

Verano Holdings Corp.



MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of Verano Holdings Corp. (“**Verano**” or, the “**Company**”) is for the three and six months ended June 30, 2021, and 2020. This MD&A is dated August 10, 2021. It is supplemental to, and should be read in conjunction with, the Company’s unaudited condensed interim consolidated financial statements as of June 30, 2021, and the consolidated financial statements for the year ended December 31, 2020, and accompanying notes for each respective period. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

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

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

OVERVIEW OF THE COMPANY

The Company is a leading vertically-integrated multi-state cannabis operator in the United States. An operator of licensed cannabis cultivation, processing and retail facilities, the Company’s goal is the ongoing development of communal wellness by providing responsible access to regulated cannabis products to the discerning high-end customer. The Company is licensed to operate in 14 U.S. States, with active operations in 11, which includes 76 active dispensaries, eight cultivation licenses and approximately 690,000 square feet across its cultivation facilities and 10 processing/manufacturing licenses with a focus on tightly regulated, limited license markets. Pending the close of acquisitions and construction, the Company will have 82 active dispensaries, 11 cultivation licenses and 842,000 square feet across its cultivation facilities. The Company produces a suite of premium, artisanal cannabis products sold under its portfolio of consumer brands, including Encore™, Avexia™, MÜV™ and Verano™. The Company designs, builds and operates branded dispensary environments including Zen Leaf™ and MÜV™ that deliver a cannabis shopping experience in both medical and adult-use markets.

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

The Company, through its subsidiaries and affiliates, holds, operates, manages, consults, licenses, and/or controls licenses/permits in the States of Illinois, Florida, Arizona, New Jersey, Pennsylvania, Ohio, Maryland, Massachusetts, Nevada, Michigan, Arkansas, West Virginia, California and Missouri. Each State has a unique approach to licenses and vertical integration for cultivation, manufacturing, distribution, and sale of cannabis.

The Company’s strategy is to vertically integrate as a single cohesive company through the consolidation of cultivating, manufacturing, distributing, and dispensing premium brands and products at scale. Verano’s strategy of cultivation and wholesale of cannabis consumer packaged goods supports the national retail dispensary chain operating under the Zen Leaf™ and MÜV brands, among other brands. This combination guarantees shelf-space in the Company’s own retail stores, as well as fosters mutually beneficial relationships with its third-party dispensary customers through supply agreements. Verano’s cohesive strategy has been complementary and accretive.

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

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

- Verano’s business plan centers around four foundational pillars: cultivation, production, brand creation and retail. Verano believes this diversity in revenue streams positions it to respond positively to changes in economics, regulations and healthcare, as well as navigating ever-evolving consumer habits.
- Verano operates and manages the entire vertical cannabis operation and supply chain, from seed to sale.
- Verano’s deliberate and proven approach historically has focused on large markets where it aims to be the first in.
- Verano’s network encompasses a market of nearly 150 million Americans in Illinois, Florida, Arizona, New Jersey, Pennsylvania, Ohio, Maryland, Massachusetts, Nevada, Michigan, Arkansas, West Virginia, California, and Missouri.
- Verano emphasizes developing premium, handcrafted products in controlled quantities. The quality, positive reviews and finite availability elevate Verano’s products’ market desirability and value.
- Verano grows pesticide-free, meeting testing and State regulatory requirements, and, while no facilities are GMP-certified, Verano believes it adheres to Current Good Manufacturing Practices (cGMP) with respect to such facilities. Verano adheres to Standard Operating Procedures in all cultivation/manufacturing facilities.
- Verano will seek to continue to expand through the acquisition of new licenses and existing businesses as well as leveraging relationships within the research and development sectors.
- Verano espouses a customer- and patient-driven business philosophy to deliver value to its downstream customers and consumers.

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

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

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

Business Operations

Verano, which has one of the largest footprints for multi-state, vertically-integrated owners and operators in the U.S., derives its revenues from a balanced contribution of sources through its wholesale cannabis business and national retail dispensaries under brands including Zen Leaf™ and MÜV™. The Company’s objective is to support its national retail dispensary chain through its wholesale cannabis consumer packaged goods business (cultivation and manufacturing).

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

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

Operational Foundation and Current Markets

The geographic markets in which Verano currently operates wholesale and retail businesses include Illinois, Maryland, Massachusetts, Nevada, Ohio, New Jersey, Pennsylvania, Florida, Arizona and West Virginia. Geographic markets where Verano currently has dispensaries, licenses or other commercial interests include Arkansas, Michigan, California and Missouri. All of these markets are subject to State regulations that vary State-by-State and have historically been modified and amended from time to time since initial enactment. In addition, municipalities may individually determine what local permits or licenses are required to operate within its boundaries. The Company monitors and stays apprised of changes to applicable laws and regulations, and the Company expects State and local laws and regulations to continue to be modified and amended. The Company's operations and business interests may be impacted by future changes in laws and regulations.

Illinois Operations

Subject to State regulations, Illinois currently allows access to cannabis for both medical and adult-use.

The *Compassionate Use of Medical Cannabis Pilot Program Act* (the "**IL Act**") was signed into law in August 2013 and took effect on January 1, 2014. The IL Act provides medical cannabis access to registered patients who suffer from a list of over 30 medical conditions including epilepsy, cancer, HIV/AIDS, Crohn's disease and post-traumatic stress disorder. As of July 7, 2021 approximately 158,439 patients have been registered under the IL Act and are qualified to purchase cannabis and cannabis products from registered dispensaries for medical use. The *Cannabis Regulation and Tax Act*, 410 ILCS 705 *et seq.* (the "**CRTA**") was signed into law on or about May 31, 2019 and took effect on January 1, 2020. The CRTA legalizes the cultivation, manufacture, and sale of cannabis for adult-use purposes. Under the CRTA, cultivation centers licensed under the IL Act are permitted, upon approval from regulatory authorities, to cultivate and manufacture adult-use cannabis. Existing medical cannabis dispensaries are also permitted under the CRTA, upon approval from regulatory authorities, to dispense adult-use cannabis to purchasers 21 years of age or older from existing retail sites plus one satellite location. The CRTA also allows for licensure of up to 75 new adult-use dispensing organizations, up to 40 craft grower facilities, up to 40 infuser facilities, and an unlimited number of transport organizations, all of which are reserved for qualified social equity participants. The CRTA does not permit existing cultivation centers to own craft grower or infuser facilities, and entities may not own more than five medical dispensaries or more than ten adult-use dispensaries.

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

IDPH, IDOA and IDFPD may enter into inter-governmental agreements, as necessary, to carry out the provisions of the IL Act and the CRTA.

Illinois has issued a limited amount of dispensary, producer/grower, and processing licenses. There are currently 55 licensed medical dispensaries, 62 licensed adult-use dispensaries and 22 licensed cultivators. On July 15, 2021, the IDOH announced the award of additional adult-use cannabis licenses in the craft grower, infuser, and transportation categories. In addition, on July 28, 2021, the IDFPD announced three lotteries to be conducted between July 29, 2021, and August 19, 2021, during which it would choose a total of 185 new adult use dispensing organization licenses.

An affiliate of the Company is licensed to operate a cultivation center in the State of Illinois. The cultivation center license permits the licensee to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell medical and adult-use cannabis and related supplies to medical and adult-use dispensing organizations. Company affiliates also own and/or operate 10 dispensaries across the State of Illinois.

Maryland Operations

Subject to State regulations, Maryland currently allows access to cannabis for medical use.

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

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

An affiliate of the Company owns a licensee which is licensed to operate a cultivation facility and a retail medical cannabis dispensary in Maryland. The retail dispensary license permits it to purchase medical cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities and cannabis from other retail stores and allows the sale of cannabis and cannabis products to registered patients. The medical grower license permits the licensee to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell cannabis and related supplies to medical marijuana dispensaries, and medical cannabis grower facilities. In addition, through management agreements and other affiliate relationships, Verano’s subsidiaries manage four dispensaries in Maryland and one processor licensee.

Massachusetts Operations

Subject to State regulations, Massachusetts currently allows access to cannabis for both medical and adult-use.

The Massachusetts Medical Use of Marijuana Program (the “**MA Program**”) was established pursuant to the Act for the Humanitarian Medical Use of Marijuana which was passed by voters in 2021. The MA Program allows registered persons to purchase medical cannabis and applies to any patient, personal caregiver, Registered Marijuana Dispensary (each, a “**RMD**”), and RMD agent that qualifies and registers under the MA Program. In November 2016, Massachusetts voted to legalize and regulate cannabis for adult recreational use, and in 2017 the Cannabis Control Commission (the “**MA CCC**”) was established. The MA CCC regulates Massachusetts’ medical marijuana program and recreational marijuana program.

Under the MA Program, RMD’s security, storage, transportation, inventory, personnel, and other operations are heavily regulated. RMDs are “vertically-integrated,” growing, processing, and dispensing their own marijuana. As such, each RMD is required to have a retail facility as well as cultivation and processing operations, although retail operations may be separate from cultivation and processing operations. RMDs that elect to do cultivation, processing and retail operations all in one location, are commonly referred to as a “co-located” operation. An RMD may also choose to have a retail dispensary in one location and grow marijuana at a remote cultivation location.

There are several different classes of adult-use licenses in Massachusetts, including, but not limited to, cultivators, cooperatives, manufacturers, retailers and transporters. There is no requirement that adult-use marijuana establishments be vertically-integrated. As with RMDs, these marijuana establishments are highly regulated, including requirements related to security, storage, transportation, inventory, personnel and other operations.

A subsidiary of the Company holds licenses with the MA CCC for medical and adult-use licenses to operate retail dispensaries, cultivation facilities, and manufacturing facilities in Sharon and Plymouth, Massachusetts. This licensee has received approval for dispensary locations in both Sharon and Plymouth.

Nevada Operations

Subject to State regulations, Nevada currently allows access to cannabis for both medical and adult-use.

In 2013, the Nevada legislature provided for State licensing of medical marijuana establishments, and in November 2016, Nevada voters approved the sale of marijuana for adult-use, which began on July 1, 2017. The Nevada marijuana establishment's application process is merit-based, competitive, and is currently closed. As of Q1 2021, there were 158 cultivators, 110 producers, and 67 retail stores licensed for adult-use in the State of Nevada. Approximately 75% of the State licensed marijuana operations exist within Clark County/Las Vegas city limits, representing an approximate 8,000 square mile area. The remaining 25% of licenses exist throughout the rest of the State.

All marijuana establishments must register with the Nevada Cannabis Control Board ("CCB"). If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment registration certificate. Final registration certificates are valid for a period of one year and are subject to annual renewals if the business remains in good standing.

Verano affiliates are owners, operators, managers, consultants, and/or have licensing or other commercial arrangements with cannabis licensees to operate retail dispensaries, a cultivation facility, and a manufacturing facility in Nevada. On July 26, 2021, Verano also announced that it had entered into an agreement to purchase two additional fully-operational dispensaries in Reno and Carson City as well as a cultivation and production facility in Reno. Closing on the transaction is subject to customary conditions, contingencies, and approvals, including regulatory approval.

Ohio Operations

Subject to State regulations, Ohio currently allows access to cannabis for medical use.

Effective September 8, 2016, Ohio legalized the use of medical cannabis for 26 debilitating conditions as prescribed by a licensed physician. The Ohio Medical Marijuana Control Program ("OMMCP") allows people with certain medical conditions including Alzheimer's disease, HIV/AIDS, ALS, cancer, and traumatic brain injury to legally purchase medical cannabis. Patients were able to begin purchasing medicinal marijuana in April 2019. Regulatory oversight is shared between three offices: (i) the Ohio Department of Commerce with respect to overseeing cultivators, processors and testing laboratories; (ii) the Ohio Board of Pharmacy with respect to overseeing retail dispensaries and the registration of patients and caregivers; and (iii) the State Medical Board of Ohio with respect to certifying physicians to recommend medical cannabis. The OMMCP permits limited product types including oils, tinctures, plant materials and edibles.

Additional provisional licenses are permitted to be issued if the population, the number of patients seeking to use medical cannabis products and the availability of all forms of cannabis products support additional licenses. To be considered for approval of a provisional dispensary or a processing license, the applicant must complete all mandated requirements. Certificates of operation carry two-year terms.

Verano owns and operates, through its wholly-owned subsidiaries, a cultivation facility (which permits the cultivation of up to 3,000 square feet, processing license, and multiple dispensaries in Ohio), and five medical cannabis dispensaries in Cincinnati, Canton, Bowling Green, Dayton, and Newark.

New Jersey Operations

Subject to State regulations, New Jersey currently allows access to cannabis for medical use, and in December 2020 passed legislation legalizing adult-use.

Medical marijuana has been legal in the State of New Jersey since 2012. The program is regulated under the New Jersey *Compassionate Use Medical Marijuana Act* (the “**CUMMA**”). Under the CUMMA, medical cannabis use is permitted for specified indications including chronic pain, cancer, glaucoma, HIV/AIDS and inflammatory bowel disease. The Medical Marijuana Program (“**MMP**”) is administered by the New Jersey Department of Health (“**NJDH**”) which approves and regulates alternative treatment centers (“**ATCs**”). New Jersey is a vertically-integrated system so that each ATC license permits the holder to acquire, cultivate, process, distribute and/or dispense, deliver, manufacture, transfer, and supply medical marijuana in compliance with the CUMMA and the MMP rules and regulations.

In November 2020, the citizens of New Jersey approved the legalization of adult use of cannabis by those 21 years of age and older, and in December 2020 legislation was passed that legalizes the possession, production, and retail sale of marijuana to adults. The legislation also amended provides for the State to establish a regulated market for the cultivation, distribution, and sale of cannabis. A newly-formed Cannabis Regulatory Commission is now tasked with regulating both medical and adult use cannabis industries, and is in the process of drafting new regulations for the adult-use program.

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

Michigan Operations

Subject to State regulations, Michigan currently allows access to cannabis for both medical and adult-use.

Medical cannabis has been legal in Michigan since 2008, when voters approved a measure that protected patients and caregivers but did not establish regulations for businesses. In September 2016, a regulatory framework was enacted for medical marijuana businesses, which provided that cultivators, processors, testing labs, transporters, and provisioning centres could become licensed and regulated at the State level.

Oversight of medical cannabis is the responsibility of the Bureau of Medical Marijuana Regulation, which consists of the Medical Marijuana Facility Licensing Division (“**MMFL**”) and the Michigan Medical Marijuana Program Division (“**Michigan MMP**”). The MMFL regulates the State’s medical marijuana facilities and licensees, including growers, processors, transporters, provisioning centers and safety compliance facilities. The Michigan MMP oversees the State’s patient registry program, issues registry identification cards, and administers the *Michigan Medical Marijuana Act*. Some municipalities have capped the number of medical cannabis facilities (including Detroit). Additionally, Michigan recently named 11 new conditions that qualify for medical marijuana prescriptions, including chronic pain, which could further expand the patient base.

In December 2018, Michigan voters legalized adult-use cannabis, and the *Michigan Regulation and Taxation of Marijuana Act* (“**MRTMA**”). The MRTMA allows persons aged 21 and over to possess up to two and one-half ounces of marijuana in public, up to ten ounces at home, and cultivate up to 12 plants at home. The MRTMA also sets up a system for the State-licensed cultivation and distribution of marijuana, with sales subject to a 10% excise tax (in addition to the State of Michigan’s 6% sales tax). The first retailers opened to the public on December 1, 2019.

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

Arkansas Operations

Subject to State regulations, Arkansas currently allows access to cannabis for medical use.

The rules and regulations governing the oversight of medical cannabis cultivation facilities and dispensaries in Arkansas were adopted and promulgated by the Arkansas Alcoholic Beverage Control Board, and the rules and regulations for medical marijuana registration, testing, and labeling were adopted and promulgated by the Arkansas State Board of Health. These rules provide: (i) requirements for record keeping, security, and personnel at cultivation facilities and

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

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

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

Pennsylvania Operations

Subject to State regulations, Pennsylvania currently allows access to cannabis for medical use.

The Pennsylvania *Medical Marijuana Act* (“**PMMA**”) was signed into law in April 2016 and provided access to Pennsylvania residents with one of 21 qualifying conditions, including epilepsy, chronic pain, post-traumatic stress disorder, cancer remission therapy and opioid-addiction therapy. The Commonwealth of Pennsylvania, which consists of over 12,000,000 people and qualifies as the fifth largest population in the United States, operates as a high-barrier market. The PMMA authorizes only a maximum of 25 cultivation/processing permits and 50 dispensary permits. As part of “Phase 1” of the Commonwealth of Pennsylvania’s permitting process in 2017, the Pennsylvania Department of Health (“**PDOH**”), which administers the Commonwealth’s Medical Marijuana Program (“**MMP**”), originally awarded only 12 cultivation/processing permits and 29 dispensary permits. Subsequently, in 2018, the PDOH conducted “Phase 2” of the permitting process, during which it awarded the remaining 13 cultivation/processing permits and 23 dispensary permits authorized under the PMMA. Each retail dispensary license permits the holder to purchase marijuana and marijuana products from cultivation/processing facilities and allows the sale of marijuana and marijuana products to registered patients.

Verano affiliates are owners and operators of three cannabis dispensary permittees in the Commonwealth of Pennsylvania, as well as one grower/processor and one clinical registrant permit (which allows for cultivation, process, and dispensing).

Florida Operations

Subject to State regulations, Florida currently allows access to cannabis for medical use.

In June 2014 the *Compassionate Medical Cannabis Act of 2014* (“**CMCA**”) was signed into law. The CMCA legalized low THC for medical patients suffering from cancer or “a physical medical condition that chronically produces symptoms of seizures”, such as epilepsy, “or severe and persistent muscle spasms” and has been subsequently expanded to, among other things, include HIV/AIDS, Crohn’s disease and post-traumatic stress disorder and any medical condition that the physician believes will benefit from the use of medical marijuana. The CMCA also authorized medical centers to conduct research on low THC cannabis.

In November 2016, Florida citizens voted to shield qualifying patients, caregivers, physicians, and medical cannabis dispensaries and their staff from criminal prosecutions or civil sanctions under Florida law.

The Florida Department of Health (“**FDH**”) is part of the regulatory framework that requires licensed producers, which are statutorily defined as Medical Marijuana Treatment Centers (each, a “**MMTC**”), to cultivate, process and dispense medical cannabis in a vertically-integrated marketplace. The FDH, Office of Medical Marijuana Use (the “**OMMU**”), is the organization responsible for the regulation of Florida’s medical cannabis program. Specifically, the OMMU writes and implements the FDH’s rules for medical marijuana, oversees the statewide medical marijuana patient database, and licenses Florida businesses to cultivate, process and dispense medical marijuana to qualified patients.

MBTC licenses are issued by the FDH. Applicants are required to provide comprehensive business plans with demonstrated knowledge and experience on execution, detailed facility plans, forecasted performance and robust financial resources. Technical ability on plant and medical cannabis cultivation, infrastructure, processing, dispensing and safety are also assessed. License holders are permitted to maintain one license. Each licensee is required to cultivate, process and dispense medical cannabis. The license permits the sale of derivative products produced from extracted cannabis plant oil as medical cannabis to qualified patients.

Verano holds a license under a subsidiary.

Arizona Operations

Subject to State regulations, Arizona currently allows access to cannabis for medical use, and in November 2020 passed legislation legalizing adult-use.

In November 2010, the Arizona Medical Marijuana Act was enacted by vote of Arizona citizens. The Arizona Department of Health Services (“ADHS”) implements dispensary and registry identification card regulations. To qualify under Arizona’s program, patients must have one of the following debilitating medical conditions: cancer, HIV/AIDS, hepatitis C, glaucoma, multiple sclerosis, amyotrophic lateral sclerosis, Crohn’s disease, agitation of Alzheimer’s disease, post-traumatic stress disorder, or a medical condition that produces wasting syndrome, severe and chronic pain, severe nausea, seizures, or severe and persistent muscle spasms.

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

For every ten pharmacies that have registered under Arizona law, have obtained a pharmacy permit from the Arizona Board of Pharmacy, and operate in Arizona, the ADHS may issue one non-profit medical cannabis dispensary registration certificate. Each dispensary registration certificate permits the license holder to: (i) open one dispensary, (which may also have a cultivation facility onsite); and (ii) one cultivation facility which can also include various forms of processing capabilities. Currently, licensed dispensaries are limited to their district for their first three years of operation and may relocate thereafter. All dispensaries must have a not-for-profit character.

The Company’s affiliates have licensing or other commercial arrangements with six cannabis licensees in the State of Arizona.

California Operations

Subject to State regulations, California currently allows access to cannabis for both medical and adult-use.

In 1996, California became the first State to permit the use of medical marijuana by qualified patients through the *Compassionate Use Act of 1996*. In 2015, the California legislature established the framework for a statewide medical marijuana program, which was further amended in 2016 and named the “Medical Cannabis Regulation and Safety Act” (the “MCRSA”). The MCRSA established a comprehensive licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for cultivation, manufacturing, distribution, transportation, sales (including delivery only) and testing and included subcategories for the various activities. The MRSCA set forth uniform operating standards and responsibilities for licensees and required all commercial cannabis businesses to have a State license and local approval to operate. Subsequently, in November 2016, voters in California overwhelmingly passed the *Adult Use of Marijuana Act* (the “AUMA”), legalizing adult-use of cannabis by individuals

21 years of age or older, and in June 2017, the California State Legislature passed the *Medicinal and Adult-Use Cannabis Regulation and Safety Act* (“**MAUCRSA**”), which amalgamated the MCRSA and the AUMA to provide a single system with uniform regulations to govern both medical and adult-use cannabis businesses in the State of California.

The three main agencies that regulate medical and adult-use marijuana businesses at the State level today are: (i) the Bureau of Cannabis Control (“**BCC**”), which oversees brick and mortar and delivery-only retailers, distributors, microbusinesses, testing laboratories and event organizers; (ii) the California Department of Food and Agriculture (“**CDFA**”), which oversees cultivators and processors; and (iii) the California Department of Public Health’s Manufactured Cannabis Safety Branch (“**CDPH**”), which oversees manufacturing. Additionally, the California Department of Tax and Fee Administration oversees the collection of taxes from cannabis businesses. Various other State agencies play minor roles in licensing and operational approval.

In order to legally operate a medical or adult-use cannabis business in California, the operator must have both local approval and State licensure for each type of commercial cannabis activity conducted at a specified business premises. Cities and counties in California have discretion to determine the number and types of licenses they will issue to marijuana operators or can choose to limit or outright ban commercial cannabis activities within their jurisdiction. This limits cannabis businesses to cities and counties with marijuana licensing or approval programs.

California State annual licenses must be renewed annually. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, there are no material violations noted against the applicable license, and there are no changes in ownership of the business or major changes to the operations of the business, a licensee would expect to receive the applicable renewed license in the ordinary course of business; however, this does not account for the individual renewal processes for necessary local entitlements to maintain the required local approval. The renewal process for local entitlements is different in each jurisdiction and for each type of entitlement.

In February 2019, Verano entered into an agreement with a holder of cannabis manufacturing and distribution licenses in the State of California, and another party creating a three-way joint venture to extract cannabis oil and manufacture and distribute cannabis products in the State of California. The joint venture and its affiliated entities control manufacturing and distribution licenses in California.

Missouri Operations

Subject to State regulations, Missouri currently allows access to cannabis for medical use.

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

In 2019, the MO DHSS began accepting applications for grower, manufacturing, and dispensary applications, and awarded cultivation licenses in December 2019. Manufacturing and dispensary licenses were awarded in January 2020. Under the MO DHSS’s regulations, awardees are given one year in which to become operational or face license revocation.

Although the MO DHSS permitted applicants to apply for more than one of each license type, in July 2020, applicants who were awarded multiple manufacturing licenses to operate at the same location were notified that these licenses would be merged and the “excess” manufacturing licenses would be awarded to the next highest-scoring applicants.

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

West Virginia Operations

Subject to State regulations, West Virginia currently allows access to cannabis for medical use.

In April 2017, the West Virginia Medical Cannabis Act (“WVMCA”) was signed into law. The WVMCA, implemented by the Bureau of Health, provides medical cannabis access to registered patients who suffer from a list of 15 medical conditions including epilepsy, cancer, HIV/AIDS, Crohn’s disease and post-traumatic stress disorder. In 2019, legislation was passed that allowed entities to hold multiple license types, allowing for vertical integration of dispensaries, and the maximum number of dispensary permits was increased to 100, with individuals being allowed to hold ten permits. Permits last for one year and must be renewed annually. An application to renew a permit must be filed with the Bureau of Health. Medical cannabis organizations may also apply to relocate within the State or to add or delete activities or facilities.

Applications for dispensary, grower, processor, and laboratory permits were accepted by the Bureau of Health online beginning December 2019 until February 18, 2020. As of January 2021, the State has issued ten cultivation permits, ten processor permits and approximately 100 dispensary permits.

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

SELECTED FINANCIAL INFORMATION

The following tables present selected financial data derived from the unaudited condensed interim consolidated financial statements of the Company for the (i) three months ended June 30, 2021, and 2020 and (ii) six months ended June 30, 2021, and 2020. The selected consolidated financial information below may not be indicative of the Company's future performance.

	As of and for the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues, net of discounts	\$ 198,706,561	\$ 47,298,240	\$ 319,601,554	\$ 90,147,010
Cost of Goods Sold	98,557,572	23,513,725	144,845,796	31,978,372
Gross Profit before Biological Asset Adjustment	100,128,989	23,784,515	174,755,758	58,168,638
Net effect of changes in fair value of biological assets	(24,920,937)	16,839,875	45,930,381	29,746,275
Gross Profit	75,208,052	40,624,390	220,686,139	87,914,913
Total Expenses	57,581,880	9,899,389	86,655,591	18,925,584
(Loss) Income from Investments in Associates	644,615	853,703	1,447,563	1,122,793
Income From Operations	<u>\$ 18,270,786</u>	<u>\$ 31,578,704</u>	<u>\$ 135,478,110</u>	<u>\$ 70,112,122</u>

	As of	
	June 30, 2021	December 30, 2020
Total Assets	\$ 2,193,138,137	\$ 459,720,360
Total Long-Term Liabilities	\$ 421,468,764	\$ 94,463,800

Three Months Ended June 30, 2021, Compared to Three Months Ended June 30, 2020

Revenue

Revenue for the three months ended June 30, 2021, was \$198,706,561, an increase of \$151,408,321 or 320% compared to revenue of \$47,298,240 for the three months ended June 30, 2020. The increase was primarily driven by retail expansion in the Florida and Illinois markets, along with the acquisitions that closed during the quarter in the Arizona and Pennsylvania markets, comprised of Territory, TerraVida Holistic Centers, and The Healing Center. In addition, production output and sales of flower expanded in the Illinois, New Jersey, and Maryland markets.

Cost of Goods Sold and Biological Assets

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

Cost of goods sold, excluding any adjustments to the fair value of biological assets for the three months ended June 30, 2021, was \$98,577,572, an increase of \$75,063,847 or 319% compared to the three months ended June 30, 2020. This increase was primarily due to production costs of cannabis increasing in tandem with increase in sales. Additionally, increased cost of goods sold was driven by the IFRS 3, *Business Combinations* requirement to report inventory acquired in business combinations at fair value. In accordance with guidance, the Company initially measured the inventory of its

Q2 acquisitions at the selling price, less cost to sell. The step-up to adjust inventory to fair value was expensed through cost of goods sold.

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

Biological asset transformation totaled a net loss of \$24,920,937 for the three months ended June 30, 2021, a decrease of \$41,760,812 or (248)% compared to the three months ended June 30, 2020. The decrease was primarily driven by a change in cultivation methods focused in R&D to reduce plant count at certain cultivation facilities to increase yields to be realized over time.

Gross Profit

Gross profit before biological asset adjustments for the three months ended June 30, 2021, was \$100,128,989, representing a gross margin on the sale of cannabis, cannabis extractions and edibles, and from related accessories of 50%. This is compared to gross profit before biological asset adjustments for the three months ended June 30, 2020, of \$23,784,515, which represented a 50% gross margin.

Gross profit after net gains on biological asset transformation for the three months ended June 30, 2021, was \$75,208,052, representing a gross margin of 38% compared with gross profit after net gains on biological asset transformation of \$40,624,390 or 86% gross margin for the three months ended June 30, 2020. The increase in gross profit margin is primarily due to top-line growth catalyzed by strong market growth in Illinois and Florida and continued expansion into the Arizona and Pennsylvania markets.

Total Expenses

Total expenses for the three months ended June 30, 2021, was \$57,581,880, an increase of \$47,682,491 or 482%, compared to total expenses of \$9,899,389 for the three months ended June 30, 2020. Total expenses as a percentage of revenue, net of discounts, was 29% and 21% for the three months ended June 30, 2021, and 2020, respectively. The increase was primarily due to a \$29,616,447 or 784% increase in general and administrative costs and a \$14,257,924 or 446% increase in salaries in benefits, which was driven by an increase in earnout-related expenses, acquisition expenses and other one-time transaction expenses, start-up costs in new markets, and expanded headcount in the Company's primary operating markets.

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

Total Other Income (Expense)

Total other expense for the year three months June 30, 2021, was \$5,619,162, an increase of \$1,713,860 or 44% compared to \$3,905,302 for the three months ended June 30, 2020. The increase was primarily due to increased interest expense related to the \$100 million upsize of debt in May 2021.

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 three months ended June 30, 2021, provision for income taxes totaled \$5,087,824 compared to \$15,131,857 for the prior three months ended June 30, 2020. The decrease in income tax expense was primarily driven by the decrease in taxable income in the second quarter of 2021 compared to June 30, 2020.

Six Months Ended June 30, 2021, Compared to Six Months Ended June 30, 2020

Revenue

Revenue for the six months ended June 30, 2021, was \$319,601,554, an increase of \$229,454,544 or 255% compared to revenue of \$90,147,010 from the six months ended June 30, 2020. The increase was primarily driven by retail expansion in the Florida and Illinois markets, along with the acquisitions in the Arizona and Pennsylvania markets, comprised of Territory, TerraVida Holistic Centers, and The Healing Center. In addition, production output and sales of flower expanded in the Illinois, New Jersey, and Maryland markets.

Cost of Goods Sold and Biological Assets

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

Cost of goods sold, excluding any adjustments to the fair value of biological assets, for the six months ended June 30, 2021, was \$144,845,796, an increase of \$112,867,424 or 353% from the six months ended June 30, 2020. This increase is primarily due to production costs of cannabis increasing in tandem with the increase in sales. Additionally, increased cost of goods sold was driven by the IFRS 3, *Business Combinations* requirement to report inventory acquired in business combinations at fair value. In accordance with guidance, the Company initially measured the inventory of its acquisitions at selling price, less cost to sell. The step-up to adjust inventory to fair value was expensed through cost of sales.

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

Biological asset transformation totaled a net gain of \$45,930,381 for the six months ended June 30, 2021, an increase of \$16,184,106 or 54% from the prior the six months ended June 30, 2020. The increase was primarily driven by the AME merger in February 2021, and continued expansion at existing cultivation facilities.

Gross Profit

Gross profit before biological asset adjustments for the six months ended June 30, 2021, was \$174,755,758, representing a gross margin on the sale of cannabis, cannabis extractions and edibles and from related accessories of 55%. This is compared to gross profit before biological asset adjustments for the six months ended June 30, 2020, of \$58,168,638, which represented a 65% gross margin.

Gross profit after net gains on biological asset transformation for the six months ended June 30, 2021, was \$220,686,139, representing a gross margin of 69%, compared with gross profit after net gains on biological asset transformation of \$87,914,913, or 98%, gross margin for the six months ended June 30, 2020, which includes sales from both wholesale and retail. The increase in gross profit is primarily due to top-line growth catalyzed by strong market growth in Illinois and Florida and entrances into four new markets. The 28% decrease in the gross profit margin is primarily due to the inventory step-ups related to the 2021 acquisitions that were expensed through the cost of sales and the net impact of biologicals, which was 14% and 33% as percentage of net revenues for the periods ended June 30, 2021, and 2020, respectively.

Total Expenses

Total expenses for the six months ended June 30, 2021, were \$86,655,591, an increase of \$67,730,007 or 358%, compared to total expenses of \$18,925,584 for the six months ended June 30, 2020. Total expenses as a percentage of revenue, net of discounts, was 27% and 21% for the six months ended June 30, 2021, and 2020, respectively. The increase was primarily due to a \$40,133,037 or 500% increase in general and administrative costs, in addition to a \$22,648,335 or 401%

increase in salaries in benefits, which was driven by an increase in earnout-related expenses, acquisition expenses and other one-time transaction expenses, start-up costs in new markets, and expanded headcount in the Company's primary operating markets.

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

Total Other Income (Expense)

Total other expense for the year six months June 30, 2021, was \$8,709,429, an increase of \$735,206 or 9% compared to \$7,974,223 for the six months ended June 30, 2020. The increase was primarily due to increased interest expense related to the \$130 million credit facility.

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 six months ended June 30, 2021, provision for income taxes totaled \$50,414,686, an increase of \$21,410,950 or 74% compared to \$29,003,736 for the prior the six months ended June 30, 2020. The increase in income tax expense was driven by a \$64,630,782 increase in taxable income.

Drivers of Operational Performance

Revenue

The Company derives its revenue from both wholesale and retail in which it manufactures, sells and distributes cannabis products to third-party retail customers, and from direct sales to retail patients and consumers. For the six months ended June 30, 2021, approximately 73.6% of revenue was generated from the retail and approximately 24.6% from wholesale. For the six months ended June 30, 2020, approximately 71.9% of revenue was generated from wholesale and approximately 28.1% from retail. This change in mix was largely driven by the Company's Florida operations, which are exclusively treated as retail income due to the vertical nature of the business, and the opening and acquiring of additional retail stores in the second half of 2020 and the first half of 2021.

Gross Profit

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

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

Total Expenses

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

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

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

Provision for Income Taxes

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

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2021, the Company had total current liabilities of \$287,162,801 and cash and cash equivalents of \$149,671,396 compared to December 30, 2020, which had current liabilities of \$122,524,484 and cash and cash equivalents of \$16,494,365 to meet its current obligations. As of June 30, 2021, the Company had working capital of \$284,867,279 compared to \$80,499,032 as of December 31, 2020. The significant increase in working capital is due to the increases in cash, inventory and biological assets driven by market expansion and accretive acquisitions made in Illinois, Arizona, Florida and Pennsylvania, and the Company's \$100 million upsize in its debt facility.

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

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

Cash Flows

Cash Flow from Operating Activities

Net cash provided in operating activities was \$65,623,789 for the six months ended June 30, 2021, an increase of \$22,910,582 or 54%, compared to cash provided of \$42,713,207 million for the six months ended June 30, 2020. The increase in net cash provided in operating activities was primarily due to an increased operational footprint from the prior year.

Cash Flow from Investing Activities

Net cash used in investing activities was \$(39,374,826) for the six months ended June 30, 2021, an increase of \$7,017,894 or 22%, compared to \$(32,356,931) for the six months ended June 30, 2020. The increase in net cash used in investing activities was primarily due to an increase in investment of property and equipment.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$106,928,067 for the six months ended June 30, 2021, an increase of \$106,449,340 compared to \$478,728 of cash provided for the six months ended June 30, 2020. The increase in net cash provided by financing activities was primarily due to significant increases in proceeds from the reverse take-over financing, cash received in warrant private placement, and \$100 million credit upsize that occurred in May 2021.

Contractual Obligations

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

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and after
Long Term Debt	\$139,450,917	\$1,156,119	\$135,351,818	\$364,486	\$2,578,493
Capital Lease Obligations	Nil	Nil	Nil	Nil	Nil
Operating Leases	\$61,778,620	\$4,345,623	\$16,824,141	\$14,210,045	\$26,398,811
Purchase Obligations ¹	Nil	Nil	Nil	Nil	Nil
Other Long Term Obligations ²	Nil	Nil	Nil	Nil	Nil
Total Contractual Obligations	\$201,229,537	\$5,501,742	\$152,175,959	\$14,574,531	\$28,977,304

Notes:

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

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

The financial performance and its cash flows for the six months ended on June 30, 2021, and 2020 were evaluated in accordance with International Financial Reporting Standards. All future financial information and documents will be reported under IFRS.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

On June 30, 2021, and 2020, amounts due to and from related parties consisted of:

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 \$62,236 and \$108,254, respectively. These amounts are due on demand and did not have formal contractual agreements governing payment terms or interest. Other related party transactions are described in our consolidated financial statements.

Due to Related Parties

As of June 30, 2021, and June 30, 2020, amounts due to related parties were comprised of advances to investors payable totaling \$44,664 and \$44,664, respectively. Advances did not have formal contractual agreements governing payment terms or interest.

2021 Executed Transactions*RTO, Financing, and Commencement of Trading*

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 Financing, 10,000,000 subscription receipts (the “**Subscription Receipts**”) were issued on January 21, 2021, at a price per Subscription Receipt of US\$10.00, for aggregate gross proceeds of US\$100,000,000. In connection with the Financing and the RTO, the Company issued 578,354 Subordinate Voting Shares 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 combined 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. In connection with the Financing and the RTO, the Company issued 578,354 Subordinate Voting Shares to the offering agents as a broker fee.

The shareholders of Verano FinCo issued for the Subscription Receipts, received one Subordinate Voting Share for each share of Verano FinCo 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.

Merger Agreement

On November 6, 2020, Verano LLC entered into an agreement and plan of merger with Alternative Medical Enterprises, LLC, Plants of Ruskin GPS, LLC, and RVC 360, LLC (collectively, the “**AME Parties**”), pursuant to which the Company, as the assignee of all of Verano LLC’s rights and obligations thereunder, would acquire the AME Parties via a series of merger transactions. The merger transactions 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 LLC, the AME Parties and their respective subsidiaries.

The RTO and the merger transactions with the AME Parties closed on February 11, 2021. 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 of \$35 million, of which \$20 million was paid at the closing of the mergers, \$10 million is payable on August 11, 2021, and the \$5 million balance is payable on February 11, 2022. The aggregate \$15 million installment payments are represented by convertible promissory notes and upon a payment default, the holder thereof may elect to convert such payment obligations into Subordinate Voting Shares.

Acquisitions

i. Glass City Alternatives, LLC

In January 2021, the Company entered into agreement to acquire, upon the satisfaction of certain conditions precedent, all of the ownership interest of an owner of one dispensary located in Ohio. The total purchase price was \$2,700,000 plus a \$329,345 purchase price adjustment. The Company paid \$500,000 in shares upon execution of the RTO. As of June 30, 2021, the present value of unpaid deferred consideration of \$1,081,915 is included in the acquisition price payable balance in the consolidated statement of financial position and is due in January 2022.

ii. 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 Phoenix, Arizona. The transaction closed on March 10, 2021. Total consideration includes cash consideration of \$11,250,000 plus a \$326,426 purchase price adjustment, 541,994 Subordinate Voting Shares. The remaining \$6,175,342 obligation was settled through the issuance of 350,644 Subordinate Voting Shares. As of June 30, 2021, the total consideration had been paid in full.

iii. The Herbal Care Center, Inc.

On February 24, 2021, the Company entered into an agreement to acquire The Herbal Care Center, Inc. (“**The Herbal Care Center**”). The transaction closed on March 17, 2021. Total consideration includes cash consideration of \$18,750,000, payable over 12 months, plus a \$2,107,499 purchase price adjustment, and 90,464 Subordinate Voting Shares and 9,625 Proportionate Voting Shares, equivalent to 962,461 Subordinate Voting Shares on an-as converted basis. As of June 30, 2021, the present value of unpaid deferred consideration of \$10,743,251 is included in the acquisition price payable balance in the consolidated statement of financial position with 50% due in October 2021 and January 2022.

iv. 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 a licensee that holds one dispensary permit in Pennsylvania, which gives the subsidiary of the Company the ability to open three dispensaries. The transaction closed on March 9, 2021. Pursuant to the agreement, the Company paid cash consideration of \$7,350,000 upon closing and issued 666,587 Subordinate Voting Shares and Proportionate Voting Shares equivalent to 666,586 Subordinate Voting Shares on an as-converted basis. The Company analyzed the transaction and recorded the transaction as an asset acquisition. The Company capitalized licenses in the amount of \$55,015,651. As of June 30, 2021, the present value of unpaid deferred consideration is \$25,550,049 and is included in the acquisition price payable balance in the consolidated statement of financial position. The unpaid consideration is related to earnouts due in July 2022, 2023, and 2024 and is expected to be settled in share issuances.

v. Local Joint

On March 22, 2021, an affiliate of the Company entered into an asset purchase agreement with Flower Launch LLC, the manager of Patient Alternative Relief Center, Inc., d/b/a Local Joint, an Arizona nonprofit corporation (“**PARC**”), which holds a dispensary license, an authorization to operate a second dispensary, and an authorization to operate an offsite cultivation facility, all in the State of Arizona. The transaction closed on March 30, 2021. Total consideration includes

cash consideration of \$13,500,000, with \$10,000,000 paid on the closing date and \$3,500,000 payable within 120 days after the closing date, plus 179,767 Subordinate Voting Shares. As of June 30, 2021, the present value of unpaid deferred consideration of \$3,603,510 is included in the acquisition price payable balance in the consolidated statement of financial position and is due in July 2021.

vi. Territory Dispensary

On February 24, 2021, the Company entered into an agreement to acquire three active dispensaries and one cultivation and production facility from NZCO LLC, Murff & Company LLC, JWC1 LLC, Hu Commercial Properties LLC and BISHCO LLC (collectively, “**Territory**”). The transaction closed April 8, 2021. Total consideration includes \$19,735,684 paid upon closing, subject to a purchase price adjustment, 997,453 Subordinate Voting Shares and 29,924 Proportionate Voting Shares, equivalent to 2,992,413 Subordinate Voting Shares on an-as converted basis. The remaining consideration is related to contingent consideration with 50% payable in cash on March 31, 2022, and the remaining payable in shares or in cash at the election of the recipient on March 31, 2023. As of June 30, 2021, the present value of unpaid deferred consideration of \$19,387,275 is included in the acquisition price payable balance in the consolidated statement of financial position.

vii. TerraVida Holistic Centers, LLC

On February 24, 2021, subsidiaries of the Company entered into an to acquire three active Pennsylvania dispensaries. The transaction closed May 11, 2021. Total consideration includes cash consideration of \$62,500,000, subject to a purchase price adjustment, of which \$15,000,000 plus a purchase price adjustment of \$3,795,515 was paid on the closing date, with \$10,000,000 payable within 90 days after closing, and the remaining \$37,500,000 payable within 180 days after the closing date. In addition, the consideration includes 1,506,750 Subordinate Voting Shares and 15,067 Proportionate Voting Shares, equivalent to 1,506,750 Subordinate Voting Shares on an as converted basis. As of June 30, 2021, the present value of unpaid deferred consideration of \$47,140,827 is included in the acquisition price payable balance in the consolidated statement of financial position.

viii. The Healing Center, LLC

On March 29, 2021, the Company entered into an agreement to acquire three active dispensaries in Pittsburgh by purchasing all the issued and outstanding equity interests of The Healing Center, LLC (“**The Healing Center**”). The transaction closed on May 14, 2021. Total consideration includes cash consideration of \$56,892,320, plus a \$2,354,886 purchase price adjustment, of which \$31,463,479 was paid upon closing with \$25,428,841 payable within 60 days after the closing date. In addition, the merger consideration included 454,302 Subordinate Voting Shares and 25,744 Proportionate Voting Shares equivalent to 2,574,375 Subordinate Voting Shares on an as converted basis. As of June 30, 2021, the present value of unpaid deferred consideration of \$27,678,623 is included in the acquisition price payable balance in the consolidated statement of financial position.

ix. Ohio Grow Therapies, LLC

On June 30, 2021, a subsidiary of the Company entered into a letter agreement to acknowledge final closing pursuant to an option purchase agreement entered into on January 14, 2019, which would allow the Company to operate one dispensary located in Newark, Ohio. The final 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 \$760,000 to the intangible license value included on the consolidated statement of financial position.

Notes Payable

The Company held a convertible note dated November 25, 2019, with an outstanding balance of \$3,709,425 at December 31, 2020, that was repaid in full in February 2021.

The two promissory notes which have convertible features, with an outstanding balance at December 31, 2020, of \$3,412,500 are collateralized by the note holders' units in a California joint venture of which the Company has an interest. All obligations under the notes were repaid in full in February 2021.

The promissory note dated July 2, 2020, in the original amount of \$350,000; maturing in June 2021; with interest due at 5% per annum in the event of a default. All obligations under the note were repaid in May 2021.

Credit Agreement

On May 11, 2021, the Company and its subsidiaries entered into an Amended and Restated Credit Agreement for senior secured term loans of US\$130 million, which increased the loans thereunder to the Company and its subsidiaries by \$100 million. The Restated Credit Agreement has a maturity date of May 20, 2023, provides for non-dilutive funding, and an annual interest rate of 9.75% for the incremental \$100 million and is secured by assets of the Company and its subsidiaries.

Private Placement

On March 11, 2021, the Company closed an offering on a bought deal private placement basis of 3,510,000 special warrants of the Company (the "**Special Warrants**") at a price per Special Warrant of C\$28.50 for aggregate gross proceeds of C\$100,035,00 pursuant to an agreement with Beacon Securities Limited and Canaccord Genuity Corp. (together with Beacon, the "**Co-Lead Underwriters**"), on behalf of a syndicate of underwriters pursuant to which the underwriters purchased the Special Warrants. All Special Warrants were exercised on June 24, 2021.

Subsequent Transactions

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

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

ii. Agronomed Biologics, LLC

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

iii. WSCC, Inc.

On July 26, 2021, the Company announced it had entered into an agreement to acquire all of the issued and outstanding equity interests in WSCC, Inc., a Nevada corporation d/b/a Sierra Well ("**Sierra Well**"). The total consideration is

\$29,000,000, 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.

Changes in or Adoption of Accounting Practices

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

SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS, AND ASSUMPTIONS

There were no material changes to our critical accounting policies and estimates from the information provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in the Company’s 2020 annual report and the Company’s March 31, 2021, unaudited condensed interim consolidated financial statements.

U.S. CANNABIS REGULATORY ENVIRONMENT

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

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

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

Currently, 37 U.S. States, the District of Columbia and the U.S. territories of Guam and Puerto Rico, allow the use of medical cannabis. Additionally, the States of Alaska, Arizona, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New York, Oregon, Vermont, Virginia, Washington, and the District of Columbia have legalized cannabis for adult recreational use. However, since cannabis is a Schedule I controlled substance, the development of a legal cannabis industry under the laws of these States is in conflict with the CSA. In light of this conflict between State and federal law, the United States Department of Justice (the “DOJ”) Deputy Attorney General of the Obama Administration, James Cole, issued a memorandum (the “**Cole Memorandum**”), dated August 29, 2013, providing updated guidance to federal prosecutors concerning cannabis enforcement under the CSA. The Cole Memorandum provided, in part, that when States have implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale, and possession of cannabis, conduct in compliance with those laws and regulations is less likely to threaten the federal priorities. Indeed, a robust system may affirmatively address those priorities by, for example, implementing effective measures to prevent diversion of cannabis outside of the regulated system and to other States, prohibiting access to cannabis by minors, and replacing an illicit cannabis trade that funds criminal enterprises with a tightly regulated market in which revenues are tracked and accounted for. In those circumstances, consistent with the traditional allocation of federal-State efforts in this area, the Cole Memorandum provided that enforcement of State law by State and local law enforcement and regulatory bodies should remain the primary means of addressing cannabis-related activity. In contrast, if the State enforcement efforts are not sufficient to protect against the harms set forth above, the federal government may seek to challenge the regulatory structure itself in addition to continuing to bring individual enforcement actions, including criminal prosecutions, focused on those harms.

In 2014, the United States House of Representatives passed an amendment (commonly known as the Rohrabacher-Blumenauer Amendment, the Rohrabacher-Leahy Amendment or the “**Rohrabacher-Farr Amendment**”) to the Commerce, Justice, Science, and Related Agencies Appropriations Bill, which funds the DOJ. The Rohrabacher-Farr

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

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

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

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

On or about December 14, 2020, Mr. Barr announced a planned resignation from the Trump administration, effective the following week. On December 24, 2020, Deputy Attorney General Mr. Jeffrey Rosen became Acting Attorney General. On January 7, 2021, President Joe Biden announced Judge Merrick Garland as his nomination for the next U.S. Attorney General. On January 20, 2021, Robert Wilkinson replaced Mr. Jeffrey Rosen as the Acting Attorney General while Judge Garland seeks confirmation from the U.S. Senate.

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

Following two special runoff elections conducted in the U.S. State of Georgia on January 5, 2021, for two U.S. Senate seats, Democrats Raphael Warnock and Jon Ossoff each received more votes than their incumbent opponents. As a result of the special elections, Democrats control 50 seats in the U.S. Senate and Republicans control 50 seats, and Vice President

Kamala Harris carries the tie-breaking vote. Consequently, for the first time since January 3, 2009, Democrats now control the U.S. Senate. Consequently, and in conjunction with Democrat control of the U.S. House of Representatives and the White House, cannabis legislation, including the *Marijuana Opportunity Reinvestment and Expungement Act* and others, may now face a realistic chance of passage. This and other legislation have the potential to deschedule cannabis, improve access to banking and other financial resources for cannabis companies, and remove the effects of Internal Revenue Code § 280E on cannabis businesses. There is no guarantee that any such legislation will pass, however, and President Joseph Biden has indicated a reluctance to prioritize substantial changes in federal cannabis laws despite pressure from Democratic members of Congress.

On January 7, 2021, President Joseph Biden announced his nomination of Judge Merrick Garland as U.S. Attorney General. Mr. Garland's nomination was subject to confirmation by the United States Senate. During confirmation hearings, Judge Garland did not confirm whether he would reinstate the Cole Memorandum, but did explain that he expected under his tenure to see a reduction in resources towards enforcement of federal cannabis laws, explaining that enforcement "does not seem to me a useful use of limited resources." Judge Garland did, however, note that enforcement against criminal enterprises in the States would continue. On March 10, 2021, Judge Garland was confirmed by the U.S. Senate. It is unclear what impact the new U.S. Attorney General will have on U.S. federal government enforcement policy. Since his confirmation, Attorney General Garland has not formally reinstated the Cole Memorandum or issued a similar memorandum concerning the enforcement *vel non* of federal cannabis laws.

On July 14, 2021, Sens. Chuck Schumer (D-N.Y.), Cory Booker (D-N.J.), and Ron Wyden (D-Ore.) introduced a discussion draft of the *Cannabis Administration and Opportunity Act*, federal legislation which, if passed in its current form, would remove cannabis from the federal list of controlled substances and allow States to implement their own cannabis laws. The draft bill sets forth a detailed legislative proposal by creating a framework for regulating and taxing State legal sales of cannabis and addressing social equity and justice goals, and conforming necessary laws consistent with both of those goals. The bill accomplishes this by, *inter alia*, removing cannabis and extracts of cannabis from the CSA and directing it to be removed from the schedules; setting responsibilities for the FDA as primary regulator of cannabis and cannabis products, with TTB helping on issues pertaining to diversion and taxations (similar to alcohol and tobacco); removing barriers to access to medical cannabis for veterans and Indian tribes; funding research and social equity initiatives; and collecting federal taxes from cannabis business entities to fund the social justice efforts while providing tax credits up to a certain amount. Significantly, under the bill, States would retain right to prohibit cannabis, and can set standards above federal standards, but no State may bar shipments of cannabis or cannabis products through the State. Despite excitement surrounding the introduction of the bill, it does not appear that there is sufficient legislative support required for passage, nor does President Biden appear to be in favor of broad legalization efforts.

Notwithstanding the foregoing, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to cannabis could have a material adverse effect on the business, financial condition or results of operations of the Company. The Company is expected to provide products and services to State-approved cannabis cultivators and dispensary facilities. As a result, it could be deemed to be aiding and abetting illegal activities, a violation of United States federal law.

Reliance on Third Party Suppliers, Manufacturers and Contractors

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

There is a Substantial Risk of Regulatory or Political Change

The success of the business strategy of the Company, depends on the legality of the cannabis industry in the United States. The political environment surrounding the cannabis industry in the United States in general can be volatile and the regulatory framework in the United States remains in flux. As of the date of this Prospectus, 37 States, Washington, D.C.

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

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

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

Ability to Access Capital

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

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

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

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

Compliance and Monitoring

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

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

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

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

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

RISK FACTORS

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

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage, and disposal of medical cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment.
- The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.
- The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on its business, financial

condition, results of operations and prospects.

- The Company's limited operating history may make it difficult for investors to predict future performance based on current operations.
- A drop in the retail price of medical marijuana products may negatively impact the business of the Company.
- The Company's business could be adversely affected if it fails to protect its intellectual property.
- The Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the Company, could subject to significant liabilities and other costs.
- The Company's ability to recruit and retain management, skilled labor and suppliers is crucial to the Company's success.
- The Company has a limited operating history.
- There is potential that the Company will face intense competition from other companies, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than the Company.
- The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the medical cannabis market or any product, or consistent with earlier publicity.
- The Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury.
- Greater access to medical cannabis, through competitive expansion in the marketplace and illegal markets, may decrease the number of patients registering with the Company and may cause registered patients to leave the Company.
- Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, and operating results of the Company.
- If the Company is unable to continually innovate and increase efficiencies, its ability to attract new customers may be adversely affected.
- The Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption.
- The Company could fail to integrate acquired companies into the business of the Company.
- The Company has, and will have, certain business arrangements with third parties, the breakdown/loss of which could impact its operations.
- The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

- Although all growing is completed indoors under climate-controlled conditions, there can be no assurance that natural elements and weather will not have a material adverse effect on any such future production.
- The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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