



VERANO™

VERANO HOLDINGS CORP.

**AMENDED AND RESTATED
MANAGEMENT'S DISCUSSION & ANALYSIS**

**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
AND
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021**

ITEM 2 FINANCIAL INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

(All \$ in thousands except for share and per share amounts)

This management discussion and analysis (this "MD&A") of the financial condition and results of operations of Verano is for the three months ended March 31, 2022 and 2021 and for the years ended December 31, 2021, 2020 and 2019. It is supplemental to, and should be read in conjunction with, the Company's unaudited interim condensed consolidated financial statements and the accompanying notes for the three months ended March 31, 2022 and 2021 and with the Company's audited consolidated financial statements and the accompanying notes for the years ended December 31, 2021, 2020 and 2019. The financial statements referenced in this MD&A are prepared in accordance with GAAP. Financial information presented in this MD&A is presented in United States dollars (" \$" or "US\$") and expressed in thousands, unless otherwise indicated. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected, forecasted, or expected in these forward-looking statements as a result of various factors, including, but not limited to, those discussed below and elsewhere in this Registration Statement. See "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" in this Registration Statement. Our management believes the assumptions underlying the Company's financial statements and accompanying notes are reasonable. However, the Company's financial statements and accompanying notes may not be an indication of our financial condition and results of operations in the future.

OVERVIEW OF THE COMPANY

Verano is a leading vertically-integrated multi-state cannabis operator as one of the top five publicly traded multi-state operators in the United States by reported annual revenue for the year ended December 31, 2021. An operator of licensed cannabis cultivation, processing, wholesale distribution and retail facilities, our goal is the ongoing development of communal wellness by providing responsible access to regulated medical and adult-use cannabis products to discerning high-end customers. As of June 10, 2022, through our subsidiaries and affiliates, we are licensed to conduct businesses in 14 states and actively operate businesses in 13 states, including 100 retail dispensaries, and 13 cultivation and processing facilities with over 1,000,000 square feet of cultivation, with an additional facility under construction. We produce a suite of premium, artisanal cannabis products sold under our portfolio of consumer brands, including Encore™, Avexia™, MÜV™ and Verano™. We also design, build and operate branded dispensary environments including Zen Leaf™ and MÜV™ that deliver a cannabis shopping experience in both medical and adult-use markets.

Notwithstanding the permissive regulatory environment of medical, and in some cases, recreational marijuana, at the state level, it remains illegal under US federal law to cultivate, manufacture, distribute, sell or possess marijuana in the US. Because federal law prohibits transporting any federally restricted substance across state lines, cannabis cannot be transported across state lines. As a result of current federal law prohibitions, the US cannabis industry is conducted on a state-by-state basis. To date, in the United States 37 states plus the District of Columbia and the US territories of Puerto Rico, Guam and the US Virgin Islands have authorized comprehensive medical marijuana programs, 19 states plus the District of Columbia and the US territories of Guam and the Commonwealth of Northern Mariana Islands have authorized comprehensive programs for medical and adult-use (i.e. recreational) marijuana, and 11 states allow the use of low THC, high CBD products for specified medical uses. Verano operates within states where cannabis use, medical or both medical and adult-use, has been approved by state and local regulatory bodies. Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under US federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company or any of its subsidiaries.

Our strategy is to vertically integrate as a single cohesive company in multiple states through the consolidation of seed-to-sale cultivating, manufacturing, distributing, and dispensing premium brands and products at scale. Our cultivation, processing and wholesale distribution of cannabis consumer packaged goods are designed to guarantee shelf-space in our national retail dispensary chain, as well as to develop and foster long term wholesale supply relationships with third-party retail operators through sales arrangements. Our model includes geographic diversity by establishing a footprint that enables us to adapt to changes in both industry and market conditions seamlessly and profitably. All of the Company's business, operating results and financial condition relate to US cannabis-related activities.

As part of the Go Public Transactions described in "Item 1. Business – History of the Company," in February 2021, the Company resulted from a reverse takeover transaction, and at such time Verano LLC and AltMed became subsidiaries of the Company with the other members of the AME Group and Plants of Ruskin becoming subsidiaries of AltMed. Prior to the Go Public Transactions, Verano LLC, AltMed and its subsidiaries (collectively, "AME") and Plants of Ruskin were not consolidated and were not combined.

Restatement of Previously Issued Financial Statements

On July 26, 2022, as a result of internal compensation and tax reviews, certain accounting errors were uncovered and in consultation with the Company's management, the Audit Committee determined that the Company would be required to restate its previously issued financial statements for the fiscal year ended December 31, 2021 and the first quarter ending March 31, 2022 and March 31, 2021. Amounts depicted as "As Restated" throughout this MD&A and the Restated Financials include the impact of the restatement.

The Company identified restatement errors or corrections, which relate to the following categories:

- (a) Stock-Based Compensation. The Company's stock-based compensation expense in connection with the Company's restricted stock units was understated in each of the Prior Financials (i) 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 restricted stock units instead of the date of grant [closing] trading price of the Subordinate Voting Shares underlying such restricted stock units, as reported on the CSE. As a result of such understated stock-based compensation expense, the Company's tax expense in each of the Prior Financials was overstated, and accordingly, the Company's tax obligation has been reduced. In particular, the changes to the stated items in the Prior Financials include the following:
 - i. As a result of the error related to stock-based compensation, in the Restated Annual Financials the Company increased Inventory by \$3,069, Cost of Goods Sold, net by \$3,544, and Salaries and Benefits expense by \$40,964.
 - ii.

- As a result of such understated stock-based compensation expense, in the Restated Annual Financials the Company's tax expense was reduced by (\$139) with a corresponding reduction to Income Tax Payable of (\$661) and a decrease of Deferred Income Taxes of (\$800).
- iii. As a result of the error related to stock-based compensation, in the Restated Quarterly Financials as of and for the quarter ended March 31, 2022, the Company increased Inventory by \$3,898, Cost of Goods Sold, net by \$1,052, and Salaries and Benefits expense by \$9,572.
 - iv. As a result of the error related to stock-based compensation, in the Restated Quarterly Financials as of and for the quarter ended March 31, 2021, the Company increased Salaries and Benefits expense by \$5,692.
- (b) Tax Expense. As a result of an overstatement of tax expense due to a clerical error, in the Restated Quarterly Financials as of and for the quarter ended March 31, 2022, the Company's tax expense was reduced by (\$20,274) with corresponding reduction to Income Tax Payable of (\$23,071) and an increase to Deferred Income Taxes of \$2,659. Also, the other restatement items impacted the period ending March 31, 2022 by increasing the Company's Income Tax Expense by \$2,956 and a corresponding increase in Income Tax Payable of \$2,956. The total restatement impact was that the Company's Income Tax Expense decreased by (\$17,318) and Income Tax Payable decreased by (\$20,116) and Deferred Income Tax increased by \$2,659 in the period ended March 31, 2022.
- (c) Consolidated Entity Distributions. 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 (\$1,675) for the year ended December 31, 2021, and (\$100) for the quarter ended March 31, 2021. Also, the Investment in Associates was corrected to account for distributions in excess of investment resulting in an increase of Equity Income of \$1,537 and \$1,638 at December 31, 2021 and March 31, 2022, respectively, with a reduction in Disposition of Investments of \$3,176 at March 31, 2022.
- (d) Acquisition Earnouts. The company determined that it had information after March 31, 2022 but before the March 31, 2022 financials were publicly filed regarding the CT Pharma and THC acquisition earnouts the Company recognized a \$4,760 reduction in the expected earnouts which was recorded in the first quarter March 31, 2022 to reflect the subsequent information indicating a lower liability.

SELECTED RESULTS OF OPERATIONS

The following presents selected financial data derived from the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022 and the audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019. The following tables reflect the restatement discussed in Note 4, to the Restated Annual Financials for December 31, 2021 and Note 3 to the Restated Quarterly Financials for March 31, 2022 and March 31, 2021. The selected consolidated financial information below may not be indicative of the Company's future performance.

Verano – Three Months Ended March 31, 2022, As Compared to Three Months Ended March 31, 2021

	For the Three Months Ended		
	March 31,		2022 – 2021
(\$ in thousands)	2022	2021	\$ Change
	(As Restated)	(As Restated)	
Revenue, net of discounts	\$ 202,235	\$ 120,895	\$ 81,340
Gross Profit	98,617	54,290	44,327
Net Loss attributable to Verano Holdings Corp.	(214)	(7,886)	7,672
Net Loss per share – basic	(0.00)	(0.03)	0.03
Net Loss per share - diluted	(0.00)	(0.03)	0.03

(\$ in thousands)	March 31, 2022 (As Restated)	December 31, 2021 (As Restated)
Total Assets	\$ 2,643,939	\$ 2,548,655
Long-Term Liabilities	695,355	596,333

Revenue, net of discounts

Revenue for the three months ended March 31, 2022 was \$202,235, an increase of \$81,340 or 67.3%, compared to revenue of \$120,895 for the three months ended March 31, 2021. Key performance drivers for retail revenue for the quarter were new store openings in Florida, Pennsylvania, Arizona and Connecticut along with significant retail expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets. During the three months ended March 31, 2022, the Company opened five new stores in Florida, Illinois and West Virginia. Retail revenue for the three months ended March 31, 2022 was approximately 75.6% of total revenue compared to 61.7% of total revenue for the three months ended March 31, 2021. Key performance drivers for cultivation (wholesale) revenues were merger and acquisition activities, in particular acquisitions of AltMed and Connecticut Pharmaceutical Solutions, Inc. and significant cultivation expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets. In addition, production output and sales of flower expanded in the Illinois, Maryland, New Jersey, and Ohio markets, which further increased revenue. Cultivation (wholesale) revenue for the three months ended March 31, 2022 was 24.4% of total revenue compared to 38.3% of total revenue for the three months ended March 31, 2021.

Gross Profit

Gross profit for the three months ended March 31, 2022 was \$98,617 representing a gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories of 48.8%. This is compared to gross profit for the three months ended March 31, 2021 of \$54,290, which represented a 44.9% gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories. The increase in gross profit is primarily due to top-line growth catalyzed by strong market growth in Illinois and expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets.

Net Loss

Net Loss attributable to the Company for the three months ended March 31, 2022 was \$(214), an increase of \$7,672, compared to a net loss of (\$7,886) for the three months ended March 31, 2021. The variance in net loss was driven by an increase in other income, partially offset by an increase in income tax expense.

(\$ in thousands)	For the Three Months Ended March 31,		2022 – 2021
	2022	2021	\$ Change
	(As Restated)	(As Restated)	
Cost of Goods Sold, net	\$ 103,618	\$ 66,605	\$ 37,013
Total Operating Expense	89,560	42,665	46,895
Other Income (Expense)	14,530	(2,634)	17,164
Provision for Income Taxes	(25,515)	(16,414)	(9,101)

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the three months ended March 31, 2022, was \$103,618, an increase of \$37,013 or 55.6%, from the three months ended March 31, 2021. The increase was primarily driven by the acquisitions of the AltMed cultivation facilities in Arizona and Florida, the Territory cultivation facility in Arizona, the Agri-Kind cultivation facility in Pennsylvania and continued expansion at existing facilities. On the retail side, the increase is due to expansion of sales and continued store openings.

Total Operating Expenses

Total operating expenses for the three months ended March 31, 2022, were \$89,560, an increase of \$46,895 or 109.9%, compared to total operating expenses of \$42,665 for the three months ended March 31, 2021. Total operating expenses as a percentage of revenue was 44.3% and 35.3% for the three months ended March 31, 2022, and 2021, respectively. The increase was primarily due to i) a \$39,051 increase in salaries and benefits related to stock-based compensation expense and ii) a \$32,711 increase in general and administrative expenses driven by the expansion into four new markets. Higher spend related to marketing initiatives and continued growth in existing markets which lead to an increase in employee headcount and fixed assets.

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

Total Other Income (Expense)

Total other income (expense) the three months ended March 31, 2022, was \$14,530, an increase of \$17,164 as compared to the three months ended March 31, 2021. The increase in other income was primarily due to a gain on the disposal of three dispensaries of \$14,099.

Provision for Income Taxes

Income tax expense for the three months ended March 31, 2022, was (\$25,515), an increase to income tax expense of (\$9,101) or (55.4%) as compared to the three months ended March 31, 2021. The increase in income taxes was due the increase in top line revenues year over year.

Verano - Year Ended December 31, 2021, As Compared to Year Ended December 31, 2020

(\$ in thousands)	For the Year Ended December 31,		2021 – 2020 \$ Change
	2021	2020	
	(As Restated)		
Revenue, net of discounts	\$ 737,850	\$ 228,530	\$ 509,320
Gross Profit	331,019	135,569	195,450
Net Income (Loss) attributable to Verano Holdings Corp.	(57,507)	38,401	(95,908)
Net Income (Loss) per share – basic	(0.20)	0.15	(0.35)
Net Income (Loss) per share - diluted	(0.20)	0.14	(0.34)

Revenue, net of discounts

Revenue for the year ended December 31, 2021 was \$737,850 an increase of \$509,320 or 222.9%, compared to revenue of \$228,530 for the year ended December 31, 2020. The increase in revenue was primarily driven by significant retail and cultivation expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets. The key performance driver of retail revenues in 2021 was increased store traffic to Verano's open and operating retail stores, particularly in Illinois, and new store openings, including acquired stores, particularly in Florida, Arizona and Pennsylvania. The Company generated revenue from 92 retail locations during 2021 compared to 71 locations in the prior year. During the year ended December 31, 2021, retail revenue made up 73.1% of total revenue as compared to 36.2% of total revenue in 2020. Since December 31, 2020, the Company's merger with the AME Group on February 11, 2021 resulted in the AME Group becoming wholly owned subsidiaries of the Company and adding additional retail stores in Arizona and Florida, which contributed to the increase in retail revenues in 2021. The key drivers for the cultivation (wholesale) increase in revenues in 2021 were production output and sales of flower expanded in the Illinois, Maryland, New Jersey, and Ohio markets. Cultivation (wholesale) revenue made up 26.9% of total revenues in 2021 as compared to 63.8% in 2020.

Gross Profit

Gross profit for the year ended December 31, 2021 was \$331,019 representing a gross margin on the sale of cannabis, cannabis extractions and edibles and from related accessories of 44.9%. This is compared to gross profit for the year ended December 31, 2020 of \$135,569, which represented a 59.3% gross margin. The increase in gross profit is primarily due to top-line growth catalyzed by strong market growth in Illinois and expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets.

Net Income (Loss)

Net loss attributable to Verano Holdings Corp. for the year ended December 31, 2021, was \$(57,507) a decrease of \$(95,908), compared to a net income of \$38,401 for the year ended December 31, 2020. The decrease in net income was driven by an increase in income tax expense.

(\$ in thousands)	For the Year Ended December 31,		2021 – 2020 \$ Change
	2021	2020	
	(As Restated)		
Cost of Goods Sold, net	\$ 406,831	\$ 92,961	\$ 313,870
General and Administrative	100,903	23,838	77,065
Sales and Marketing Expense	8,644	919	7,725
Salaries and Benefits	119,598	16,228	103,370
Depreciation and Amortization	41,784	2,278	39,506
Total Operating Expense	270,929	43,263	227,666
Other Expenses	15,723	12,546	3,177
Provision for Income Taxes	(103,988)	(42,296)	(61,692)

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the year ended December 31, 2021 was \$406,831, an increase of \$313,870 or 337.6%, from the year ended December 31, 2020. The increase was primarily driven by the acquisitions of the AltMed cultivation facilities in Arizona and Florida, the Territory cultivation facility in Arizona, the Agri-Kind cultivation facility in Pennsylvania and continued expansion at existing facilities. On the retail side, the increase is due to expansion of sales and continued store openings.

Total Operating Expenses

Total operating expenses for year the ended December 31, 2021 were \$270,929, an increase of \$227,666 or 526.2%, compared to total operating expenses of \$43,263 for the year ended December 31, 2020. Total operating expenses as a percentage of revenue was 36.7% and 18.9% for the years ended December 31, 2021 and 2020, respectively. The increase was primarily due to i) a \$103,370 increase in salaries and benefits due to stock-based compensation expense and ii) a \$77,065 increase in general and administrative expenses driven by the expansion into four new markets and continued growth in existing markets which lead to an increase in employee headcount and fixed assets.

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

Total Other Expense

Total other expense for the year ended December 31, 2021 was \$15,723, an increase of \$3,177 or 25.3% as compared to the year ended December 31, 2020. The increase was due to amortization of debt issuance costs for warrants and convertible debt, amortization of the present value discount for acquisitions with deferred consideration, and interest accrued on outstanding debt.

Provision for Income Taxes

Income tax expense for the year ended December 31, 2021 was (\$103,988), an increase to income tax expense of (\$61,692) or (145.9%) as compared to the year ended December 31, 2020. The increase in income taxes was due the increase in top line revenues year over year.

Verano LLC - Year Ended December 31, 2020, As Compared to Year Ended December 31, 2019

(\$ in thousands)	For the Year Ended December 31,		2020 – 2019
	2020	2019	\$ Change
Revenues, net of discounts	\$ 228,530	\$ 65,968	\$ 162,562
Gross Profit	135,569	36,040	99,529
Net Income (Loss) attributable to Verano Holdings, LLC	38,401	(18,273)	56,674
Net Income (Loss) per share – basic	0.15	(0.07)	0.22
Net Income (Loss) per share - diluted	0.14	(0.07)	0.21

Revenue, net of discounts

Revenue for the year ended December 31, 2020 was \$228,530, an increase of \$162,562 or 246.4%, compared to revenue of \$65,968 for the year ended December 31, 2019. The increase was primarily due to increased supply capacity and demand in Illinois, along with expansion into Arkansas, Maryland, Massachusetts, New Jersey, Ohio, and Pennsylvania. The key performance drivers of retail revenues in 2020 were legalization of adult use in Illinois on January 1, 2020 as well as new store openings particularly in Arkansas, Maryland, Massachusetts, New Jersey, Ohio, and Pennsylvania where 15 dispensaries were opened in 2020. During the year ended December 31, 2020, retail revenue made up 36.2% of total revenue as compared to 33.2% in 2019. In total, the Company had 71 retail locations open and operating during the year ended December 31, 2020 as compared to 26 retail locations in the prior year. The key drivers for cultivation (wholesale) revenue were legalization of adult use in Illinois on January 1, 2020 as well as the expansion of the Company's branded product portfolio to third-party retailers through the Company's existing cultivation and processing facilities in Illinois and Pennsylvania due to increased scale and efficiency. Cultivation (wholesale) revenue made up 63.8% of total revenues in 2020 as compared to 66.8% in 2019.

Gross Profit

Gross profit for the year ended December 31, 2020 was \$135,569, representing a gross margin on the sale of cannabis, cannabis extractions and edibles and from related accessories of 59.3%. This is compared to gross profit for the year ended December 31, 2019 of \$36,040, which represented a 54.6% gross margin. The increase in gross profit margin is primarily due to top-line growth in the Illinois market as well as the opening of 15 dispensaries.

Net Income (Loss)

Net income attributable to Verano Holdings, LLC for the year ended December 31, 2020 was \$38,401, an increase of \$56,674, compared to a net loss of (\$18,273) for the year ended December 31, 2019. The increase in net income was primarily due to increased supply capacity and demand in Illinois, along with expansion into Arkansas, Maryland, Massachusetts, New Jersey, Ohio, and Pennsylvania leading to the opening of 15 dispensaries in these markets.

(\$ in thousands)	For the Year Ended December 31,		2020 – 2019 \$ Change
	2020	2019	
Cost of goods sold	\$ 92,961	\$ 29,928	\$ 63,033
General and Administrative	23,838	29,692	(5,854)
Sales and Marketing Expense	919	926	(7)
Salaries and Benefits	16,228	6,231	9,997
Depreciation and Amortization	2,278	2,288	(10)
Total Operating Expense	43,263	39,137	4,126
Other Expenses	12,546	4,938	7,608
Provision for Income Taxes	(42,296)	(10,333)	(31,963)

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the year ended December 31, 2020 was \$92,961, an increase of \$63,033 or 210.6%, from the year ended December 31, 2019. This increase is primarily due to production costs of cannabis in the Illinois cultivation facility, along with start-up costs in New Jersey and Ohio. On the retail side, this increase is due to expansion of sales and continued store openings.

Total Operating Expenses

Total operating expenses for the year ended December 31, 2020 were \$43,263, an increase of \$4,127 or 10.5%, compared to total operating expenses of \$39,137 for fiscal year ended December 31, 2019. Total operating expenses as a percentage of revenue, net of discounts, was 18.9% and 59.3% for the years ended December 31, 2020 and 2019, respectively. The increase in total operating expenses was primarily due to a \$9,997 or 160.4% increase in salaries and benefits, which was driven by an increase in headcount from the Company's primary operating markets, start-up costs in new markets, and transaction costs relating to the RTO of \$2,764.

Total Other Expense

Total other expense for the year ended December 31, 2020 was \$12,546, an increase of \$7,608 or 154.1% as compared to the year ended December 31, 2019. The increase is due to amortization of debt issuance costs for warrants and convertible debt.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2020, provision for income taxes totaled (\$42,296) compared to (\$10,333) for the year ended December 31, 2019. The increased income tax expense was primarily driven by greater taxable income in the year ended December 31, 2020.

Verano - Results of Operations – Segments

The Company has two reportable segments: (i) Cultivation (Wholesale) and (ii) Retail.

Verano – Three Months Ended March 31, 2022, As Compared to Three Months Ended March 31, 2021

The following tables summarize revenues net of sales discounts by segment for the three months ended March 31, 2022 and 2021:

(\$ in thousands)	Three Months Ended March 31,		
	2022 (As Restated)	2021 (As Restated)	% Change
Revenues, net of discounts			
Cultivation (Wholesale)	\$ 53,008	\$ 49,161	7.8%
Retail	164,334	79,195	107.5%
Intersegment Eliminations	(15,107)	(7,461)	(102.5)%
Total Revenues, net of discounts	202,235	120,895	67.3%

Revenues, net of discounts for the cultivation (wholesale) segment were \$53,008 for the three months ended March 31, 2022, an increase of \$3,846 or 7.8% excluding intersegment eliminations, compared to the three months ended March 31, 2021. The increase in cultivation (wholesale) revenues, net of discounts, was primarily driven by acquisitions in new markets and increases in revenues in established markets.

Revenues, net of discounts for the retail segment were \$164,334 for the three months ended March 31, 2022, an increase of \$85,139 or 107.5%, excluding intersegment eliminations, compared to the three months ended March 31, 2021. The increase in retail revenues, net of discounts, was primarily driven by the Company's Florida operations, which are treated exclusively as retail income due to the vertical nature of the Florida business. The increase was also driven by additional retail store openings in Florida, Pennsylvania, Arizona and Connecticut, in addition to the retail locations acquired through acquisitions entered into throughout 2021.

Due to the vertically integrated nature of its business, the Company reviews its revenue at the wholesale and retail level while reviewing its operating results on a consolidated basis.

Verano – Year Ended December 31, 2021, As Compared to Year Ended December 31, 2020

The following tables summarize revenues net of sales discounts by segment for the years ended December 31, 2021 and 2020:

(\$ in thousands)	For the Year Ended December 31,		
	2021 (As Restated)	2020	% Change
Revenues, net of discounts			
Cultivation (Wholesale)	\$ 217,739	\$ 156,223	39.4%
Retail	591,591	88,470	568.7%
Intersegment Eliminations	(71,480)	(16,163)	(342.2)%
Total Revenues, net of discounts	737,850	228,530	222.9%

Revenues, net of discounts for the wholesale segment were \$217,739 for the year ended December 31, 2021, an increase of \$61,516 or 39.4%, excluding intersegment eliminations, compared to the year ended December 31, 2020. The increase in wholesale revenues net of discounts, was primarily driven by acquisitions in new markets and increases in revenues in established markets.

Revenues, net of discounts for the retail segment were \$591,591 for the year ended December 31, 2021, an increase of \$503,121 or 568.7%, excluding intersegment eliminations, compared to the year ended December 31, 2020. The increase in retail revenues, net of discounts, was primarily driven by the Company's Florida operations, which are treated exclusively as retail income due to the vertical nature of the Florida business. The change was also driven by additional retail store openings in addition to the retail locations obtained through acquisitions entered into during the second half of 2020 and throughout 2021.

Due to the vertically integrated nature of business, the Company reviews its revenue at the wholesale and retail level while reviewing its operating results on a consolidated basis.

Verano – Year Ended December 31, 2020, As Compared to Year Ended December 31, 2019

The following tables summarize revenues net of sales discounts by segment for the years ended December 31, 2020 and 2019:

(\$ in thousands)	For the Year Ended December 31,		
	2020	2019	% Change
Revenues, net of discounts			
Cultivation (Wholesale)	\$ 156,223	\$ 46,068	239.1%
Retail	88,470	22,925	285.9%
Intersegment Eliminations	(16,163)	(3,025)	(434.3)%
Total Revenues, net of discounts	228,530	65,968	246.4%

Revenues, net of discounts for the wholesale segment were \$156,223 for the year ended December 31, 2020, an increase of \$110,155 or 239.1%, excluding intersegment eliminations, compared to the year ended December 31, 2019. The increase in wholesale revenues net of discounts, was primarily driven by growth in the Illinois market, which included the adult-use launch.

Revenues, net of discounts for the retail segment were \$88,470 for the year ended December 31, 2020, an increase of \$65,545 or 285.9%, excluding intersegment eliminations, compared to the year ended December 31, 2019. The increase in retail revenues, net of discounts, was primarily driven by sales in Illinois, supported by continued growth in Maryland, Ohio, and Nevada. New retail expansion in Arkansas, Massachusetts, New Jersey, and Pennsylvania helped contribute to overall growth.

Due to the vertically integrated nature of business, the Company reviews its revenue at the wholesale and retail level while reviewing its operating results on a consolidated basis.

Drivers of Operational Performance

Revenue

The Company derives its revenue from both its cultivation (wholesale) business in which it cultivates, produces and sells cannabis products to third-party retail customers, and its retail business, in which it directly sells cannabis products to retail patients and consumers. For the three months ended March 31, 2022, approximately 24.4% of the Company's revenue was generated from the cultivation (wholesale) business and approximately 75.6% from the retail business. For the year ended December 31, 2021, approximately 26.9% of revenue was generated from the cultivation (wholesale) business and approximately 73.1% from the retail business. For the year ended December 31, 2020, approximately 63.8% of revenue was generated from the wholesale business and approximately 36.2% from the retail business. For the year ended December 31, 2019, approximately 66.8% of revenue was generated from the wholesale business and approximately 33.2% from the retail business. This change in mix was largely driven by the opening and acquisition of additional retail stores throughout the years ended December 31, 2020 and 2021.

On a standalone basis, the Company's wholesale-based revenue decreased gradually throughout the year ended December 31, 2021 as the Company fully realizes the new stores that opened in 2020 and opening of additional retail dispensaries in 2021.

Gross Profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles, and concentrates, as well as packaging and other supplies, fees for services and processing, rent, utilities, and related costs. Cannabis costs are affected by various state regulations that limits the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes. Gross margin measures the Company's gross profit as a percentage of revenue. Furthermore, during the three months ended March 31, 2022 and the year ended December 31, 2021, the Company recorded an increase to cost of goods sold, net, of \$4,612 and \$80,988, respectively, that was attributable to acquired inventory that was stepped-up to fair value, and subsequently recognized through cost of goods sold.

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

Total Expenses

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

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

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

Provision for Income Taxes

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the cannabis industry, it is subject to the limits of Section 280E of the Code under which the Company is only allowed to deduct expenses directly related to the sale of products. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under Section 280E of the Code and a higher effective tax rate than most industries.

LIQUIDITY, FINANCING ACTIVITIES AND CAPITAL RESOURCES

As of March 31, 2022 and December 31, 2021, the Company had total current liabilities of \$425,801 and \$470,516, respectively, and cash and cash equivalents of \$139,637 and \$99,118, respectively, to meet its current obligations. The Company had a working capital deficit of (\$82,124) as of March 31, 2022, an increase of working capital of \$111,348 as compared to December 31, 2021. This increase in working capital was primarily driven by a \$23,078 net increase in inventories and proceeds from issuance of notes payable of \$102,660 partially offset by \$62,498 of cash payments related to acquisition consideration payable and an increase in accounts payable of \$15,878.

The Company is an early-stage growth company, generating cash from revenues deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and long term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, strategic investment opportunities, product development and marketing, as well as customer, supplier, and investor and industry relations.

While our revenue, gross profit and operating income were not materially impacted by COVID-19 and we maintained the consistency of our operations during the first three months of 2022 and the year ended December 31, 2021, the uncertain nature of the spread of COVID-19 may impact our business operations for reasons including the potential quarantine of our employees or those of our supply chain partners. Our ability to continue to operate without any significant negative operational impact from the COVID-19 pandemic will in part depend on our ability to protect our employees, customers and supply chain partners. The Company takes a cautious approach in allocating its capital to maximize its returns while ensuring appropriate liquidity. Given the current uncertainty of the future economic environment, the Company has taken additional measures in monitoring and deploying its capital to minimize the negative impact on its current operations and expansion plans.

Liquidity Requirements

Our short-term liquidity requirements consist primarily of funds necessary to pay for our ongoing acquisitions, to repay borrowings, maintain our operations and other general business needs. We believe that internally generated funds and other sources of liquidity discussed below will be sufficient to meet working capital needs, capital expenditures, and other business requirements for at least the next 12 months as of the date of this Amended and Restated Form 10. We believe we will meet known or reasonably likely future cash requirements through the combination of cash generated from operating activities, available cash balances and available borrowings. If these sources of liquidity need to be augmented, additional cash requirements would likely be financed through the issuance of equity securities or additional borrowings; however, there can be no assurances that we will be able to obtain additional equity financing or debt financing on acceptable terms in the future.

Our long-term liquidity requirements consist primarily of completing additional acquisitions, scheduled debt payments, maintaining and expanding our operations and other general business needs. We expect to meet our long-term liquidity requirements through various sources of capital, which may include future debt or equity issuances, net cash provided by operations and other secured and unsecured borrowings. We believe that the foregoing sources of capital will provide sufficient funds for our operations, anticipated expansion and scheduled debt payments for the long-term. Our ability to fund our operating needs will depend on our future ability to continue to generate positive cash flow from operations and obtain debt or equity financing on acceptable terms.

Credit Facility

The Company and certain of its subsidiaries are credit parties as co-borrowers and joint guarantors under the Credit Agreement. A total of \$350,000 in fully funded term loan commitments is currently outstanding under the Credit Agreement, with an option for the Company to request up to an additional \$175,000 in funding on terms to be mutually decided by the Company and the lenders if the Company exercises the option.

The Credit Agreement provides for, among other things, (i) the term loans being secured by a first priority lien on specified assets of Verano and our subsidiaries that are parties to the Credit Agreement, including ownership interests in credit parties, cash, accounts receivable, inventory, equipment, licenses and designated real estate, (ii) the original \$30,000 loan bearing interest at a rate of 15.25% per annum, the incremental \$100,000 loan funded in May 2021 bearing interest at a rate of 9.75% per annum and the remaining \$220,000 bearing interest at a rate of 8.50% per annum; (iii) no principal amortization with \$120,000 plus applicable interest being due in full on the stated maturity date of April 28, 2023, \$130,000 plus applicable interest being due in full on the stated maturity date of May 30, 2023 and the balance of the last funding of \$100,000 being due in full on the stated maturity date of August 31, 2023; (iv) prepayment fees generally of 1% of any principal amount being prepaid during a specified period after funding; (v) restrictive covenants which apply to the operations of the Company and our subsidiaries that are parties to the Credit Agreement, including limitations on their ability to incur additional debt, grant liens on assets, advance or contribute funds to non-credit parties and enter into acquisitions; and (vi) financial covenants requiring Verano to maintain on a consolidated basis:

- minimum liquidity averaging at least \$20,000 during any fiscal quarter and at least \$25,000 as of the last day of each fiscal quarter;
- minimum consolidated EBITDA for any fiscal quarter of at least \$20,000; and
- a fixed charge coverage ratio of no less than 1.5:1.0 measured at the end of each fiscal quarter.

As of March 31, 2022 and December 31, 2021, the Company was in compliance with such covenants.

Mortgage Loans

On May 14, 2021, the Company acquired The Healing Center, which operates three dispensaries on three separate leased real estate parcels in the greater Pittsburgh area and on September 3, 2021, Verano acquired these three parcels from the owners. The Company funded the real estate acquisitions through a credit facility with Chicago Atlantic for \$12,650 and interest of 9.75% per annum that matures in September 2023. 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 credit facility, which was paid net of proceeds upon closing.

On July 17, 2021, the Company assumed a loan with 100 Mile Fund, LLC for a principal amount of \$13,000 as part of the acquisition of Agronomed Holdings, Inc. The loan bears interest only payments of 13% per annum due monthly and matures July 11, 2022. The note is secured by first-priority blanket liens on the property, assets, and ownership interests of Agri-Kind and Agronomed Holdings Inc.

Funding Needs and Sources

Historically, we have relied on a combination of cash flows provided by operations, draw-downs under the Amended and Restated Credit Agreement and the incurrence of additional debt and/or the refinancing of our existing debt to fund our obligations. The Company continues to identify and evaluate further actions to improve its liquidity. These include, but are not limited to, increased reductions in capital expenditures, operating expenses and administrative costs and additional debt. Additionally, we will continue to pursue opportunities to raise additional capital to fund obligations associated with future debt maturities and/or extend the maturity dates associated with our existing debt. Such opportunities to raise additional capital may include incurring or issuing new debt or extending the maturity date of existing debt.

During the next 12 months, approximately \$250,000 of our debt related to the Amended and Restated Credit Agreement will become due. A total of \$350,000 in fully funded term loan commitments are currently outstanding under the Amended and Restated Credit Agreement, with an option to request, one time, an additional aggregate amount not exceeding \$175,000, subject to the satisfaction of the conditions precedent set forth in the Credit Agreement. Additionally, the Company has entered into an engagement agreement with certain parties, including Chicago Atlantic, to refinance the debt for an additional term of up to three years. The refinancing will be dependent on, among other things, overall market conditions.

Based on our assumptions and estimates and our financial condition, we believe that the liquidity resulting from the actions mentioned above will be sufficient to fund our liquidity requirements over at least the next 12 months. However, there is no assurance that our assumptions and estimates are accurate due to possible unknown variables and, as such, there is inherent uncertainty in our ability to predict future liquidity requirements.

Sources and Uses of Cash

Cash Used in Operating Activities, Investing and Financing Activities

Net cash provided by (used in) operating, investing, and financing activities for the three months ended March 31 2022 and 2021 were as follows:

	Three Months Ended March 31,			
	2022		2021	
	<i>(As Restated)</i>		<i>(As Restated)</i>	
Net Cash Provided by Operating Activities	\$	34,457	\$	24,930
Net Cash Used in Investing Activities		(86,743)		(72,068)
Net Cash Provided by Financing Activities		92,805		143,004

Net cash provided by (used in) operating, investing, and financing activities for the years ended December 31, 2021, 2020, 2019, were as follows:

	Years ended December 31,		
	2021	2020	2019
	<i>(As Restated)</i>		
Net Cash Provided by (Used in) Operating Activities	\$ 182,872	\$ 71,627	\$ (6,660)
Net Cash (Used in) Investing Activities	(455,832)	(86,908)	(84,118)
Net Cash Provided by Financing Activities	355,676	25,266	24,108

Our capital expenditures plan for 2022 is expected to be in the range of \$185,000 to \$250,000. Approximately 90% of our capital expenditures in 2022 are focused on growth initiatives including projects to expand current cultivation and processing capacity in existing markets, automate our consumer package goods business, expand our retail footprint and improve our technology systems infrastructure. In addition, the Company intends to continue to invest in growth through acquisitions and expects to incur acquisition and transaction costs related to expansion.

Contractual Obligations

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

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and after
Long Term Debt ¹	\$ 289,924	\$ 13,771	\$ 265,867	\$ 2,108	\$ 8,178
Operating Leases	\$ 89,541	\$ 11,457	\$ 21,372	\$ 18,534	\$ 38,178
Purchase Obligations ²	-	-	-	-	-
Other Long Term Obligations ³	-	-	-	-	-
Total Contractual Obligations	<u>\$ 379,465</u>	<u>\$ 25,228</u>	<u>\$ 287,239</u>	<u>\$ 20,642</u>	<u>\$ 46,356</u>

¹ Long Term Debt generally includes the Credit Agreement, mortgages and other long term debt included on the Company's consolidated balance sheet.

² "Purchase Obligations" means an agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price considerations; and the approximate timing of the transaction (Purchase Obligations do not include current acquisition agreements).

³ "Other Long-Term Obligations" means other long-term liabilities reflected on the Company's balance sheet, excluding deferred income taxes.

Off-Balance Sheet Arrangements

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

Changes in or Adoption of Accounting Practices

Refer to the discussion of recently adopted/issued accounting pronouncements within the Notes to Unaudited Interim Condensed Consolidated Financial Statements, Note 1 — Overview and Basis of Presentation and the Notes to the Consolidated Financial Statements Note 2 — Basis of Presentation.

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS, AND ASSUMPTIONS

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

Estimated Useful Lives and Amortization of Intangible Assets

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired.

Inventories

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

Determination of Reporting Units

The Company's assets are aggregated into two reportable segments: Cultivation (Wholesale) and Retail). For the purposes of testing impairment of goodwill, the Company has identified 12 reporting units. The Company analyzed its reporting units by first reviewing the operating segments based on the geographic areas in which the Company conducts business (or each market). The markets were then further divided into reporting units based on the market operations (retail and cultivation) which were primarily determined based on the licenses each market holds. The following represents the markets in which the Company operates as of December 31, 2021: Arizona, Arkansas, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, Ohio, Pennsylvania and West Virginia.

Business Combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its transaction-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 450, *Contingencies*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the transaction date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the transaction date.

Consolidation

Judgment is applied in assessing whether the Company exercises control and has significant influence over entities in which the Company directly or indirectly owns an interest. The Company has control when it has the power over the entity, has exposure or rights to variable returns, and has the ability to use its power to affect the returns. Significant influence is defined as the power to participate in the financial and operating decisions of the entities. Where the Company is determined to have control, these entities are consolidated. Additionally, judgment is applied in determining the effective date on which control was obtained. See Note 18 – Variable Interest Entities for further details.

Income Tax

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

Financial Risk Management

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

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2021, 2020 and 2019 is the carrying amount of cash. The Company does not have significant credit risk with respect to its customers. All cash is placed with major US financial institutions with the exception of its Nevada operations.

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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Market Risk – Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate risk.

Market Risk – Price Risk

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

Banking Risk

Notwithstanding that a majority of states have legalized medical or adult-use cannabis, or both, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that US 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 cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company and leaves their cash holdings vulnerable.

Asset Forfeiture Risk

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

Regulatory Risk

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

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

Tax Risk

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