accrued liabilities	(941)	(1,109)	(92)	(2,142)
Deferred tax liability	(5,767)	(6,548)	-	(12,315)
Lease liabilities	(123)	(68)	-	(191)
Total identifiable net assets (liabilities)	(4,771)	(5,761)	926	(9,606)
Intangible assets	24,836	28,162	6,160	59,158
Total Consideration	\$ 20,065	\$ 22,401	\$ 7,086	\$ 49,552

Measurement period adjustments that the Company determined to be material will be applied retrospectively to the period of acquisition in the Company's unaudited condensed interim consolidated financial statements, and depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. 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.

(c) Asset Acquisition

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. The Company capitalized licenses in the amount of \$55,016. As of June 30, 2021, the present value of unpaid deferred consideration is \$22,550 and is included in the acquisition price payable balance in the consolidated statement of financial position. The unpaid consideration relates to earnouts that are expected to be settled in share issuances of Subordinate Voting Shares.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

8. ACQUISITIONS (Continued)

(c) Asset Acquisition (Continued)

Ohio Grow 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 consolidated statement of financial position. As of June 30, 2021, the total consideration had been paid in full.

Local Dispensaries, LLC

During 2020, the Company entered into consulting, licensing, or other contractual arrangements with licensees in Pennsylvania which would allow the Company to operate medical and/or recreational marijuana dispensaries in Pennsylvania. The Company analyzed the transactions and recorded the transactions as asset acquisitions. The Company capitalized the licenses in the amount of \$7,000, which are included in the intangible assets on the Company's consolidated balance sheets. The Company entered into a secured promissory note of \$3,163 in July and the remaining liability of seller financing was fully repaid ahead of the scheduled pay-off date. Such payment was the final financial obligation remaining under the transaction documents.

9. INTANGIBLE ASSETS AND GOODWILL

As of June 30, 2021, indefinite lived intangible assets and goodwill consisted of the following:

	Licenses	Tradenames	Goodwill	Technology	Total
Balance as of January 1, 2020	<u>\$ 19,802</u>	<u>\$ 78</u>	<u>\$ 5,064</u>	<u>\$ -</u>	<u>\$ 24,944</u>
Purchases	7,000	-	-	-	7,000
Additions from business combination	47,017	-	13,953	-	60,970
Disposals	-	-	(2,988)	-	(2,988)
Amortization	-	-	-	-	-
Balance as of December 31, 2020	<u>\$ 73,819</u>	<u>\$ 78</u>	<u>\$ 16,029</u>	<u>\$ -</u>	<u>\$ 89,926</u>
	Licenses	Tradenames	Goodwill	Technology	Total
Balance as of January 1, 2021	<u>\$ 73,819</u>	<u>\$ 78</u>	<u>\$ 16,029</u>	<u>\$ -</u>	<u>\$ 89,926</u>
Purchases	55,776	-	-	115	55,891
Additions from business combination	842,492	45,259	262,529	11,488	1,161,768
Disposals	-	-	-	-	-
Amortization	-	-	-	(508)	(508)
Adj. to Purch. Price Allocation	(801)	-	282	-	(519)
Balance as of June 30, 2021	<u>\$ 971,286</u>	<u>\$ 45,337</u>	<u>\$ 278,840</u>	<u>\$ 11,095</u>	<u>\$ 1,306,558</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

10. NOTES PAYABLE

As of June 30, 2021, and December 31, 2020, notes payable consisted of the following:

	June 30, 2021	December 31, 2020
Credit Agreement dated July 2, 2020, for an initial commitment of \$20,000 funded by various investors with Chicago Atlantic GIC Advisers, LLC as administrative and collateral agent, and an incremental loan not to exceed \$10,000; interest at 15.25% per annum; and a maturity date of May 30, 2023. On May 10, 2021, the Company amended and restated the Credit Agreement by entering into an Amended and Restated Credit Agreement for a senior secured term loan of \$130,000; interest at 9.75% per annum for the incremental \$100,000; and a maturity date of May 30, 2023. The note is substantially collateralized by all the assets of the Company and is subject to certain restrictive covenants as defined in the agreement. Refer to (a) below.	\$ 130,000	\$ 30,000
Promissory note dated July 31, 2017, in the principal amount of \$2,900 issued to an accredited investor; monthly payments of \$19 with a balloon payment of \$2,493 due on August 1, 2027, including interest at 7% per annum.	2,775	2,790
FL-Notes payable to Ford Motor Credit and Toyota Commercial Financing with interest ranging from 6.5% to 10%, maturing through November 2025, secured by vehicles.	869	-
FL-Notes payable to accredited investors, in the original principal amount of \$3,670,000, not including simple annual interest of 10%, maturing through March 2022	2,670	-
AZ-Mortgage to Pioneer Title Agency with interest of 6% and matures in March 2022	601	-
AZ-Note payable to Fidelity National Title with interest of 10% and matures in July 2022	2,219	-
Convertible note dated November 25, 2019, in the principal amount of \$5,000 issued to accredited investors; interest at 1.5% per month and a maturity date in August 2020 subject to an extension of six months or the completion of a transaction, if earlier. Principal and accrued interest were repaid in February 2021.	-	3,709

VERANO HOLDINGS CORP.*AMENDED AND RESTATED***Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(\$ in Thousands except share and per share amounts)***10. NOTES PAYABLE (Continued)**

	June 30, 2021	December 31, 2020
Secured promissory notes dated February 13, 2019, in the principal amount of \$3,413 issued to accredited investors; interest at 2.57% compounded annually; and a maturity date in February 2020. The note was amended in June 2020, extended for six months to August 2020 and is subject to four extension dates. The interest rate was also amended to 6% per annum from February to June 2020, 11% compounded annually until August 2020, 14% compounded annually until the second extension date of February 2021. The note was repaid in February 2021.	-	3,413
Promissory note secured by deed of trust dated May 15, 2020, in the principal amount of \$1,474 issued to Eastern and Pebble, LLC; bears interest at 4% per annum and matures on June 15, 2021. The note was repaid in June 2021.	317	857
Promissory note dated July 2, 2020, in the original amount of \$350 issued to BB Marketing, LLC; matures in June 2021; interest is due at 5% in the event of a default. The note was repaid in May 2021.	-	350
Less: unamortized debt issuance costs	5,440	825
Total Notes Payable	134,011	40,294
Less: Current Portion of Notes Payable	2,969	7,814
Notes Payable, Net of Current Portion and Unamortized Debt Issuance Cost	\$ 131,042	\$ 32,480

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

10. NOTES PAYABLE (Continued)

Stated maturities of debt obligations are as follows:

	Principal Payments	Unamortized Debt Issuance Costs	Total Notes Payable
Remainder of 2021	\$ 1,156	\$ 1,432	\$ (276)
2022	4,967	2,841	2,126
2023	130,385	1,167	129,218
2024	254	-	254
2025	111	-	111
2026 and Thereafter	2,578	-	2,578
Total	\$ 139,451	\$ 5,440	\$ 134,011

(a) On May 10, 2021, the Company and certain subsidiaries and affiliates (the “Credit Parties”) entered into an amended and restated credit agreement with the agents and the lenders named therein, which was amended by the parties on May 20, 2021, (as amended, the “Credit Agreement”), pursuant to which an additional \$100,000 was funded to the Company resulting in a total of \$130,000 in term loan commitments being funded and outstanding under the Credit Agreement. The senior secured term loan is subject to the following restrictive financial covenants, which are calculated on a consolidated basis:

- Minimum liquidity, at any time, of 20% of the aggregate outstanding principal loan amount of \$130 million (or \$26 million);
- Minimum consolidated EBITDA for any fiscal quarter of \$20 million; and
- Fixed charge coverage ratio of 1.5 to 1.0 measured at the end of each fiscal quarter

During June 2021, the Company was in negotiation with the agents and lenders to amend the Credit Agreement to receive additional funding. On June 28, 2021, the Company entered a waiver and extension letter to waive the minimum liquidity covenant beginning June 15, 2021, until the date on which the credit agreement is amended to increase the commitments.

On October 20, 2021, the Company and certain subsidiaries and affiliates entered into an amendment to the Credit Agreement with the agents and the lenders named therein (as further amended, the “Amended Credit Agreement”), pursuant to which an additional \$120,000 was funded to the Company resulting in a total of \$250,000 in term loan commitments being fully funded and outstanding under the Amended Credit Agreement. In addition, the Amended Credit Agreement provides for an option for an additional \$100,000 in term loans to be funded in the future.

The Amended Credit Agreement provides for, among other things, (i) the term loans thereunder being secured by liens on assets of the Credit Parties, including specified real estate, (ii) the original \$30,000 loan bearing interest at a rate of 15.25% per annum, the incremental \$100,000 loan bearing interest at a rate of 9.75% per annum and the incremental \$120,000 loan and the optional \$100,000 additional loan bearing interest at a rate of 8.50% per annum; (iii) no principal amortization with the tranches having 18 month maturity dates; (iv) prepayment fees generally of 1% of any principal amount being prepaid; (v) restrictive covenants which apply to the operations of the Company and its subsidiaries, including limitations on the ability to incur additional debt, limitations on the granting of liens and the terms of permitted acquisitions; and (vi) 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 and a minimum fixed charge coverage ratio as defined below:

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

10. NOTES PAYABLE (Continued)

- Minimum liquidity to average \$20 million during any fiscal quarter or to be \$25 million at the end of each fiscal quarter;
- Minimum consolidated EBITDA for any fiscal quarter of \$20 million; and
- Fixed charge coverage ratio of 1.5 to 1.0 measured at the end of each fiscal quarter

In accordance with IFRS 9, *Financial Instruments*, the \$100 million credit facility is accounted for as a new credit facility. The existing \$30 million credit facility was extended from June 30, 2022, to May 30, 2023, and qualifies as a debt modification. The existing credit facility had \$644 of unamortized debt issuance costs at the time of the debt modification and is now amortized through May 30, 2023. The company incurred \$5,132 in issuance costs and debt discounts on the new credit agreement, which was paid net of proceeds in May 2021. The Company amortizes debt issuance costs through interest expense over the life of the debt instrument.

- (b) On May 14, 2021, Verano acquired The Healing Center (“THC”) that is comprised of three dispensaries in the greater Pittsburgh area. THC leases the dispensaries from three separate real estate entities. On June 3, 2021, Verano closed on the acquisition of these three real estate properties, collectively referred to as “THC Real Estate”. Verano funded the acquisition through a credit agreement with Chicago Atlantic Credit Company (“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 incurred \$405 in issuance costs and debt discounts on the new credit agreement, which was paid net of proceeds upon closing. Debt issuance costs were reflected as a reduction of the carrying value of the long-term debt on the Company's consolidated statements of financial position and is amortized to interest expense over the term of the note using the effective interest method.

This note is subject to certain restrictive financial covenants requiring the Company to maintain on a consolidated basis a specified level of liquidity, a minimum quarterly amount of earnings before interest, taxes, depreciation and amortization, and a minimum fixed charge coverage ratio that is less restrictive than the Credit Agreement.

11. DERIVATIVE LIABILITIES

Verano Holdings LLC had two convertible notes in 2020. A reconciliation of the beginning and ending balances of the derivative liabilities for the periods ended June 30, 2021, and December 31, 2020, were as follows:

	Derivative Liability
Balance as of January 1, 2020	\$ 6,779
Fair value of derivative liabilities on issuance date	-
Additional issuance	-
Gain on derivative liability	(6,779)
Balance as of December 31, 2020	\$ -
Balance as of January 1, 2021	\$ -
Additional issuance	-
Balance as of June 30, 2021	\$ -

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

11. DERIVATIVE LIABILITIES (Continued)

In accordance with IFRS, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations at each period-end. The derivative liability will ultimately be converted into the Company's equity when the convertible notes payable is converted or will be extinguished on the repayment of the convertible notes payable and will not result in the outlay of any additional cash by the Company.

Upon initial recognition in 2019, the Company recorded derivative liabilities of \$6,779 in relation to the derivative liability portion of the convertible notes.

In 2020, the Company had no probability of debt conversion and recognized a gain on derivative liability of \$6,779.

12. SHARE CAPITAL

Common 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 International Financial Reporting Standards (IAS) 12, *Income Taxes*.

(a) Issued and Outstanding

As of June 30, 2021, the Company has 120,358,610 Subordinate Voting Shares and 1,868,646 Proportionate Voting Shares for a total of 307,223,182 Subordinate Voting Shares on a 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 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 no-par value 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 six months ending June 30, 2021, the shareholders of the Company converted both Proportionate Voting Shares and Subordinate Voting Shares for a net impact of conversion of 13,621,002 Subordinate Voting Shares into 136,210 Proportionate 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.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

12. SHARE CAPITAL *(Continued)*

(b) Stock-Based Compensation *(Continued)*

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.

In February 2021, the Company established the Verano Stock and Incentive Plan (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 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 six months to three years. Options typically have a life of ten years.

Options

Option grants are determined by the Compensation Committee of the Board with the option price set at no less than 100% of the fair market value of a share on the date of grant.

On February 18, 2021, the Company granted non-qualified incentive Proportionate Voting Share stock options to employees, exercisable at CAD\$3,060⁽¹⁾ on the grant date. The options vest over thirty months to purchase up to an aggregate of 516 Proportionate Voting Shares of the Company.

On May 25, 2021, the Company issued additional non-qualified incentive Proportionate Voting Share stock options to employees, exercisable at CAD\$2,400⁽¹⁾ on the grant date. The options vest over thirty months to purchase up to an aggregate of 54 Proportionate Voting Shares of the Company.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date. This options pricing model requires the application of estimates and assumptions. As the Company became publicly traded in 2021, sufficient historical trading information was not available to determine an expected volatility rate. The volatility rate was based on comparable companies within the same industry.

Restricted Stock Units (“RSUs”)

During the six-month period ended June 30, 2021, the Company granted 35,378 Proportionate Voting Shares as restricted stock units to employees and directors, vesting over eighteen to thirty-six months. The Company recognized 321 shares as forfeited and no restricted stock units vested during the six months ended June 30, 2021.

The Company recorded expense of \$35,489 for the six months ended June 30, 2021, as share-based compensation related to the Plan.

(c) Noncontrolling Interest

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.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

12. SHARE CAPITAL (Continued)

(d) Warrants

On February 24, 2021, the Company entered into an agreement with Beacon Securities Limited (“Beacon”) and Canaccord Genuity Corp. on behalf of a syndicate of underwriters, pursuant to which the underwriters agreed to purchase, on a bought deal private placement basis, 3,510,000 warrants of the Corporation (the “Special Warrants”) at a price per Special Warrant of C\$28.50⁽¹⁾ (the “Issue Price”) for aggregate gross proceeds to the Company of C\$100,035 (the “Offering”). The Corporation granted such underwriters an option, exercisable by Beacon on behalf of the underwriters, in whole or in part at any time up to 48 hours prior to the closing date of the Offering, to purchase up to an additional 526,500 Special Warrants at the Issue Price for additional gross proceeds of up to C\$15,005. Closing of the Offering occurred on March 11, 2021. The net proceeds of the Offering will be used for acquisitions, working capital and general corporate purposes. Each Special Warrant entitles its holder to receive one Subordinate Voting Share. All Special Warrants were exercised on June 24, 2021.

The Company computes basic earnings per share by dividing net income available to its shareholders by the weighted-average number of shares of its stock outstanding, on an as converted basis. The Company weighs shares issued for the portion of the period that they were outstanding. The Company’s diluted earnings per share reflect the impacts of the Company’s potentially dilutive securities, which include the Company’s equity compensation awards.

⁽¹⁾ *Such amounts not in Thousands*

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

13. EARNINGS PER SHARE

	Six months Ended June 30, 2021	Three Months Ended June 30, 2021
Numerator		
Net Income (Loss)	\$ 122,685	\$ (5,228)
Denominator		
<u>Basic</u>		
Pre-RTO weighted-average shares outstanding	158,203,932	-
Post-RTO weighted-average shares outstanding	297,365,427	300,715,671
Weighted-average shares outstanding – basic	265,842,657	300,715,671
<u>Diluted</u>		
Pre-RTO weighted-average shares outstanding	202,272,124	-
Post-RTO weighted-average shares outstanding	303,309,494	300,715,671
Weighted-average shares outstanding – diluted	280,422,576	300,715,671
Basic earnings per share	\$ 0.46	\$ (0.02)
Diluted earnings per share	\$ 0.44	\$ (0.02)

The Company does not disclose prior period earnings per share as the information is not relevant to the users of the financial statements.

14. REVENUE RECOGNITION

Revenue is recognized by the Company in accordance with IFRS 15, *Revenue from Contracts with Customers*. Through application of the standard, the Company recognizes revenue at a distinct point in time upon the transfer of promised goods to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenues from the sale of cannabis are generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is due upon transferring the goods to the customer. The Company's wholesale customers are dispensaries, both third party dispensaries and those owned or controlled by the Company. The Company's retail customers are individuals purchasing goods for medical or recreational purposes.

Certain wholesale customers may have payment terms within a specified time-period permitted under the Company's credit policy, typically within 30 days of transfer. The Company generally requires previous payment from a customer prior to entering into another contract with such customer.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer. Revenue is presented net of discounts and sales tax and other related taxes.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

14. REVENUE RECOGNITION *(Continued)*

The Company has customer loyalty programs in which retail customers accumulate points for each dollar spent. 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 redemption probability of point obligation incurred, which is calculated based on a standalone selling price.

15. LOYALTY OBLIGATIONS

The Company has customer loyalty programs where retail customers accumulate points for each dollar of spending. 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. As of June 30, 2021, there were 82 million points outstanding, with an approximate value of \$3,675 which is included in accrued liabilities. As of December 31, 2020, there were 42 million points outstanding, with an approximate value of \$2,061. 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.

16. INCOME TAXES

The June 30, 2021, provision for income taxes has been calculated using an effective average annual tax rate. The effective annual tax rate as of June 30, 2021, is 28.5 percent compared to a June 30, 2020, year-to-date actual effective tax rate of 26.3 percent and a full year 2020 effective tax rate of 38.2 percent. The increase the 2021 effective annual tax rate over the 2020 actual full year tax rate is primarily driven by expected increases to the negative impacts of IRC Section 280E nondeductible expenses.

17. COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company leases certain business facilities from third parties under operating lease agreements that contain minimum rental provision that expire through 2040. Some of these leases also contain renewal provision and provide for rent abatement and escalating payments. In accordance with IFRS 16, commitments will be recognized as a right-of-use asset representing the right to use the underlying asset and a lease liability representing the obligation to make lease payments.

Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

17. COMMITMENTS AND CONTINGENCIES (Continued)

(a) Leases (Continued)

Year Ending December 31,	Scheduled payments
Remainder of 2021	\$ 4,346
2022	8,757
2023	8,067
2024	7,478
2025	6,732
2026 and thereafter	26,399
Total undiscounted lease liabilities	61,779
Impact of Discount	(17,857)
Lease liability as of June 30, 2021	43,922
Less current portion of lease liabilities	(5,678)
Long-term portion of lease liabilities	\$ 38,244

As of June 30, 2021, the Company recorded depreciation on the right-of-use assets of \$4,494, of which \$514 was included in cost of goods sold. The Company recorded interest expense of \$2,326, of which \$101 was included in cost of goods sold.

As of December 31, 2020, the Company recorded depreciation on the right-of-use assets of \$1,841, of which \$695 was included in cost of goods sold and the Company recorded interest expense of \$834, of which \$241, was included in cost of goods sold.

(b) Claims and Litigation

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at June 30, 2021, medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

The Company may be involved in litigation relating to claims arising out of operations in the normal course of business. These matters include employment and other claims against entities that were subsequently acquired by the Company and for which indemnification and other reimbursement rights may be available to the Company. At June 30, 2021 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 unaudited condensed interim 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.

- i. On January 22, 2021, Verano received a letter from a shareholder, who was formerly a member in Verano Holdings, LLC, demanding that Verano produce documents and information related to Verano Holdings, LLC's debt and equity financing activities in 2018 and 2019. In response to Verano's production of such information, the shareholder has alleged that the warrants provided in connection with the Rockview loan and the loan from Mr. Archos described in *Section 3.1 – General Development of Verano's Business* were not properly priced or valued. Verano agreed to participate in mediation with this shareholder regarding the claims, which took place on April 13, 2021. The parties were unable to reach a settlement at such time. No reserves for the claim has been recorded as of June 30, 2021.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

18. RELATED PARTY TRANSACTIONS**(a) Due from Related Parties**

As of June 30, 2021, and December 31, 2020, amounts due from related parties were comprised of balances due from investors of \$62 and \$108, 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 through these unaudited condensed interim consolidated financial statements.

(b) Due to Related Parties

As of June 30, 2021, and December 31, 2020, amounts due to related parties were comprised of advances to investors payable totaling \$45 and \$45, respectively. Advances did not have formal contractual agreements governing payment terms or interest.

(c) Other

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 mature in March 2022 and are an accumulation of seven notes to finance construction of cultivation facilities in Florida and Arizona. There are two related parties that account for \$400 of the outstanding principal amount as of June 30, 2021.

19. DISCONTINUED OPERATIONS

There were no discontinued operations during the third quarter of 2021, however during the third quarter of 2020, the Company closed its Oklahoma operation, which was comprised of three dispensaries and a processing facility. The Oklahoma acquisition occurred in 2019.

Discontinued operations are presented separate from continuing operations in the unaudited interim condensed consolidated statement of operations and the unaudited interim condensed consolidated statement of cash flows and represented a loss of \$5,063. There were no proceeds received in connection with the discontinuation of the Oklahoma operation.

The following table represents the financial results associated with discontinued operation as reflected in the Company's unaudited interim condensed consolidated statements of operations:

	For the three months ended June 30, 2020	For the six months ended June 30, 2020
Revenues, net of discounts	\$ -	\$ 1,862
Cost of goods sold	-	(1,368)
Gross profit	-	494
Expenses		
General and administrative	52	1,054
Sales and marketing	2	57
Depreciation and amortization	14	98
Total expenses	68	1,209
Operating loss before taxes and non-controlling interest	(68)	(716)
Income taxes	-	-
Loss from continuing operations before non-controlling interest	(68)	(716)
Lees amount attributable to non-controlling interest	51	537
Net loss from discontinued operations, net of tax	(4,884)	(4,884)
Net loss attributed to Verano Holdings Corp.	\$ (4,901)	\$ (5,063)

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

20. DECONSOLIDATION

In July 2020, the Company entered into an agreement to unwind its interest in Zen Leaf Retail PR, Inc. Accordingly, the Company does not exercise any control over this entity. As a result, the assets and liabilities of both entities have been derecognized from the consolidated statements of financial position, with a loss of \$189 being recognized in the consolidated statements of operations.

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

The Company's financial instruments consist of biological assets, notes receivable, notes payable, and a derivative liability. The carrying values of these financial instruments approximate their fair values at June 30, 2021.

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; and
- 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 six months ended June 30, 2021 and year ended December 31, 2020.

Financial Risk Management

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

(a) 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 June 30, 2021 and December 31, 2020 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 risk but has limited risk as the majority of its sales are transacted with cash.

(b) 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.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)*(\$ in Thousands except share and per share amounts)*

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risk*(i) 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.

(ii) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 5 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

22. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 10, 2021, which is the date on which the financial statements were available to be issued.

(a) Acquisitions*WSCC, Inc.*

On July 26, 2021, the Company announced it had entered into an agreement to acquire all issued and outstanding equity interests in WSCC, Inc., a Nevada corporation d/b/a Sierra Well (“Sierra Well”). The total consideration is US\$29,000, which is payable in a combination of cash and Subordinate Voting Shares. Closing of the acquisition is subject to customary conditions, contingencies, and approvals, including regulatory approval.

Willow Brook Wellness, LLC

On June 13, 2021, the Company announced it had entered into a definitive agreement to acquire all issued and outstanding equity interests in Willow Brook Wellness, LLC, a Connecticut limited liability company, which operates a dispensary in Connecticut. The total consideration was US\$22,000, which was payable in a combination of cash, including via a promissory note, and Subordinate Voting Shares. The transaction closed October 25, 2021.